

# El Salvador

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RISK & COMPLIANCE REPORT

DATE: March 2017

<b>Executive Summary - El Salvador</b>	
<b>Sanctions:</b>	None
<b>FATF list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions International Narcotics Control Majors List
<b>Medium Risk Areas:</b>	Non - Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b> coffee, sugar, corn, rice, beans, oilseed, cotton, sorghum; beef, dairy products</p> <p><b>Industries:</b> food processing, beverages, petroleum, chemicals, fertilizer, textiles, furniture, light metals</p> <p><b>Exports - commodities:</b> offshore assembly exports, coffee, sugar, textiles and apparel, gold, ethanol, chemicals, electricity, iron and steel manufactures</p> <p><b>Exports - partners:</b> US 45.8%, Guatemala 14.9%, Honduras 9.6%, Nicaragua 5.8% (2012)</p> <p><b>Imports - commodities:</b> raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, electricity</p> <p><b>Imports - partners:</b> US 34.4%, Guatemala 10.8%, Mexico 6.8%, Colombia 5.7%, China 5.5%, Germany 4% (2012)</p>	

**Investment Restrictions:**

El Salvador is open to and encourages foreign investment and is currently taking steps to improve the nation's investment climate.

The only remaining restrictions for foreign investors in media and telecommunications are on free reception television and AM/FM radio broadcasting, where foreign ownership cannot exceed 49 percent of equity.

There are restrictions on land ownership. No single natural or legal person--Salvadoran or foreign--can own more than 245 hectares (605 acres). Rural lands cannot be acquired by foreigners from countries where Salvadorans do not enjoy the same right.

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## Section 1 - Background

El Salvador achieved independence from Spain in 1821 and from the Central American Federation in 1839. A 12-year civil war, which cost about 75,000 lives, was brought to a close in 1992 when the government and leftist rebels signed a treaty that provided for military and political reforms.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

El Salvador is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in El Salvador was undertaken by the Financial Action Task Force (FATF) in 2010. According to that Evaluation, El Salvador was deemed Compliant for 11 and Largely Compliant for 12 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

### Key Findings from latest Mutual Evaluation Report (2010):

Salvadoran criminal law on money laundering and financing of terrorism formally meets international requirements and has allowed the country to cooperate internationally and successfully prosecute several cases, including one for financing of terrorism. However, convictions are still relatively few in proportion to the number of crimes that generate illicit/unlawful profits, and are mainly originated in cases of cash smuggling in rather complex patterns of ML or high impact. The effectiveness of protective measures is limited given that less than half of ML investigations ordered a seizure of assets

Unlike AML/CFT criminal law, preventive regime which has ruled for ten years requires a significant revision to accommodate FATF standards, reduce the possibility of conflicting interpretations and allow monitoring and appropriate sanctions. This regulatory weakness was partially offset by a strong compliance culture inculcated by foreign multinational banks that control a high volume of the financial market in El Salvador. Some financial activities, including non-banking money remittance service are subject to the requirements of the AML/CFT Laws but are not under the control of any regulatory authority and supervision. In the field of DNFBPs basic law obligations still have not been regulated or implemented in practice.

The distribution of functions among government institutions in AML/CFT seems inappropriate, as well as resources and priorities assigned. The AML/CFT supervision team of the Financial Superintendence, for example, is very small and does not have sufficient training in this field. The Securities and Financial Superintendence do not have legal authority to issue mandatory AML/CFT regulations, because the law assigns that function solely to one unit of the General Attorney's Office which lacks expertise and necessary resources to regulate all obliged subjects, especially financial sector entities. The same unit is responsible for the work

pertaining to the Prosecutor's Office to investigate and adjudicate ML cases, which it gives priority to, and which is also the Financial Intelligence Unit (FIU) of the country. Besides not having the necessary human resources for all these functions (criminal investigation, regulatory and financial intelligence), its operational autonomy is limited to implement effectively essential functions of a financial intelligence unit.

El Salvador has not recently conducted a nationwide review and under a methodological criteria objective about ML/FT risks. Nor are there references on risk management legislation and regulations relating to ML-FT that allow regulated entities to rate the severity of their risk-based controls. However, authorities indicate that they have identified as major risk sources those that arise from drug trafficking, tax evasion, trade in persons and smuggling, and extortion activities associated with criminal gangs called "maras" and other organized crime activities have increased throughout Central America. The risk of FT is still not considered as a major threat within the financial sector as it has not identified any case or potential problem in the country which can be considered as a risk indicator

## US Department of State Money Laundering assessment (INCSR)

**El Salvador is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.**

### OVERVIEW

El Salvador is a major transit route for South American cocaine destined for the United States, as well as cash proceeds returning to South America.

The lack of supervision of DNFBNs and an independent FIU are key challenges to mitigating El Salvador's money laundering vulnerabilities. The current FIU within the Attorney General's Office (AGO) cannot capitalize on regional information sharing or fully investigate/prosecute complex money laundering cases. While the FIU is not currently subject to political manipulation, the unit has been compromised by previous attorneys general and remains structurally vulnerable to manipulation in the future.

Current capacity building efforts are improving El Salvador's ability to investigate and prosecute more complex money laundering cases. El Salvador cannot fully take advantage of this foreign assistance until the FIU is built up into a fully independent unit.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

The U.S. dollar is the official currency in El Salvador, and the country's dollarized economy and geographic location make it an ideal haven for transnational organized crime groups, including human smuggling and drug trafficking organizations. Money laundering is primarily related to proceeds from illegal narcotics and organized crime.

The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for the free movement of their citizens across the respective borders. This

agreement is a vulnerability to each country and the region for the cross-border movement of contraband and illicit proceeds of crime if citizens can bypass formal immigration and customs inspection.

According to authorities, organized crime groups launder money through the use of banks, front companies, parking lots, travel agencies, remittances, the import and export of goods, and cargo transportation. Illicit activity includes the use of smurfing operations, whereby small amounts of money are deposited or transferred in a specific pattern to avoid detection by government authorities. In addition, increased oversight of regional financial institutions have caused money laundering activities to increase in countries with less robust and developed regulatory oversight, including El Salvador. The large informal sector also creates vulnerabilities for El Salvador because it creates challenges for AML supervision.

As of December 2016, there are 17 FTZs operating in El Salvador. The FTZs are comprised of more than 200 companies operating in areas such as textiles, clothing, distribution centers, call centers, business process outsourcing, agribusiness, agriculture, electronics, and metallurgy.

FTZs are particularly vulnerable to illicit activity such as TBML and bulk cash smuggling.

## **KEY AML LAWS AND REGULATIONS**

The regulatory institutions charged with AML supervision are weak and lack both human resources and sufficient regulatory powers. Following a 2015 reform, the Superintendent of the Financial System now supervises all MSBs, including those not related to a bank or a bank holding company. The Central Bank prepared implementing regulations, which went into effect January 4, 2016.

The government of El Salvador's General Assembly passed an Asset Forfeiture (AF) Law in November 2013. Implementation of the law began in September 2014 when a specialized judge assumed control of the autonomous AF judicial court established by the legislation. According to the AGO, the specialized court finalized the forfeiture of \$609,000 in 2016, in addition to six vehicles and 15 real estate properties. The financial investigation unit brought money laundering charges against a group of dual U.S. and Salvadoran nationals for laundering approximately \$15,000,000 and has frozen \$2,000,000 in assets in an El Salvadoran bank.

The AF legislation allows the government to sell property seized in conjunction with criminal investigations and redirect up to 35 percent of the revenue to the AGO for counter drug trafficking, AML, and anti-organized crime efforts. In 2016, 28 cases were presented to the autonomous AF judicial court, and 16 cases were finalized, compared to 27 cases and 10 finalized in 2015.

El Salvador is a member of the CFATF, a FATF-style regional body.

## **AML DEFICIENCIES**

The Superintendent of the Financial System supervises only those accountants and auditors with a relationship with a bank or bank holding company. Independent entities are not subject to any supervision, nor are other DNFBPs.



Information sharing between El Salvador and FinCEN, the U.S. FIU, was frozen in 2013, following an unauthorized disclosure of information from El Salvador's FIU. Politicization of the FIU was addressed following a change in administration at the AGO, but the FIU remains under-resourced and lacks structural independence. El Salvador maintains limited membership in the Egmont Group of FIUs, due to the suspension of U.S. information sharing. Egmont continues to work with Salvadoran authorities to improve compliance.

## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Authorities are currently working on amendments and legislation to improve regulation of DNFBPs to better comply with international standards.

El Salvador's major money laundering convictions to date relate to bulk cash smuggling and isolated transactions. However, the AGO does have at least four large scale money laundering investigations/prosecutions currently underway, including the first money laundering case against a transnational gang.

### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, El Salvador does not conform with regard to the following government legislation: -

Reports Suspected Terrorist Financing - By law or regulation, banks and/or other covered entities are required to record and report transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities to designated authorities.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

### **EU White list of Equivalent Jurisdictions**

El Salvador is not currently on the EU White list of Equivalent Jurisdictions

### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

## Offshore Financial Centre

El Salvador is not considered to be an Offshore Financial Centre

## US State Dept Narcotics Report 2017:

### Introduction

El Salvador remains a major transit country for illegal drugs destined for the United States from source countries in South America. The United States government estimates that approximately 90 percent of the cocaine trafficked to the United States in the first half of 2016 first transited through the Mexico/Central America corridor. Traffickers in El Salvador use “go-fast” boats and commercial vessels to smuggle illegal drugs along the country’s coastline and to provide fuel to drug-laden vessels en route to northern destinations. The Pan-American Highway is the primary land route, with drug traffickers using buses and tractor-trailers to smuggle shipments.

The U.S. Strategy for Central America, the regional Alliance for Prosperity initiative launched by the governments of El Salvador, Guatemala, and Honduras, and the Government of El Salvador’s national-level Plan El Salvador Seguro (PESS) all include various programs to improve El Salvador’s security. These programs seek to strengthen the capacities of law enforcement, promote judicial reform, reduce prison overcrowding, advance cooperation on extradition, and discourage at-risk youth from engaging in criminal activity, among other goals.

In 2016, the Salvadoran government continued implementing PESS, a geographically-oriented, place-based approach to coordinate multiple lines of action aimed at reducing crime, including drug consumption and trafficking. The plan also includes drug prevention components. The Salvadoran government also passed a series of emergency measures aimed at securing the nation’s prisons and dismantling gang leadership structures, which play a role in local drug distribution. Despite a commitment to shared counternarcotics objectives, Salvadoran law enforcement agencies lack sufficient training and equipment to effectively manage the country’s borders and interdict drug shipments. There continues to be a lack of reliable information on the severity of drug trafficking and use in El Salvador.

### Conclusion

El Salvador strengthened its capacity to combat illegal drug trafficking in 2016. Authorities have demonstrated increased capacity to lead complex investigations, coordinate and share intelligence between agencies and with overseas counterparts, and dismantle organized crime structures. El Salvador still faces formidable challenges, and must take steps to promote sustainable and effective law enforcement institutions. Successful implementation of PESS, in tandem with the increased focus on organized crime, should improve the security situation in El Salvador.

The successes of 2016 can only be sustained if the Government of El Salvador demonstrates increased leadership on crime prevention, security, and rule of law. Future steps should include providing additional resources and equipment to the PNC and Attorney General’s Office, as well as ensuring adequate pay and physical protection as key elements to minimize the risk of corruption. Security and justice sector officials must be held accountable

for their performance and hiring and promotion must be based on merit. El Salvador's correctional institutions require significant management reforms to expand their capacity. Sustainable reforms must be made to the prison system to build upon the temporary advances made under the emergency measures to ensure that criminal organizations are not operating within the prisons. Efforts must also be made to improve interdiction operations, especially land interdiction of drugs, cash, and other contraband such as firearms, ammunition, explosives, and munitions transported via the Pan American Highway.

The Salvadoran government understands that enhancing citizen security is essential for promoting the country's economic growth, and the continued focus on PESS and participation in the regional Alliance for Prosperity demonstrates such an understanding.

### **US State Dept Trafficking in Persons Report 2014 (introduction):**

El Salvador is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

El Salvador is a source, transit, and destination country for women, men, and children subjected to sex trafficking and forced labor. Women, men, and children are exploited in sex trafficking within the country. Officials and NGOs report that LGBT Salvadorans are also vulnerable to sex trafficking. Salvadoran adults and children are subjected to forced begging and forced labor in agriculture and domestic service. Some men, women, and children from neighboring countries—particularly Nicaragua, Guatemala, and Honduras—migrate to El Salvador seeking employment, but are subsequently forced into prostitution, domestic service, construction, or work in the informal sector. Gangs use children for illicit activities, including drug trafficking, and some of these children are trafficking victims. Salvadoran men, women, and children have been subjected to sex trafficking and forced labor in Guatemala, Mexico, Belize, and the United States. Media and government officials report that organized criminal groups, including transnational criminal organizations, are involved in trafficking crimes in El Salvador. Latin American migrants transit El Salvador en route to Guatemala and North America; some of these migrants are subsequently exploited in sex or labor trafficking.

The Government of El Salvador does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Authorities continued to investigate and prosecute child sex trafficking cases and to provide services in the capital to some girls exploited in child sex trafficking. Victim services for male and adult female victims were inadequate, and authorities did not report how many identified victims received specialized care. Efforts to identify and investigate forced labor cases remained weak, and authorities have never prosecuted or convicted any labor trafficking offenders. Training for government officials decreased compared with the previous year. Official complicity remained a largely-unaddressed problem.

### **Latest US State Dept Terrorism Report**

El Salvador hosts the U.S. government-funded International Law Enforcement Academy, which provided instruction on counterterrorism, transnational crime, alien trafficking, money

laundering, and other topics of counterterrorism interest. El Salvador also worked within the regional Central American Integration System to promote effective regional responses to transnational crime and other public security threats.

The Government of El Salvador was vigilant in its efforts to ensure that Salvadoran territory was not used for recruitment, training, or terrorist financing.

The principal Salvadoran counterterrorism entity, the National Civilian Police, worked in close cooperation with the Salvadoran Immigration Service, the Office of the Attorney General, and the Office of State Intelligence, and was well regarded by U.S. counterparts. A 2006 statute established strict criminal liability for engaging in terrorism, while other statutes outlawed money laundering and terrorist financing.

## International Sanctions

None applicable

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	36
World Governance Indicator – Control of Corruption	41

## Corruption and Government Transparency - Report by Global Security

Foreign individuals and firms operating or investing in El Salvador should take the time to become familiar with the relevant anticorruption laws in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel. U.S. companies operating in El Salvador continue to be subject to the U.S. Foreign Corrupt Practices Act.

Corruption can be a challenge to investment in El Salvador. El Salvador ranks 83 out of 177 countries in Transparency International's Corruption Perceptions 2013 Index. El Salvador has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. Soliciting, offering, or accepting a bribe is a criminal act in El Salvador. The Attorney General has a special office, the Anticorruption and Complex Crimes Unit, which handles cases involving corruption by public officials and administrators. The Constitution also established the Court of Accounts that is charged with investigating public officials and entities and, when necessary, passing such cases to the Attorney General for prosecution. In 2005, the government issued a code of ethics for the executive-branch employees, including administrative enforcement mechanisms, and it established an Ethics Tribunal in 2006.

The Legislative Assembly approved a new Transparency Law in 2011 in an effort to combat corruption and increase government accountability. In February 2013, President Funes appointed members to the Access to Information Institute as mandated by the law. The Institute's effectiveness, however, has not been demonstrated.

There have been some recent corruption scandals at the federal, legislative, and municipal levels. There have also been credible complaints of judicial corruption. El Salvador has an active, free press that reports on corruption.

El Salvador is not a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. El Salvador is a signatory to the UN Anticorruption Convention and the Organization of American States' Inter-American Convention Against Corruption.

## Section 3 - Economy

The smallest country in Central America geographically, El Salvador has the fourth largest economy in the region. With the global recession, real GDP contracted in 2009 and economic growth has since remained low, averaging less than 2% from 2010 to 2013. Remittances accounted for 16% of GDP in 2013 and were received by about a third of all households. In 2006, El Salvador was the first country to ratify the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR), which has bolstered the export of processed foods, sugar, and ethanol, and supported investment in the apparel sector amid increased Asian competition. The Salvadoran Government maintained fiscal discipline during post-war reconstruction and reconstruction following earthquakes in 2001 and hurricanes in 1998 and 2005, but El Salvador's external debt has been growing over the last several years, amounting to some 57% of GDP in 2013. In September 2013, El Salvador was awarded a \$277 million second compact with the Millennium Challenge Corporation (MCC) - a United States Government agency aimed at stimulating economic growth and reducing poverty - to improve El Salvador's competitiveness and productivity in international markets.

### **Agriculture - products:**

coffee, sugar, corn, rice, beans, oilseed, cotton, sorghum; beef, dairy products

### **Industries:**

food processing, beverages, petroleum, chemicals, fertilizer, textiles, furniture, light metals

### **Exports - commodities:**

offshore assembly exports, coffee, sugar, textiles and apparel, gold, ethanol, chemicals, electricity, iron and steel manufactures

### **Exports - partners:**

US 45.8%, Guatemala 14.9%, Honduras 9.6%, Nicaragua 5.8% (2012)

### **Imports - commodities:**

raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, electricity

### **Imports - partners:**

US 34.4%, Guatemala 10.8%, Mexico 6.8%, Colombia 5.7%, China 5.5%, Germany 4% (2012)

## Banking

The Financial System Superintendence (Superintendencia del Sistema Financiero, SSF (<http://www.ssf.gob.sv/>), an independent regulatory agency, authorizes and supervises all financial institutions in El Salvador. In January 2011, the Legislative Assembly approved a law



to merge the Financial System Superintendence, the Stock Market Superintendence, and the Pension Superintendence in order to create a single, independent regulatory agency which will be headed by a Directive Council.

By law, all transactions carried out in Salvadoran banks must be denominated in U.S. dollars. Interest rates and fees are set by market conditions. Private banks, branches of foreign banks, state-owned banks, and credit unions are authorized to collect funds from the public. The banking industry is very competitive due to the presence of foreign banks and the openness of the banking law.

Commercial banking services in El Salvador are provided by 12 institutions: nine private banks, one branch of a foreign bank, and two state-owned banks. In addition, there are other financial institutions authorized to capture savings from the public, including five cooperative banks, and one credit and saving society. The private banks Banco Agricola S.A. (acquired by Bancolombia); Banco Citibank de El Salvador S.A. (former Banco Cuscatlan and Banco Uno); Hong Kong and Shanghai Banking Corporation (HSBC) (former Banco Salvadoreño); and Scotiabank; account for more than 80% of the Salvadoran banking business. The branch of a foreign bank is Citibank N.A. Sucursal El Salvador; and Banco Hipotecario and Banco de Fomento Agropecuario are government owned.

Banco Agricola Comercial and Banco Citibank de El Salvador S.A. are the second and third largest banks in Central America. The largest bank in the region is Banco Nacional de Costa Rica, a state-owned bank, with no operations outside Costa Rica. In addition, there are two banks operating as representation offices—BAC Florida Bank and Banco de Santander. Non-resident banks also lend without restriction to Salvadoran clients.

## Stock Exchange

The 1994 Securities Market Law established the present form for the El Salvadoran Securities Exchange (La Bolsa de Valores de El Salvador), which opened in 1992, and has played an important role in the privatization of state enterprises and facilitating foreign portfolio investment. Stocks, government and private bonds, and other financial instruments are traded on the exchange, which is regulated by the Superintendency of Securities. In 2007 the Legislative Assembly approved a securitization law, but it has not yet been widely used.

Foreigners may buy stocks, bonds, and other instruments sold on the exchange and may have their own securities listed, once approved by the Superintendent. Companies interested in listing must first register with the National Registry Center's Registry of Commerce. From 2007 – 2010, the exchange averaged daily volumes of about \$11 million. Government-regulated private pension funds, Salvadoran insurance companies, and local banks are the largest buyers on the Salvadoran securities exchange.

### Executive Summary

El Salvador is eager to attract greater foreign investment and is taking steps to improve its investment climate. In recent years, El Salvador has lagged the region in terms of attraction of Foreign Direct Investment (FDI). The Central Bank of El Salvador reported that FDI reached just \$140.0 million in 2013, a 71 percent decline from the \$481.9 million received in 2012. Political uncertainty, burdensome commercial regulations, a sometimes ineffective judicial system, and widespread violent crime are often cited as elements that impede investment in El Salvador.

In 2011, El Salvador and the United States initiated the Partnership for Growth (PFG), a new cooperative development model, to help improve El Salvador's economy and investment climate. November 2013 marked the second anniversary of PFG implementation, and the partnership has taken steps to foster a more favorable environment for business and investment, and improve human capital and infrastructure. For more information on PFG, please access the link on the Embassy's website at <http://sansalvador.usembassy.gov/>.

CAFTA-DR, the free trade agreement among Central American countries, the Dominican Republic, and the United States, entered into force for the United States and El Salvador in 2006. El Salvador also has free trade agreements with Mexico, Chile, Panama, Colombia, and Taiwan. All have entered into force with the exception of the FTA with Colombia which is expected to be activated soon. El Salvador, jointly with Costa Rica, Guatemala, Honduras, Nicaragua, and Panama, signed an Association Agreement with the European Union that includes the establishment of a Free Trade Area. El Salvador is also negotiating trade agreements with Canada, Peru, and Belize.

In October 2012, the Salvadoran government presented to the Legislative Assembly a package of legislation to promote investment and facilitate commerce. Some of these laws have been passed including reforms to the International Services Law and Free Trade Zone Law, and the Construction Simplification Law. In April 2014, the Legislative Assembly approved reforms to address shortcomings in a Public-Private Partnership (PPP) Law that was originally passed in May 2013. The law and associated reforms were designed to provide a legal framework for the development of PPP projects and create a more suitable environment for investment.

### 1. Openness To, and Restrictions Upon, Foreign Investment

El Salvador is eager to attract greater foreign investment and is taking steps to improve its investment climate. The Central Bank of El Salvador reported that foreign direct investment (FDI) reached just \$140.0 million in 2013, a 71 percent decline from the \$481.9 million received in 2012. Meanwhile, El Salvador's regional neighbors have experienced generally increasing levels of FDI in recent years, attracting on average more than \$1.4 billion per country in 2013.

Political uncertainty, inconsistent and burdensome commercial regulations, a sometimes ineffective judicial system, and widespread violent crime undermine El Salvador's investment climate. CAFTA-DR, the free trade agreement among Central American countries, the Dominican Republic, and the United States, includes an investment chapter and other

provisions that have strengthened investment dispute resolution for member state companies with interests in El Salvador.

In 2011, El Salvador and the United States initiated the Partnership for Growth (PFG), a new cooperative development model that aligns complementary commitments by both governments. November 2013 marked the second anniversary of PFG implementation, and the partnership has taken steps to foster a more favorable environment for business and investment, and improve human capital and infrastructure. For more information on PFG, please access the link on the Embassy's website at <http://sansalvador.usembassy.gov/>.

In October 2012, the Salvadoran government presented to the Legislative Assembly a package of legislation to promote investment and facilitate commerce. Some of these laws have been passed including reforms to the International Services Law and Free Trade Zone Law, and the Construction Simplification Law. Other key proposed legislation such as the Judicial Stability Law for Investments and Electronic Signature Law have not been passed.

In April 2014, the Legislative Assembly approved reforms to address shortcomings in the country's Public-Private Partnership (PPP) Law which was originally passed in May 2013. The law and associated reforms were designed to provide a legal framework for the development of PPP projects and create a more suitable environment for investment.

The existing 1999 Investment Law grants equal treatment to foreign and domestic investors. With the exception of micro businesses (ten or fewer employees and sales of less than \$68,571/year), foreign investors may freely establish businesses in El Salvador. Investors who begin operations with ten or fewer employees must present plans to increase employment to the Ministry of Economy's National Investment Office (ONI). The Investment Law also provides that underground resources (minerals) belong to the state. The state may grant concessions for their extraction, but there have been no new permits for mineral extraction in recent years. Per the constitution, rural property cannot be acquired by foreigners from countries where Salvadorans do not enjoy the same right unless it is used for industrial purposes.

Additional statutes governing foreign investment in El Salvador include the Export Reactivation Law, the International Services Law, and Free Trade Zone Law. Other statutes establishing the basic legal framework for investment include the Public Private Partnership Law, Monetary Integration Law, Banking Law, Insurance Companies Law, Securities Market Law, Competition Law, Tourism Law, intellectual property laws, and special legislation governing privatizations and credit cards.

FDI inflows to El Salvador originate from across the globe, including from the United States, Panama, Mexico, Spain, Canada, Costa Rica, Guatemala, Germany, and Italy, and target a variety of sectors of the economy.

**Aeronautics:** For the past several years El Salvador has promoted itself as a promising logistics and transportation center and aeronautics cluster for the region. El Salvador's international airport is a hub for Colombian airline, Avianca, and home to an international commercial aircraft maintenance, repair and overhaul facility, Aeroman. The government is developing plans to modernize and expand El Salvador's international airport.

**Banking:** El Salvador's banking sector includes a high concentration of foreign ownership. Ten private sector banks (non-state owned) account for roughly 95 percent of the industry's loan

portfolio, two state-owned banks hold about 4 percent, and seven cooperatives and savings and loans make up the rest.

**TABLE 1: El Salvador's Lending Institutions (excluding Salvadoran cooperatives and savings and loans)**

Ranking (based on outstanding loans)	Banking Institution	Ownership
1	Banco Agrícola, S.A.	Private, Colombian
2	Scotiabank El Salvador, S.A.	Private, Canadian
3	Banco Davivienda Salvadoreño, S. A.	Private, Colombian
4	Banco Citibank de El Salvador, S.A.	Private, United States
5	Banco de América Central, S.A.	Private, Colombian
6	Banco Promérica, S.A.	Private, Salvadoran
7	Banco Hipotecario de El Salvador, S.A.	State-owned, Salvadoran
8	Banco G&T Continental El Salvador, S.A.	Private, Guatemalan
9	Banco Procredit, S.A.	Private, Salvadoran
10	Banco de Fomento Agropecuario	State-owned, Salvadoran
11	Banco Industrial El Salvador, S.A.	Private, Guatemalan
12	Banco Azteca El Salvador, S.A.	Private, Mexican

Construction: The Construction Permit Simplification Law, approved by the Legislative Assembly in October 2013, reduces processing costs and waiting times for permits (environmental, public works, municipal offices, etc.) for real estate developers by providing a one-stop window for all processes and permits. It also establishes a time horizon by which the government entities must react to a permit application or the permit will be considered approved.

Energy: To address the country's high electricity costs and growing energy needs, El Salvador awarded a contract in December 2013 to a local consortium to build a 355 megawatt Liquefied Natural Gas (LNG) plant near the Port of Acajutla. This estimated \$1 billion project would increase the country's total energy generation capacity by 20 percent and, if completed on schedule, would be operational by 2018. In 2013, El Salvador launched two renewable energy solicitations for 15 megawatts and 100 megawatts of solar and wind projects to diversify its energy matrix and reduce the country's dependence on fuel oil. A

major international energy company has an ongoing dispute with the Salvadoran government over its geothermal operations in El Salvador (see section “Competition from State Owned Enterprises”).

Media and Telecommunications: Privatization and foreign investment have helped to modernize Salvadoran media and telecommunications. The only remaining restrictions for foreign investors are on free reception television and AM/FM radio broadcasting, where foreign ownership cannot exceed 49 percent of equity. There has been extensive growth in the cellular phone industry. In 2012, Mexican-owned America Móvil attempted to expand its operations by purchasing one of the five major service providers, but abandoned its bid after the Salvadoran anti-trust authority required it give up some of its existing spectrum. Additionally, El Salvador is making preliminary plans to switch to digital television.

Services: The January 2013 reforms to the International Services Law added industries eligible for special incentives: container repair and maintenance, technology equipment repair, elderly and convalescent care, telemedicine, and cinematography. The reforms also allow operation outside of designated service parks and free zones and provide additional incentives for existing firms that expand into new services. The call center industry has experienced particularly strong growth in El Salvador over the last several years. Currently, five of the country’s top 25 employers (based on number of employees) are call centers. The government is also promoting other service sectors such as software design and animation, architectural design, and medical tourism.

Textiles, Apparel, and free trade zone activities: El Salvador’s free trade zones host many international textile and apparel firms, including Fruit of the Loom and Hanesbrands. The February 2013 reforms to the Free Trade Zone Law made it compliant with World Trade Organization (WTO) regulations. The reforms eliminate permanent tax exemptions based on export performance and instead grant tax credits based on number of employees and investment levels.

**TABLE 2: El Salvador’s Economic Rankings**

Measure	Year	Ranking / Score	Website Address
WEF Global Competitiveness	2013	97 out of 148	<a href="http://www3.weforum.org/docs/GCR2013-14/GCR_Rankings_2013-14.pdf">http://www3.weforum.org/docs/GCR2013-14/GCR_Rankings_2013-14.pdf</a>
Transparency Int’l Corruption Index	2013	83 out of 177	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation’s Economic Freedom index	2014	59 out of 178	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank’s Doing Business Report	2014	118 out of 189	<a href="http://www.doingbusiness.org/rankings">http://www.doingbusiness.org/rankings</a>

**TABLE 2B** – Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform produced scorecards for countries with a 2012 per capita gross

national income (GCI) of \$ 4,085 or less. A list of countries with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

## **2. Conversion and Transfer Policies**

There are no restrictions on transferring funds associated with investment out of the country. Foreign businesses can freely remit or reinvest profits, repatriate capital, and bring in capital for additional investment. The 1999 Investment Law allows unrestricted remittance of royalties and fees from the use of foreign patents, trademarks, technical assistance, and other services. Tax reforms introduced in 2011, however, levy a five percent tax on national or foreign shareholders' profits. Moreover, shareholders domiciled in a state, country or territory with low or no taxes or that is considered a tax haven, will instead be subject to a tax of twenty-five percent.

The Monetary Integration Law dollarized El Salvador in 2001, and the U.S. dollar now freely circulates and can be used in all transactions. One objective of dollarization was to make El Salvador more attractive to foreign investors. U.S. dollars account for nearly all currency in circulation. Salvadoran banks, in accordance with the law, must keep all accounts in dollars. Dollarization is supported by family remittances -- almost all from the United States -- that totaled \$4 billion in 2013.

## **3. Expropriation and Compensation**

El Salvador's 1983 constitution allows the government to expropriate private property for reasons of public utility or social interest, and indemnification can take place either before or after the fact. There are no recent cases of expropriation. In 1980, a rural/agricultural land reform established that no single natural or legal person could own more than 245 hectares (605 acres) of land, and the government expropriated the land of some large landholders. While banks were nationalized in 1980, beginning in 1990 they were returned to private ownership. A 2003 amendment to the 1996 Electricity Law contains a provision that, while not authorizing expropriation, requires energy generating companies to obtain government approval before removing fixed capital from the country. According to the Salvadoran government, this provision is intended to prevent energy supply disruptions.

In 2009, the U.S. subsidiary of Pacific Rim, a Canadian mining company, filed an international arbitration proceeding against the Salvadoran government alleging various violations of the obligations in Chapter Ten of the CAFTA-DR. Pacific Rim (since purchased in November 2013 by OceanaGold Corporation headquartered in Australia) alleged that the Salvadoran government wrongfully refused to grant environmental permits for its mineral extraction projects. In June 2012, the CAFTA-DR claims were dismissed because the International Center for Settlement of Investment Disputes (ICSID) tribunal determined the U.S. subsidiary lacked substantial business activities in the United States to qualify as a party under CAFTA-DR. The tribunal found, however, that it did have jurisdiction to proceed on an evaluation of the merits of the firm's claims under Salvadoran investment law. The case is ongoing.

## **4. Dispute Settlement**

While foreign investors can seek redress of commercial disputes through Salvadoran courts, some investors have found the slow-moving domestic legal system to be costly and unproductive. The course of some cases has shown that the legal system is subject to manipulation by various interests, and final rulings are sometimes not enforced. Where possible, arbitration clauses, preferably with a foreign venue, should be included in commercial contracts as a means to resolve business disputes. Investors should make sure that all contracts are carefully drafted and that relationships with local firms are specifically defined. Some U.S. firms have been embroiled in legal disputes in recent years. In some cases, multinational firms asserted that a contract with a Salvadoran firm had either formally ended or never existed, but Salvadoran courts ruled that the contract remained in force. Local investment and commercial dispute resolution proceedings in El Salvador routinely last many years.

El Salvador's commercial law is based on the Commercial Code and the Code for Mercantile Processes. There is a mercantile court system for resolving commercial disputes, although parties have complained about its slow processes and erratic rulings, particularly at the Supreme Court level. The Commercial Code, Code of Mercantile Processes, and Banking Law contain sections that deal with bankruptcy but there is no separate bankruptcy law or court. In 2008, the Legislative Assembly passed several reforms to the Commercial Code and the Commerce Registry Law. The reforms were aimed to facilitate trade and investment by reducing the number of steps and requirements to register, develop, and close a business. As a result of the reforms, all documents and payments can be submitted electronically to the Commerce Registry.

Article 15 of the 1999 Investment Law was reformed in August 2013. As revised, the law limits the access of foreign investors originating from a country without a pre-existing trade agreement to international dispute resolution and may oblige them to use national courts. The rights of investors from CAFTA-DR countries appear to be protected under the trade agreement's dispute settlement procedures. Submissions to national dispute panels and panel hearings are open to the public, and interested parties have the opportunity to register their views. In addition, in 2002, the government approved a law that allowed private sector organizations to establish arbitration centers for the resolution of commercial disputes, including those involving foreign investors.

In 2009, El Salvador modified its arbitration law to allow parties to arbitration disputes the ability to appeal a ruling to the Salvadoran courts. Investors have complained that the modification dilutes the fundamental efficacy of arbitration as an alternative method of resolving disputes.

## **5. Performance Requirements and Investment Incentives**

El Salvador's Investment Law does not require investors to meet export targets, transfer technology, incorporate a specific percentage of local content, or fulfill other performance criteria. Foreign investors and domestic firms are eligible for the same incentives. Exports of goods and services are levied zero value added tax.

The 1998 Free Trade Zone Law is designed to attract investment in a wide range of activities, although at present the vast majority of the businesses in export processing zones are clothing assembly plants. A Salvadoran partner is not needed to operate in a free trade zone, and some textile operations are completely foreign-owned.

The 1998 law established rules for export processing zones (free zones) and bonded areas. The free zones are outside the nation's customs jurisdiction while the bonded areas are within its jurisdiction but subject to special treatment. Local and foreign companies can establish themselves in a free zone to produce goods or services for export or to provide services linked to international trade. The regulations for the bonded areas are similar.

The February 2013 reforms to the Free Trade Zone Law made it compliant with World Trade Organization (WTO) regulations. The reforms eliminate permanent tax exemptions based on export performance and instead grant tax credits based on number of employees and investment levels. Qualifying firms located in the free zones and bonded areas may enjoy the following benefits:

- a. Exemption from all duties and taxes on imports of raw materials and the machinery and equipment needed to produce for export;
- b. Exemption from taxes for fuels and lubricants used for producing exports if these are not domestically produced;
- c. Exemption from income tax, municipal taxes on company assets and property; the exemptions are for 15 years if the company is located in the metropolitan area of San Salvador and for 20 years if the company is located outside of the metropolitan area of San Salvador. After that, the user would still be able to obtain partial exemptions.
- d. Exemption from taxes on real estate transfers for the acquisition of goods to be employed in the authorized activity.

Companies in the free zones are also allowed to sell goods or services in the Salvadoran market if they pay applicable taxes for the proportion sold locally. Additional rules apply to textile and apparel products.

Under the 1990 Export Reactivation Law, firms were able to apply for tax rebates ("drawbacks") of six percent of the FOB value of manufactured or processed exports shipped outside the Central American Common Market area. This benefit was eliminated in 2011. However, later that same year the Salvadoran government approved new regulations to support producers. The regulations include a new form of "drawback," approved by the World Trade Organization (WTO), which consists of a refund of custom duties paid on imported inputs and intermediate goods exclusively used in the production of goods exported outside of the Central American region. The new regulations also include the creation of a Business Production Promotion Committee with the participation of the private and public sector to work on policies to strengthen the export sector, and the creation of an Export and Import Center. Since 2011, all import and export procedures are handled by the Export and Import Center. More information about the procedures can be found at: <https://www.centrex.gob.sv/>

The International Services Law, approved in 2007, establishes service parks and centers with incentives similar to those received by El Salvador's free trade zones. Service park developers may be exempted from income tax for 15 years, municipal taxes for ten years, and real estate transfer taxes. Service park administrators will be exempted from income tax for 15 years and from municipal taxes for ten years. Firms located in the service parks/service centers may receive the following permanent benefits:



- a. Tariff exemption for the import of capital goods, machinery, equipment, tools, supplies, accessories, furniture and other goods needed for the development of the service activities (goods and services such as food and beverages, tobacco products, alcoholic beverages, rental fees, home equipment and furniture, cleaning articles, luxury goods, transportation vehicles, and hotel services are not exempted from taxation);
- b. Full and indefinite exemption from income tax and municipal taxes on company assets.

Service firms operating under the existing Free Trade Zone Law are also covered. However, if the services are provided to the Salvadoran market, they cannot receive the benefits of the International Services Law.

The following services are covered under the International Services Law: international distribution, logistical international operations, call centers, information technology, research and development, marine vessels repair and maintenance, aircraft repair and maintenance, entrepreneurial processes (i.e., business process outsourcing), hospital-medical services, international financial services, container repair and maintenance, technology equipment repair, elderly and convalescent care, telemedicine, and cinematography postproduction services.

To qualify for benefits, businesses must invest at least \$150,000 during the first year of operations, including working capital and fixed assets, must hire no fewer than 10 permanent employees, and must have at least a one-year contract. For hospital/medical services, the minimum investment in fixed assets must be \$10 million if surgical services are provided or a minimum of \$3 million if surgical services are not provided. Hospital or medical services must be located outside of major metropolitan areas. The medical service must also be provided only to patients with insurance.

In 2005, the government approved a tourism law to spur investment in the sector. The law establishes fiscal incentives for those who invest a minimum of \$50,000 in tourism-related projects in El Salvador. Incentives include a ten-year income tax exemption and no duties on imports of capital and other goods, subject to some limitations. The investor also benefits from a five-year exemption from land acquisition taxes and a 50 percent break in municipal taxes. To take advantage of these incentives, the enterprise must contribute five percent of profits during the exemption period to a government-administered Tourism Promotion Fund.

Those who plan to live and work in El Salvador for an extended period will need to obtain temporary residency, which may be renewed periodically. Under Article 11 of the Investment Law, foreigners with investments equal to or more than 4,000 minimum monthly wages (\$969,600) have the right to receive Investor's Residence, permitting them to work and stay in the country. Such residency can be requested within 30 days after the investment has been registered. The residency permit covers the investor and his family and is issued for one year, subject to extension on a yearly basis.

Most companies employ a local lawyer to manage the process of obtaining residency. The American Chamber of Commerce in El Salvador can also help its members with the process. Labor regulations require that 90 percent of the labor force at plants and in clerical jobs be Salvadoran. There are fewer nationality restrictions on professional and technical jobs.

U.S. companies have complained of variable customs valuations and inconsistent enforcement of both customs regulations and CAFTA-DR preferential treatment for goods coming from CAFTA-DR countries aside from the United States. While advances have been made to implement a fast-track system for shipments via express courier companies, it has not been fully implemented. The clearance procedures for samples which arrive via express shipments are still an ongoing issue.

## **6. Right to Private Ownership and Establishment**

No single natural or legal person--Salvadoran or foreign--can own more than 245 hectares (605 acres). Per the constitution, rural property cannot be acquired by foreigners from countries where Salvadorans do not enjoy the same right unless it is used for industrial purposes. Foreign citizens and private companies can freely establish businesses in El Salvador. The only exception for this is in some cases involving small business. A 2001 fishing law allows foreigners to engage in commercial fishing anywhere in Salvadoran waters providing they obtain a license from CENDEPESCA, a government entity.

## **7. Protection of Property Rights**

Private property, both non-real estate and real estate, is recognized and protected in El Salvador. Companies that plan to buy land or other real estate are advised to conduct a thorough search of the property's title prior to purchase.

In 2005, El Salvador revised several laws to comply with CAFTA-DR's provisions on intellectual property rights (IPR). The Intellectual Property Promotion and Protection Law (1993, revised in 2005), Law of Trademarks and Other Distinctive Signs (2002, revised in 2005), and Penal Code establish the legal framework to protect IPR. Investors can register trademarks, patents, copyrights, and other forms of intellectual property with the National Registry Center's Intellectual Property Office.

Reforms passed in 2005 extended the copyright term from 50 to 70 years. In 2008, the government enacted test data exclusivity regulations for pharmaceuticals and agrochemicals, which will be protected for 5 and 10 years respectively, and ratified an international agreement extending protection to satellite signals.

In March 2012, El Salvador passed a new Medicines Law to regulate the production, sale, and distribution of pharmaceuticals. The law created the National Directorate of Medicines to oversee implementation, including the drafting of new regulations and establishment of price controls on the sale of pharmaceuticals. The new regulations were published by the Directorate in December 2012.

The Attorney General's office and the National Civilian Police enforce trademark and intellectual rights by conducting raids against distributors and manufacturers of pirated CDs, cassettes, clothes, and computer software. The 2005 reforms authorize the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them. They also allow authorities to initiate these raids ex-officio, and piracy is now punishable by jail sentences of two to six years. However, using the criminal and mercantile courts to seek redress of a violation of intellectual property is often a slow and frustrating process.

Judiciary and regulatory enforcement continue to be the weakest pillars of intellectual property protection in El Salvador. A significant intellectual property rights case continues to

drag through the Salvadoran courts concerning a contractual dispute between McDonald's and an ex-franchisee involving trademark and copyright infringement. In October 2011, the Salvadoran Supreme Court upheld a previous award of \$24 million to the ex-franchisee. McDonald's continued appeals. In October 2012, the Supreme Court again decided in favor of the ex-franchiser and McDonald's paid an award, though further legal issues remain.

El Salvador is a signatory of the Bern Convention for the Protection of Literary and Artistic Works; the Paris Convention for the Protection of Industrial Property; the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication; the World Intellectual Property Organization (WIPO) Copyright Treaty; the WIPO Performance and Phonograms Treaty; and the Rome Convention for the Protection of Performers, Phonogram Producers, and Broadcasting Organizations.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: [san.salvador.office.box@mail.doc.gov](mailto:san.salvador.office.box@mail.doc.gov)

Local lawyers list: <http://sansalvador.usembassy.gov/local-information/list-of-attorneys.html>

## **8. Transparency of the Regulatory System**

The laws and regulations of El Salvador are relatively transparent and generally foster competition. However, the government does control the price of some goods and services, including electricity, liquid propane gas, gasoline, fares on public transport, and medicines. The government also directly subsidizes water services and sets the distribution-service tariff.

Bureaucratic procedures have improved in recent years and are relatively streamlined for foreign investors. Regulatory agencies, however, are often understaffed and inexperienced, especially when dealing with complex issues. New foreign investors should review the regulatory environment carefully.

The Superintendent of Electricity and Telecommunications (SIGET) oversees electricity rates, telecommunications, and distribution of electromagnetic frequencies.

In 2003, the government amended the 1996 Electricity Law with the intention of reducing volatility in the wholesale market and thereby stabilizing retail electricity prices and encouraging new investment. The new reforms to the law allowed SIGET to develop a cost-based pricing model for the electricity sector, which they introduced to the marketplace in 2011. The new system requires the adoption of additional long-term contracts and should alleviate various market distortions. The Salvadoran Government subsidizes consumers using up to 200 kWh monthly. The electricity subsidy costs the government upwards of \$185 million annually. Energy sector companies have warned that ever-changing subsidies and the government's inability to pay the subsidies in a timely manner have eroded the financial stability of the power sector and discouraged needed investment in new generation capacity.

The 2004 Competition Law defines a series of anticompetitive practices such as collusion to fix prices, limit production, and rig bids. Vertical arrangements, tying (conditioning the sale of one product on the sale of another), and exclusive dealing are also outlawed. Certain abuses of dominant market position are also prohibited, for example, creating barriers to entry by other firms, predatory pricing to drive out competitors, price discrimination and

similar actions when intended to limit competition are illegal. The law created an autonomous Superintendent of Competition responsible for enforcing the law. The Superintendent of Competition's decisions, particularly against gasoline and energy companies, have resulted in a series of lawsuits filed against the El Salvadoran government.

El Salvador is a member of the U.N. Conference on Trade and Development's international network of transparent investment procedures: <http://elsalvador.eregulations.org/>. Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time, and legal bases justifying the procedures.

## **9. Efficient Capital Markets and Portfolio Investment**

The Superintendent of the Financial System supervises individual and consolidated activities of banks and non-bank financial intermediaries, financial conglomerates, stock market participants, insurance companies, and pension fund administrators. Interest rates are determined by market forces and have decreased significantly since dollarization was implemented. Foreign investors may obtain credit in the local financial market under the same conditions as local investors. Accounting systems are generally consistent with international norms.

In February 2013, a new Usury Law entered into force to regulate interest rates on credit cards and loans provided by banking institutions, commercial establishments, stores, credit card issuers, pawnshops, cooperatives, credit unions, and private lenders. According to the legislation, the maximum interest rate for credit cards and loans would be 1.6 times the simple average effective rate established by the Central Bank.

El Salvador's banks are among the largest in Central America and many are owned by foreign financial institutions. The banking system is sound and generally well-managed and supervised. The banking system's total assets as of March 2014 totaled \$14.4 billion.

Under the 1999 Banking Law and amendments made in 2002, foreign banks are afforded national treatment and can offer the same services as Salvadoran banks. The law strengthened supervisory authorities and provided more transparent and secure operations for customers and banks. The law also established an FDIC-like autonomous institution to insure deposits, increased minimum capital reserve requirements, and sharply limited bank lending to shareholders and directors.

The Non-Bank Financial Intermediaries Law regulates the organization, operation, and activities of financial institutions such as cooperative savings associations, nongovernmental organizations, and other microfinance institutions. The Money Laundering Law requires financial institutions to report suspicious transactions to the Attorney General and the Superintendent of the Financial System.

The 1996 Insurance Companies Law regulates the operation of local insurance firms and accords national treatment to foreign insurance firms. Foreign firms, including U.S., Colombian, Canadian, and Spanish companies, have invested in Salvadoran insurers.

The 1994 Securities Market Law established the present framework for the Salvadoran securities exchange, which opened in 1992. The Salvadoran securities exchange has played an important role in past years in the privatization of state enterprises and more recently in

securitizations and facilitating foreign portfolio investment. Stocks, government and private bonds, and other financial instruments are traded on the exchange, which is regulated by the Superintendent of the Financial System.

Foreigners may buy stocks, bonds, and other instruments sold on the exchange and may have their own securities listed, once approved by the Superintendent. Companies interested in listing must first register with the National Registry Center's Registry of Commerce.

Between 2012 and 2013, the exchange averaged daily trading volumes of about \$14.3 million. Government-regulated private pension funds, Salvadoran insurance companies, and local banks are the largest buyers on the Salvadoran securities exchange.

In 2007, the Legislative Assembly approved a Securitization Law. There have been a number of transactions worth between \$10 to 50 million executed under the Securitization Law and there are at least two firms authorized to underwrite securitizations.

## **10. Competition from State-Owned Enterprises**

El Salvador has successfully liberalized many sectors where the government previously exerted monopoly control, effectively limiting most forms of direct competition from state-owned enterprises. While energy distribution was privatized in 1999, the Salvadoran Government maintains significant energy production facilities through state-owned Rio Lempa Executive Hydroelectric Commission (CEL), a significant producer of hydro-electric and geothermal energy.

La Geo, a joint venture between CEL and Italian-owned Enel Green Power, has exclusive geothermal rights in El Salvador. New investment in La Geo has been stunted by lengthy legal disputes between the Salvadoran government and Enel. While international arbitration proceedings have ruled in favor of Enel, the Salvadoran Supreme Court ruled in 2012 that the original geothermal concession to La Geo was unconstitutional. In April 2014, the Salvadoran Attorney General issued an order to freeze \$2 billion worth of assets belonging to the entities and individuals involved in the pending case surrounding La Geo, including Enel.

Alba Petroleos (AP) is a joint-venture between a consortium of mayors from the left-leaning Farabundo Marti National Liberation Front (FMLN) party and a subsidiary of Venezuela's state-owned oil company PDVSA. AP operates dozens of gasoline service stations across the country and has expanded into a number of other industries, including: energy production, food production, medicines, micro-lending, supermarket, bus transportation, and aviation. Because of its official relationship with the ruling FMLN party, critics have charged that AP receives preferential treatment from the government. Critics have also alleged that AP trade practices, including financial reporting, are non-transparent.

## **11. Corporate Social Responsibility**

The private sector in El Salvador, including several prominent U.S. companies, has embraced the concept of corporate social responsibility (CSR). There are a number of local foundations that promote CSR practices, entrepreneurial values, and philanthropic initiatives. El Salvador is also a member of international institutions such as Forum Empresa (an Alliance of CSR institutions in the Western Hemisphere), AccountAbility (UK), and the InterAmerican CSR Network. Businesses have created CSR programs in the workplace that provide education and training, transportation, lunch programs, and childcare. In addition, CSR programs have

provided assistance to surrounding communities in areas such as health, education, senior housing, and HIV/AIDS awareness.

## **12. Political Violence**

El Salvador's 12-year civil war ended in 1992 upon the signing of peace accords. Former guerrilla groups organized themselves into the FMLN party, which has participated in elections since 1994. FMLN candidate Mauricio Funes won the presidential election in March 2009, marking the first transition of power to a left-wing party since the end of the civil war. The FMLN maintained the presidency in March 2014 after a narrow victory for Salvador Sánchez Cerén. In El Salvador, there has been no political violence aimed at foreign investors, their businesses, or their property.

## **13. Corruption**

U.S. individuals and firms operating or investing in El Salvador should take the time to become familiar with the relevant anticorruption laws in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel. U.S. companies operating in El Salvador are subject to the U.S. Foreign Corrupt Practices Act.

Corruption can be a challenge to investment in El Salvador. El Salvador ranks 83 out of 177 countries in Transparency International's Corruption Perceptions 2013 Index. El Salvador has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. Soliciting, offering, or accepting a bribe is a criminal act in El Salvador. The Attorney General has a special office, the Anticorruption and Complex Crimes Unit, which handles cases involving corruption by public officials and administrators. The Constitution also established the Court of Accounts that is charged with investigating public officials and entities and, when necessary, passing such cases to the Attorney General for prosecution. In 2005, the government issued a code of ethics for the executive-branch employees, including administrative enforcement mechanisms, and it established an Ethics Tribunal in 2006.

The Legislative Assembly approved a new Transparency Law in 2011 in an effort to combat corruption and increase government accountability. In February 2013, President Funes appointed members to the Access to Information Institute as mandated by the law. The Institute's effectiveness, however, has not been demonstrated.

There have been some recent corruption scandals at the federal, legislative, and municipal levels. There have also been credible complaints of judicial corruption. El Salvador has an active, free press that reports on corruption.

El Salvador is not a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. El Salvador is a signatory to the UN Anticorruption Convention and the Organization of American States' Inter-American Convention Against Corruption.

## **14. Bilateral Investment Agreements**

CAFTA-DR, the free trade agreement among Central American countries, the Dominican Republic, and the United States entered into force for the United States and El Salvador on March 1, 2006. CAFTA-DR's investment chapter provides protection to most categories of investment, including enterprises, debt, concessions, contract, and intellectual property. Under the agreement, U.S. investors enjoy, in almost all circumstances, the right to establish,

acquire, and operate investments in El Salvador on an equal footing with local investors. Among the rights afforded to U.S. investors are due process protection and the right to receive a fair market value for property in the event of an expropriation. Investor rights are protected under CAFTA-DR by an effective, impartial procedure for dispute settlement that is fully transparent and open to the public.

In 2010, a new alcohol tax entered into force in El Salvador. U.S. industry has voiced concerns that the new tax discriminates against imported alcohol, in violation of El Salvador's CAFTA-DR and WTO obligations. The El Salvadoran government has not officially confirmed its position on whether the CAFTA-DR is a multilateral agreement versus a bilateral agreement with the United States. U.S. firms have raised concerns that El Salvador may not be adhering to its CAFTA-DR obligations regarding import treatment of goods from free trade zones in other Central American countries which appear to meet CAFTA-DR rules of origin requirements. In addition, the USG has raised CAFTA-DR procurement obligation concerns with respect to the Salvadoran government's corn and bean seed distribution program.

El Salvador also has free trade agreements with Mexico, Chile, Panama, Colombia, and Taiwan. All have entered into force with the exception of the FTA with Colombia which is expected to be activated soon. El Salvador, jointly with Costa Rica, Guatemala, Honduras, Nicaragua, and Panama, signed an Association Agreement with the European Union that includes the establishment of a Free Trade Area. The agreement includes a provision for Central American countries and Panama to get access to a wider range of EU development aid. The agreement was ratified on December 11, 2012 by the European Parliament and entered into force with El Salvador in August 2013. The five Central American Common Market countries, which include El Salvador, have an investment treaty among themselves.

The free trade agreements that El Salvador has with Mexico, Chile, and Panama include investment provisions. El Salvador is also negotiating trade agreements with Canada, Peru, and Belize that will contain investment provisions. The Salvadoran government signed a Partial Scope Agreement (PSA) with Cuba in 2011 and is negotiating another with Ecuador.

## **15. OPIC and Other Investment Insurance Programs**

The Overseas Private Investment Corporation (OPIC) insures against currency inconvertibility, expropriation, and civil strife and can provide corporate project financing and special financing to small business. OPIC has a bilateral agreement with El Salvador that requires the Salvadoran government to approve all insurance applications. A new agreement is being negotiated that will eliminate this requirement. In 2006, OPIC signed an agreement with the El Salvador's National Investment and Exports Promotion Agency (PROESA) to improve outreach to U.S. small business investors in El Salvador. Because El Salvador uses the U.S. dollar, full inconvertibility insurance may be unnecessary, but investors do insure against inability to transfer funds. El Salvador is a member of the Multilateral Investment Guarantee Agency (MIGA).

## **16. Labor**

In 2012, El Salvador had a labor force of approximately 2.6 million. While Salvadoran labor is regarded as hard working, general education and professional skill levels are low. According to many large employers, there is also a lack of middle management-level talent, which sometimes results in the necessity to transplant additional managers from abroad. Employers do not report labor-related difficulties in incorporating technology into their workplaces.

The constitution guarantees the right of employees in the private sector to organize into associations and unions. Employers are free to hire union or non-union labor. Closed shops are illegal. Labor law is generally in accordance with internationally recognized standards, but is not enforced consistently by government authorities. In 2011, several businesses expressed concerns about the government's application of labor laws, alleging a disregard of established legal procedures.

### 17. Foreign Trade Zones/Free Ports

As of April 2014, there were 16 free trade zones operating in El Salvador. They host more than 200 companies operating in areas such as textiles, distribution, call centers, business process outsourcing, agribusiness, agriculture, electronics, and metallurgy. Owned primarily by Salvadoran, U.S., Taiwanese, and Korean investors, the firms employ a labor force of approximately 71,500. The section above on Performance Requirements and Incentives outlines the benefits available to investors in these zones.

### 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

**TABLE 3: Key Macroeconomic Data, U.S. FDI in El Salvador**

Economic Data	Year	Amount	Year	Amount	Source of data
<b>GDP</b>	Central Bank of El Salvador		International Monetary Fund		
El Salvador Gross Domestic Product (GDP) (Millions U.S. Dollars)	2013	24,259	2013	24,512	<a href="http://www.bcr.gob.sv/bcrsite/?cdr=23&amp;lang=es">http://www.bcr.gob.sv/bcrsite/?cdr=23&amp;lang=es</a>
	2012	23,814	2012	23,864	<a href="http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/weorept.aspx?sy=2009&amp;ey=2013&amp;scsm=1&amp;ssd=1&amp;sort=country&amp;ds=.&amp;br=1&amp;pr1.x=52&amp;pr1.y=7&amp;c=253&amp;s=NGDP&amp;grp=0&amp;a=">http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/weorept.aspx?sy=2009&amp;ey=2013&amp;scsm=1&amp;ssd=1&amp;sort=country&amp;ds=.&amp;br=1&amp;pr1.x=52&amp;pr1.y=7&amp;c=253&amp;s=NGDP&amp;grp=0&amp;a=</a>
<b>Foreign Direct Investment (Stock)</b>	Central Bank of El Salvador		U.S. Bureau of Economic Analysis (BEA)		
U.S. FDI in El	2013	2,344	2013	pending	<a href="http://www.bcr.gob.sv/bcrsite/?cdr=125&amp;lang=es">http://www.bcr.gob.sv/bcrsite/?cdr=125&amp;lang=es</a>



Salvador (Millions U.S. Dollars, stock positions)	2012	2,385	2012	release 2,697	<a href="http://www.bea.gov/international/di1usdbal.htm">http://www.bea.gov/international/di1usdbal.htm</a>
U.S. Inbound FDI Stock as % GDP	2013 2012	9.7 10	2013 2012	n/a 11.3	See above.
<b>Foreign Direct Investment (Inflows)</b>		Central Bank of El Salvador		United Nations Economic Commission for Latin America and the Caribbean (ECLAC)	
Total FDI inflows to El Salvador (Millions U.S. Dollars)	2013 2012	140.1 481.9	2013 2012	137.2 483.6	<a href="http://www.bcr.gob.sv/bcrsite/?cdr=131&amp;lang=es">http://www.bcr.gob.sv/bcrsite/?cdr=131&amp;lang=es</a> <a href="http://interwp.cepal.org/sisgen/ConsultaIntegrada.asp?idindicador=1824&amp;idioma=i">http://interwp.cepal.org/sisgen/ConsultaIntegrada.asp?idindicador=1824&amp;idioma=i</a>
Total FDI inflows as % GDP	2013 2012	0.6 2.0	2013 2012	0.6 2.0	See above.

**TABLE 4: Sources and Destination of FDI (stock)**

2012 Direct Investment from/in Counterpart Economy Data (Stocks)

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	8,635	100%	Total Outward	6	100%
United States	2,798	32%	Nicaragua	5	88%
Panama	2,465	29%	Guatemala	0	7%
Mexico	820	9%	Costa Rica	0	3%
Virgin Islands, British	493	6%	Honduras	0	2%
Spain	280	3%	United States	0	-1%
"0" reflects amounts rounded to +/- USD 500,000.					

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

civil law system with minor common law influence; judicial review of legislative acts in the Supreme Court

### International organization participation:

BCIE, CACM, CD, CELAC, FAO, G-11, G-77, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, ITUC (NGOs), LAES, LAIA (observer), MIGA, MINURSO, NAM (observer), OAS, OPANAL, OPCW, PCA, SICA, UN, UNCTAD, UNESCO, UNIDO, UNIFIL, Union Latina, UNMIL, UNMISS, UNOCI, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

## Section 6 - Tax

### Exchange control

There are no exchange controls in El Salvador.

### Treaty and non-treaty withholding tax rates

El Salvador has a Free Commerce Treaty with the USA, Chile, Mexico and the Dominican Republic.

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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