



International  
Labour  
Organization

# Global Jobs Pact Country Scan

## El Salvador



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**International Labour Organization**

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## Foreword

Heads of state and government and leaders of worker and employer organizations adopted the Global Jobs Pact at the International Labour Conference held in Geneva in June 2009. The pact includes a set of tested and proven policies that place employment and social protection in the centre of the response to the global crisis. The Pact is based on the ILO Decent Work Agenda as well as the commitments assumed by the constituents of the ILO in 2008 in the Declaration on Social Justice for a Fair Globalization.

The Pact addresses social repercussions and employment, resulting from the international financial-economic crisis, and proposes a set of policies aimed at stimulating the creation of jobs, the extension of social protections, respect for the norms of work and promotion of social dialogue, so that the countries adapt these policies to their respective national needs.

Support for the Pact continues to grow, with strong support from, among others, the General Assembly of the United Nations and the Group of Twenty (G20). The ILO provides technical assistance and financing to the constituents who have decided to apply the Pact in the national contexts. Based on a request from the government of El Salvador, the ILO has been collaborating with the national constituents, to contribute to the application of the Global Jobs Pact.

During preparation of the present study, the International Labour Organization made available to the Salvadoran constituents an analysis of the current situation, as a resource to use in the national dialogue on policies. The analysis provides an examination of the situation in the country and the policies adopted in response, using the Pact as a comprehensive analytical framework. The structure of the analysis is based on the Global Jobs Pact. In this way it accurately reflects the information needed by policymakers and worker and employer organization to respond effectively to the crisis and to design policies that promote recovery, based on intensive use of labour.

The draft of the study was presented to the constituents several times for their comments and opinions. They provided invaluable information that was not available from any other sources. We are grateful for their contributions, which were extremely useful to us.

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Specialists in the Decent Work Team and the San José Country Office, under the leadership of Virgilio Levaggi, participated in the preparation of this report; and Mario Berrios provided technical assistance. We would like to thank all those who participated in the preparation of the present report.

We believe that it is a useful tool for policy dialogue in El Salvador.



Elizabeth TINOCO ACEVEDO

Directora Regional



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## Acronyms

CEACR	Committee of Experts on the Application of Conventions and Recommendations
CONAMYPE	National Council for Micro and Small Enterprises
CONJUVE	National Youth Council
CST	High Labour Council
DIGESTYC	Department of Statistics and Census of El Salvador
EAP	Economically active population
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
FISDL	Social Investment Fund for Local Development
FLACSO	Latin American Faculty of Social Sciences
FOMILENIO	Millennium Fund Program
FONAVIPO	National Popular Housing Fund
FOVIAL	Road Maintenance Fund
FUNDE	National Foundation for Development
FUSADES	Salvadoran Foundation for Economic and Social Development
GDP	Gross Domestic Product
GJP	Global Jobs Pact
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
INPEP	National Institute for Public Employees Pension
INSAFORP	Professional Training Institute
ISDEMU	Salvadoran Institute for the Development of Women
SSSI	Salvadoran Social Security Institute
ITUC	International Trade Union Confederation
MAG	Ministry of Agriculture
MINEC	Ministry of the Economy
MLSC	Ministry of Labour and Social Security
MOP	Ministry of Public Works
MSE	Micro and small enterprises

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MSME	Micro, small and medium enterprises
MUSYGES	Movement for Trade Union and Guild Unity of El Salvador
PATI	Temporary Income Support Program
PROESA	Investment Promotion Agency of El Salvador
RENACEMPLEO	National Employment Network of El Salvador
SBA	Stand-By Arrangement (IMF)
SICA	Central American Integration System
SIECA	Central American Economic Integration System
SME	Small and medium enterprises
SPSU	Universal Social Protection System
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organization

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## Introduction

In the context of the global crisis, which began in 2008, the economy of El Salvador contracted sharply by 3.5 per cent in 2009. Recovery was slow in 2010 with a growth of 1.4 per cent, and expectations for national growth do not indicate high recovery rates in the upcoming years.

Although the recession in the international economy is the result of the financial crisis, the impacts are felt on the real economy. The decline in international consumption and El Salvador's dependency on those exports has led to a significant contraction of the domestic economy. The slow recovery has significant impacts. For a recovery in productive employment and decent work to be achieved, greater growth will be required, but it also must be accompanied by greater use of labour and the functioning of the labour market.

The government of Mauricio Funes assumed power on 31 May 2009. The event marked a turning point in the democratic electoral process as the first new administration since 1989, and shows the degree of consolidation of the Peace Agreements signed in 1991. One of the first measures of the new administration was the launching of the Global anti-crisis plan (see *infra* text box). In the same year, the ILO signed the "Global Jobs Pact" (GJP).

Part of the ILO's support to address the crisis and promote recovery consists of reviewing the national crisis-response policies through the lens of the GJP. This makes it possible to conduct an examination to then improve the policies and define a priority roadmap with tripartite commitment to implement, if indeed the constituents in the country so desire, a **"National Jobs Pact"**. This would be a broad program reached in consensus to promote recovery and mitigate the impacts.

In accordance with the focus of work that has been developed to support the constituents in those countries who want to undertake a comprehensive application of the GJP,<sup>1</sup> the ILO provides a process that consists of five phases, to be flexibly adapted to the circumstances in each country: 1) preliminary review of the impact of the crisis, the policies already in place in response to the crisis and the institutional mapping of these policies (the country scan); 2) a consulting and planning process; 3) special support for the constituents; 4) tripartite national dialogue to develop the roadmap for future priorities; and 5) technical assistance for monitoring, mobilization of resources, and monitoring of impact.<sup>2</sup>

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<sup>1</sup> See: *ILO Support to countries committed to an integrated application of the Global Jobs Pact*. ILO, Geneva, 6 February 2010.

<sup>2</sup> See Annex 2 of the document cited above.

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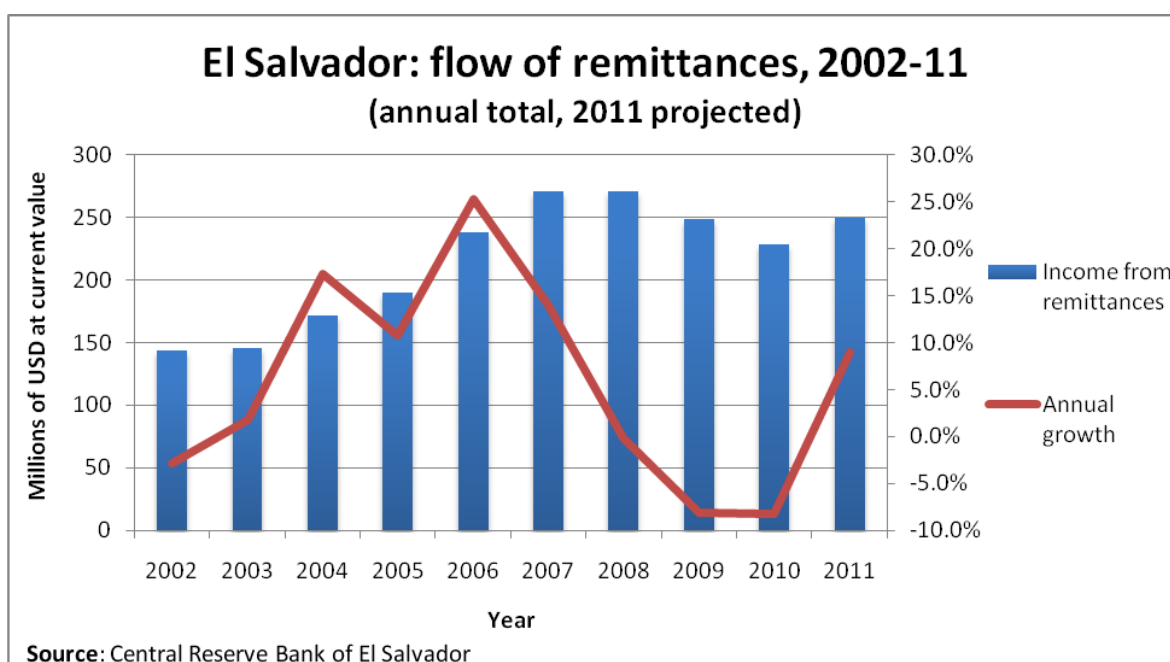
In the present report, Part I presents a summary of the impact of the crisis in El Salvador. Part II presents a preliminary review of the existing crisis response and recovery policies, and the corresponding institutional mapping, following the structure of the GJP and the Decent Work Agenda; that is, in the areas of employment, social protection, social dialogue and respect for workers' rights. Part III looks at the global context in which the Salvadoran economy functions and the direction to take, in areas such as policy coherence, production, prudent banking, building a basic social floor, and greater opportunities for youth, among other areas.

The work plan of this exercise for El Salvador presents concrete evidence of the usefulness of the GJP, as a diagnostic framework for the comprehensive review of crisis-response policies in ILO member countries. It is a valuable planning tool based on social dialogue to help determine the direction of additional post-crisis and recovery policies for cross-cutting implementation in the areas of the GJP (a roadmap for future actions).

## Part I Overview of the impact of the crisis on El Salvador

The economic crisis has affected the Salvadoran economy with unprecedented severity, as shown particularly in the shrinking of the Gross Domestic Product (GDP) by 3.5 per cent in 2009.<sup>3</sup> Since late 2007, the international financial crisis has affected the country, mainly through three direct transmission mechanisms: 1) the drop in family remittances sent by Salvadorans working abroad; 2) the drop in Salvadoran exports; and 3) the drop in direct foreign investment.

As can be seen in the graph below, the drop in family remittances closely correlates with the development of the international economic crisis beginning in late 2007.

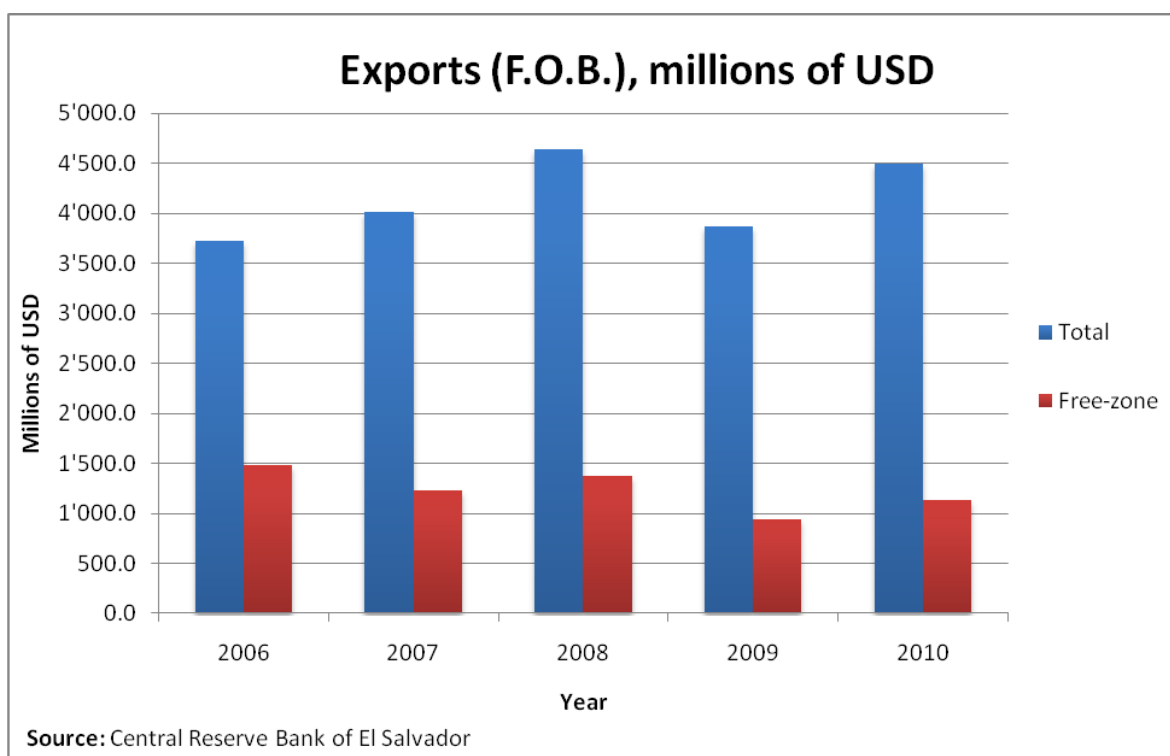


In terms of the effects on the national economy, the drop in remittances has direct repercussions on the economic contraction, given that in the period 2008–2010 remittances accounted for 17 per cent of the GDP. The use of remittances is concentrated

<sup>3</sup> Prior to the crisis, since the 1980s the processes of economic growth and employment generation were marked by factors such as the introduction of important economic reforms, the prevailing conditions of war up until the early 1990s, and economic growth in the post-conflict period. Starting in the 1990s, four phases can be identified: i) the reconstruction period from 1990-1995, with high GDP growth rate (an average of 6 per cent); ii) an economic slump (1996-2004), in which the average GDP growth rate dropped 2.6 per cent; iii) the reactivation of growth from 2005-2007 (average GDP growth of 4 per cent), with dynamic growth of formal employment (6 per cent); and iv) the crisis beginning in 2008, which halted not only economic growth but also the dynamics of the generation of formal employment.

in consumption with some 79 per cent in 2008 and 90 per cent in 2010 used for final private consumption.<sup>4</sup>

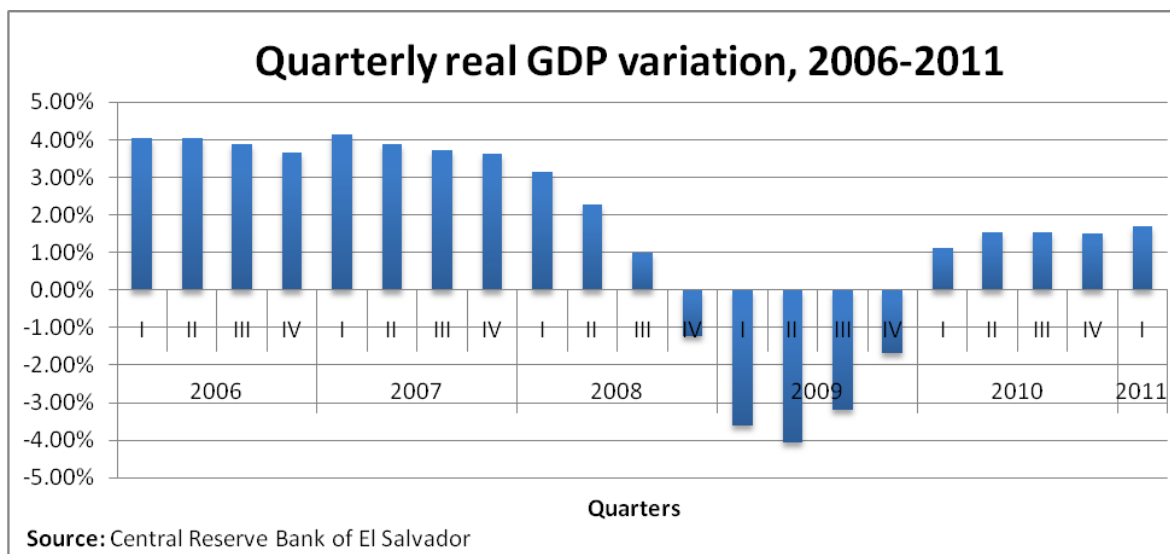
Exports, for their part, fell by more than 20 per cent in 2009, due to the drop in external demand, without recovery of the pre-crisis level. El Salvador's exports are concentrated in four products, which together are mostly exported to the United States (as a dominant market), placing the Salvadoran economy in a position of vulnerability. The contraction of the consumer market in the United States, and its negative impact on the demand for goods produced in El Salvador, was manifested in a decrease, mainly in the export of Salvadoran textiles from the duty-free zone, as illustrated in the following graph:



In addition, the gross national savings and investment rates fell, from a level of 15 per cent of the GDP in 2008 to 13.2 per cent in 2009, without recovery in 2010. In this context, public investment has attempted to maintain a level around 2 per cent of the

<sup>4</sup> Ministry of the Economy, DIGESTYC (2008, 2010), *Multiple Purpose Household Survey 2009, 2010*. In the 2010 household survey, 91.6 per cent of households used remittances for consumption and only 1.4 per cent of the households saved all or part of the remittances. Expense on education is the second item in which remittances are invested, among other uses, remittance resources are used on housing, commerce, medical expenses and purchase of agricultural supplies. In 2010 a total of \$3,539.4 million in remittances entered the country. Receipt of remittances according to gender is almost equal, 50.6 per cent of the people receiving family assistance are women, while 49.3 per cent are men. In terms of use, however, differences reveal that 88 per cent of men and 94.8 per cent of women who receive remittances spend them on consumption. In terms of the small portion of remittances that are saved, 0.95 per cent of men surveyed and 1.8 per cent of women indicated that they saved the funds.

GDP since 2007, but within limits established by the contraction of tax revenues, which fell 9.6 per cent from 2008 to 2009. However, the government made efforts to increase public investment, which accounted for 2.8 per cent of the GDP in 2010. The repercussions of all these changes on the GDP were consequently very strong, as can be seen in the graph below. It is significant to note the direct and synchronized way in which the international financial crisis shows a resulting effect on the drop in El Salvador's GDP since 2007.



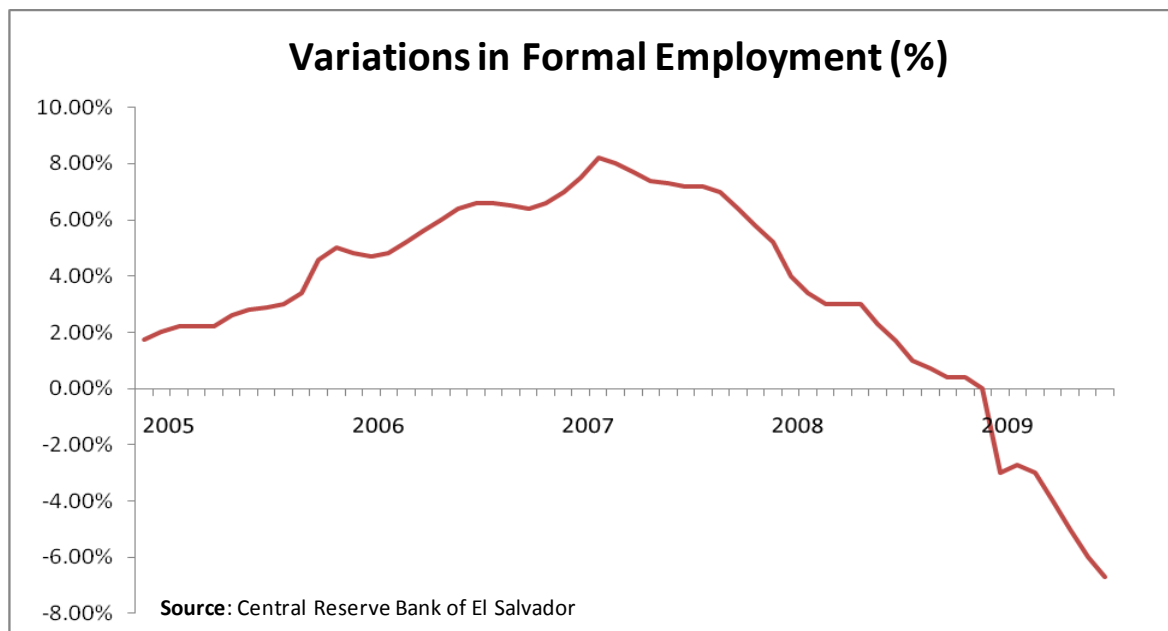
In terms of the inflow of foreign direct investment (FDI), quarterly growth was positive until the first quarter of 2009, and the third quarter presented evidence of a recovery. However, FDI has been historically low, except during the sale of state enterprises, as in 2007, with the sale of the national private banks to international banks. In 2010, FDI growth was close to zero, despite two trimesters of growth above 2 per cent.

In terms of employment, the impact of the crisis has been extremely negative, mainly in terms of the loss of formal jobs, as shown in the following graph, and in accordance with data from the Salvadoran Social Security Institute (SSSI), which indicates that at the point of the steepest drop (December 2009), 38,637 workers lost their SSSI coverage. Until 2010, the private sector suffered the greatest impact, with an accumulated loss of 41,762 workers. The public sector on the other hand maintained a tendency towards growth during and after the crisis, which has contributed to softening the impact on it.<sup>5</sup> By 2010, with the exceptions of small variations, a general recovery of jobs with social security benefits can be seen as compared with the previous year. In the formal private sector, the number of workers paying into the SSSI increased to 557,350 in 2010 in comparison with 552,201 in 2009 (still less than the 579,606 in 2008). According to

<sup>5</sup> See: Salvadoran Social Security Institute (SSSI). Statistical Yearbook 2010.



the SSSI, by December 2010, a recovery was achieved of approximately 89 per cent of the drop in enrolled workers.<sup>6</sup>

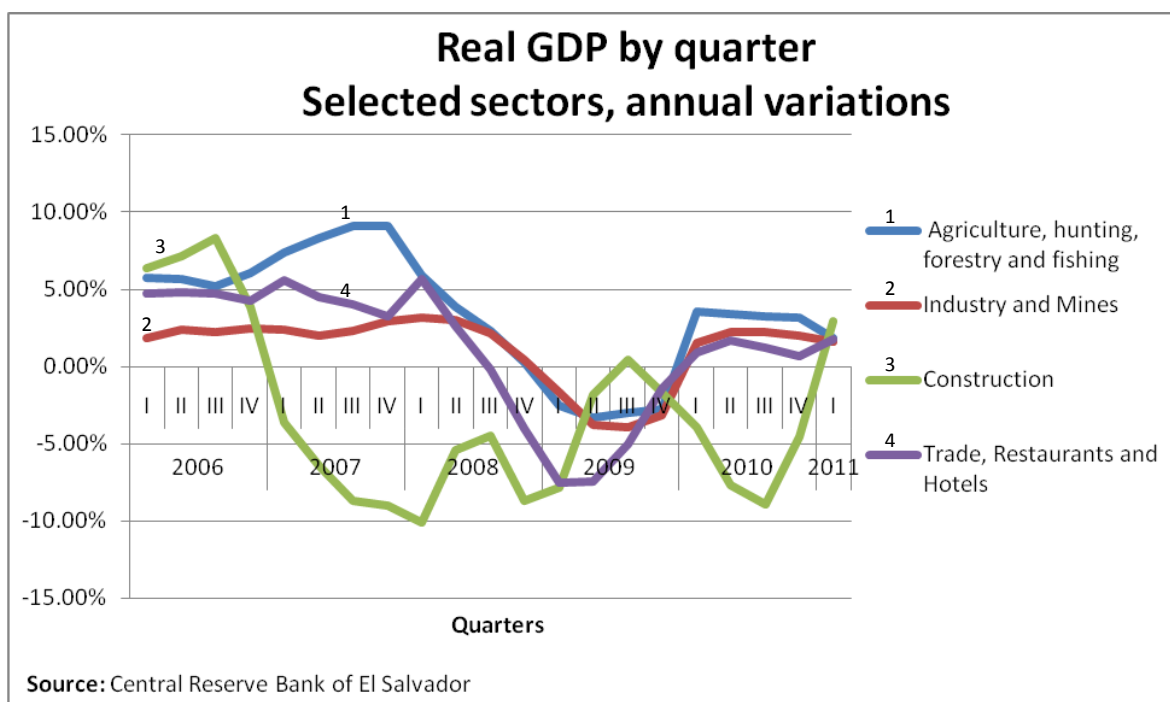


Almost all existing data are on an aggregated level. At the enterprise level, there is no available information or surveys that show the disaggregated micro effects. Given the limited information available, it is important to conduct periodic surveys and studies to show, for example: 1) a more detailed estimate of effects on jobs; 2) changes in the use of labour at the level of sector activities; 3) changes in the individual supply and at the level of households units; 4) at the enterprise level, changes in working hours and the number of workers used; 5) adjustments made to real wages and benefits; and 6) detailed information by gender. This information will be extremely important in the design of policies to support productive restructuring and employment generation.

In the period before the crisis, the GDP growth rate held steady at a level above the growth of the economically active population, which rose from 2.52 million in 2003 to 2.75 million in 2007. However, it is estimated that the informal sector continued to play a large role in the economy, with a level of employment that represented 48.6 per cent of total employment. In addition, under-employment implied an under-utilization rate of 35 per cent. Occupation within the labour force significantly affected the condition of poverty in the population. While 44.3 per cent of the total urban under-employed population was classified as poor, only 19 per cent of the people employed full-time in urban areas were classified as poor. This ratio is closely tied to the higher incidence of under-employment being due to insufficient income (invisible under-employment); that is, to be working 40 hours or more per week but receiving a monthly income below the minimum wage.

<sup>6</sup> Data from the SSSI Statistical Yearbook, 2010.

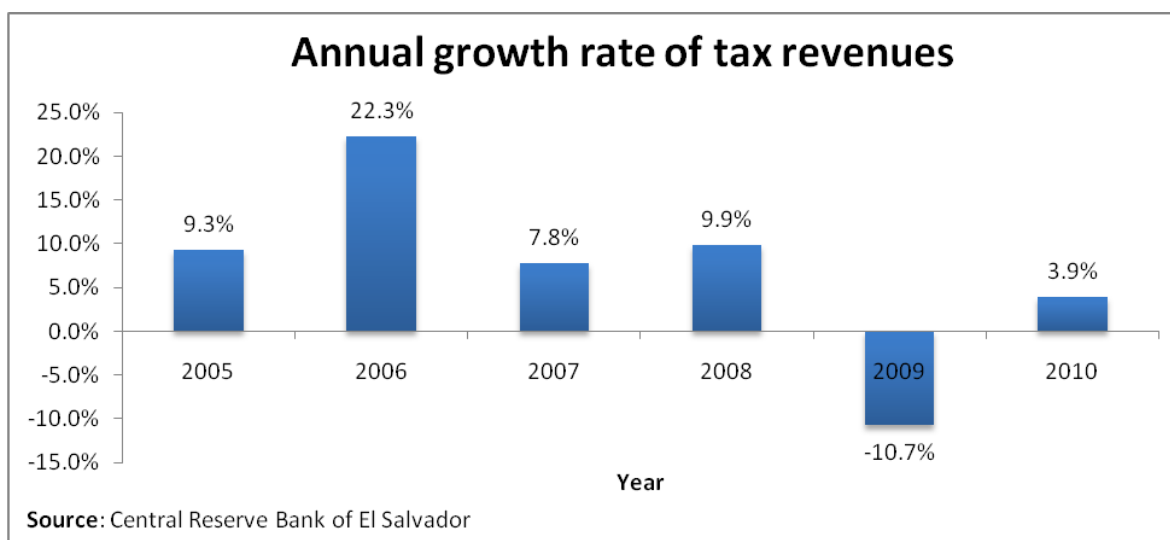
The effects of the crisis at the sectoral level have been generalized, but with variations in magnitude. The levels of variation in sectoral activity have important implications in terms of employment, given that the most affected activities are those that use the most intensive labour, as is the case of commerce, restaurants and hotels (-5.6 per cent), construction (-5.0 per cent) and the manufacturing industry (-2.5 per cent).<sup>7</sup> In the first trimester of 2010, a modest recovery began in the three sectors with the highest production and employment. However, reduced growth level has been the trend.



In addition to the negative influences from the international financial crisis, the external shock of increased prices for food and combustibles, and the low level of national economic activity, the problem of delinquency/insecurity is an added factor that has aggravated the drop in investment and employment. As a result, in 2009, extreme poverty rose two percentage points, and unemployment and under-employment increased significantly.

As a result of the crisis and its effect on the real economy, the lack of social stabilizers and a regressive fiscal system with reduced revenue, the total income of the state has been severely affected, particularly due to the decrease in tax revenues, as can be seen in the following graph:

<sup>7</sup> Data from the last quarter of 2009.



The sharp drop in tax revenues has greatly reduced the state's fiscal margin that would serve as the main financial basis for the application of a vigorous anti-cyclical policy. International financial institutions (including the IMF, the World Bank, the Inter-American Development Bank, the Central American Bank for Economic Integration and bilateral aid) have supported the expenditures and actions against the crisis. The IMF intervened decisively with a "stand-by" loan of USD 800 million in 2009, but at the same time it has indicated the need for public deficit control, to maintain other conditions of macroeconomic stability. Commitments made to the IMF include attainment of the following fiscal objectives by 2015: a tax burden of 17 per cent, a global public deficit of 1.5 per cent and a debt of 43.8 per cent, all with respect to the GDP. The economy faces problems of sustainability and restricted fiscal space. In the review conducted in 2010, the IMF concluded that the objectives set for the key variables and other commitments assumed, with the Stand-By Arrangement program, are within the margin of possibility, above all for the focalization of the delivery of subsidies for gas, electricity and water. However, there are concerns about the use of debt for current expenditure.

Despite the major negative effects that the crisis imposes on the Salvadoran economy, these conditions also open an important opportunity for reflection on the alternatives of economic restructuring and reconversion, the process of generating employment and the policy measures that increase and facilitate the potential for growth, on the bases of greater productivity and attention to the failures in the functioning of markets. An important element, which should be advanced, is to ensure that productive conversion, economic transformation and employment generation can rely on a solid strategy of national and sector-coordinated policies. This implies the need to integrate institutional structures with a clearer direction of macroeconomic employment policies. The formulation of new policy strategies requires rethinking both horizontal and vertical measures, reconsidering the role of existing institutions and the need to place innovation

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and increased labour productivity at the centre of growth strategies. This will imply social agreements focused on human development and the intersection of social with economic issues: the world of work.

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## Part II Analysis of the crisis response and recovery policies

This part presents the analysis of the crisis-response and recovery policies in El Salvador, and the respective institutional mapping, to follow the structure of the GJP; that is:

- Accelerating the creation of jobs, their recovery, and support for enterprises
- Building a social protection systems
- Strengthening respect for international labour standards

In each of these sections, the sub-sections follow the general lines of the list or portfolio of policies contained in the GJP.

As an initial framework of policy analysis, it is important to note the significant effort that the new Salvadoran government has been developing since June 2009,<sup>8</sup> through its General Anti-Crisis Plan,<sup>9</sup> as detailed below:

### **General Anti-Crisis Plan, June 2009**

The General Anti-Crisis Plan is coordinated by the Technical Secretariat of the Presidency, which is the central planning and management centre of public policies in El Salvador. The four core objectives of the GJP include: 1) protecting existing jobs and generating new sources of work; 2) protecting the vulnerable population from the negative impacts of the crisis, especially the poor and marginalized population; 3) initiating the implementation of the universal protection system; and 4) taking advantage of the crisis to construct state policies that are socially and economically inclusive. These core objectives are accompanied by four areas of action: support for production and generation of income and employment; establishment of a universal social protection system; strengthening of public financing; and promotion of development policies.

The actions aimed at supporting production cover aspects such as the reorganization of state banking for productivity; creation of a credit access guarantee system; importation of fertilizers and supplies and their distribution at cost to agricultural producers; temporary transfer of income; expansion and improvement of public services and basic infrastructure; and construction programs and improvement of public housing.

The universal social protection system aims at implementing principal actions for: i) urban and rural communities (interventions that include, for example, education bonuses for

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<sup>8</sup> <http://www.presidencia.gob.sv/>.

<sup>9</sup> Technical Secretariat of the Presidency. See: <http://72.249.12.201/wordpress-mu/elsalvador/files/2009/11/plan-anticrisis-el-salvador.pdf>.

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families, prevention of youth violence, work and productivity training, social infrastructure, basic pension for certain groups); and ii) addressing issues of health and nutrition (school meals, uniforms and supplies, temporary extension of access to SSSI health services, expansion of benefits for unemployed contributors, essential medications).

The strengthening of public financing contains several measures that seek to achieve control of public spending and establish fiscal balance, combat fiscal evasion, rationalize subsidies (focalization and elimination of some), reform certain functions of the state apparatus, and carry out reforms to the public procurement law.

This ambitious program is being financed with approximately 40 per cent of the resources from already negotiated international loans, 40 per cent of the resources are under negotiation, and the rest with resources from the state itself. An important aspect for implementation has been the creation of an Economic and Social Council, as a broad consulting mechanism, and the constitution of an intersectoral technical committee of the General Anti-Crisis Plan and Universal Social Protection System.

**Source:** *Technical Secretariat of the Presidency.*

Many of the Program's activities are already underway. However, their integration and coordination face the challenges of addressing the short-term urgent and difficult conditions as well as the additional institutional capacities that have to be developed. These include, for example, the delay in construction of public housing under the "Roof for All" Plan and the focalization of the propane gas subsidy. Also, in general there is a lack of mechanisms to monitor and evaluate the impact of the programs. There are many actions and the fiscal capacity is limited.

The country could benefit greatly from an exercise to integrate and make consistent the strategic direction, monitoring, evaluation and review of resources for execution. These are all areas where additional technical assistance could contribute to addressing the challenges of the crisis as well as the implementation of other support activities and programs, for medium- and long-term economic recovery. It is also important to address the needs arising from the damage caused by three tropical storms (Agatha, Ida, and Alex), which caused an estimated total damage to infrastructure of \$253 million.

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## **A. Accelerating employment creation, job recovery, and promoting sustainable enterprises**

### **1. Policies at the macro level to boost effective demand**

#### ***a) Monetary policies, for example, quantitative easing and credit expansion***

In 2001, El Salvador introduced the United States dollar as legal currency, and eliminated the issuance of colons.<sup>10</sup> In these conditions of a dollarized economy, the country does not have the possibility of conducting an independent monetary policy. Most banking is in the private sector, and the state banking maintains low operation levels.

Some of the measures adopted have been implemented in the context of the "stand-by" agreements, signed with the IMF in mid-2009 and renewed in 2011, through a line of credit for USD 800 million. In this context, the reserve/deposit rate for public and private banks was reduced. However, it is important to note that during the crisis, the reserve rate reached figures up to four times above the legal minimum (12 per cent).

In the context of the strong repercussions of the crisis and the little room to manoeuvre in issues of monetary policy, access to credit has contracted severely, and given the uncertainty dominating the economy, the banks opted for a more prudent course, which has reinforced the short-term recession conditions. In this way, credit for the productive sector has dropped drastically, with an 11.7 per cent decrease from 2008 to 2009.<sup>11</sup> One positive aspect is seen in the stability of financial institutions (solvency and high liquidity), which will be a favourable condition for economic recovery. Also, the reduction in the reserve rate did not have a big impact on commercial banking, since commercial banking had reserve rates 24 points above the legal requirement. The high liquidity and prudence have allowed the resources of the "stand-by" agreement to be maintained as available precautionary funds.

#### ***b) Fiscal policies and economic stimulus packages***

Tax revenues in El Salvador were 18.4 per cent of the GDP in 2008, and dropped to 13.2 per cent in 2009. The overall deficit in public spending, including pensions, was 5.5 per cent of the GDP, and the primary fiscal balance was -3 per cent of the GDP. This fiscal deficit is being supported with net external resources, to finance not only the investment but also to cover part of the current expenditure. In this way, until late 2009, the flow of

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<sup>10</sup> See: Central Reserve Bank, <http://www.bcr.gob.sv/>.

<sup>11</sup> Central Reserve Bank of El Salvador (2010). *Report on the Economic Situation in El Salvador, Third Quarter 2009*. Central Reserve Bank of El Salvador (2011). *Report on the Economic Situation in El Salvador, First Quarter 2011*.

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disbursements from external loans held steady around USD 352.4 million, with loans from the World Bank (USD 200 million), the BCIE (USD 82.7 million), and the Inter-American Development Bank (USD 200 million). Additional credit has already been contracted with the IMF (USD 800 million) and the World Bank (USD 250 million in July 2009), as well as an agreement with the Brazilian Development Bank. The net internal financing in the period registered an accumulated flow of USD 326.8 million, mainly due to the use of deposits in the Central Reserve Bank. The public debt reached 52.1 per cent of the GDP in 2009 (50.8 per cent in 2010).

Specific crisis response measures have not been reported in the areas of subsidies and credit facilities for exportation, beyond the measures already in existence before the crisis and other reforms underway. These measures include:

- In the context of the discussions on subsidies that took place in the WTO to manage the subsidies granted in the context of the free-zone system, new laws were approved in late 2010 and early 2011. Other proposals have been presented in 2011 to modify the conditions for incentives for exportation. The reforms include the law to promote production, the law of reimbursement of duties from imports (pure drawback), and the law establishing the import and export-processing centre (one-stop window to streamline formalities).
- The Law for the Promotion of Production aims at increasing the number of destination markets for exports and boost MSE productivity. In this way, various different financial and non-financial production-promotion support instruments exist for approximately USD 90 million. Among these measures is the Comprehensive Strategy to Promote Exports, which has 21 instruments. As previously noted, the Ministry of the Economy (MINEC) has the Productive Development Fund (FONDEPRO) (USD 4 million), and the Development Fund for Innovation and Competitiveness (USD 10 million) to benefit SMEs. Also, there is more than USD 14 million more distributed in other support projects.
- In terms of credit, the Multisectoral Investment Bank provides the "guaranteed export" program, which guarantees certain loans from commercial banks for enterprises that export to specific countries.
- The Export Promotion Fund (FOEX): through donations FOEX provides financial assistance to the SMEs to promote their export activities.

### ***c) Social stabilizers***

The main social-stabilizing measures include a series of social and economic support programs described below. These measures emphasize income support due to the major impact that the crisis has had, for example, on the drop in family remittances and income levels in the most vulnerable sectors.



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#### **d) Labour and wage policies**

Currently under discussion is the possibility of modifying some objectives of the Five-Year Development Plan, to further clarify the concepts on employment generation. The aim is to appropriately highlight the priorities, objectives, goals, policies and measures in issues of employment generation.

### **2. Public investment in infrastructure, productive growth, green production**

The activities in free zones, particularly textiles, have been significantly affected by the crisis. Approximately one-third of formal jobs lost in the entire economy during the period of crisis (equivalent to 15,000 jobs) occurred in activities in the free zone. In early 2010, approximately 70,000 people were working under the free zone sector. In the medium-term, the sector will be affected by several other factors, including the requirement to align the regulations of the free zones to the terms of the WTO, which include elimination of export subsidies by 2015. This context has motivated the government to initiate a review on the strategic direction of this sector, which generates an important number of formal jobs. As previously mentioned, the MINEC has already successfully approved reforms to the terms governing the system of the duty free zones. There is also an effort to promote the conversion of the textile sector into new productive focuses, such as "complete package", and other options with higher levels of value added, such as punctuality, quality of products and services in the delivery to international buyers.

As part of the Export Promotion Strategy, there is a proposal for an employment bond and environment bond for SMEs.<sup>12</sup> The objective is to promote the development of the national productive base through the partial support for the generation of new direct jobs in productive processes or service provision. The coverage includes enterprises that do not enjoy benefits under the duty-free-zone and international-services law. The benefit includes payment of up to 50 per cent of the minimum salary in effect for each new job per year, and up to a maximum of 100 new workers. Also, the Supplier Development Program has been developing a project of meetings between SMEs and large enterprises, to identify chains in which the large enterprises can serve as tractors or generators of these chains.

The authorities have mentioned that actions to combat the crisis have the function of increasing the promotion of production, but within a new government priority (fiscal transparency and conciliation), which continues to focus measures in the areas with the highest rates of poverty and vulnerability.

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<sup>12</sup> Ministry of the Economy (2010). *Comprehensive Strategy for Export Development in El Salvador*. See: [http://www.minec.gob.sv/index.php?option=com\\_content&view=article&id=280&Itemid=146](http://www.minec.gob.sv/index.php?option=com_content&view=article&id=280&Itemid=146).

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In addition to the short-term urgent measures, the authorities developed a more complete approach through the Five-Year Government Plan 2010-14.<sup>13</sup> Within this plan, the issue of "employment" is focused mainly on public investment. The Five-Year Plan has not explicitly defined a labour or wage policy, although it has stated that in the future these topics could be addressed through a tripartite dialogue.

The government has undertaken interventions within the anti-crisis plan for temporary income support (PATI; see *infra*) and investments in public works for short-term economic reactivation. According to the government, these interventions can create conditions for economic reactivation and promotion of jobs and of SMEs.

The Five-Year Plan presents two focuses in the area of the micro, small and medium enterprises (MSMEs): i) an emphasis to support the development of the MIPYMES; and ii) the development of productive territories, in particular favouring the regions most affected by poverty (the northern zone and Puerto de Cutuco, among others). In the development of the strategy there is still no comprehensive definition of the guidelines for the jobs policy and its link to the needs to increase productivity and develop comparative advantages.

One point to keep in mind is that of all the enterprises in El Salvador, nearly 90 per cent are microenterprises, a little more than 500,000 units, mainly concentrated in limited-scale activities. There is greater presence of women in the management of these units. There are many training needs, which are important measures not only for improving productivity and income of these units but also to establish bases for the productive conversion with a better-qualified work force.

In terms of infrastructure investment programs, the ILO, thanks to the "national jobs strategy" agreement, has been providing a wide range of support programs, including activities such as: training to include the objective of employment in decision-making on public investment, review of legislation to facilitate access of SMEs to state contracts and procurement, and routine road maintenance systems with microenterprises. The participation of organizations such as FOVIAL will be particularly important and if the experience is successful, the lessons learned have a potential to contribute to other considerations of public investment in both public works as well as services.

To implement highway maintenance works, based on the initiatives for labour intensive activities, a working group has been established between the Ministry of Public Works (MOP)<sup>14</sup> and the National Council for Micro and Small Enterprises (CONAMYPE) to attract and give priority contracts to people in extreme poverty, as well as at-risk youth. Efforts are also being made to include local governments, which are responsible for the

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<sup>13</sup> Presidency of the Republic, <http://www.presidencia.gob.sv/>.

<sup>14</sup> Ministry of Public Works: <http://www.mop.gob.sv/>.

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construction and maintenance of communal routes, as well as greater contact with the communities. In addition to the activities already underway, other activities include a Latin American seminar, exchanges with Peru and activities to disseminate program information. This will help align the activities of the routine maintenance department and FOVIAL, where the Road Maintenance Funds of the new anti-crisis actions are concentrated.

Included in the crisis-response actions is a program to provide more than 2 million uniforms and educational material (Ministry of Education) for students in public education, at the level of nursery school, basic education and high school. For the supply of these materials, coordination has been established with CONAMYPE,<sup>15</sup> which has already enabled the involvement of micro- and small enterprises. Despite certain achievements already made, the logistical and organizational challenges are enormous. CONAMYPE has made efforts to incorporate the "gender" theme, but has not yet identified mechanisms to attract microentrepreneur groups with broad female participation and, in accordance with previous experiences, it is estimated that a high percentage of contracts were made mostly with men.

The Technical Secretariat of the Presidency has promoted other important initiatives in employment matters, including technical assistance and training to strengthen the active policies on the job market, in particular to achieve greater coverage of counselling services and use of labour in the productive structure and public investments at the local level. For example, the actions of the solidarity communities will include both employment bonus actions as well as basic infrastructure works, to reinforce the effect of the programs in the zones.

Employment generation in El Salvador calls for an ambitious strategy to reactivate investment, specifically private investment. This strategy must address the creation of a favourable context for the functioning of enterprises as well as for ensuring medium- and long-term investment. For long-term investments, a consensus is required in several areas, both public and private. The Ministry of Labour and Social Security emphasizes the need for general management and coordination of the employment policy and public and private investment, which incorporates other ministries and public entities to promote the creation of jobs. In the specific case of El Salvador, most social stakeholders agree that efforts should also be made in the areas of legal, political and personal security, given the high levels of insecurity and crime.

The steps to boost institutional and human resource capacity to manage the employment policy can be divided into three levels:

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<sup>15</sup> CONAMYPE, <http://www.conamype.gob.sv/>.

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- Management and coordination of the employment policy within the management of the country's general economic and social policy (at the level of Technical Secretariat).
  - Management and capacity to promote and execute the administration of the work of the Ministry of Labour and Social Security.
  - Inter-ministry coordination of the employment policy with ministries that deal with employment matters such as: Health, Education, Public Works, Environment, Agriculture, and the Salvadoran Institute for the Development of Women (ISDEMU), among others. Currently the interventions of each ministry have only limited coordination and ties with the special strategic objectives.

### ***Growth strategy, sectoral policies; other growth-promoting initiatives***

The growth policies traditionally implemented in El Salvador are essentially sectoral but very limited in terms of level of public investment and with little strategic direction. There has been no clearly defined and integrated long-term growth strategy that integrates both a vision for growth as well as employment generation, development integrated with competitiveness and comparative competitive advantages. The role of the policies and credit institutions is key, in the context of access to financing for small enterprises. The three most relevant sectors, in order of importance, are trade, manufacturing and agricultural.

Participation of the agricultural sector in the GDP increased from 11.5 per cent in 2002 to 13 per cent in 2008. This trend was influenced in particular by more favourable international prices for coffee and sugar and by diversification programs.

In the manufacturing sector, the free zone system provided assistance to enterprises under that scheme with fiscal concessions and by 2008 there were 270 enterprises that were benefiting from the free zone law and inward deposits.<sup>16</sup> The free zones directly and indirectly employ about 9 per cent of the national labour force, but their contribution to the GDP has decreased from 3.1 per cent in 2002 to 2.5 per cent in 2008.

The services sector accounted for about 61.5 per cent of the GDP in 2008, and employed approximately 60 per cent of the country's labour. According to the Central Reserve Bank, several service activities present significant potential, such as transportation (sea, air, and land), financial services, telecommunications, tourism and professional services, in addition to the big traditional activities of trade and construction. As previously mentioned, the conditions of the crisis and its effects on the Salvadoran economy have opened new opportunities to evaluate how to define and conduct a

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<sup>16</sup> WTO (2010). *Trade Policy Review of El Salvador*.

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comprehensive growth and employment policy including taking into account these sectoral activities.

### **3. Protection of employed workers through employment retention measures such as reduced work hours, reductions in wages or training programs**

No measures have been taken in terms of worker protection, such as adjustment in the working hours, fiscal credit or other ways to reduce the payroll.

It is important to mention that El Salvador has a *Commercial Code*, which while it addresses the first appearance of debts to workers, it does not include the complete elements of a bankruptcy law. Certain key aspects have not been established, such as prudent administration, credit grace periods, debt guarantees of enterprises in terms of wages and other benefits.

### **4. Support for workers seeking employment**

The Ministry of Labour has an intermediation service called the National Employment Network (RENACEMPLEO), as well as other private initiatives that seek to establish a link between the supply and demand for labour in the market. In the public sector, different events have been held, in particular job fairs, but the conditions of economic recession impose the main limitations in this area. Currently, RENACEMPLEO is in the process of opening municipal employment offices, as well as expanding the profiles of the people that work in these units. However, it has reportedly not been successful in generating a significant impact on reducing unemployment and informality. The identification of training needs in the labour force is an issue that needs to be developed further.

#### ***a) Public services for labour intermediation***

RENACEMPLEO had 220 offices in 2011.<sup>17</sup> In 2009, 22,860 people (nearly 15 per cent of the unemployed) sought work through the National Network, while 2,817 vacancies were posted, and 2,248 positions were filled. In the second quarter of 2011, 11,826 job candidates participated, while 1,487 vacancies were posted. Support activities for RENACEMPLEO have helped increase the number of employment agents (who capture people seeking the intermediation) contracted to operate these offices, but funding is being sought to purchase additional operating equipment. An increase in uptake of vacancies in 2011 is being sought. One measure being applied is the development of specialized manager positions to address the needs of enterprises. Also, the MLSC has generated a fairly complete statistical data system, with a high potential of serving as a

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<sup>17</sup> Employment network: <http://www.redempleo.gob.sv/default.aspx>.

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mechanism to analyze and guide policies, adapted to detect gender bias, as well as to promote contracting models that do not discriminate between genders of the job candidates.

Labour intermediation services have been implemented in only a few municipalities. While RENACEMPLEO is the coordinating body in the matter, the municipalities (represented by the Municipal Corporation of El Salvador) are also an important way to explore in the context of employment generation and intermediation and local economic development.

The bilateral cooperation projects of the USAID and GIZ help maintain important employment support programs, skills certification, vocational counselling for students, information systems on the labour market, and public-private alliances. The Spanish Agency for International Development Cooperation has also been strengthening the institutional capacity of the National Network and the USAID in programs to promote microenterprise.

***b) Labour guidance measures***

During the preparation of the Five-Year Development Plan of the Government of El Salvador, the MLSC presented a proposal that considers its institutional strengthening (through a review of the organizational structure, legal reforms and regulations, and increase in transparency and quality of services) and several areas of action, including policies on employment and decent work, work education and strengthening of unions. The Five-Year Plan also proposes other lines of action, such as promoting the gradual incorporation of the informal sector into the social protection system, and enabling the labour insertion of vulnerable sectors (women, youth, people with disabilities, among others).

***c) Special measures for employment of youth***

Currently there are several different initiatives to address the matter of youth entering into the job market, including several international assistance programs to offer job opportunities to at-risk youth, integration of young people leaving gangs (a regional project in Central America), and youth violence-prevention programs at the community level. Greater and more effective coordination of such actions will help maximize the expected outcomes. A listing and supervision of all the programs for youth will also enable the introduction of a wide range of specialized interventions for which the ILO has developed programs in the areas of youth employment, youth entrepreneurs, and youth training.

The MLSC proposals also include other specific projects. Among them, the creation of a Public Network of Internships (REDPAS), targeting the populations of at-risk youths

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and persons with disabilities. This program and other programs seek to: i) open opportunities of entry for youth with socio-labour disadvantages, providing training for the development of basic life skills and work competencies, and facilitating their work experience in enterprises that offer quality employment options; ii) improve the interface between the labour training and education system and the demand from enterprises; and iii) support the training of personnel to sustain the productive development of enterprises, and coordinate with other programs and actions that operate along the same lines. To facilitate a significant impact of these programs for young women, it is important to recognize the existing problems of the high rates of adolescent pregnancy and gender segregation in labour training, where women continue to be concentrated in the "typically feminine" careers, associated with lower wages and self-employed subsistence.

To advance such efforts, the MLSC and the National Youth Council are developing a national action plan for youth employment, with technical assistance from the ILO.

***d) Other timely programs such as employment guarantee schemes, emergency employment, contracting incentives, training programs.***

**i. Employment guarantee schemes**

**Temporary Income Support Program (PATI)**

The strategic management and technical coordination of this program is the responsibility of the Technical Secretariat of the Presidency, and the government agency that provides funding is the Social Investment Fund for Local Development of El Salvador (FISDL).<sup>18</sup> The Professional Training Institute of El Salvador (INSAFORP) and the municipalities are both co-executors.

The program has funding sources from the World Bank and other national and international sources. It receives also technical assistance to identify local institutional strengthening tools and instruments. The total budget for PATI is USD 37.7 million for two years.

The PATI is a program that forms part of the Urban Communities in Solidarity. The program's original objective was to offer temporary economic income, especially to youth and women who are heads of household and affected by the crisis in the municipalities with the highest incidence of urban poverty, identified through poverty/violence mapping. The program has been modified to include as target population not only female heads of household but also women in general. In addition to pursuing improved employability, the program also aims at increasing social investment and productive opportunities.

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<sup>18</sup> <http://www.fisdsl.gob.sv/novedades/publicaciones.html>.

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The PATI promotes the participation of the beneficiaries in the execution of community projects and in labour training and educational activities, through the Professional Training Institute of El Salvador (INSAFORP), as well as work in infrastructure and social services, including municipalities. The program provides USD 100 per month in economic support for six months. The activities required for participation consist of a combination of four days of work in social infrastructure or social services, with a day of training (total of 60 hours). At the end of the six-month period, the Ministry of Labour and Social Security begins a labour intermediation process, through which the participants are incorporated into local labour markets.

The selection of PATI beneficiaries is conducted through the application of pre-established criteria, in such a way that the participants meet the profile of the programs' target population. The parameters identify youth in conditions of poverty, aged 16 to 25, who in the case of men have left school, or women aged 16 and older. The PATI projects are identified and formulated by the municipalities, with the participation of the communities of these urban settlements.

Initially, the program began operation at the pilot level in several municipalities. In this pilot plan, 11 municipalities were identified to provide assistance to the population affected by Hurricane Ida (3,829 beneficiaries); in addition to another 25 municipalities that were prioritized by the poverty map (9,404 participants).<sup>19</sup> The initial program period is two years, and the interventions will be gradually extended during this time. From its beginning in 2009, the program's reception has been positive. For the new initiatives that will be put in place, short-term solutions can be promoted (for example: improvement of the existing infrastructure), but with a capacity to have a long-term impact (infrastructure, health, education and collective productive venues). For the moment, a priority is to consolidate an "exit strategy" for the program; that is, to emphasize the effective labour inclusion of the people after the government support.

ii. Emergency public works programs

El Salvador is a country that is vulnerable to natural disasters, as shown by the impact of Hurricane Ida in 2009. The ILO, through its Employment Intensive Investment Programme (EIIP), has provided technical assistance in different projects, including the design of a post-Ida reconstruction strategy in late 2009. Public work projects were identified, and currently it has been proposed to link still-pending reconstruction works to other recently designed programs.

The ILO has worked with the MOP and FOVIAL to design a management program for highway maintenance by microenterprises, which would be executed in cooperation

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<sup>19</sup> FISDL (2011). *“Work Report 2010”*.



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with the Microenterprise Routine Maintenance program. In 2011, local pilot projects were implemented. There are also other additional interventions to generate employment. Some good examples can be seen in the programs for the recuperation of soils affected by landslides during Hurricane Ida and the restoration and reforestation of the slopes along roadways and waterways through the use of intensive labour.

In addition, the Salvadoran government has made a commitment to build 25,000 housing units. In this program, 5,000 housing units will be financed through the banking sector; another floor-and-roof program for 20,000 families in extremely poor municipalities will be financed through FONAVIPO and FISDL. The FONAVIPO programs envisage financing from second-tier banking for the construction work by small builders, including MSEs and women's collectives. The FONAVIPO has signed an agreement with the Salvadoran Institute for the Development of Women (ISDEMU) to promote the formation and inclusion of women in the construction process. Also, to combat the historic marginalization of women from the ownership of housing, it has been successfully negotiated that the housing be offered as a "family asset". These programs have barely been implemented, due to fiscal limitations and the lack of credit in banks.

As part of the emergency public works programs and local development programs, the government has advanced in completing the port renovation work in Puerto de la Unión (Cutuco). The completion of this project is significant given that it has been estimated that it could create 454 full-time jobs and 1,060 indirect jobs.

Additionally, this project is connected with other important activities of the free zones, transport and logistics and regional distribution in Central America, which could possibly generate up to 12,500 full-time jobs and 26,000 indirect jobs in full operation. According to trade union sectors, the lack of political agreements to put in place a concessions law to manage the port efficiently could make it difficult to reach the employment goals in the medium term.

Another noteworthy program is the Millennium Fund Program (FOMILENIO).<sup>20</sup> One of its components is an investment of USD 233.56 million to connect the highway between all the towns in the north of the country, the poorest zone in El Salvador. Additional investments include USD 95 million for human development, and USD 67 million for basic rural infrastructure. For the productive development, USD 86 million is planned, which could possibly be earmarked to support the SME promotion strategy (see *infra*). The total investment under consideration by FOMILENIO is USD 416 million. The context of the recovery from the crisis presents an opportunity to advance in the important project, in a manner that is consistent and integrated with other important objectives.

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<sup>20</sup> <http://www.mca.gob.sv/fomilenio/index.php>.

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The different emergency plans have the profile of urgent temporary interventions to address the strong negative effects on employment and income. The effectiveness of these interventions can be maximized through greater organizational capacity of execution, given that the practical implementation has experienced enormous logistical and organizational challenges. It is also important to ensure coordination between the short-term interventions and the structural problems that require medium-term and long-term measures. Among these connections it is important to avoid creating subsequent conditions of vulnerability that could present again once the temporary assistance ends.

iii. Other possible areas to receive technical assistance

Through sustained consultations, interest has been expressed in the ILO providing technical assistance in methods of monitoring, measuring impact and evaluation to analyze: i) the measures promoted by the Technical Secretariat; and ii) other similar programs being implemented under the responsibility of other ministries/bodies.

Given the economy's vulnerability to different types of external shocks, it would be very useful to have an early-warning system<sup>21</sup> to help reduce vulnerability. Such a system could include employment indicators that identify not only the risk factors but also an efficient response system that offers rapid and well-organized interventions, in the eventuality of a crisis. The evaluation would be based on the examination of systemic risks. Such a system would allow:

- The monitoring of the national situation with statistical information on variables, such as levels of employment, under-employment, and sectoral activity, among others;
- Identification of a range of responses with flexible social programs;
- a database with potential beneficiaries differentiated by regions;
- Knowledge of the supply capacity of national goods and services and needs for external supplies;
- Establishment of administrative responsibilities and resources to implement rapid emergency measures. The main objectives of this system would be to efficiently address short-term emergencies and minimize the negative effects on employment and interruptions in economic activity.

***e) Hiring incentives/subsidies***

Direct hiring incentives/subsidies programs have not been implemented. However, as previously mentioned, the introduction of an employment bonus system is under review.

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<sup>21</sup> See FUSADES (2009). *Economic, Social, Institutional Strategy 2009-2014*.

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***f) Educational programs***

The entity that has provided most of the professional education in El Salvador is the INSAFORP.<sup>22</sup> Its operating model is principally the subcontracting of educational services to directly handle the educational requirements of enterprises.

The Professional Training Institute of El Salvador (INSAFORP) expanded and modified its policies of attention to the population, increasing coverage of the empowerment and education program, insertion in the labour market, labour conversion, and other interventions, to offer new competencies to the unemployed and underemployed, as a result of the crisis. These programs focus on self-employment, due to the scant number of existing jobs and the local belief that assumes that the Intermediation offices have not been able to successfully place candidates in the labour market. This situation has brought about an emphasis on the need to reinforce the services of labour intermediation and its recognition, by both job providers as well as job candidates. This work should be emphasised in the MLSC as well as the other public exchanges.

For many years before the crisis, the INSAFORP has been developing a continuing education program, which enables the active employees in enterprises to stay updated, obtain new skills and retrain to apply for other work or positions. From INSAFORP resources in 2005, 80 per cent was applied to continuing education (attention to needs of enterprises) and 20 per cent for empowerment and education programs, directed at the unemployed, the underemployed, youth entering the local market, individuals who want to retrain for another field, among others.

In the vocational counselling programs in both MLSC and INSAFORP, a free counselling session is provided that considers the issues of gender and segregation. For example, 55 per cent of the total number participants in the "Skills" Program were women, mostly in courses on aesthetics and beauty, tourism, gastronomy, crafts, and sewing. A positive statistic is that a significant number of women are now involved in non-traditional training courses, such as applied informatics, in which 30 per cent were women, or electronics, where 31 per cent were women.

As a result of the crisis, in 2009 workers' demand for updated technical programs increased by approximately 70 per cent (approximately 96,500 workers), and the demand for empowerment and education programs also increased by 30 per cent (35,000 workers). It has been noted that the increase in the figures of traditional attention were not due to the anti-crisis plan or any regulation issued by the government, but instead the local demand from workers affected by the crisis.

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<sup>22</sup> <http://www.insaforp.org.sv/>.

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***g) Supporting enterprises and micro entrepreneurs with measures such as access to credit, payment options, access to bidding, subsidies and training***

The micro-, small, and medium enterprise (MSME) sector plays a strategic role in employment generation and growth in the Salvadoran economy. There is no precise and updated data on the characteristics of the MSME sector, but it is estimated that MSME participation within the business environment covers accounts for approximately 99.6 per cent of the enterprises and involves close to 70 per cent of total national employment.<sup>23</sup> For their part, the MSMEs represent only 16.6 per cent of the contributors to social security.

The government has developed MSME credit programs through the Banco Hipotecario (Mortgage Bank) and the Banco de Fomento Agropecuario (Agricultural Development Bank). There are also a large number of technical assistance and financial programs for MSMEs. These programs cover many areas of activity such as education, the internationalization of small and medium enterprises, government procurement, support services, productive chains, business training and entrepreneurship, development of providers, identification of markets, regional incubators, qualification and accreditation of business service providers, among others. The strategic sectors include: agro-industrial, chemical-pharmaceutical, artisan crafts, construction, information technology, tourism, and clothing.

As previously noted, the objective to create more and better jobs through MSMEs is of fundamental importance. An important concern is related to the large number of interventions that exist through MSME support programs, which tend to introduce great dispersion, lack of integration, duplication and uncoordinated actions.

Different entities promote diverse sectors that are considered priority. For example, the Central Reserve Bank has identified five sectors, based on calculations of productivity analyzed through supply/product matrices. The MINEC, in its business strategy, has identified other sectors, and CONAMYPE (within MINEC) yet other sectors. This range shows the need to achieve greater consistency in analysis and objectives. Improved statistics are needed, particularly to construct updated databases that generate trends in key variables by size of enterprise, in order to understand and guide the policy actions and priorities. The entities responsible for compiling statistics need to organize a network, which can systematically generate key data for decision-making (see infra, statistics section).

A definition is needed that can be uniformly and clearly applied to determine what constitutes a micro-, small, medium or large enterprise. Different institutions use different concepts in reference to size, sales, capital, or other variables, which has created confusion

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<sup>23</sup> CONAMYPE. *Operating Plan 2008*, <http://www.conamype.gob.sv/iestrategias.php>.

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in applying measures and compiling data. To solve this problem, the Ministry of Economy has asked the ILO for technical support to prepare a single set of legal terms.

As previously noted, statistical information on the characteristics of the MSMEs is very limited or nonexistent. To address this problem, the ILO could offer technical support to:

- Define and implement an ongoing survey to compile statistics on the size of enterprises, to be systematized by the General Directorate of Statistics and Census.
- Compile qualitative information and opinions to maintain a record of the characteristics of the MSMEs.
- Conduct a study that updates the description of MSME features.

***h) Access to credit, guarantees***

The government has made progress in establishing development banking. To this end, it has sought a loan and assistance from the National Development Bank of Brazil. One main activity under consideration is to capitalize the Multisectoral Investment Bank with second-tier banking (and as a guarantee for loans from private banking) and the other two state banks (the Agricultural Development Bank and the Mortgage Bank). Actions under consideration include:

- Creation of a state guarantees system to facilitate bank access to microenterprises and strategic economic sectors.
- Financing: special lines for SMEs to promote exportation by strengthening existing instruments such as FOEX/FONDEPRO.
- Guarantee program for the exporter. The Multisectoral Investment Bank (or its replacement bank) will be responsible for offering complementary guarantees to financing requests that small exporters present to private banking.
- Lines of credit for investment (conversion of industrial plant) and lines of credit for exportation. This program aims at providing credit for expenses of capital formation and current expenses or working capital.
- Guarantees for the exporter, in line with national regulations.
- Guarantees for the construction of public housing.

***i) Payment facilities***

No initiatives have been reported.

***j) Access to public bidding***

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The public procurement law has been amended to include micro- and small enterprises in state procurement. Technical cooperation from the ILO has already been offered to the ministries' institutional procurement units, as well as the Ministry of the Treasury. The aim is for 13 per cent of public purchases to be assigned to SMEs. CONAMYPE is conducting a survey to determine the potential of the different state entities in contracting MSEs.

The lessons learned through the public procurement support programs illustrate the need to be creative and adapt to specific conditions. For example, the program to provide school uniforms and supplies was not conducted under a single public bidding. Instead, the contracting of MSEs to sew and supply school uniforms was conducted through the identification of suppliers and assignment to MSEs by CONAMYPE. To find the providers, consultants were contracted who defined the needs for each school, and once potential providers were identified, the consultant provided technical support in how to supply and administer the quality and sewing of the uniform, including support to "associative" programs. The material was acquired by the government, which involved an important logistic effort between CONAMYPE, the Ministry of Education, and the Armed Forces (the Armed Forces were involved in the logistics of distributing the supplies and finished uniforms).

***k) Several types of subsidies***

i. Non-wage labour costs

No measures were announced. However, technical assistance to MAG and small producers was boosted. An attempt was also made to better organize the support distribution process.

ii. Credit facilities for exportation

See existing programs (*infra*) on support for exportation.

***l) Facilities for training programs***

Just before and at the onset of the crisis, in 2007–2008 the INSAFORP implemented an MSE training program (training to Improve the competitiveness of Salvadoran MSEs), focused on MSEs that had already successfully consolidated in the market. Under this scheme, a pilot program was promoted for experimentation with a training package, executed by the chambers of commerce and industry, as well as the Salvadoran Chamber of Consulting Companies. These Chambers evaluated the program, showing positive evidence of some 1050 beneficiary MSEs: 450 microenterprises and 600 small businesses, as well as formation of 95 trainers and four training "packages" (business management and

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administration; commercialization and market access; use of the Internet to improve business; and analysis of new business opportunities and business plan).

***m) Specific measures for MSEs, microenterprises and cooperatives***

There are three core government initiatives. The first has already been described (a MOP program for highway maintenance provided by MSEs). The second is a state acquisition and procurement program. And the third is territorial decentralization of CONAMYPE services.

CONAMYPE recently completed an internal restructuring process based on main strategic lines: local economic development ("one product per town"), productive sectors to strengthen entrepreneurship and innovation, strengthening the entrepreneurial fabric, and organizational development of CONAMYPE.

CONAMYPE also executed a process to decentralize its efforts and services in order to achieve presence in 36 municipalities. In terms of training, previously, timely training programs were applied, but currently the focus is on connecting the MSEs with the potential of the territory or potential for endogenous development.

Despite important programs already executed by CONAMYPE, there are no existing systematic activities for monitoring or evaluating impact of the MSE-support initiatives. The international organizations that have provided financial and technical support to the MSME programs include the EU, the USAID, the World Bank, the IDB, the BCIE, and the GIZ. As already mentioned the ILO is participating in intensive labour programs in public works and contracting. The public entities involved in microenterprise promotion are many, with the STP as coordinator, and with participation of the MLSC, CONAMYPE, ISDEMU, FISDL, and Municipal Corporation of El Salvador, among others. Toward this end, and in the context of the GJP and the Five-Year Plan, there is an opportunity to offer technical support for promotional program restructuring, more comprehensive management of policies and actions, and strengthening CONAMYPE as a more solid entity capable of strategic execution of the policies in the wholesale sector of the national business park.

Through promotion of the CONAMYPE programs, the network of the 12 ISDEMU training centres around the country can be utilized (13 are functioning and three are being established, but they already have been granted the funds). Through this network, 5,240 women have received training in the last five years. The objective is "training for productive entry" and includes occupational training, entrepreneurship and entrepreneurial development, and gender-perspective awareness. Each training centre provides a day-care centre for children of the beneficiaries.

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Centres are administered by municipalities, in order to respond to the locally identified needs. However, the focus continues to be on training women in traditional occupations. This context opens the opportunity to present a proposal to link the four pilot projects under development by CONAMYPE (Chalatenango, Km. 18 between Morazán and San Miguel, Golfo de Fonseca and north of Usulután).

In addition, the Institute for the Promotion of Cooperatives (INSAFOCOOP) of El Salvador, while it has not undertaken actions in the context of the crisis, has conducted strengthening activities in administrative capacity and the observance of the functioning of boards of directors, and the cooperative law has been sent for review. The sector has been expanding (from 369 cooperatives in 2004 to more than 680 in 2009), but additional general support actions appear to be needed to promote this association model. INSAFOCOOP has received technical support from Israel and the Japanese International Cooperation Agency.

***n) Reduction in taxes***

No specific programs have been mentioned to reduce taxes in order to reactivate investment, exports and consumption. There is a low level of revenues in the economy, and one of the most important fiscal measures lies in modernizing the tax administration, to increase revenues through reducing tax evasion. The Executive Branch has launched a dialogue process on a fiscal pact, which is an attempt to raise the taxation rate. The employer sector has shown interest in knowing the destination of these taxes, before moving forward in the dialogue.

***o) Establish normative environments that are favourable and enabling for sustainable businesses***

The Ministry of the Economy is implementing a program to improve the business climate, which focuses on:

- Review of the legal framework:
  - New law to strengthen MSMEs;
  - Review of the *Commercial Code*, in particular the terms on bankruptcy procedures and liquidation of enterprises;
  - Special pledge law to support access to credit through guarantees;
  - Law to streamline administrative procedures for enterprises.

The Ministry of the Economy has considered it important to identify the effects that the previously mentioned initiatives will have on labour, social security, taxation, and other provisions.

***i. Statistical information on employment and enterprises***



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It has already been noted that the data and statistics on employment and enterprises are extremely incomplete; in particular there has not been an appropriate survey of enterprises to compile information in terms of employment and other relevant variables. Thus, there is no ongoing and systematic compilation of statistics on key variables such as employment, income, sectoral activities, among other factors, according to the size of the enterprise. This lack of information seriously limits the formulation of appropriate policies to promote MSMEs.

In consultation with all the institutions visited, including the Department of Statistics and Census (DIGESTYC), a priority request was made to the ILO to provide technical support to define a systematic process to compile statistics through surveys of enterprises.

The ILO has already begun collaborating in the diagnostics and evaluation of the labour statistics situation in El Salvador. The aim is to support the periodic generation of data and indicators, enabling evaluation and ongoing monitoring of the variables in the labour environment. The five areas in which to conduct diagnosis include: household surveys of the DIGESTYC, the survey of establishments by the Ministry of Labour, the administrative records of the Ministry of Labour, the statistics of the Employment Bureau, and the statistics of the Salvadoran Social Security Institute and the Pensions authority.

The household surveys provide national coverage of detailed and ongoing information on the socioeconomic conditions in rural and urban households in the country. Based on the methodology of quarterly mobile averages, estimates of key indicators can be generated, such as population of working age, condition of activity (employed, unemployed, inactive, under-employed, informality, working hours, wages), among other factors.

In the Ministry of Labour, the Employment Bureau is in charge of the labour intermediation process and employment policies and programs, including information on supply of and demand for labour. With the administrative records of the Salvadoran Social Security Institute, there is an important job of conducting an analysis of the administrative records of contributions to the health and pension systems, analysis of the coverage, and definition of a jobs and wage index.

The main assistance projects in areas of statistics have been supported by the technical cooperation of organizations such as the ILO, the Partnership in Statistics for Development (Paris21), UNDP, UNFPA, UNICEF, Sweden, the IDB and the World Bank.

Another important task for statistical purposes involves the calculation of rural under-employment, which is not currently being measured. This work will be key for reviewing calculations of the unemployment rate in the economy. In addition, there is a

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lack of statistics on child labour and the informal sector; efforts are needed to compile data, given the importance of the informal sector for the economy and employment.

ii. Competitiveness and productive transformation

The challenge of how to increase productivity is a key issue for economic growth and the creation of employment, given the weak productivity and competitiveness of the economy. According to the IMF (2010), education of the work force is a principal area that needs to be strengthened in El Salvador in terms of global competitiveness.<sup>24</sup> The core elements mentioned as necessary to increase productivity in the economy include increasing the quality of primary education and the average number of years of schooling<sup>25</sup> (in 2009 the average was six years, 1.7 years more than in 1991), increase the quality and number of graduates in technical education to meet the demands from enterprises, greater public and private investment in innovation, reforms to the regulatory framework to reduce operating costs for enterprises in those areas where there are unjustified bureaucratic barriers, and improve the functioning of both public and private institutions. El Salvador currently invests around 3.6 per cent of its GDP in education.

iii. Possible additional employment-promoting measures

A key issue is to identify the sectors in which the economic reactivation and sustained growth will be focused, along with the utilization and administration of the free trade treaties that have been signed.

Beyond the actions already initiated to fight the crisis and other suggestions of complementary measures that have been identified, the discussions have helped identify additional needs in certain priority areas, among which the following can be mentioned:

- Remittances as instrument to generate employment and productive financing:
  - Identify incentives (reimbursement of transfer fees, creation of special accounts in development banking to deposit remittances for investment, among others) to channel remittances as a source for investment and creation of enterprises;
  - assessment of investment on the part of the Investment Promotion Agency of El Salvador (PROESA);
  - special incentives for investment in priority projects (priority sectors identified by PROESA);
  - pilot projects (“joint ventures” and “matching funds”) with remittance funds;

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<sup>24</sup> IMF (2010). *Staff Report for the 2010 Article IV Consultation and First Review under the Stand By Arrangement*.

<sup>25</sup> Pleitez, R. (2009). *Hacia un Desarrollo Integral: la Apuesta por lo Social*. FUSADES.

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- Conformation of microfinance fund to channel credit.
  - Participation of the Salvadorans abroad (diaspora) as an investment factor, tourism, transfer of technical knowledge and investment projects:
    - Consolidation and strengthening of a network of Salvadorans abroad to promote investment, tourism and transfer of technical knowledge;
    - Other incentives to promote investment of the diaspora in El Salvador;
    - Tourism programs;
    - Technical training program, using the technical knowledge of Salvadorans outside the country.
  - Informal economy:
    - Establishment of an ongoing survey of informal productive units;
    - training programs to increase the productivity of informal productive units;
    - regulatory adjustment program, to adapt regulations to the conditions and needs of the employers and workers in the informal sector;
    - promote the organization of trade unions in the informal economy;
    - promote the entrepreneurial organization of the productive units in the informal economy;
    - radio program to provide technical assistance for entrepreneurs in the informal sector.
  - Training to increase productivity of workers in the agricultural sector:
    - Diagnostic of training needs for workers in the agricultural sector;
    - links and coordination with agricultural development programs;
    - identify the labour population to train;
    - indicators on response to the training.
  - Cooperation to support the mobility of workers in the labour markets in the context of Central America:
    - Strengthen the bodies that handle the issues of migration and employment in the framework of the SICA and SIECA;
    - facilitate labour supply and demand services between countries;
    - Promote employment through the development of the public and private services sector;
    - Educational services, health services, and recreational and cultural services, for returning emigrants and the population in general.
  - Sectors that can support productivity, reduce emigration and promote the mobility of labour in El Salvador and Central America:
    - Transportation, storage and communications;
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- Information technologies and telecommunications;
  - Financial and insurance services;
  - Housing and construction;
  - Social services, community and personal assistance;
  - Green jobs;
  - Tourism (in its different aspects, from conventions to health and leisure).

iv. Use of specific ILO programmes to promote sustainable enterprises

- The ILO has a series of programmes to support the development of sustainable enterprises. In the consideration of these programs, it is important to recognize, however, that there is sufficient national knowledge, which enables the extraction of the best practices on the subject. The main ILO programmes include: Generate Your Business; Expand Your Business; Growth-Oriented Enterprises; Women's Entrepreneurship Development; Value Chain Development; Sustaining Responsible and Competitive Enterprises; and the Green Jobs Programme.

## **B. Protection of unemployed workers and social protection systems**

This section aims at identifying problems and the measures that have been adopted to protect unemployed workers and in favour of social protection systems.

It is important to define a national strategy on social security and the corresponding public policies, in their full context: health (preventive and curative), pensions, family benefits, maternity, work accidents and professional and unemployment benefits, including labour inclusion mechanisms for those who lose their job, and also for the restructuring of the internal market.

It is important to seek a balance between contributory and non-contributory benefits, which do not lose purchasing power over time, and that respond to the basic human right of social security, as a strategic and basic element of Decent Work and the central objective of all policies that favour social justice for equitable globalization.

### **1. Cash transfer schemes (plans)**

The Universal Social Protection System (USPS) is a social policy strategy based on a focus on rights that empowers the human development of individuals. The bases and implementation of this system form part of the priority objectives of the General Anti-Crisis Plan, promoted by the government of President Mauricio Funes.

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The objective of this system is to guarantee all citizens a basic social floor that includes access to education, health, nutrition, food security, housing, other basic services, community infrastructure, generation of income and social protection. The priority population includes those sectors in conditions of poverty and social exclusion, both urban and rural.

The implementation of the USPS will be financed by the World Bank through the Income Support and Employability project.

The organization of the USPS is based on the identification of four major intervention areas: i) communities in solidarity; ii) food and nutritional security; iii) productive employment and development; and iv) social security. The four areas identified can be strengthened as the USPS is being constructed.

This system contemplates, within its implementation strategy, both universal-type actions as well as selective actions for vulnerable groups. The Communities in Solidarity program is a key intervention area of the USPS. This program is composed of a series of sub-programs, some temporary and some permanent.

The ISDEMU has formally requested support to incorporate the gender perspective in these programs.

**a) *Rural Communities in Solidarity***

Rural Communities in Solidarity is a support program for rural populations in the poorest municipalities in El Salvador. The program aims at promoting a better living standard for families in extreme poverty. It attends to people who live in the 100 municipalities classified as extremely poor.<sup>26</sup>

The program objectives include:

- Improve basic social infrastructure.
- Strengthen the supply of health services, nutritional services, and basic education.
- Provide tools that enable economic stability in the home.
- Improve health and nutrition.
- Improve basic education.

This program has a local coordinating body, "Municipal Coordinating Committee", which is made up of the representatives of governmental and non-governmental

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<sup>26</sup> According to the *Map of Extreme Poverty*, prepared by FLACSO, FISDL, San Salvador, 2005.

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organisms and dependencies, including municipal authorities and community representatives.

***b) Families benefiting from bonuses***

The bonuses given to the beneficiary families are conditional cash transfers, which are offered by three methods:

**Bonuses in health:** families with children under 5 years old or pregnant mothers. The bonus is \$15 per month, and is delivered when:

- The complete vaccination schedule is met for children.
- All height and weight controls are met.
- All prenatal checkups are completed.

**Bonus in education:** for families with children 5-18 years of age who have not gone beyond fifth grade. The bonus is also for \$15 per month. Delivery is based on the condition of enrolling the students in school and support for those already enrolled so they attend classes.

**Bonus in health and education:** for families with children under 5 years of age or pregnant women, and also children between 5 and 18 years of age who have not gone past sixth grade. The bonus is for \$20 per month, and is delivered under the condition that:

- The beneficiary attends the training sessions for family follow-up and support.
- The bonus money is used to feed the family and so that children can attend school.

The support for education is given while and if the child attends school. A maximum of four justified absences are allowed per month, in which case the absent days are deducted from the total amount. Presently 100 of the poorest municipalities are already benefiting from this support.

These conditional cash transfer programs began in 2005 and have been extended because of the crisis. The total amount paid in health and education bonuses from 2005 to 2009 is approximately USD 41 million. These programs should recognize that the reorganization of domestic roles need to be promoted, for both greater availability of care services, and hopefully, although more difficult, for a greater presence of male caregivers.

In 2010, approximately 98,458 families benefited from these programs, and a total of USD 47.5 million has been executed.

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**c) Support for older adults**

Support for older adults consists of a bonus of USD 100 every two months (USD 50 per month, but the payment is made every two months). The conditions to qualify for this benefit are that the person be at least 70 years of age, live in the municipality and have no other source of income. These regulations are flexible, allowing, for example, that a person who receives a small income can benefit from this support in the portion that they are short of one hundred dollars. At the time this benefit has been offered in 32 municipalities.

During 2009, a total of USD 355,000 was paid, and in 2010 there were 7,207 individual beneficiaries.

**d) Urban Communities in Solidarity**

This program aims at providing a comprehensive approach in order to give attention and improve the conditions of urban poverty, habitable conditions and social inclusion in precarious urban dwellings, in a framework of institutional coordination and co-responsibility of the central government as well as local governments and community organizations.

Implementation will be based on four priorities:

- Development of potentials and capacities (in the STP design process, there is a plan for payment of a monthly stipend to the student, taking into consideration the higher female dropout rate in secondary school; the plan is to increase the amount for females, even though ISDEMU has observed that the female dropout rate is due not to work opportunities but rather to pregnancy of adolescents).
- Comprehensive improvement of precarious urban housing (currently focused on the slums of Los Letona in San Martin and Un Rancho in Ahuachapán, and executed by the Vice-Minister of Housing and Urban Development).
- Income generation and productive development (part of PATI).
- Decentralized management (in process of design by the Secretariat of Strategic Affairs).

**2. Establishing adequate social protection for all, sustained on a basic social protection system ("social floor")**

The programs focus on the transfer measures previously mentioned, as well as measures to respond to the urgent needs of the most vulnerable. It is recommended that these plans be integrated into the comprehensive social protection model, defining specific policies for each of the nine coverage items already mentioned. In addition, it is worth mentioning that strengthening the institutions, the general administration of the

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state, its capacity to collect taxes and social contributions, as well as supervisory and inspection mechanisms, are all fundamental objectives to ensure the viability and sustainability of internal self-financing of a comprehensive social security model in the future.

El Salvador carried out the reform of the system of pensions (including the SSSI and the INPEP), with features similar to the Chilean model, of individual capitalization and private administration. Taking as a reference the experience of pension system reforms in Latin America (mixed systems or private substitutes), the model adopted in El Salvador is the private substitute. Given the provisions in the law, the SSSI and INPEP programs will continue to operate only while the current pensioners are alive and the group of contributors, obligatorily or voluntarily, decide to remain in the specific program. The current pension law was approved in December 1996 and entered into effect in May 1998.

Presently, the social security coverage level in El Salvador, through pensions, is approximately 25 per cent of the economically active population (EAP). The 1996 reform thus has not achieved significant expansion of coverage, and has generated additional fiscal problems.

Under the current Salvadoran pension model,<sup>27</sup> the problem of unemployment due to the crisis has led to an even greater lack of social protection.

There are other important challenges in terms of pensions, given that few people achieve the required 25 years of contribution in order to have access to old-age pension. As already mentioned, the effective coverage is very low, especially for women, who face specific constraints (e.g. periods of pregnancy and care of infants) that limit women from completing the required years of pension contribution. There is also a need to establish measures to resolve the problem of adjustment of the pension of retirees from the public system; reform the pension saving system to increase coverage; improve the investment fund to reduce the low profitability including the high level of investment in public securities (80.4 per cent); and reduce the debt of the pension trust, which is more than \$2.5 billion (40 per cent of the total of pension funds); among others.

Retirement benefits offered by the private system (with the criterion of private insurance) appear to function more as a source of temporary income. Programmed retirement,<sup>28</sup> instead of annuities, appear to offer more options.

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<sup>27</sup> Mainly focused on the protection of salaried workers. That is, the main entry to social security is the formal salaried worker.

<sup>28</sup> When workers retire, according to the SAP Law, they have options to obtain their pension through several different programs: reimbursement, programmed retirement, annuity, or a combination thereof. The second of these consists of a Pension Fund manages the pensioner's fund, the third option consists of purchasing an annuity from an insurance company and the retiree acquires the right to charge his/her pension to that company until he/she dies. All the combination can result in temporarily taking a programmed retirement and ending up with an annuity.



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In this context, the government tends to take charge of the pension costs of those people who exhausted their funds. Again, women are more vulnerable, since they tend to retire earlier and live longer, which implies a smaller pension.

According to the records of the Salvadoran Social Security Institute, 30,000 fewer contributors were reported in September 2008 than in September 2009. By October 2009, 44,424 new workers enrolled, 27.6 per cent less than the corresponding number the previous year. As already mentioned, these figures should be considered in the context that in El Salvador, less than one-third of the economically active population has access to social security. By July 2011, the SSSI reported having recovered 30,000 of the 50,000 workers with social security lost during the crisis.<sup>29</sup>

Given this situation, the workers who stopped paying in, and those who did not enrol in social security because of lack of employment, remained, along with their families, unprotected before the most common risks in life. This reality, beyond generating unemployment, also implies an increasing precariousness of the work. Even if the Ministry of Health offers health coverage, the Ministry has scant economic resources, with the resulting impact on quality, coverage and location, as well as other decisions that reverberate in the development of the country, one of them being the free coverage of children up to 12 years old.

The government has begun the process of incorporating domestic service workers into the health scheme of the SSSI and, as an incentive for enrolment, offers that the contribution of the employer be deductible from the income tax.

To establish a more broad-based Weberian system,<sup>30</sup> and at the same time strengthen the principle of solidarity, the government supports the universal social protection. As already observed in terms of the Urban Communities in Solidarity and the Rural Communities in Solidarity programs, through programs such as PATI and the older-adult support program, the country has undertaken a strong promotion of the social floor. It is extremely important, especially for the sustainability of the SSSI, to expand the coverage and type of packages for family businesses, the self-employed, and others. For the SSSI, this proposal is viable, provided its design includes the consideration the coverage could be extended through collective agreements by associated groups.

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<sup>29</sup> See SSSI communication, 13 July 2011:

[http://www.issv.gob.sv/index.php?option=com\\_content&view=article&id=431%25crecimiento%25cotizantes&catid=1%25noticias-ciudadano&Itemid=77](http://www.issv.gob.sv/index.php?option=com_content&view=article&id=431%25crecimiento%25cotizantes&catid=1%25noticias-ciudadano&Itemid=77).

<sup>30</sup> More universal.

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In addition to ensuring the population's full access to basic benefits, it is essential to expand to workers the social protection system coverage. The union sector proposes that solidarity be promoted as a central element of the system, with a role of the state as coordinator of a national strategy on the issue, which minimizes the administrative costs, increases coverage of workers and guarantees security in the social contributions and in the provisional funds.

In summary, it is necessary to consolidate a national policy on social security, which can be one of the contributions of the GJP. This requires a tripartite consensus to undertake the reforms to harmonize with the universal Social Protection Floor initiative of the United Nations and the ILO Convention No. 102. However, the response offered by this protection model cannot be at the expense of the development of contributory protection models, for example as defined in the comprehensive vision of Social Security in ILO Convention No. 102.

### **3. Expansion of unemployment benefits**

#### ***a) Transitory health services system for workers***

This measure is part of the current government's Anti-Crisis Plan. Its objective was to mitigate the impact of the economic crisis through free access to SSSI health services for the working population that lost their jobs as a result of the crisis. This transitory system was in effect between July 2009 and 31 December 2010.

Before the implementation of this program, in order to have access to the SSSI medical services, unemployed individuals could only qualify for benefits if they suffered from a high-risk illness, or had scheduled a medical appointment before having lost their jobs. With this measure, unemployed workers who had paid at least two months of premiums into social security in the four months prior to losing their job had the right to receive health services for an additional six months.

According to SSSI authorities, the impact of this plan has been positive. From July 2009 to the end of 2010, the program attended to more than 6,000 unemployed workers. The distribution by gender and age has generally been around 51 per cent men and 49 per cent women, with average ages of 41 and 35 years old, respectively.

### **4. Ensuring that the long-term unemployed stay connected with the labour market**

No policies or specific measures have been announced.

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**5. Providing adequate coverage for temporary and non-regular workers**

El Salvador has traditionally had a condition of net emigration of citizens. However, during harvest periods, migrant workers travel to the country from Nicaragua and Honduras. There are no labour guarantee rights for these migrants. In order to address this issue, a possible framework that could be considered is the Ibero-American Multilateral Agreement on Social Security, which recognizes pensions for disability, old age, and survival based on periods of contribution inside and outside the country.

**6. Support to the most affected vulnerable groups**

***a) Income support measures***

These measures are contained in the pilot programs that have been proposed for the implementation of PATI. As previously observed, these programs emphasize assistance to young men in vulnerable situations, as well as women of all ages in vulnerable situations.

***b) Development of work skills***

The female population and the young population traditionally suffer discrimination. To address this situation, some programs attempt to correct the discrimination, for example, through benefits such as development of work skills. One INSAFORP program, "Skills", is used in particular (described above). In 2009 the participants in this program were mostly women (55 per cent) and youth aged 11-30 (57 per cent). Older adults (aged 61-80) accounted for 2.2 per cent of the program participants.

The main groups attending the "Skills" Program in 2009 were women working at home (29 per cent), the unemployed (28 per cent) and workers who want to learn different skills to work in complementary jobs or acquire more skills to retain their employment (23 per cent).

The expectations and objectives of the "Skills" Program participants were focused mainly on self-employment (45 per cent), getting a job (26 per cent), additional income (21 per cent), internal promotion (4 per cent) and change in employment (4 per cent).

There are also some small-scale initiatives, such as the Polígono Don Bosco (aimed at at-risk youth or persons with disabilities) or the Job Opportunities Program through Technologies in the Americas (POETA), implemented jointly with the Institute for Rehabilitation of Persons with Disabilities (ISRI in Spanish).

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The training activities (in both the private sector and public sector), although focused on the labour market, are not based on the behaviour of the labour market but instead on "direct readings" of the labour dynamic, producing many irregularities in the training areas. It is necessary, also, to coordinate actions that involve not only INSAFORP but also other agents in professional formation.

In this way, an alternative "package" of information can be offered, as well as counselling and technical assistance so that private organizations can provide training activities with a targeted impact, in which INSAFORP would play an important role but not the only role. The orientation plans for the "packages" include other sources of information, such as from the Ministry of Labour, the Ministry of Economy and even the generators of statistics (for example, Treasury, CRB, DIGESTYC).

**c) *Respect of the right to equality and non-discrimination***

While the *Labour Code* of El Salvador does not make any reference to discrimination, it explicitly states, "the State shall enforce respect for the principles of equal opportunity and treatment in employment and occupation, including access to professional training" (Art. 12).

The mechanisms for protection against sexual harassment and penalization of harassment are other basic elements that promote the rights of women in the work place. The *Penal Code* of El Salvador penalizes sexual harassment with sentences of three to eight years (Art. 165). Complementarily, other contexts such as the *Law of Decent Work* refer to sexual harassment as a very serious offence (Art. 56) and establish sanctions involving dismissal (Art. 61).

Certain studies have shown that acts of discrimination against female workers occur because of the lack of application of legislation or the lack of enforceability of labour rights and guarantees. A study conducted by the "Cumple y Gana" Project stated that: "In Central America and the Dominican Republic, the main problem is not at the level of the formal "recognition" of labour rights (at the constitutional, international, or legal level, although there are problems or loopholes provoked by the legislation), but rather in the legal effects that this recognition has, in the absence or deficiency of the "enforceability" (of the procedural mechanisms provided for its protection), in the deficiency of institutional conditions (mainly of the Ministry of Labour and labour tribunals) and in the absence of the material conditions (economic, social, cultural) to make these effective".

It is important to note that domestic labour continues to be one of the principle sources of employment for Salvadoran women: 14.6 per cent of women who work are domestic workers. These women work in very precarious conditions, with low wages, no social security and excessive hours. For example, the wages they receive are always at the low end of the pay scale, and some 64.7 per cent of these workers receive less than the

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minimum wage. In addition, the *Labour Code* does not establish schedule, except a minimum rest of 12 hours, only one paid day of rest per week, and payment in kind is accepted (room and board). As previously mentioned, there is a voluntary subscription plan for domestic workers to join the social security system.

On this matter, the ISDEMU has requested support from the ILO in several areas:

- Design of a study on the implementation of Conventions No. 100 and No. 111 of the ILO, and design of a system to monitor these conventions (under implementation with funds of verification).
- Awareness campaign on discrimination against women in the workplace.
- Campaign on sexual harassment as a form of discrimination and violence against women in the workplace.
- Generation of knowledge and technical skills for the review and/or preparation of administrative norms.
- Design and implementation of a roadmap to prevent sexual harassment and attention to cases of sexual harassment.
- Study of the domestic work regulation in the national normative framework, and proposal for reform from the gender perspective.

Another essential issue to help fight the discrimination that traditionally has affected women is the gap in access to and coverage of social security. As previously mentioned, women face a problem in successfully reaching the 25 years of contributions required to access a pension in old age, as well as the low amount of their pension as a result of smaller savings fund.<sup>31</sup> This reinforces the need to socially recognize the importance of the care services provided by the women. For this, it is important to note the use of proposals for an infrastructure and a system of these care services, as well as, for example, to grant women the equivalent of a year of contributions to social security (pension and health) for each child she bears. However, these are initiatives that have not yet been announced by the current government, the design of which could be supported by the ILO.

## **7. Dialogue and negotiation on issues of wage policies**

In El Salvador, the National Minimum Wage Council is responsible for defining and setting the official minimum wages. This tripartite body meets at least once every three years to adjust salaries. From 2006 to 2008, reviews were undertaken on an annual basis

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<sup>31</sup> Women tend to take less formal and less structured jobs in terms of working hours, in order to dedicate time to caring for the family. These jobs often lack social protection. Other elements that cause their savings to be less than those of men is that in general women retire earlier than men (the age to obtain old-age pension for men is 60 years of age and for women it is 55), which shortens the savings period. Also, calculation of a woman's pension is often less favorable than that of a man because on average women live longer than men.

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and the Council, prior to requesting the issuing of decrees, consulted with a wide range of entities.

The second-to-last wage review was in December 2008 and the most recent was in May 2011, through which a general increase was established of 8 percent for all the minimum wages. Three general daily minimum wages were considered (agricultural workers: USD 3.50 per day; workers in business and service: USD 7.47 per day; industrial workers: USD 7.31 per day) and some other specific minimum wages (harvesting coffee, cotton, sugar, duty-free manufacturing and seasonal agricultural industry). With the exception of harvesting coffee, all specific minimum wages are below the national average. This situation implies that, in the agricultural sector, if a person works six days per week, his/her minimum monthly income would be close to USD 88, while in the services and industry, USD 186. It is worth noting that for the Council, the principal reference is the evolution of prices (in an attempt to compensate for inflation) rather than a strategy to promote productivity.

The MLSC labour inspection is responsible for verification of payment of the minimum wage. While a process to streamline labour inspection does exist, it has very low coverage. Along with the fact that the culture of compliance is absent, as well as faulty business registration, there is a great need for programmes that: a) promote compliance based on the responsibility of the enterprises; and b) achieve a more accurate business registration and effective inspection.

***a) Reducing the wage gap between men and women***

There is a lack of national instruments to implement Convention No. 100 (on equal pay for work of equal value). There is wage inequality and discrimination in many sectors. Women earn the 88 per cent of the average wages of men and they are underrepresented in highly skilled positions with high wages. National legislation still does not mention the principle of equal remuneration for work of equal value, in accordance with the terms stipulated in Convention No. 100 of the ILO. The current government has not yet adopted any policy that appropriately addresses the issue of equal opportunities, and the response to discrimination is limited, both in terms of employment as well as pay.

**8. Measures to protect domestic and international migrant workers**

In terms of domestic migration, there are no special programs. Even though the coverage of social protection is limited, it aims at national coverage for any worker registered with the SSSI.

In terms of emigration, El Salvador's emigration rate is the highest in the region. There is no policy on return migration; instead, the extension of programs has been sought to regulate the presence of Salvadorans abroad, such as the Temporary Protected

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Status (TPS) program in the United States, in which Salvadorans are granted permission to work for a defined period of time. According to estimates by the Embassy of El Salvador in the United States, close to 2.5 million Salvadorans live in the United States, and the TPS has been extended to almost 225,000 people. The MLSC also has in place the "Temporary Overseas Workers Unit" (UTTE,), which provides guidance services and placement in qualified jobs.

For the returning workers who do not have any pending legal issues, there is a program for inclusion in the National Employment Network. This program is significant, since there are many young people who are deported back to El Salvador (especially from the United States), and these young people typically have difficulties entering the labour market (low salaries, labour conditions that do not satisfy their expectations).

**9. Protecting the purchasing power of low-paid workers including policies on minimum wages**

As previously mentioned, the country has adjusted the minimum wage. It is also in the process of preparing a reform system to improve labour inspection. The primary objective is to support efforts for MSEs to be capable of generating adequate income through better economic insertion.

**C. Strengthening respect for international labour standards**

**1. Measures to meet international labour standards**

The government is reviewing the possibility of approving the components of the Decent Work Program, which include, among others, "to promote the compliance with and effectiveness and application of the international labour standards and national legislation". It is also planning the development of a national labour policy, which is a critical element in the Employment Policy Convention, 1964 (No. 122), signed by El Salvador.

**2. Increase surveillance to achieve the elimination and prevention of an increase in forms of forced labour, child labour and discrimination at work**

El Salvador has signed all the basic conventions on forced labour, child labour, and discrimination at work: Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1972 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); and Equal Remuneration Convention, 1958 (No. 111). The Committee of Experts on the Application of Conventions and Recommendations (CEACR) provided comments on the application of these conventions, in theory and in practice, by El Salvador.

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i. Child labour

Child labour continues to be a widespread problem. Of particular concern is the persistence of the worst forms of child labour, such as fabrication of fireworks, work in the garbage landfills, and prostitution. According to official statistics, more than 67 per cent of children work in some form or another. In rural zones, children work in agriculture and commerce, while in urban zones they are often employed as street vendors.

In addition to the legislative measures taken, for example, the adoption in 2009 of the new "Law of Comprehensive Protections of Children and Adolescents" and the current process of preparing a list of dangerous occupations, the government designed a roadmap for eliminating child labour in the country by 2020. This process will contribute to strengthening the capacities for compliance with Conventions No. 138 and No. 182 of the ILO, as well as the goals established in the Hemispheric Agenda on Decent Work in reference to child labour and its worst forms. In El Salvador, the roadmap was publicly adopted on 7 December 2009.

The roadmap is a **special social-protection policy** for children and adolescent workers and those who are at-risk of getting involved in the worst forms of child labour. This focus serves social policies (such as health and education) and social assistance policies (for example, anti-poverty programs), envisioning the connection between complementary policies and interventions, with direct and indirect effect on the elimination of child labour in its worst forms. In this way, it does not necessarily attempt to create new interventions but instead to strengthen existing programs.

The strategic framework proposed by the roadmap includes six dimensions: fight against poverty; education; health; comprehensive protection of rights and regulatory and institutional framework; awareness-raising and social mobilization; and generation of knowledge, with the respective objectives, outcomes, indicators, goals and fundamental strategies to reach these goals.

The ILO will support the effective elimination of the worst forms of child labour through the IPEC Project in El Salvador, with initiatives to address the problem of the poverty cycle, as well as ensuring the inclusion of children in the educational system.

ii. Discrimination

CEACR, in its most recent comments on the application of Conventions No. 100 and No. 111, emphasized the following:

- The concept of «salary», incorporated in Article 119 of the Labour Code, is more restrictive than «pay» stated in Convention No. 100;



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- the principle of equal pay for men and women contained in national legislation (Article 38.1 of the *Constitution*, Article 123 of the *Labour Code* and Article 19 of the internal work regulation for the private sector) is more restrictive than the relevant terms of the Convention;
  - pregnancy tests and dismissal of pregnant women or disabled women constitute sexual harassment.

This context reveals that the country needs practical national-level instruments to implement Conventions No. 100 and No. 111, given that on the basis of political will, the legal tools necessary for their implementation exist.

The Ministry of Labour and Social Security has a Special Unit for Gender Issues and the Prevention of Discrimination in Employment Work. In the case of the union guidelines, in 2009, this unit received 70 complaints of anti-union discrimination.<sup>32</sup> Discrimination is defined in accordance with the law, and is indicated in the final document on Good Practices Protocol of Labour Inspection in El Salvador.<sup>33</sup> Discriminatory actions are also a crime as established in the *Penal Code*, Article 246.<sup>34</sup>

In practice, inequality of wages and discrimination exist in many sectors. As previously mentioned, women earn 88 per cent of the average wages of men.<sup>35</sup>

In general, the measures sought do not have a policy to integrate the gender perspective. The creation of a gender unit with "cross-cutting" functions and the design of an institutional diagnostic and policy to promote gender equality are two themes in which the ILO is giving support to the Ministry of Labour. The goal is that the Ministry's policies and programs incorporate gender perspective and in this way help improve the level of compliance with the ILO conventions signed by El Salvador on this matter.

The ILO is also participating in the review currently underway of the national policy on gender equality. The new policy, according to ISDEMU in its request for support from the ILO, will reinforce the component on equality in the work world, which, along with the

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<sup>32</sup> *Verification of the implementation of the White Paper recommendations*. August 2009-Jan 2010, p. 25.

<sup>33</sup> "Protocolo de Buenas Prácticas de la Dirección General de Inspección de Trabajo de la República de El Salvador [http://pdf.usaid.gov/pdf\\_docs/PNADO413.pdf](http://pdf.usaid.gov/pdf_docs/PNADO413.pdf).

<sup>34</sup> Discrimination in employment: Article 246. "A person who commits an act of serious discrimination in employment on the basis of sex, pregnancy, origin, civil status, race, social status or physical condition, religious or political beliefs, membership of a trade union or acceptance of its agreements, or kinship with other workers in the enterprise and who does not restore the situation of equality before the law, despite requests to do so or following administrative sanction, by making good any economic harm resulting from such an act shall be sentenced to imprisonment for six months to two years".

<sup>35</sup> Report of the WTO General Council in the context of analysis of business policies in El Salvador (Geneva, 10-12 February 2010). <http://www.ccoo.es/comunes/temp/recursos/1/337369.pdf>.

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efforts on the part of the Ministry of Labour, should have an important impact in terms of combating gender discrimination in the country.

### **3. Strengthening labour inspection and labour administration**

One of the principal challenges of the Ministry of Labour and Social Security, raised by the Vice Minister of Labour and Social Security, is the: "transformation of the Ministry of Labour and Social Security in areas of employment, occupational health and safety, working environment, welfare and social protection, vocational training, social security and cooperatives".

From August 2009 to January 2010, the total budget of the MLSC increased 13.3 per cent (2009 budget compared to 2010 budget), while the budget subject to verification increased by 18.2 per cent. In 2010, the budget for the application of labour legislation increased by 22.3 per cent. Currently, the MLSC maintains the same number of regional offices (three) and approximately USD 500,000 from the 2010 budget has been earmarked for infrastructure repairs and basic equipment.<sup>36</sup>

El Salvador ratified the Labour Inspection Convention, 1947 (No. 81); the Labour Inspection (Agriculture) Convention, 1969 (No. 129); the Labour Administration Convention, 1976 (No. 150). The Ministry of Labour and Social Security of El Salvador has established these as priorities to boost labour inspection.

In the event of noncompliance with labour standards, labour inspectors are ordered to carry out verifications. The annual report of the International Trade Union Confederation (ITUC) on violations of labour rights committed in El Salvador in 2007 mentioned problems in terms of the lack of labour inspection. The *Constitution of the Republic*, in Art. 44, establishes that "*The State shall maintain a technical inspection service responsible for ensuring strict compliance with legal norms of labour, assistance, protection, and social security, with the purpose of verifying their results, and suggesting pertinent reforms*". This constitutional precept obliges the State to maintain such inspection service, which is currently provided by the Ministry of Labour and Social Security, through the Inspectorate, whose principal objective is to ensure strict compliance with the legal labour norms.

The "Organization and Functions of the Labour and Social Security Sector Act" reiterates the provisions established in the *Constitution* in Art. 8. The following jurisprudence also exists to establish the role of labour inspection, without limitations or exclusions, "*To administrate the procedures of labour inspection for the purpose of monitoring and controlling compliance with the legal norms that regulate labour relations and conditions*".

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<sup>36</sup> Verification of the implementation of the White Paper recommendations in Central America and Dominican Republic. August 2009-January 2010, p.29.

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The use of such power is vested in accordance with Art. 36 of the mentioned legal body, which states: *“The function of inspection is performed at the national level by the relevant dependencies of the Inspectorate and by the Regional Labour Offices”*. Article 34 of the law of reference, in terms similar to Art. 2 of Convention No. 81 of the ILO, establishes that the purpose of the function of inspection is *“to ensure compliance with the legal standards on employment and the basic standards on occupational health and safety, as a means of preventing labour conflicts and ensuring safety and security in the work place.”* *“For this purpose, the Inspectorate may conduct a program of regular inspections, or conduct a special inspection, which under Art. 43 of the same legal body, is that which is conducted to verify expressly determined facts, in connection with the labour relationship, which requires an immediate and urgent verification. Scope of competence. In conclusion, the scope of purview of the administrative authority extends to all those transcendent matters in the relations between management and workers, except the collective bargaining conflicts of a legal nature”*.<sup>37</sup>

For its part, the Civil Division of the Supreme Court affirms: “Article 2 of the Labour Code states that the term *worker* applies equally to labourers as well as employees, with no distinction whatsoever as to whether the scope of the application is public or private, so the legislator makes no distinction in the terminology employed, as it is inconsequential what the purveyor of justice may do”.<sup>38</sup>

In terms of the work itself of labour Inspection in El Salvador, in 2009 the Ministry of Labour and Social Security conducted 19,862 scheduled and unscheduled inspection visits in the industries of commerce and service, a decrease as compared with 2008 when there were 21,575 inspections. This also reflects a corresponding decrease in the number of workers included, from 264,403 in 2008 to 160,526 in 2009.<sup>39</sup> According to a declaration of the Counsel for the Defence of Human Rights of El Salvador, the results of the inspections are generally not to be shared with the workers.<sup>40</sup>

i. Integration of inspection (comprehensive inspection)

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<sup>37</sup> Judgment of the Administrative Litigation Chamber of the Supreme Court, 23 December 2004. Administrative Litigation Process No. 155-S-2002. Art. 44 Cn. Arts. 8 lit. “e”, 34, 36 and 43 LOFSTPS Art. 2 Convention No. 81 of the ILO.

<sup>38</sup> Judgment of the Civil Chamber of the Supreme Court, December 12, 2007. /Appeal Ref. 128-C-2005. / Judgment of the Civil Chamber of the Supreme Court, 6 December 2004. /Appeal Ref. 539 Ca. 1st Lab. Art. 2 C.T.

<sup>39</sup> Verification of the implementation of the White Paper recommendations. August 2009-January 2010, p.31.

<sup>40</sup> Interview conducted by Human Rights Watch with Antonio Aguilar Martínez, adjunct prosecutor for labour rights, Counsel for the Defence of Human Rights, San Salvador, 14 February 2003.  
<http://www.hrw.org/es/node/12237/section/6>.

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The inspection work has been organized by two departments (the Labour Inspectorate and the Occupational Safety and Health Unit of the General Directorate of Social Welfare) subject to two different procedures and organizations. The health and safety procedure did not include a penalty but a recommendation, after which the case was passed to the Inspectorate, thus causing a double procedure. The administrative organization and programming are not well coordinated, and these separate efforts lead to inefficiency.

An integration of the inspection functions has been approved under a Central Authority, which is the Inspectorate, under the following actions:

- Pilot program of comprehensive inspections (includes programming, resources, training and definition of joint working methods, regional location).
- Implementation of the new Law on Risk Prevention at the Workplace, recently approved by the Legislative Assembly, which includes a chapter on the integration of inspection, unification of procedures for both inspections, and a supervisory mandate for the Ministry of Labour. This will begin a change in the system of sanctions for infractions in the areas of safety and health, and promote the supervision by the Ministry.
- Development of a proposal to reform the law on the organization and functions of the MLSC to incorporate modifications in the procedures, sanctions, fines and attributions of labour inspection.

ii. Improvements in the Inspectors Contractual System

- Change in profile of the inspector to propose a multifaceted profile, in accordance with the new attribution of labour inspections and inspections on safety and health.
- Preparation of new regulations for recruiting inspection personnel.
- Conversion of temporary posts into permanent positions, in order to ensure permanence in the administrative career.
- Performance evaluation.
- Ethical regulations for the inspectors.
- Education and training plan for inspectors, with the goal of providing training and preparation of education material.
- Systematize the nominal and functional posts, with the goal of ensuring that those who inspect have been named as inspectors.

In the case of the Judicial Body, the Supreme Court has begun a process based on the compilation of information and preparation of a diagnosis of the labour jurisdiction, by the institutional planning office of the Supreme Court, which was completed in August 2009. The main conclusions and recommendations included, among other items, the

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change from the current written labour procedure to an oral procedure, in which immediacy, concentration and speed prevail. Similarly, expertise in labour law is considered essential so that those who administer justice are judges specialized in Labour Law, to change the current practice in which labour rulings are imparted by judges who must also attend civil, penal, commercial and family cases. This specialization would apply up to the level of the Supreme Court, through the creation of a Specialized Social Chamber, to hear appeals.

This general orientation is complemented with the training of judges and the legal community and in areas of management for a more orderly, organized and effective handling of procedures. It also implies substantial change in infrastructure, courtrooms and means of recording and taping hearings.

This change is imperative in the measure that in both civil and penal proceedings the system of oral trials or hearings has been adopted.

The proposed modernization implies a normative change in the Fourth Book of the *Labour Code*, very possibly substituting it with a *Procedural Labour Code* that establishes clear and simple procedural rules, as well as special rules for small claims, which account for 42 per cent of the cases processed.

The lack of an effective and efficient system of justice causes discouragement among workers, who are often forced to accept solutions below the legally established standard. This situation causes a lack of confidence in the conflict-resolution mechanisms.

In 2009 there was an increase in the labour processes in labour rulings, rising from 5,657 in 2008 to 6,867 in 2009. These statistics tend to indicate that the administrative court does not resolve labour conflict in the first instance.<sup>41</sup> Verification of the implementation of the White Paper recommendations in Central America and Dominican Republic indicates that from August 2009 to January 2010 (p.29), requests for individual reconciliations increased to 7,078, but the reconciliations sponsored by the Ministry of Labour represented only 43.4 per cent of the total in 2009.

#### **4. Respect for freedom of association, the freedom and right to organize and the effective recognition of the right to collective bargaining**

On 24 August 2006, the Legislative Assembly of El Salvador ratified the following four conventions of the International Labour Organization: Convention No. 87, No. 98, No.

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<sup>41</sup> *Verification of the implementation of the White Paper recommendations*. August 2009-January 2010, p. 45.

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135 and No. 151.<sup>42</sup> The ratifications were published in the official gazette No. 159, Volume 372, on 29 August 2006, with the previously established obligation of approving reforms to the *Constitution of the Republic* and the Civil Service Law, which limited the freedom of association and collective bargaining.

The principal substantive aspects of these conventions include: Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Workers' Representatives Convention, 1971 (No. 135); and Labour Relations (Public Service) Convention, 1978 (No. 151).

In 2009, through Decree No. 33 of June 2009, the Legislative Assembly adopted a reform to Articles 47 and 48 of the *Constitution of the Republic*, to implement the conventions of the ILO, approved on 24 August 2006, permitting the right to organize for public and municipal officials and employees, with certain exceptions, maintaining the restriction of the right to strike. In turn, although the commission of experts noted with satisfaction the modification to Article 47 as the national legislation, particularly the *Labour Code* and the Civil Service Law, they still were not congruent with Conventions No. 87 and Convention No. 98. Thus, the amendments to the national legislation have remained pending.

Based on the mentioned reform to the Constitution, the Ministry of Labour and Social Security has granted legal status to over 75 trade unions,<sup>43</sup> 45 of which are in the public sector. The unions adduce that many workers, out of fear, do not approach the MLSC to apply for participation in forming a union.

According to the unions, a new union may face a range of problems when processing its legal status, including demands for requirements not established by law, which can prevent the requesting party from receiving documentation of inscription.

The CEACR, in recent observations, pointed out the non-compliance with several provisions of the Constitution and national legislation on the conventions on the freedom of unions, especially Conventions No. 87 and No. 98. The particularly pertinent matters include the following:

- The minimum number of workers required to establish a union (Articles 211 and 212 of the *Labour Code* and 76 of the Civil Service Law);
- the waiting period to establish a new union (Article 248 of the *Labour Code*);

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<sup>42</sup> <http://www.laprensagrafica.com/nacion/575266.asp>, <http://www.elmundo.com.sv/vernota.php?nota=57031&fecha,>  
[www.diariocolatino.com/nacionales/detalles.asp?NewsID=13556](http://www.diariocolatino.com/nacionales/detalles.asp?NewsID=13556) -25k-.

<sup>43</sup> <http://www.presidencia.gob/sv/discurso/2010/06/dis0101.php>

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- The exclusion of some categories of workers from the guarantees of Conventions No. 87 and No. 98; for example: certain public officials and employees and public-sector workers (Article 4 and 73(2) of the Civil Service Law, Article 47 of the *Constitution*);
  - the requirement to be “Salvadoran by birth” in order to be a member of the board of directors of a union (Article 47 of the *Constitution*, Article 225 of the *Labour Code*, and Article 90 of the Civil Service Law);
  - the right to strike: the demand for a vote to strike (Article 529 of the *Labour Code*); declaration of illegality of the strike (Article 553, f) of the *Labour Code*; essential services, public servants (Article 221 of the *Constitution*);
  - the right of workers and employers organizations to establish federations and confederations;
  - protection against acts of interference;
  - collective bargaining.

For this report, unions reported a series of cases of violations in 2010 in the areas already described, public and private, including murder, persecution, prior authorizations, interference in union autonomy, non-compliance with collective-bargaining agreements, blocking of ombudsmen, anti-union firings, retention of credentials, arbitrary docking of pay and transfers, and other practices that could constitute violations of ratified conventions. Such documentation has been presented to the ILO.

Also in 2010, the CEACR, in its observations on the application of Convention No. 135, took note of the government measures taken to allow union leaders to recover their jobs after anti-union firings. The CEACR asked for a review of the amount of fines imposed in the case of the firings, to ensure that the fines were a sufficient deterrent.

The Ministry of Labour estimated that technical assistance would be helpful for the reform of national legislation, to align the reforms in accordance with the conventions on the freedom for unions and collective bargaining, especially Conventions No. 87 and No. 98. Also, the government, as well as workers and employers organizations, could need additional training on the subject of collective bargaining (private and public sector).

## **5. Implementing reform in labour law or changing the labour legislation or collective agreements**

The relevant subjects are discussed in the previous sections.

## **D. Social dialogue: identifying priorities, stimulating action, collective bargaining**

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Social dialogue is vital, especially in times of greater social tension. A solid foundation for building the commitment of employers and workers to joint action with governments is needed to overcome the crisis and for a sustainable recovery.

**1. Actions taken and results obtained through social pacts and collective agreements**

On the initiative of the National Foundation for Development (FUNDE) and USAID, a bipartite social dialogue was held between employers and workers in the first semester of 2009. With broad participation of employer organizations and almost all the unions in the country, measures were proposed on the maintaining and generating employment during the crisis. It is unfortunate that this important effort has not been taken up or continued. A document was drafted and signed by the participants.

Two important events are noteworthy: the creation of the Economic and Social Council in September 2009, and the reactivation of the Board of Directors of the High Labour Council (CST in Spanish) in February 2010. In addition, after a diagnosis of the labour and union situation, the Secretariat of Strategic Affairs, through the Sub-Secretariat of Modernization of the State, has formed a labour committee, with the objective of establishing an agenda for public administration relations.

The Economic and Social Council is made up of government representatives, 30 employer representatives, 10 union representatives, and 20 representatives of civil society organizations. The High Labour Council is a tripartite entity composed of eight members and eight alternates by sector.

The priorities of the Economic and Social Council include fiscal reform and the development plan ("Five-Year Plan"), as well as other initiatives, such as a national employment plan. The High Labour Council agenda has not been defined yet; nonetheless, the government has expressed interest in implementing the decent work program, as well as a national employment policy.

The ILO and the UNDP supported the creation of the Economic and Social Council. Currently, an official financed with UNDP resources works as Technical Secretary.

Strengthening workers organizations: after decades of fragmentation of workers organizations, in September 2009, the Movement for Trade Union and Guild Unity of El Salvador (MUSYGES) was established, made up of 29 union organizations. This movement is presented as a vehicle of internal coordination and cohesion of the labour movement. The Trade Union Confederation of the Americas (TUCA) and the ILO supported this process. An important concern of the MUSYGES includes the low unionization levels of women in the country. On this subject, a specific request has been made for ILO support to establish a Secretariat on Gender, in charge of promoting gender equality within the movement and in the union agenda. In late 2009, the MUSYGES presented a reform proposal to the High Labour Council.



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In relation to strengthening employer organizations, as in previous years, the National Association of Private Enterprises presented the country with its National Development Agenda through the National Meeting of Private Enterprise (ENADE), which includes numerous proposals on public policy. Earlier, in December 2009, the ILO supported the process of establishing a labour affairs committee in the National Association of Private Enterprises.

## **2. Strengthening capacities for labour administrative and labour inspection**

As already mentioned, the MLSC has been implementing the result of its strategic plan, which was supported by the ILO. The process is currently nearing completion. One of the principal recommendations is the creation of a Employment Department which currently is a unit within the Social Security and Employment Directorate.

Also, the Labour Inspection Unification Act was recently approved. Under this Act a single body of inspectors collect information and make on-site evaluations of compliance or non-compliance in matters referring to labour and occupational health and safety. It also stipulates that the penalty for non-compliance shall be greater than the continuation of non-compliance, and that the amounts shall be based on the base salary and not on a fixed amount.

In addition to the integration of inspection functions united under a central authority at the national level, within the existing needs, improvement of the civil service inspection system is required to establish the administrative career, the permanent and non-temporary contracting system, and establish new rules for recruitment and a new multifaceted inspection profile.

As previously mentioned, the Supreme Court started a "Diagnosis of labour jurisdiction", which changes the current written procedure for an oral one, and reinforces the specialization of judges in labour issues.

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## Part III Shaping a fair and sustainable globalization

This part of the Country Scan is based on Section IV of the Global Jobs Pact. It recognizes that the inseparable, interrelated and mutually supportive nature of the four strategic objectives of the Global Jobs Pact are increasingly considered not only as an effective crisis response and recovery strategy, but also as the framework of a new social, economic and development paradigm, characterized by employment-centred and income-led growth with equity.<sup>44</sup>

Therefore, this final part reviews the diagnostic of the national situation with respect to the Global Jobs Pact and presents recommendations on the way in which national policies can contribute to giving form to an equitable and sustainable globalization. In particular, this part of the document examines different spheres of policies, and includes the equality of gender as an inter-sectoral question.

### A. Policy coordination, coherence and cooperation between government ministries

In El Salvador various bodies exist for the coordination of executive policy actions. But the office in charge of development plans, as well as political coherence, is the Technical Secretariat of the Presidency. To advance in these matters, the Secretariat coordinates the Cabinet of Economic Management and the Cabinet of Social Management.

The Secretariat also has the role of coordinating and participating in the process of designing and formulating public policy along with the different state agencies, to achieve compatibility with the Five-Year Development Plan.

It is important to note that the current government took office as the first change in the contest of political parties since 1989. This change brought a greater need to organize and coordinate public policy and actions of functionality of the government apparatus. It is also important to keep in mind that, in practice, a tradition of a strong and a continuous civil service apparatus is limited. Combined, the effect on the new government has been a long and arduous process of effectively implementing its policies and responding to the challenges of the crisis and of creating employment.

In this context, a great challenge exists to establish strong coordination, integration and coherence of different economic policies and their integration into objectives to support the generation of employment. General and clear objectives have been identified in support of employment generation initiatives, however, many challenges remain in terms of the implementation, execution and sequence of measures intended for such

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<sup>44</sup> ILO: *Report of the committee for the Recurrent Discussion on Employment*, International Labour Conference, 99th session, Geneva, June 2010.

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purpose. Supporting employment generation in El Salvador is a challenging policy goal given that it involves taking into account many actions undertaken by numerous entities, including the ministries of public works, education, pro-poor social assistance targeted projects, SME development policies, promotion of foreign trade and investment, and specific sectoral activities, among many other actions.

The consolidation of efficient technical capacity – with sufficient coordination authority, sustained political and administrative support, stable funding, and monitoring and evaluation capacity – could contribute greatly to executing public policies, consistent with the objectives of generating employment. El Salvador has demonstrated good macroeconomic management capacity. But now it is necessary to combine this capacity with policies focused on stabilizing key variables concerning the levels of employment and income generation in the economy.

In so far as economic policies and their coherence are concerned, the current government has made efforts to achieve balance between its social and economic policies. For example, since 2010, policies have been prioritized for subsidy of LPG gas, electricity and water, to channel them with clear targets, with the objective of redistributing income and giving priority to the most vulnerable and poor groups. Consolidation of social assistance and certain recuperation of a process of increased social spending are also worth noting. In Central America, El Salvador is a country that allocates nearly 5 per cent of its GDP to health, education and social security.

A central challenge in this context has been to maintain the fiscal deficit within viable and sustainable levels, as has been agreed with the IMF in terms of fiscal sustainability and financing goals. The general fiscal targets were maintained in 2009 and 2010, but, despite this, the current fiscal deficit has increased, and the government has resorted to greater debt to be able to finance investments. In this context, the fiscal structure is rigid and the weight of the current spending is high. Between 2005 and 2008, the government achieved the self-imposed goal of maintaining as a prudential limit of the non-financial public-sector debt a maximum proportion of 40 per cent of nominal GDP. The government also sought to extend the maturity of the debt (an average of 17 years), to diversify financing sources, reduce costs (issuing of 30-year bonds) and make use of multilateral credits.<sup>45</sup> In 2009, the public debt rose to a total of approximately USD 11.2 billion and accounted for 52.1 per cent of GDP. Of this total, USD 10.3 billion was non-financial public-sector debt, which meant an increase of almost USD1.6 billion as compared to 2008. In 2009 the government also tried to increase gross public investment to a total of USD 621 million (2.8 per cent of GDP), with the objective of energizing investment in the country (see *infra*).

The tax structure in El Salvador relies mainly upon indirect taxes, particularly VAT, which creates the traditionally higher burden on the poor by their levy on consumption.

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<sup>45</sup> IMF. El Salvador. Staff Report for 2006. Article IV. Consultation. 10 July 2006, p. 7.

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Revenues account for almost 14 per cent of GDP, in large measure as a result of recent fiscal policy changes. Currently, there is a proposal to create a fiscal pact. Even though it is generally recognized that a fiscal pact is needed, the business community believes that it is important to focus first on understanding what the Government is doing to become more efficient. The Government for its part considers that 80 per cent of its spending is unavoidable. An important element that has been recognized in this debate is the need to increase the tax base, including greater collection of taxes on activities in the informal sector. According to an IDB study (2003), certain approaches to expand the tax base could increase fiscal revenues by 0.5 percentage points of GDP. Key fiscal objectives have therefore become reducing the rate of tax evasion, as well as improving spending and continuing to negotiate the fiscal pact.

El Salvador, by becoming an open economy with few controls over capital accounts, has yet to attract foreign direct investment (FDI) at levels above those observed in the last decade. The level of FDI has averaged of 2.6 per cent of GDP, with peaks in years in which state assets were sold to foreigners (for example in 2007, when national banks were sold to foreign banks). Family remittances constitute another source of capital income and have allowed an important level of domestic consumption and the financing of the trade deficit as the country has not relied on export revenues to sustain such conditions.

An important initiative is currently being prepared to promote more productive uses of remittances through the Building Remittance Investment for Development Growth and Entrepreneurship (BRIDGE) Initiative. The government identifies this proposal as an important initiative to improve the country's investment levels. The program would function through the issuance of bonds backed by guaranteed funds. Possible projects to be financed with the BRIDGE Initiative include increasing transportation infrastructure (airport, a national passenger transportation system) and renewable energy projects including the expansion of geothermal energy generation. This innovative initiative should be expanded with other additional measures. In particular, regulatory measures could be introduced to promote the use of remittances as investment funds through incentives providing special treatment and preferential access (public procurement, market information, access to free-zone areas and industrial projects, among others) and links to other existing programs during a pilot period.

In terms of financial and monetary conditions, with the elimination of the exchange risk with the dollarization regime in 2001, market conditions have improved to a certain degree with the drastic reduction of nominal active and passive interest rates. Also, the dollarization's anchoring effect on inflation affected, in real terms, the tendency to lower interest rates.<sup>46</sup> If dollarization has had a positive impact on reducing interest rates, other factors that have also been important in the lower rates include the behaviour of international interest rates (LIBOR and U.S. Federal Funds), which since the beginning of

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<sup>46</sup> IMF. *El Salvador. Staff Report for the 2010 Article IV Consultation and First Review Under the Stand-By Arrangement*. 1 September 2010, p. 9.

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the present decade tended to be low, the abundant liquidity in the international financial system and the favourable ratings, up until 2010, of the country's sovereign debt. Despite this relatively positive context, these improved financial conditions have not been utilized to achieve a quantitative and qualitative change in social investment. The low levels of social investment have affected productivity, which has not been able to truly take off. To achieve a better growth path, a greater tax base will be required to provide resources in support of a productive reactivation and attainment of the Millennium Development Goals (see *infra*).

- i. Coordinating the strengthening of the labour administration and inspection and the labour court

As mentioned in section II.D, the Ministry of Labour is implementing a process of coordinating labour inspection. At the same time, actions need to be promoted to advance the culture of compliance. It is suggested that this process continue in its stage of internal coordination, as well as external coordination with other entities, in consultation with workers and employers organizations. At the same time, it is important to promote the process of oral presentation in labour trials and to make compliance with justice more prompt and expeditious. For that purpose, the efforts to coordinate and advance in matters of effective compliance with the current labour law in the country, through the actions of the ministries involved, as well as compliance with labour justice, would represent a huge advance in reinforcing the legal and social-action framework, leading to greater stability and governability in the world of labour.

## **B. Policies that promote efficient and well-regulated trade and markets that benefit all and avoid protectionism**

In terms of international trade, El Salvador imports 90 per cent of its products from 22 countries, mostly from the United States, followed by Central America. The outlook for exports is more limited. Almost 90 per cent of the country's exports are directed to 10 countries, 60 per cent to Central America and 19 per cent to the United States. With respect to imported products, 17 per cent are products derived from mineral oils (mostly petroleum), and other imports with a large portion of consumer goods. With respect to exports, 90 per cent are concentrated in 10 product groups (coffee, paper and cartons, plastics,<sup>47</sup> beverages, sugars, cereal-based products, oils, cast-metal products, pharmaceuticals and clothing and textiles).<sup>48</sup>

The current structure of trade points to the very important need to diversify export products, as well as markets of destination. In particular, it is essential to seek out destination markets that currently are very dynamic. As already mentioned, the deficit in the balance of trade has in large part been mitigated by the influx of capital, above all by remittances.

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<sup>47</sup> These three products account for 50 per cent of the country's exports.

<sup>48</sup> Data from the database of the Secretariat for Central American Economic Integration (SIECA: [www.sieca.int](http://www.sieca.int)).

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As part of the process of economic integration and insertion in global trade, El Salvador has entered into different bilateral trade agreements with Mexico, the Dominican Republic, Chile, Panama, the United States, Taiwan, Colombia and recently an agreement of association with the European Community.<sup>49</sup> Trade that is undertaken by the country in the framework of these agreements accounts for almost 88 per cent of total exports and 79 per cent of total imports.<sup>50</sup>

The significant opening of the Salvadoran economy has been made, above all, based on tradable products and, to a certain degree, on the trade of services. The mobility of the Salvadoran labour force has been, in practice, another essential element of the insertion of the economy into an international context. The migration of Salvadorans, mostly to the United States but also to other countries of the region, contributes in an important way to the economy of those countries, to the situation of the Salvadoran labour market, and to the availability of capital through remittances. Future deepening of trade agreements would benefit from greater flexibility of labour provisions regarding labour mobility.

Important actions recently implemented to help investors establish themselves in the country include: reforms of the “Intellectual Property Law”; reforms to the *Commercial Code*, modifying the minimum capital requirements to establish an enterprise; establishment of a “one-stop window” at the National Investment Office (ONI in Spanish), where in one place an investor can complete all the steps to establish his/her investment; creation of the “Comprehensive Single-Window Services” for procedures concerning enterprises (this window combines requirements from a number of entities including the offices of the National Registry, Ministry of the Treasury, the Ministry of Labour, and the Salvadoran Social Security Institute (SSSI)).

In addition, the Competition Act and the Superintendence of Competition were established. The Superintendence applies this act in an independent manner. The Competition Act seeks to promote free competition between economic agents participating in the market, with the goal of increasing economic efficiency. Presently, the Superintendence seeks to develop mechanisms of compliance with the recommendations and resolutions that it adopts.

### **C. Policies, including industrial policies, that enhance economic diversification through capacity strengthening**

The clearest reference to an industrial policy is expressed in the Five-Year Development Plan 2010-2014. As has already been mentioned several times in the present document, the plan is focused on actions to promote exports, one-stop windows, free

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<sup>49</sup> World Trade Organization (WTO). *Examen de las Políticas Comerciales. Informe de El Salvador*. WT/TPR/G/226, January 2010, p. 8.

<sup>50</sup> *Ibid.* WTO (2010), p. 8.

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competition among agents, macroeconomic balance and prioritized interventions to benefit the poorest and most vulnerable groups. In addition, the government has expressed interest in food security plans. At the level of MSE promotion, the government, through the CONAMPYME, has identified certain lines of productive activities in local communities that can be considered within the local industrial plans (“one product per town”, already mentioned, *supra*).

Several months ago, the government, with the cooperation of the organized private sector, began to work on the design of a comprehensive policy to promote exports, to be gradually implemented throughout 2011. This plan requires a budget of \$175 million, which will come from internal and external funding sources.

At the level of support for enterprises, a series of goals have also been established in the framework of application of the export promotion policy, which include: a) increase the number of exports with sales greater than \$500,000 a year, and increase the number of registered exporters from 428 in 2008 to 540 in 2014; b) increase the volume of exports by 35 per cent by 2014; c) increase the total number of products exported; and d) increase the number of export destinations from 52 to at least 60 by the end of the period.<sup>51</sup>

Beyond a traditional vision of support for the development of enterprises and sectors, a great need exists to formulate new methods of supporting enterprises, considering the challenges of productive transformations in the dynamic international context. The main challenges lie in ensuring that technical skills of the work force are sufficiently developed to meet the demands of the market, and are systematically updated. Facilitating the acquisition of new technologies, labour and management methods, and links with foreign capital are some of the actions that are needed to respond to this dynamic context. In addition, the following sections examine the need to reactivate the public investment strategy in certain areas of economic growth.

#### **D. A national regulatory and supervisory framework for the financial sector in service of the real economy**

In the case of the Salvadoran economy, during the years of the crisis, there has been an increase in prudent lending criteria on the part of the banking sector. During early 2010, the effective banking reserve rate reached 41.4 per cent, 24 percentage points above the legally required minimum. This rate was still higher than the rate in January 2009 (36.5 percentage points). The availability of money in circulation in the economy thus became reduced, which contributed to limiting the stimulation of the productive sectors in the framework of the crisis.

At the same time, the government, through the Five-Year Development Plan, has identified the lack of access to credit as a constraint for the development of the

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<sup>51</sup> Five-Year Plan, p. 99, Paragraph 142.

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productive base and investment in infrastructure. This Five-Year Development Plan proposes to establish a financial system to promote development, through three Banks: the Banco de Fomento Agropecuario (Agricultural Development Bank), the Banco Hipotecario (the Mortgage Bank), and the Multisectoral Investment Bank; the latter became the Banco Nacional de Desarrollo ("National Development Bank").

As presented in the Five-Year Development Plan, the following aspects are prioritized in the development banking actions: a) creation of funding programs oriented to the formation of capital, to provide medium- and long-term credit, with a focus on projects with strong social content and creation of jobs; b) the channelling of funds for investment projects, ongoing expansion of working capital, training and technical assistance, purchase of machinery and equipment, and even the construction of physical installations and infrastructure or any other priority target; c) direct and indirect investment in financial instruments that support the emergence and expansion of new businesses (seed capital, risk capital, specialized investment funds, among others); and d) boosting the development of securitization projects, productive trusts, guarantee funds, and leasing and insurance. These interventions would not only include the development of instruments and intermediation, but also education and the consolidation of financial transparency. Presently the legislative bill that covers these projects is under review in the Legislative Assembly.

**E. Policies that contribute to building adequate social protection for all, sustained in a basic social protection scheme ("social floor")**

Section II.B.1, above, deals with Urban Communities in Solidarity and Rural Communities in Solidarity in greater detail. Also, one of the pillars of the "social floor" is education. In the case of El Salvador, the community solidarity programs already include actions for effective access to education, together with programs such as that of uniforms, which reduce the monetary cost of access to education.

In addition, for the population outside the social security system, the Ministry of Health provides care services through national hospitals and emergency care centres. Programs include comprehensive care for children, women (especially maternal care) and older adults, as well as community and preventive health programs. Currently, the Ministry has been working on greater access at the local level.

In the context of the contributory scheme of social security, a review of the current health and pension system is planned. This is Particularly needed as coverage is limited and does not include traditionally uncovered sectors (domestic workers, agricultural workers and the informal sector).



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Also as a goal of the Five-Year Development Plan, it is specified that for social insurance benefits, the availability of different modalities should be increased to strengthen the pension in its annuity plan, which presently, although it appears in the law on pensions savings system, is not used by pension fund administrators.

**F. Policies that ensure that young men and women have the appropriate education, skills and opportunities to participate in the economy**

El Salvador is a young country: 60 per cent of the population is under 30 years old. It shares with the rest of the world the reality that the youth unemployment rate is twice the unemployment rate of the general population, as well as a greater proportion of the young EAP being affected by underemployment and informal employment. In addition, the conditions for labour insertion tend to be more precarious. In 2009, 28 per cent of salaried young adults (aged 20-24) had a work contract, and 70 per cent of employed young adults did not pay social security. Also, 40 per cent of young adults were located in the informal sector in 2009.

The potential to increase income generation from having an additional year of schooling applies only after reaching the level of higher education. The completion of 10 to 12 years of schooling generates income 90 per cent higher than not having had at least one year of school. The incentive to study is not very incremental, except for higher education. The average salary for people with 13 years or more is 300 per cent higher on average than for a person who cannot read or write. Between 1 and 12 years of education, an additional year of study means an increase in income of approximately 5 per cent, while between 12 and 17 years of education, an additional year increases income more than 70 per cent.

Also, a broad level of citizen insecurity exists in El Salvador. To a certain degree this problem is due to the lack of opportunities to participate in the labour market. A way of cementing greater social cohesion and increasing the expectations of the young population is therefore by directing greater attention to this demographic group through increased education, training, orientation and labour insertion.

Some actions that deserve greater attention involve internships, opportunities for technical and vocational training, improved joint training systems and the demand for quality jobs, career exploration and youth entrepreneurship.

The MLSC has raised the need to develop projects to increase youth employment. This document has already noted the REDPAS programme. Also, the Ministry of Labour and the Directorate of Youth of the Secretariat of Social Inclusion are developing a youth

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employment plan. It is worth emphasising that, in the case of the community solidarity programs, one of the focus groups is the youth population.

## **G. Policies that address informal employment in urban and rural zones and promote the transition to formal employment**

The problem of the magnitude and growth of the informal sector in the Salvadoran economy represents one of the most important current challenges in the country, particularly because of its unfavourable effects in terms of labour conditions, tax collection, investment and entrepreneurial development. The repercussions are very strong regarding labour, due to the weakness observed in the generation of employment in the formal sector and the inability of the informal sector to comply with decent work conditions. The scale of the informal sector also has significant repercussions in terms of poverty, income distribution and social segmentation. It is also widely known that tax evasion by informal businesses tends to create competitive disadvantages in the domestic market between formal and informal enterprises with negative implications for investment and entrepreneurial development.

Different types of public policies have been implemented to reduce the size of the sector and the number of businesses operating informally. Among these measures are principally reforms to modernize the administrative procedures in enterprises (property registry, procedures to obtain financing and credit, customs procedures, procedures for closing businesses, streamlining of procedures through the one-stop windows, etc.) and other measures of sanctions on informal activity. However, there is not a clearly defined strategy to manage and integrate short-, medium- and long-term actions for the informal sector. Nor do clearly shaped institutional mechanisms exist to treat informality in a comprehensive manner. Given the importance of the informal sector, it would be of much benefit to review the successful experiences that other countries have had in defining strategies for the informal sector as well as the institutional responsibilities that have been established to execute policies.

According to the ILO (2011),<sup>52</sup> the economically active population working in the informal economy in El Salvador is at least 66.4 per cent (72.5 per cent of women; 60.1 per cent of men). The precariousness of the working conditions in the informal sector is manifested in the fact that only 28.7 per cent of the working population (older than 15) paid into social security in 2009. In sectoral terms, informal employment is concentrated, in order of importance, in retail commerce, hotels and restaurants, agriculture/ranching/fishing, manufacturing, domestic services, and construction.

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<sup>52</sup> ILO (2011). *Statistical Update on Employment in the Informal Economy*. This report shows that the informal economy depends on informal enterprises ("informal sector"), according to the formality or informality of the job.

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The high rates of informality denote the scarce capacity of the formal labour market to absorb the growth of labour supply. The figures presented are more relevant when it is taken into account that in 2009, 28.1 per cent of those employed in the informal sector were living in conditions of poverty, while of those people employed in the formal sector only 17.5 per cent were classified as poor. Work in the informal sector is associated not only with lower average wages and higher rates of poverty but also greater general economic vulnerability. The scope of vulnerability varies in line with the percentage of household members who hold formal jobs.<sup>53</sup>

It is important to point out the scarce use of labour contracts in the country. This is also reflected in the group of enterprises that operate in the formal sector, given that in 2008 only 34.7 per cent of wage earners had labour contracts. In addition, the conditions of labour insertion for young Salvadorans tend to be more precarious given that in 2009 only 9 per cent of salaried adolescents (aged 15–19) and 28 per cent of salaried young adults (aged 20–24) had labour contracts. The level of social protection observed for this population group is extremely low, given that 94 per cent of adolescents and 70 per cent of employed young adults did not pay social security.

In this context, jobs in the informal economy are characterized by precarious work conditions, deficits of decent work, and lack of access to social protection. The characteristics of El Salvador's labour market also show that the most vulnerable population groups are concentrated in the informal economy, in precarious conditions, represented by young people and women.

As noted above, in the presence of persistent levels of informality, there is a need for comprehensive, coherent and coordinated policies, as until now the subject of the informal sector has only been addressed in public policies in a very isolated manner. Greater priority needs to be given to incorporating the problem of transition to the formal sector within the set of policies and the public agenda as well as in the Five-Year Development Plan 2010–2014. Important lines of action include support for legal formalization (registration and operation) and supplementary incentives; improvement of cost/benefit for operating formally, including the risks of receiving fines; access to credit; the security of formal contracts; and mechanisms to extend benefits (incorporation in minimum pension programs, occupational health and security, preferential and simplified taxation).

In turn, another area of action for a favourable economic environment is to link modern and informal activities through pilot projects in subcontracting, in both the private

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<sup>53</sup> UNPD. Informe sobre Desarrollo Humano El Salvador 2010. De la pobreza y el consumismo al bienestar de la gente. Propuesta para un nuevo modelo de desarrollo. 2010, p. 201. The report specifies that the 36.8 per cent of households in which no working member has formal employment are highly vulnerable, compared with 17 per cent of households where all members have formal employment.

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and public sectors, in which business contracts provide security and confidence as an incentive to formalization. Another complementary approach is to promote links with foreign trade activities, for example, through links to value chains with the modern sectors. In this way, CONAMYPE has made progress in establishing a public procurement system that contains measures to promote the participation of micro and small enterprises in public procurement contracts. CONAMYPE has worked also on the basis of a "regional" focus (decentralization) of its services. In addition, as previously mentioned, CONAMYPE and the Ministry of Education have provided important support to the MSEs that make clothing and footwear.

The establishment of a favourable legal framework, appropriate institutional structures, a strategy with specific measures and good governance are also indispensable requirements to facilitate formalization and improve the situation of the workers in the informal economy. In this sense, the structures of support and services directed at enterprises operating in the informal economy would play a fundamental role. Additional actions could include:

- Deepening and accelerating the simplification of normative requirements for enterprises to reduce transaction costs and provide a more effective strategy with a simplified scheme for small contributors to promote incorporation into the taxation system.
- Designing interventions to provide educational services to microenterprises that operate in the informal economy, to help increase their productivity, linking such education to other support services, beyond credit counselling services, which also include social services and information on new technologies.
- Designing social protection mechanisms and instruments especially designed for small informal enterprises.

The good example of the streamlining of paperwork through the Business Processing Centre is a worthwhile case. This Centre operates a one-stop window streamlining 11 processes that needed to be done with five different institutions.<sup>54</sup> The mechanism appears to be efficiently reducing different problems, in particular the amount of paperwork and number of offices to visit. The cost (time invested and travel from one office to another) has been reduced by 46 per cent for an individual person and 25 per

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<sup>54</sup> In addition to processing the paperwork to formalize an enterprise, entrepreneurs receive information, orientation and counselling. They can register tax identification numbers, tax payer identification, employer identification, initial account balances, registry of company and establishment, powers, credentials, trademarks and business name, naming of the work centre and internal regulations.

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cent for a legal entity. The paperwork time is reduced to seven days and access to information has improved.<sup>55</sup>

In summary, given the complexity and importance of the informal sector, beyond traditional approaches there is a need to add other non-traditional yet complementary methods and pilot projects to establish a sound relationship with informal enterprises; mechanisms to extend benefits (incorporation in basic pension schemes, occupational health and safety programs, preferential and simplified taxation, among others), applied with sufficient time to break the barriers of distrust and isolation that have traditionally separated the informal sector from the rest of the economy. Above all a strategy needs to be identified that integrates and coordinates the measures as well as efficient institutional mechanisms to implement, monitor, and evaluate strategic activities.

## **H. Policies that facilitate shifting to a low-carbon, environment-friendly economy**

Environmental policies have generally not been focused on or maintained links with the objectives of job creation, for different reasons, including: the lack of coherence in environmental and labour policies, due in large part to the low capacity and participation of employers, workers and labour institutions in terms of environmental policies, and vice versa, and to the lack of participation on the part of environmental experts in employment policies. This lack of coordination, among other effects, leads to limited support and limited capacity to implement environmental policies due to the lack of workers' and employers' organizations and entities with appropriate capacity to develop the necessary initiatives as well as the shortage of financial resources to execute them. The lack of coordination between the economic, social and environmental areas has, as a result, led to an imbalance in prioritization that generally tends to undermine environmental and social objectives, tipping the balance towards economic objectives.

In the last decade, El Salvador has undertaken certain initiatives regarding environmental issues. In particular, progress was made in establishing a legal and institutional framework to protect the environment and to address the impacts of natural disasters and environmental degradation. Some national-level environmental policies were also designed on such subjects as solid waste and hazardous materials, environment and land use, climate change, protected areas, and risk management, among other aspects. Given the lack of professional competence, the lack of sufficient control (inspectors) and the lack of resources, few results have been produced.

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<sup>55</sup> Juan Chacaltana. *Magnitud y heterogeneidad: políticas de fomento del empleo juvenil y las micro y pequeñas empresas*. ECLAC. Macroeconomic series of development 98. December 2009, p. 29.

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The World Bank has indicated<sup>56</sup> that the country needs to streamline the consolidation of environmental organizational aspects and short-term institutional improvements, which call for greater implementation of the Environmental Law. These steps are particularly important in the sense that the application of environmental regulations is one of the most sensitive aspects in the environmental management framework under the DR-CAFTA free trade agreement.

Recently, the Ministry of Environment and Natural Resources (MARN) began a consultation exercise on the new strategic vision of the 2010-2014 policy.<sup>57</sup> The 2010-2014 Strategy continues to maintain the objectives of halting and reversing the processes of environmental degradation, and it also pursues the generation of new proactive relationships between the Ministry of Environment and Natural Resources and other public organizations, local governments and other territorial stakeholders, civil society, business owners, universities and the general citizenry. The central concern seems to be focused on the Ministry of Environment and Natural Resources assuming its obligations stipulated in the 1998 Environmental Law, given that there is a high degree of marginalization of the Ministry of Environment and Natural Resources within the public administration.

To deal with the disjointed functioning of the Ministry of Environment and Natural Resources, the 2010-2014 Strategy proposes that the different dependencies of this Ministry participate in extensive dialogue, specifically to activate the following instruments: broader and more accessible information; the environmental evaluation of public sector policies, plans and programs; the national environmental management system; the national environmental status report; the national environmental policy; the environmental regulations within the development and land regulation plans; and the national environmental prevention and contingency plan. These instruments will be activated on the basis of strengthening: 1) the active citizenry facing the environmental problems; 2) public environmental management; and 3) cleaner and more efficient patterns of production and consumption. Four aspects will receive special attention: socio-environmental risks; pollution; energy; and territorial governance.

Within the priorities, emphasis has been placed on transforming the energy grid through the promotion of renewable energy. Another strategic option is tourism development, under the criteria of continuity and sustainability (to protect and preserve natural and cultural resources). These policy guidelines still focus little on the coordination between environmental activities and objectives and the potential for job creation and the interrelations between different issues involved.

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<sup>56</sup> World Bank (2006). Report Nº. 35226 - SV. *Republic of El Salvador, Country Environmental Analysis, Improving Environmental Management to Address Trade Liberalization and Infrastructure Expansion*.

<sup>57</sup> [http://www.marn.gob.sv/phocadownload/cp\\_pnma.html](http://www.marn.gob.sv/phocadownload/cp_pnma.html)

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In the context of the new Strategic Vision 2010-2014, as in the past, there seems to be little recognition of the connections between the environment and jobs. Nor is there a parallel process to coordinate between the formulation of a jobs policy in alignment with environmental objectives. This lack of coordination is unfortunate given that key links exist. For example, the problems of inefficient management of waste (which results in no reuse or recycling) can be viewed in association with child and adult labour engaged in recovering serviceable items from the garbage amidst extremely precarious work and health conditions. The consultation exercise on the Strategic Vision 2010-2014 could be enormously enriched with the recognition of these and other important links.

In addition, a clear link has been established in the new perspectives on environmental policy and their relationship with the issue of health. The objectives are to work together on the subjects of health and environment to protect the health of the population from the environmental perspective. Some projects are already being developed, such as the Nefrolempa project in the Lower Lempa River area, to work on health problems in relation to the pollution of water, soil and rivers.

The example of recognizing and connecting environmental and health issues is important as it helps illustrate how to revive the discussion on the relationship between environment and jobs, given that relevant links exist that must be considered. The basis for establishing these ties are particularly relevant in terms of the following issues:

- Mechanisms for clean production with control of agrochemicals and eradication of crop burning, in accordance with a sustainable agricultural production base.
- Adaptation to climate change and the transformation that this generates in water management, agriculture and physical infrastructure. Potential for building this infrastructure following intensive employment schemes.
- The objective of halting expansive urban sprawl to reverse environmental degradation. Toward this end, infrastructure related with sustainable housing, access to clean and accessible energy, access to potable water and sanitation, and quality public transportation systems are important potential sources to create green jobs in cities.
- The creation of green zones that serve as CO<sub>2</sub> sinks and therefore help reduce climate change emissions.
- Sound waste management and establishment of inclusive recycling systems, that is to say, involving those who work in this sector as part of the informal economy (paper/cardboard collectors, recyclers, scrap collectors). These activities, in addition to benefiting the economy, will have a double social benefit, providing sufficient income to families and thus reducing the need for child labour.

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- Environmental sanitation campaign, important tie with health as has been mentioned.
  - Water purification and treatment, an important link with health and, in most cases, with significant impact on gender.
  - Opposition to the relocation of high-risk toxic and radioactive-waste industries into the country. Information and active participation of employers and workers is essential in decision-making on this subject.

In light of the vulnerability to aspects of climate change and natural disasters, another core proposal focuses on the adaptation to climate change and the transformations that this generates in water management, agriculture and physical infrastructure, to respond to the new scenarios arising from the natural phenomena. It also refers to territorial regulations that need to incorporate environmental aspects and risk reduction. This new planning should be designed in the context of local economic development, which integrates objectives, opportunities and economic, social and environmental barriers. The need to halt expansive urban sprawl has also been presented to reverse environmental degradation and reduce vulnerability to climate change.

New policy considerations pose the need to assume a new environmental culture composed of concrete and coherent behaviours that successfully reverse and reduce risks, and halt pollution and the devastation of resources. The consideration of the ties with creation of green jobs should be incorporated as another central consideration in the new policy, not only on the basis of previously identified connections but also as a strategy to treat employment as a priority issue for the country.

Given that the Ministry of Labour and the employers and workers organizations could play a more strategic role in conducting the territorial consultation of the New National Environmental Policy, it would be important to establish a working program that more actively discusses the issues and the links between jobs and the environment, following the example of countries in the region such as Brazil and the Dominican Republic.

## **I. Policy measures, such as minimum wages, that help reduce poverty and inequality, increase demand and contribute to economic stability**

As has been reported and analyzed previously, the *Labour Code* establishes that minimum wage rates should be reviewed at least every three years (Art. 159) or when the conditions that determine the levels vary substantially (Art. 152). Minimum wage in El Salvador has been negotiated every two years by the National Minimum Wage Council, a tripartite entity within the Minister of Labour and Social Security. The last review of the



minimum wage was in May 2011, in which adjustments were made of around 8 per cent, leaving wages for an 8-hour working day defined as follows:

<b>Official minimum wages (in current USD)</b>								
Year and month of increase	Commercial services		Industry		Free-zone		Agriculture	
	USD	Variation	USD	Variation	USD	Variation	USD	Variation
Jul-95	132.0		132.0		132.0		67.8	
Apr-98	144.0	9.1%	144.0	9.1%	144.0	9.1%	74.1	9.3%
May-03	158.4	10.0%	154.8	7.5%	151.2	5.0%	74.1	0%
Sep-06	174.3	10.0%	170.4	10.0%	157.2	4%	81.6	10.0%
Nov-07	183.0	5.0%	179.1	5.0%	162.0	3.0%	85.8	5%
Dec-08	207.6	13.4%	203.1	13.4%	173.7	7.2%	97.2	13.3%
May-11	224.3	8.0%	219.4	8.0%	187.7	8.0%	105.0	8.0%
<i><b>Source:</b> Based on executive decrees on minimum wages in the official gazette, several volumes.</i>								

Despite the negative effects of the 2009 economic crisis, the low inflation rate recorded that year (−0.2 per cent), added to the nominal increase of minimum wage in late 2008, amounted to the maintenance of purchasing power of salaries in all sectors. However, in 2010, when the economic effects of the international crisis receded and domestic inflation was 2.13 per cent, the result was an erosion of minimum wages that year.

## **J. Strategies to create fiscal space to put in place systematic and multidimensional programmes to create decent work opportunities and sustainable enterprises**

Previous sections of this report have explained that in the context of the impact of the crisis on the country's economy and public finances, the rising fiscal deficit was curbed by the end of 2009, at an amount of USD1.171 billion (5.6 per cent of GDP), less than the USD1.394 billion (6.3 per cent of GDP) when the current administration assumed power in June 2009.

The fiscal space in El Salvador is limited, due to the fact that 80 per cent of fiscal expenditure is already earmarked as obligatory spending. Despite the narrow base, the International Monetary Fund confirmed that the country had sufficient conditions for renewing the Stand-by Agreement in recent years.

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The objectives of the current fiscal policy continue to be directed toward optimizing the current spending, through directing and administering public finances in the most efficient and transparent manner possible, ensuring fiscal sustainability and responsible macroeconomic management. The objectives include the steady and sustainable increase in revenue performance and the quality of the allocation to public spending and investment. Beyond these general definitions, it would be important to calculate more precise estimates on the relations between key fiscal variables (spending, debt), the GDP growth rate, and the elasticity of employment in relationship to these variables. The uncertain economic context in late 2011 imposes new questions on growth and employment, in that sense, the aforementioned quantitative estimates could enable a better discussion on the use of fiscal policy to confront these challenges.

In consensus with the previous administration, the reorientation of loans was negotiated for \$950 million, contracted with the Inter-American Development Bank (\$500 million) and the World Bank (\$450 million), \$300 million of which has been allocated to the special social investment budget and \$650 million for budgetary support.

The approval and implementation of tax reform was also achieved, which consists of a reform in tax legislation on income tax, sales tax, the *Taxation Code* and specific taxes on consumer products, aimed at combating tax evasion and smuggling, reforming the judicial tax framework with respect to international best practices, expanding the tax base, and strengthening the capacities of the tax and customs administration, to make control and tax procedures more effective.

Under the Stand-By Arrangement (SBA) program of the IMF, the following are projected: a progressive increase in the tax burden to represent 17 per cent of GDP by 2015; public investment that stabilizes at 3.2 per cent of GDP; current spending averaging 17.4 per cent of GDP; and a level of SPNF debt that reaches 43.8 per cent of GDP by 2015. These objectives present various risks, particularly due to the existing uncertainty on the growth rate (previous projections estimated 3.1 per cent on average in the next years) and to the possibility of achieving consensus on the increase of taxes. To reduce debt to the level set in the SBA, primary savings should reach 1.2 per cent of GDP by 2013, so that beginning in that year the debt level will be below the 2009 levels. Under these circumstances, the two essential variables that determine the sustainability of the aims of the economic plan and job creation are the capacity to collect taxes and GDP growth rates. As has been noted, it would be important to have precise estimates on the elasticity of job creation in relation to variations in the GDP growth rate under the sectoral structure of current economic activity. These quantitative references will offer a better understanding of the dynamic of job creation under different scenarios in the coming years.

A level of debt that permits a regular performance of the fiscal policy, as well as its potential use as a stabilization tool to confront future external shocks, will be achieved as long as a tax strategy can be established that helps raise the tax burden to levels close to the Latin American average (17 per cent of GDP) and that broadens the tax base to reduce

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the volatility of collection confronting cyclical variations. It is also essential to try to improve the composition and efficiency of spending and public investment to obtain appropriate returns in the medium term. Likewise, it is fundamental to ensure sustained GDP growth above the levels of real interest paid on the debt.

In the management of fiscal policy some achievements have been attained. For example, in the policy of auctioning short-term treasury bonds (LETES), there was a significant reduction of 7.06 percentage points in the cost of borrowing.

More recently, improvements in the debt profile were achieved with the issuance of Eurobonds 2019 in which debt was converted from floating to fixed interest rates and from a basket of currencies to US dollars (89 per cent of the debt in 2010 was denominated in dollars), thus reducing the risks associated with interest and exchange rates. In March 2010, according to the Ministry of Treasury, 38 per cent of debt was borrowed at interest rates of between 6 and 8 per cent, 29 per cent was borrowed at rates between 3 and 6 per cent, 21 per cent was borrowed at interest rates below 3 per cent, and 12 per cent at interest rates between 8 and 9 per cent. Prevailing economic uncertainty in 2011, however, led to new pressures that sparked a decrease in the credit rating of Salvadoran public debt.

On other fiscal matters, the debate on a new fiscal pact continues to be a central theme of current economic policy. There is consensus that the weakness of public finances to generate sufficient income to respond to social demands or make a greater investment is a core issue for the opportunities of the country.

In this context, the Ministry of Economy recognizes that the fiscal policy is responsible for creating counter-cyclical policies and supporting job creation, but the country is limited by the low level of tax revenues. The Central Reserve Bank indicates that contrary to what has been typically concluded, macroeconomic stability does not exist as can be seen by the problems of lack of fiscal balance, imbalances in the trade balance and the low economic growth rates.

The context of the 2008–2011 crisis period and its subsequent phase makes clear that it will be fundamentally important in the short term to achieve a fiscal pact that provides the State with the human, financial, organizational and institutional resources to achieve its administrative, regulatory and investment functions efficiently. On the subject of tax revenue, the main challenges in the upcoming years will continue to be combating evasion and smuggling, broadening the tax base, tax simplification, greater administrative efficiency, internationalizing the tax system and trying to make the tax system also work as an instrument to promote savings.

Historically, public investment to support production has remained at low levels. On the basis of stabilizing the current fiscal situation, there is an urgent need to re-evaluate public investment policy given that the country will not be able to advance in a balanced manner without making more appropriate investments in the factors that affect the conditions of growth, such as education, health, public security and the formation of

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capital in economic infrastructure and other social aspects. These are key features that will facilitate economic expansion and stimulate private investment and the competitiveness of the country.

It is equally important to strengthen a more efficient management of public investment, which in the past has not completely fulfilled its function. In that sense, the policy on public investment should aim at simultaneously improving competitive conditions, raising the level of productivity and income of the poorer economic segments and promoting better levels of well-being and equality in favour of the poorest groups of the country. The spending needs at the national level should contain as a substantial part a Social Protection Floor that includes conditional cash transfers and job-creation frameworks for the poorest sectors.

Investment in human capital (education and health) is an essential condition in order to take advantage of trade liberalization given that only the growth of qualified human capital will enable increased productivity. This in turn will support diversification and modernization of the supply of exports in sectors with comparative advantages.

The absence of fiscal space has also contributed to a huge lag and abandonment of sectoral public investment, more precisely, in the agro-industrial sector, manufacturing (beyond the free-zone sector) and strategic development of services activities such as transportation and professional and technical services. This absence of strategic industrial policies has been accompanied by a limited performance in the economy in terms of GDP growth and generation of employment. This context has reflected a great weakness in the performance of the Salvadoran economy, which, despite having achieved a good base of macroeconomic stability and reforms, has not generated greater economic growth and jobs.

On the basis of a more sustained fiscal balance, there is an urgent need to reopen the discussion and debate on public policies and investments strategically aligned with business sectors and activities that present competitive opportunities in domestic markets as well as regional and international markets. The aggressiveness and entrepreneurship of many Salvadoran enterprises has been remarkable, but many other initiatives exist that have gone unrealized because of the lack of strategic sectoral-support policies. The other strategic area of discussion is related to the use of public financial instruments (public development bank, guarantees, information mechanisms) aimed at addressing certain deficiencies, particularly linked to small businesses and their access to credit. The actions initiated through the Multisectoral Investment Bank have been important but on a still very limited scale.

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