

House Foreign Affairs Committee
Tom Lantos Human Rights Commission

Hearing
on
NEW GOVERNMENT, ONGOING AGENDA:
HUMAN RIGHTS, CORRUPTION AND ACCOUNTABILITY IN EL SALVADOR

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STATEMENT SUBMITTED FOR THE RECORD

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Thank you to the Tom Lantos Human Rights Commission and Representative Jim McGovern for allowing Oxfam America to submit this written testimony for today's hearing on El Salvador.

Oxfam America is a non-governmental humanitarian and development organization that has worked in El Salvador for over thirty years and has over 1.4 million supporters in the United States. Although a U.S. based organization with our headquarters in Boston, Oxfam America does not receive any funding from the U.S. government but instead relies on support from individuals and foundations in the United States and abroad.

Oxfam America is part of the Oxfam confederation that works in 90 countries world-wide to reduce poverty and inequality. We assist poor communities after disasters, while building greater resilience and capacity of local responders and governments to deliver holistic disaster response. Oxfam also works to build local food sovereignty around the globe by investing in small and medium producers in rural areas where poverty is most heavily concentrated.

In El Salvador, Oxfam works to prevent violence against women and girls, to economically empower women, and to strengthen local leadership's response and resilience to climate change events. We also work to influence policies that reduce inequality and increase transparency at the local and national level, and seek to resolve the most urgent needs of the people. Finally, we also work on progressive fiscal policy reforms along with the right to water and the right to food. Oxfam works with 50 partner organizations that directly involve 80,000 people and indirectly, over 700,000 people. Of the total population we work with in El Salvador, 60% are women.

While there have been some advances in El Salvador in terms of human rights, there continues to be marked weaknesses in areas including ending violence against women and girls and gender-based violence, implementing fiscal reforms, and combatting corruption and impunity.

To the president-elect of El Salvador, the Honorable Nayib Bukele, Oxfam America offers the following policy recommendations for his Administration and the Legislative Assembly in order to create the conditions so that people do not live in fear or are forced to migrate but can live productive, decent lives. Also, so that the government can have the resources it needs to promote sustainable development in the country.

GENDER BASED VIOLENCE AND WOMEN'S ECONOMIC EMPOWERMENT

The Salvadoran legislative assembly must appropriate funds that support community-based prevention programs to reduce crime and violence, increase resources for women and girls who are victims of gang violence, and increase state and local government's capacity to reduce impunity for sexual and gender-based violence.

Increasing resources and technical assistance for shelters for girls and women who are victims of gang violence is urgently required given the limited number of shelters available. Too few options leave them with no other option but to migrate outside their country.

The government should prioritize increasing women and girls' economic opportunities - such as access to credit and markets – in particular for small-to-medium scale farmer in rural areas, where poverty is concentrated.

Poverty disproportionately impacts women who face discrimination and limited access to education, land and employment opportunities. Development strategies must prioritize women's economic independence and increase access to education, capacity training and access to credit.

FISCAL REFORM

The Salvadoran government must revise legislation in each of the countries to increase direct taxes on financial transactions, property, personal wealth and income, inheritance, and corporate and capital gains. The Northern Triangle governments rely heavily on indirect taxes such as the value added tax, which homogeneously applies taxes to consumers without regard to their level of income. This means those with more resources pay proportionally less of their income in taxes. In El Salvador, the indirect tax is 61.8%, while in Guatemala it is 64.7% and in Honduras it is 67.7%. In countries with high indices of poverty and inequality, it is the poor who proportionally pay the most yet receive much less in social services.

The Salvadoran government must also end tax avoidance and evasion through closing loopholes and tax havens. Tax evasion and avoidance in Latin America cost governments more than \$320 billion a year, approximately 6.3% of the Gross Domestic Product. In El Salvador, investment in tax havens has multiplied 18 times in the last 15 years, growing twice as fast as the national economy. Oxfam recommends forging a regional agreement that prioritizes the eradication of tax evasion and avoidance

gradually, reducing it by 50% over a five year period, and then by 75% over the following ten years. An aggressive action plan is needed to make tax laws coherent throughout the region, together with a strategy to combat the use of tax havens, for example by applying sanctions against companies and individuals who use tax havens to reduce the amount of taxes they pay.

Also on tax reform, the government must prioritize public investment in inclusive growth over tax incentives for foreign investors. Investment policies and tax incentives must not be given at the expense of country initiatives intended to strengthen domestic markets, create jobs and improve food security. Studies by the Economic Commission for Latin America (ECLAC), the Central American Institute for Fiscal Studies (ICEFI), and others, show that tax incentives are not effective for attracting foreign direct investment, increasing employment or reducing inequality. Currently, the fiscal burden on multinational businesses in the region is half that of national businesses due to tax concessions, and foreign investors are otherwise required by the U.S. Dominican Republic-Central America Free Trade Agreement to be treated as national investors.

In addition, tax laws in Central America are prejudicial to national businesses. El Salvador and Guatemala have five tax incentive laws and Honduras nine that favor foreign investors. El Salvador's 2013 Industrial and Commercial Free Zone Law, for example, practically converts the entire country into a free trade zone because investors do not have to pay federal or municipal taxes for 20 years, or only pay partial tax for a longer period depending on the company's geographical location. This forces the national and local governments to rely on revenue from more impoverished communities.

To better use the potential of tax incentives, El Salvador and all of the Central American governments should review all tax incentives using a cost-benefit analysis to determine the impact they have on government revenue and social spending.

Finally, the government can increase transparency and effectiveness of tax collection and spending through active citizen participation in tax reform processes and government spending oversight. Clearly there are limitations on the public budget due to the suffocating debt service but it is even more critical, as pointed out by ICEFI, that the remaining funds available be used transparently and be based on a publically agreed fiscal pact. Not only can transparency and efficiency of funds be improved, corruption can be reduced. The new Salvadoran government must act on this.

STRENGTHEN THE RULE OF LAW AND COMBAT CORRUPTION.

Endemic corruption, widespread impunity, and the infiltration of organized crime across El Salvador, Guatemala, and Honduras have robbed these governments' ability to reduce poverty and inequality, create decent jobs, and reduce violence—all factors behind forced migration. Ending corruption and impunity is key to increasing economic development and reducing poverty. Implementing the fiscal reforms mentioned previously would be an important first step.

In addition, the government of El Salvador should strengthen investigative capacity of specialized prosecutors including those investigating homicides, extortion, organized crime, and sexual and gender-based violence, as well as providing support for improving access to justice. Courts should have

improved case management systems. Adequate indicators should be put in place to measure progress in reducing violence and strengthening criminal justice institutions.

Finally, the Salvadoran government should also provide funding to enhance civil society organizations' capacity to effectively monitor, oversee, and hold public security and justice systems accountable.