



Investing in El Salvador:

Unlocking Opportunities in the Heart of Central America



STATISTICS

- **Gross Domestic Product (GDP):** Approximately \$27 billion USD (2020 estimate).
- **GDP Growth Rate:** Projected growth of 4.2% for 2021.
- **Population:** Over 6.5 million people.
- **Official Language:** Spanish.
- **Currency:** United States Dollar (USD).
- **Foreign Direct Investment (FDI):** FDI inflows reached approximately \$725 million USD in 2019.
- **Memberships:**
 - United Nations (UN)
 - World Trade Organization (WTO)
 - Central American Integration System (SICA)
 - Dominican Republic-Central America Free Trade Agreement (CAFTA-DR)
- **Ease of Doing Business Ranking:** 91st out of 190 countries (World Bank Doing Business Report 2020).
- **Literacy Rate:** Approximately 89%.
- **Time Zone:** Central Standard Time (CST), UTC-6.

INTRODUCTION

El Salvador, the smallest and most densely populated country in Central America, is a land of rich culture, stunning landscapes, and immense investment potential. Nestled between Guatemala and Honduras, with a picturesque Pacific coastline, El Salvador offers a strategic location for businesses aiming to access the dynamic markets of the Americas. The nation's adoption of the United States Dollar as its official currency provides monetary stability, and its pro-business environment, modern infrastructure, and skilled workforce make it an attractive destination for global investors. This comprehensive report delves into the myriad benefits and opportunities of investing in El Salvador, highlighting key statistics, relevant agencies, incentives for investors, and sectors ripe for growth.

BACKGROUND

Since adopting the United States Dollar (USD) in 2001, El Salvador has bolstered its economic stability, reducing currency exchange risks and fostering a conducive environment for foreign investment. The country's strategic location in Central America positions it as a gateway between North and South America, offering unparalleled access to a regional market of over 40 million consumers.

El Salvador's economy is diversified, with strong sectors in manufacturing, agriculture, tourism, and services. The government has implemented significant reforms to encourage foreign investment, including streamlined business registration processes, tax incentives, and protective investment laws. Free trade agreements, such as the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), provide investors with preferential access to major markets, including the United States.

The nation's young and educated workforce, competitive labor costs, modern infrastructure, and commitment to innovation further enhance its appeal as a premier investment destination in the region.

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BENEFITS OF INVESTING IN EL SALVADOR

Strategic Geographic Location

- » **Gateway to the Americas:**
 - » Centrally located in the Western Hemisphere, facilitating access to North, Central, and South American markets.
 - » Proximity to major economic centers, with short flight times to cities like Miami, Houston, and Mexico City.
- » **Connectivity:**
 - » El Salvador International Airport (Monseñor Óscar Arnulfo Romero International Airport) serves as a regional hub with extensive flight connections.
 - » Major seaports, including Acajutla and La Unión, support efficient maritime trade.
 - » Modern highways link El Salvador to neighboring countries, enabling seamless regional commerce.

Dollarized Economy

- » **Currency Stability:**
 - » Use of the USD eliminates currency exchange risk and transaction costs.
 - » Simplifies financial planning and accounting for multinational companies.
- » **Monetary Confidence:**
 - » Attracts foreign investors seeking stable monetary policies and low inflation rates.

Pro-Business Environment

- » **Investment-Friendly Policies:**
 - » Legal framework ensures equal treatment for foreign and domestic investors.
 - » Streamlined procedures for starting and operating a business.
 - » Strong protections for property rights and contractual agreements.
- » **Trade Agreements:**
 - » Access to preferential markets through CAFTA-DR, agreements with the European Union, Mexico, Colombia, and others.
 - » Opens doors to over 1.2 billion consumers globally.

Competitive Workforce

- » **Young and Skilled Labor Force:**
 - » Median age of approximately 27 years, providing a dynamic and trainable workforce.
 - » High literacy rate and growing emphasis on technical and vocational education.
- » **Language Proficiency:**
 - » Spanish-speaking population, with a growing number of English speakers.
 - » Ideal for companies serving Latin American markets and beyond.

Advanced Infrastructure

- » **Transportation Networks:**
 - » Modern roadways, airports, and seaports ensure efficient movement of goods and people.
 - » Logistics hubs and industrial parks facilitate manufacturing and distribution.
- » **Telecommunications:**
 - » Robust telecommunications infrastructure with widespread internet and mobile coverage.
 - » Supports business operations, outsourcing services, and technological innovation.

Government Support and Incentives

- » **Investment Promotion:**
- » Dedicated agencies like PROESA provide assistance and support to investors.
- » Incentive programs tailored to attract investments in key sectors and regions.
- » **Legal Stability:**
- » Commitment to upholding international investment agreements and arbitration mechanisms.
- » Transparent regulatory environment fostering investor confidence.

Quality of Life

- » **Cultural Richness:**
- » Vibrant traditions, festivals, and a warm, hospitable population.
- » **Natural Beauty:**
- » Stunning landscapes, including beaches, mountains, and archaeological sites.
- » **Cost of Living:**
- » Affordable living expenses for expatriates and relocating families.

RELEVANT AGENCIES

Export and Investment Promotion Agency of El Salvador (PROESA)

- » **Role:** Principal government agency responsible for promoting exports and attracting foreign investment.
- » **Services:**
- » Offers detailed information on investment opportunities and legal procedures.
- » Provides support throughout the investment process, from initial inquiries to establishment.
- » Assists with site selection, permits, and connections to local partners.
- » **Website:** www.proesa.gob.sv
- » **Contact:**
- » **Email:** invest@proesa.gob.sv
- » **Phone:** +503 2592-7000

Ministry of Economy (MINEC)

- » **Role:** Oversees economic policy, trade negotiations, and supports business development.
- » **Services:**
- » Implements policies to enhance competitiveness and economic growth.
- » Provides information on trade agreements, regulations, and economic data.
- » **Website:** www.minec.gob.sv
- » **Contact:**
- » **Email:** info@minec.gob.sv
- » **Phone:** +503 2590-5555

National Investment Office (ONI)

- » **Role:** Facilitates the establishment of new businesses and investment projects.
- » **Services:**
- » Streamlines administrative procedures for company registration.
- » Assists with obtaining necessary licenses and permits.
- » **Website:** www.minec.gob.sv/oni
- » **Contact:**
- » **Email:** oni@minec.gob.sv
- » **Phone:** +503 2590-5555
- » El Salvador Chamber of Commerce and Industry
- » **Role:** Represents and supports the business community.
- » **Services:**
- » Offers networking opportunities, business services, and advocacy.
- » Provides training, market information, and dispute resolution support.
- » **Website:** www.camarasol.com
- » **Contact:**
- » **Email:** info@camarasol.com
- » **Phone:** +503 2231-3000

Salvadoran Association of Industrialists (ASI)

- » **Role:** Supports industrial development and represents manufacturers.

- » **Services:**
- » Provides industry-specific information and advocacy.
- » Offers training, technical assistance, and business promotion activities.
- » **Website:** www.asi.org.sv
- » **Contact:**
- » **Email:** info@asi.org.sv
- » **Phone:** +503 2267-9400
- »

INCENTIVES FOR INVESTORS

Tax Incentives

- » **Fiscal Incentives Law for the Promotion of Investment:**
- » **Income Tax Exemptions:**
- » Up to 15 years of income tax exemption for investments in priority sectors and regions.
- » **Municipal Tax Exemptions:**
- » Exemption from municipal taxes on company assets for up to 10 years.
- » **Customs Duty Exemptions:**
- » Exemption from import duties on machinery, equipment, and raw materials.
- » **Free Trade Zones and Inward Processing Regime:**
- » **Benefits:**
- » 100% exemption from income tax, import duties, and taxes on real estate transfers.

Simplified customs procedures.

- » Applicable to manufacturing, logistics, and service companies focused on exports.
- » Investment Guarantees
- » **Legal Protection:**
- » Assurance of equal treatment for foreign and local investors.
- » Protection against expropriation without fair compensation.
- » **Repatriation of Funds:**
- » Unrestricted transfer of profits, dividends, and capital abroad.
- » **Dispute Resolution:**
- » Access to international arbitration under conventions like ICSID and UNCITRAL.

Sector-Specific Incentives

- » **Tourism Law:**
- » **Benefits:**
- » 10-year exemption from income tax.
- » Exemption from tariffs on imported goods for tourism projects.
- » Applicable to lodging, transportation, tour operators, and related services.
- » **Renewable Energy Incentives Law:**
- » **Benefits:**
- » 10-year income tax exemption for renewable energy projects.
- » Exemptions on import duties and VAT for machinery and equipment.
- » Incentives aimed at promoting solar, wind, hydro, and geothermal energy projects.

Support Services

- » **One-Stop Shop for Investors (OMI):**
- » **Services:**
- » Centralized assistance for investment processes.
- » Guidance on regulatory requirements and procedures.
- » Facilitates efficient communication with government entities.

Financial Incentives

- » **Export Financing Programs:**
- » Access to credit facilities and financial products for export-oriented companies.
- » **Innovation and Competitiveness Programs:**
- » Grants and technical assistance for projects enhancing productivity and innovation.

OPPORTUNITIES FOR INVESTORS

Manufacturing and Industry

- » **Textiles and Apparel:**
- » Leverage competitive labor costs and proximity to the U.S. market.

- » Benefit from CAFTA-DR provisions for duty-free exports.
- » **Automotive and Aeronautics Components:**
- » Production of auto parts, wiring harnesses, and aerospace components.
- » Opportunities to integrate into global supply chains.
- » **Electronics and Medical Devices:**
- » Manufacturing of electronic components and medical equipment.
- » Support from specialized training programs and industrial parks.

Renewable Energy

- » **Solar Power Projects:**
- » High solar irradiance levels make El Salvador ideal for solar farms.
- » Government procurement programs and power purchase agreements.
- » **Geothermal Energy:**
- » Exploit significant geothermal resources due to volcanic activity.
- » Investment opportunities in power generation and technology partnerships.

Agriculture and Agribusiness

- » **High-Value Crops:**
- » Cultivation of coffee, cocoa, fruits, and specialty crops.
- » Organic farming and fair-trade certification add value for export markets.
- » **Food Processing and Packaging:**
- » Adding value through processing of agricultural products.
- » Opportunities in dairy, meat processing, and confectionery.

Tourism and Hospitality

- » **Coastal and Beach Development:**
- » Investment in resorts, hotels, and recreational facilities along the Pacific coast.
- » Capitalize on growing interest in surfing and beach tourism.
- » **Ecotourism and Cultural Heritage:**
- » Development of sustainable tourism projects in national parks and archaeological sites.
- » Promotion of Mayan heritage and natural attractions.

Information and Communication Technology (ICT)

- » **Software Development and Services:**
- » Establishment of software development firms and IT service providers.
- » Government support through innovation hubs and tech parks.
- » **Business Process Outsourcing (BPO):**
- » Growing sector with opportunities in customer service, technical support, and back-office functions.
- » Bilingual workforce enhances service quality for international clients.

Infrastructure and Logistics

- » **Transportation Projects:**
- » Participation in public-private partnerships for road, port, and airport development.
- » Expansion of logistics and distribution centers to serve regional markets.
- » **Urban Development:**
- » Investment in housing projects, commercial real estate, and smart city initiatives.
- » Opportunities in sustainable building and green technologies.

Financial Services

- » **Banking and Fintech:**
- » Expansion of financial services to support economic growth.
- » Opportunities in digital banking, mobile payments, and financial inclusion initiatives.
- » **Microfinance Institutions:**
- » Providing financial products to small businesses and entrepreneurs.
- » Contributing to economic development and social impact.

CONCLUSION

El Salvador offers a dynamic and welcoming environment for investors seeking to capitalize on opportunities in Central America. The country's strategic geographic location, dollarized economy, pro-business policies, and commitment to modernization present a compelling case for investment. With a young and skilled workforce, advanced infrastructure, and competitive incentives, El Salvador is poised for sustained economic growth.

Investors can explore diverse sectors ranging from manufacturing and renewable energy to tourism and technology. The supportive government agencies and streamlined processes facilitate seamless entry into the market. By investing in El Salvador, businesses not only gain access to a vibrant economy but also contribute to the nation's development and prosperity.

Embrace the potential of El Salvador—a land of opportunity at the heart of the Americas.

REFERENCES

- » Export and Investment Promotion Agency of El Salvador (PROESA)
- » **Website:** www.proesa.gob.sv
- » **Email:** invest@proesa.gob.sv
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- » **Website:** www.minec.gob.sv
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- » **Email:** info@asi.org.sv
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- » Central Bank of El Salvador (Banco Central de Reserva)
- » **Website:** www.bcr.gob.sv
- » World Bank – El Salvador Overview
- » **Website:** www.worldbank.org/en/country/elsalvador
- » International Monetary Fund (IMF) – El Salvador
- » **Website:** www.imf.org/en/Countries/SLV
- » United Nations Conference on Trade and Development (UNCTAD)
- » **Website:** unctad.org
- » Ministry of Tourism
- » **Website:** www.mitur.gob.sv

Renewable Energy Association of El Salvador (ASER)

Website: www.aserenewables.org

Investment Laws and Regulations

Access through PROESA or MINEC websites for detailed legal frameworks.