El Salvador

RISK & COMPLIANCE REPORT

DATE: December 2018

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Executive Summary - El Salvador	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Suspended from the Egmont Group US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions International Narcotics Control Majors List
Medium Risk Areas:	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)

Major Investment Areas:

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)

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.

Contents

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's main money laundering vulnerability is the lack of an independent FIU, which is currently barred from sharing information with the United States, and an investigation process that prevents other bodies from accessing financial intelligence. Additionally, the lack of supervision of DNFBPs leaves this sector vulnerable to abuse.

Current capacity-building efforts are improving El Salvador's ability to investigate and prosecute more complex money laundering; however, the legislature recently attempted to weaken the asset forfeiture law in ways that would benefit corrupt officials.

VULNERABILITIES AND EXPECTED TYPOLOGIES

El Salvador is geographically vulnerable to the transit of South American cocaine destined for the United States. This, and the existence of some close business and political relationships with Venezuela, make its financial institutions vulnerable to money laundering activities.

The U.S. dollar is the official currency in El Salvador, and the country's dollarized economy and geographic location make it a potential 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 activity.

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

Several trade-based and black market currency schemes have been identified in El Salvador as a result of lax border/customs security.

Organized crime groups launder money through the use of front companies, 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 transferred in a specific pattern to avoid detection. Many of these funds come from narcotics activities in Guatemala

As of December 2017, there were 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 Superintendent of the Financial System (SSF) supervises only those accountants and auditors with a relationship with a bank or bank holding company. Following a 2015 reform and its implementation on January 4, 2016, the SSF now supervises all MSBs, including those not related to a bank or a bank holding company.

On July 18, 2017, the legislature amended the asset forfeiture law to provide substantial protections to public officials. The Supreme Court temporarily enjoined these changes pending a final decision that is expected by mid-2018.

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

AML DEFICIENCIES

The regulatory institutions charged with AML supervision are weak and lack human resources and sufficient regulatory powers. Independent entities are not subject to any supervision, nor are other DNFBPs. The FIU lacks administrative power to enforce compliance with suspicious activity reporting requirements.

Information sharing between El Salvador and FinCEN, the U.S. FIU, was frozen in 2013, following an unauthorized disclosure of information by El Salvador's FIU. Politicization of the FIU was addressed following a change in administration at the Attorney General's office, but the FIU remains barred from accessing FinCEN, impeding the FIU's ability to investigate transactions with a U.S. nexus.

El Salvador maintains limited membership in the Egmont Group, 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 legislation to improve regulation of DNFBPs to better comply with CFATF commitments.

According to the Attorney General's office, authorities seized assets worth over U.S. $17 million in 2017, while the specialized court finalized the forfeiture of more than U.S. $3 million, including 129 vehicles and 70 real estate properties. The asset forfeiture legislation allows the government to sell property seized in criminal investigations and redirect up to 35 percent of the revenue to the Attorney General's Office for anti-organized crime efforts.

The FIU brought money laundering charges against Jose Adan Salazar Umaña (also known as Chepe Diablo), seizing a major grain company, seven hotels, seven gas stations, and 13 residences tied to a U.S. $215 million money laundering scheme.

El Salvador's major money laundering convictions to date relate to bulk cash smuggling and isolated transactions. The Attorney General's office recently lost a money laundering case where three individuals had approximately U.S. $20 million in suspicious transactions.

Egmont Group

The Heads of FIU also decided to suspend UIF El Salvador due to a continuous lack of compliance with Egmont Group principles relating to operational independence and autonomy. UIF El Salvador is now excluded from all Egmont Group events and activities.

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 2016 (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; LGBTI persons, especially transgender individuals, are at particular risk. Salvadoran adults and children are subjected to forced begging and forced labor in agriculture, domestic service, and the textile industry. Some men, women, and children from neighboring countries—particularly Nicaragua, Guatemala, and Honduras—are subjected to sex trafficking, domestic servitude, or forced labor in construction or the informal sector. Traffickers use employment agencies and social media to lure victims with promises of lucrative employment; one organization noted traffickers are increasingly targeting regions of the country with high levels of violence and coercing victims and their families through threats of violence. Gangs subject children to forced labor in illicit activities, including selling or transporting drugs. Salvadoran men, women, and children are subjected to sex trafficking and forced labor in Guatemala, Mexico, Belize, and the United States. Media and government officials report organized criminal groups, including transnational criminal organizations, are involved in trafficking crimes. Some Salvadorans who irregularly migrate to the United States are subjected to forced labor, forced criminal activity, or sex trafficking en route to or upon arrival in the country. Some Latin American migrants transit El Salvador to Guatemala and North America, where they are exploited in sex or labor trafficking. Corruption, particularly within the judiciary, remained a significant obstacle to law enforcement efforts. In 2014, media reported several public officials—including legislators, political party officials, and a mayor—purchased commercial sex acts from trafficking victims. Prison guards and justice officials have been investigated for trafficking-related complicity.

The Government of El Salvador does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government continued to investigate and prosecute child sex trafficking crimes and provide services to some girl victims; however, it identified fewer victims, and services for adults, boys, and LGBTI victims were severely lacking. The government drafted a new national action plan to guide its anti-trafficking efforts from 2016-2019 and allocated $24,700 to its interagency anti-trafficking council. It developed an immediate response team to coordinate victim assistance and referral and formulated a protocol on the care of trafficking victims. The government did not investigate, and has never prosecuted, any labor trafficking cases. The government did not investigate public officials suspected of trafficking-related complicity or initiate prosecutions following investigations in previous years, undermining overall efforts to combat trafficking.

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	33
World Governance Indicator – Control of Corruption	33

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 2014, but recovered somewhat in 2015. Remittances accounted for 17% of GDP in 2014 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, which has bolstered the export of processed foods, sugar, and ethanol, and supported investment in the apparel sector amid increased Asian competition. In September 2015, El Salvador kicked off a five-year $277 million second compact with the Millennium Challenge Corporation - a US Government agency aimed at stimulating economic growth and reducing poverty - to improve El Salvador's competitiveness and productivity in international markets..

The Salvadoran Government maintained fiscal discipline during post-war reconstruction and rebuilding following earthquakes in 2001 and hurricanes in 1998 and 2005, but El Salvador's public debt, estimated at 65% of GDP in 2015, has been growing over the last several years. Total external debt was nearly 60% of GDP in 2015.

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 47.1%, Honduras 13.9%, Guatemala 13.6%, Nicaragua 6.6%, Costa Rica 4.5% (2015)

Imports - commodities:

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

Imports - partners:

US 39.4%, Guatemala 9.6%, China 8.1%, Mexico 7.4%, Honduras 5.7% (2015)

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.

Section 4 - Investment Climate

Executive Summary

El Salvador is located on the Pacific Coast of Central America. The government of El Salvador (GoES) is eager to attract greater foreign investment and is taking steps to improve its investment climate. In recent years, El Salvador has lagged behind the region in attracting foreign direct investment (FDI). The Salvadoran Central Reserve Bank ("Central Bank") estimated FDI inflows of $428.7 million in 2015, significantly less compared to the almost $1 billion average to other countries in the region. 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 2015 marked the fourth anniversary of the PFG implementation, which has included measures 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/.

On September 9, 2015, El Salvador's second Millennium Challenge Corporation (MCC) Compact entered into force. With its "More Investment, Less Poverty" theme, the $277 million Compact (plus $88.2 million from El Salvador in counterpart funding) includes projects to improve the investment climate ($42.4 million from MCC, $50 million from El Salvador), logistical infrastructure ($109.6 million from MCC, $15.7 million from El Salvador), and human capital ($100.7 million from MCC, $15 million from El Salvador) over the next five years. Compact projects will follow MCCs guidelines and policies, including those that emphasize the environment, social inclusion and dialogue, gender, fiscal accountability, transparency, and citizen participation

For Fiscal Year 2016, the U.S. Congress has made available up to $750 million for the United States to implement its Strategy for Engagement in Central America in support of the Northern Triangle Countries' Alliance for Prosperity Plan, and other regional priorities. The goal of the Alliance for Prosperity is an economically-integrated Central America that is more democratic, provides greater economic opportunities to its people and effective public institutions, ensuring the security of its citizens. The success of the Alliance for prosperity will depend greatly on the political will of the Central American governments.

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. 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, Belize, and South Korea.

The GoES continues to take measures to improve the business climate. In January 2015, in its five-year planning document (Plan Quinquenal), the government identified 44 geographic areas for prioritized economic development efforts. During the course of the year, the Legislative Assembly passed relevant legislation, e.g., better regulation and oversight of remittances, strengthening penalties against bulk cash smuggling, and increasing financial inclusion by improving access to financial services and "e-money" for individuals and small/medium enterprises. The Assembly also approved an electronic signature law and reformed the country's fiscal incentive law in order to promote increased investment in renewable energy. The Ministry of Economy took steps to facilitate access to and improve both its physical and online "one-stop window" for investors that facilitate the processing and approval of required permits necessary to set up new businesses. New taxes on telecommunications transactions and income over $500,000, however, have been identified as barriers to new investment by the private sector.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	72 of 168	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2016	86 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	99 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2014/2015	$2.81 billion (2014)/$2,64 billion (2015)	BEA/http://www.bcr.gob.sv/bcrsite/?cdr=139&lang=es
World Bank GNI per capita	2014	$3,920	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

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 per capita gross national income (GNI) of $4,125 or less. A list of countries/economies 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/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The GoES recognizes that attracting foreign direct investment (FDI) is crucial to improving the economy. Over the past two years it has passed investment promotion legislation. However, FDI levels are still paltry and lag far behind regional neighbors. The Central Bank reported FDI inflows at $428.75 million in 2015. Meanwhile, in 2014 El Salvador's regional neighbors attracted, on average, $1.1 billion per country.

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 November 2014, Presidents Salvador Sanchez Ceren of El Salvador, Otto Perez Molina of Guatemala and Juan Orlando Hernandez of Honduras presented a plan to promote economic, social and institutional development in their countries, the Alliance for Prosperity in the Northern Triangle. The plan involves joint efforts to promote economic integration in the Northern Triangle of Central America; to invest in human capital; to provide greater opportunities to all citizens; to ensure more accountable, transparent, and effective public institutions; and to guarantee a safe and secure environment for their people, with a particular focus on the underlying conditions driving migration to the United States. The three Northern Triangle countries allocated over $2.6 billion from their national budgets to support the Alliance for Prosperity in 2016.

For Fiscal Year 2016, the U.S. Congress has made available up to $750 million for the United States to implement its Strategy for Engagement in Central America in support of the Alliance for Prosperity, and other regional priorities. This figure more than doubles U.S. assistance to Central America and represents a thirty-four percent increase over the $560 million allocated to the region in Fiscal Year 2015. Under the $750 million approved by the U.S. Congress, the Administration is able to provide the region up to $299 million in Development Assistance, $222 million in International Narcotics Control and Law Enforcement funding towards the Central America Regional Security Initiative (CARSI), $184 million in Economic Support Funds for CARSI and regional prosperity, economic opportunity, and governance programs, $26 million in Foreign Military Financing, and $4 million in International Military Education and Training, in addition to funds for global health, demining, and other programs, including the Overseas Private Investment Corporation.

Under the Alliance for Prosperity, GoES achievements include:

- The creation of a National Council for Public Safety, bringing together diverse sectors of society and generating an integrated approach to addressing crime and violence prevention called "Plan El Salvador Seguro" (El Salvador's Security Plan).

- A renewed focus on fighting extortions through the establishment of a new Business Crimes Task Force, where police and prosecutors work with business owners to prosecute extortions, leading to a 93 percent conviction rate. Overall, Salvadoran prosecutors obtained a total of 1,034 convictions for extortion-related charges in 2015.

- The government launched a "Youth Employment and Employability Program," focused on programs for health, education, and job market opportunities for young people.

- The government demonstrated its commitment to strong institutions by working with the Legislative Assembly on important actions, such as the consensus election of an Attorney General committed to combating corruption.

Other Investment Policy Reviews

El Salvador has been a World Trade Organization (WTO) member since 1995. The latest trade policy review performed by the WTO was published in March 2010 (document: WT/TPR/S/226/Rev.1). On February 4, 2016, the Legislative Assembly approved the ratification of the WTO Trade Facilitation Agreement.

https://docsonline.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=103057,87169,1750,40298&CurrentCatalogueIdIndex=0&FullTextHash=

The latest investment policy review performed by the United Nations Conference on Trade and Development (UNCTAD) was published in 2010: http://unctad.org/en/Docs/diaepcb200920_en.pdf

Laws/Regulations on Foreign Direct Investment

El Salvador has various laws that promote and protect investments, as well as providing benefits to local and foreign investors. These include: the Investments Law, the International Services Law; the Free Trade Zones Law; the Tourism Law, the Renewable Energy Incentives Law; the Law on Public Private Partnerships; the Special Law for Streamlining Procedures for the Promotion of Construction Projects; and, the Legal Stability Law for Investments. Recent legislation designed to attract more investment includes the Electronic Signature Law, the Financial Inclusion Law and tax incentives for renewable energy projects. In September 2014, the Legislature approved reforms to address shortcomings in the country's Public-Private Partnership (PPP) Law. The law and associated reforms were designed to provide a legal framework for the development of PPP projects and stimulate investment. To date, although some are being evaluated under the auspices of MCC, no large-scale PPP projects have come to fruition.

The 1999 Investments Law grants equal treatment to foreign and domestic investors. With the exception of limitations imposed on micro businesses, which are defined as having 10 or fewer employees and yearly sales of $121,319.40 or less, foreign investors may freely establish any type of domestic businesses. Investors who begin operations with 10 or fewer employees must present plans to increase employment to the Ministry of Economy's National Investment Office. The Investment Law provides that any mined resource is the exclusive property of the state. The government may, however, grant private concessions for resource extraction, but there have been no new permits issued in recent years.

Per the Salvadoran constitution, there are no special restrictions on ownership of rural land by citizens of other countries, unless Salvadoran citizens are restricted in their rural land ownership in those countries. If rural land will be used for industrial purposes, the reciprocity requirement is lifted.

Business Registration

Per the World Bank, eight steps taking an average of 16.5 days are necessary to register a new business in El Salvador.

In November 2015, the GoES inaugurated the Business Services Office (Oficina de Atención Empresarial) to cater to entrepreneurs and investors. The new office has two important components: "Growing Your Business" (Crecemos Tu Empresa) and the National Investment Office (Dirección Nacional de Inversiones, DNI). "Growing Your Businesses" provides business and investment advice, especially for micro-, small- and medium-sized enterprises. The DNI administers investment incentives and facilitates business registration registration.

Contact information:

Business Services Office
Telephone: (503) 2590-9000
Address: 3 calle Poniente, entre la 71 y 73 avenida Norte, N.° 3729, edificio Bel Air, colonia Escalón, San Salvador. Schedule: Monday-Friday, 7:30 a.m. - 3:30 p.m.
Crecemos Tu Empresa
E-mail: crecemostuempresa@ minec.gob.sv
Website: www.minec.gob.sv/crecemostuempresa

The National Investment Office:

Luisa Valiente, National Director of Investments, lvaliente@minec.gob.sv;
Roberto Salguero, Deputy Director of Administration, rsalguero@minec.gob.sv
Special Investments; Christel Schulz, Business Climate Deputy, cdearce@minec.gob.sv
Monica Aguirre, Deputy Director of Investment Facilitation, maguirre@minec.gob.sv.
Telephone: (503) 2590-5806.

Miempresa is the Ministry of Economy's website for new businesses in El Salvador. At Miempresa, investors can register new companies with the Ministry of Labor, Social Security Institute, pension fund administrators, and certain municipalities; request a tax identification number/card; and perform certain administrative functions.

Website: https://www.miempresa.gob.sv/

The country's eRegulations site provides information on procedures, costs, entities, and regulations involved in setting up a new business in El Salvador.

Website: http://elsalvador.eregulations.org/

The Exports and Investment Promoting Agency of El Salvador (PROESA) was created to attract domestic and foreign private investment, promote exports of goods and services produced in the country, evaluate and monitor the business climate and drive investment and export policies. PROESA provides direct technical assistance to all investors, regardless of size of investment or number of employees, interested in starting up operations in El Salvador.

Website: http://www.proesa.gob.sv/

The National Commission for Micro and Small Businesses (CONAMYPE) supports micro and small businesses by providing training, technical assistance, financing, venture capital, and loan guarantee programs. CONAMYPE also provides assistance on market access and export promotion, marketing, business registration, and the promotion of business ventures led by women and youth.

The Micro and Small Businesses Promotion Law defines a microenterprise as a natural or legal person with annual gross sales up to 482 minimum monthly wages, equivalent to $121,319.40 and up to ten workers. A small business is defined as a natural or legal person with annual gross sales between 482 minimum monthly wages ($121,319.40) and 4,817 minimum monthly wages ($1,212,438.90) and up to 50 employees. To facilitate credit to small businesses, Salvadoran law allows for inventories, receivables, intellectual property rights, consumables, or any good with economic value to be used as collateral for loans.

Website: https://www.conamype.gob.sv/

Industrial Promotion

The Exports and Investment Promoting Agency of El Salvador (PROESA) promotes investment in the following nine sectors: Specialized Textiles and Apparel; Offshore Business Services; Tourism; Aeronautics; Agro-Industry; Medical Devices; Footwear Manufacturing; Logistic and Infrastructural Networks; and Healthcare Services.

Website: http://www.proesa.gob.sv/investment/sector-opportunities

The Directorate for Coordination of Productive Policies at the Ministry of Economy focuses on five areas: Productive Development, Capacity Building, Trade Facilitation, Taxation, and Export Promotion.

Website: http://www.minec.gob.sv/fomento/

The Productive Development Fund (FONDEPRO) provides grants to small enterprises to strengthen competitiveness.

Website: http://www.fondepro.gob.sv/

Limits on Foreign Control and Right to Private Ownership and Establishment

No single natural or legal person – whether national or foreign – can own more than 245 hectares (605 acres) of land. Per the Salvadoran Constitution, there is no restriction on the ownership of rural land by foreigners in El Salvador, unless Salvadoran nationals face restrictions in the corresponding country. If, however, the rural land will be used for industrial purposes, the reciprocity requirement does not apply. Foreign citizens and private companies can freely establish businesses in El Salvador, with some extra requirements for small business start-ups. Foreigners may engage in commercial fishing anywhere in Salvadoran waters provided they obtain a license from Center for the Development of Fishing and Aquaculture (CENDEPESCA), a government entity.

Privatization Program

Several decades ago, the government privatized the banking system, telecommunications, part of the electricity sector, and pensions. No further privatizations are anticipated at this time.

Screening of FDI

Foreign direct investments are not screened by the government.

Competition Law

The Competition Law entered into force in 2006 and established the Office of the Superintendent of Competition. According to the Organization for Economic Co-operation and Development (OECD) and the Inter-American Development Bank (IDB), the Office of the Superintendent of Competition employs enforcement standards that are consistent with global best practices and has appropriate authority to enforce the law effectively. Appeals of decisions made by the Office of the Superintendent of Competition are made directly to the country´s highest court, the Supreme Court.

Website: http://www.sc.gob.sv/appsc/home/

2. Conversion and Transfer Policies

Foreign Exchange

There are no restrictions on transferring investment-related funds 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 that is considered a tax haven or has low or no taxes, will be subject to a tax of twenty-five percent.

The Monetary Integration Law dollarized El Salvador in 2001, and the U.S. dollar accounts for nearly all currency in circulation and can be used in all transactions. 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 $4.3 billion in 2015.

Remittance Policies

There are no restrictions placed on investment remittances. The Caribbean Financial Action Task Force report on monitoring remittances, www.cfatf-gafic.org/index.php/member-countries/d-m/el-salvador, was generally positive and noted that El Salvador has strengthened its remittances regimen, prohibiting anonymous accounts and limiting suspicious transactions. On July 23, 2015, the Legislature approved reforms to the Law of Supervision and Regulation of the Financial System so that any entity sending or receiving systematic or substantial amounts of money by any means, at the national and international level, falls under the jurisdiction of the Superintendence of the Financial System.

3. Expropriation and Compensation

The 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. In 1980, private banks were nationalized, but were subsequently returned to private ownership.

A 2003 amendment to the Electricity Law requires energy generating companies to obtain government approval before removing fixed capital from the country, which is intended to prevent energy supply disruptions.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Foreign investors may seek redress for commercial disputes through local domestic courts but some investors have found the slow-moving legal system to be costly and unproductive. The handling of some cases has demonstrated that the legal system may be subject to manipulation by diverse interests, and final judgments are at time difficult to enforce. The Embassy recommends that any person thinking of investing in El Salvador carry out proper due diligence by hiring competent local legal counsel. In recent years, there have been several U.S. firms tied up in litigation associated with their investments. 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 its corresponding Commercial Code of Procedures. There is a specialized commercial court that resolves these disputes. All documents and payments can be submitted electronically to the Commerce Registry.

Bankruptcy

The Commercial Code, the Commercial Code of Procedures, and the Banking Law all contain sections that deal with the process for declaring bankruptcy. However there is no separate bankruptcy law or court. According to data collected by the World Bank's Doing Business, report, resolving insolvency in El Salvador takes 3.5 years on average and costs 12 percent of the debtor's estate, with the most likely outcome being that the company will be sold piecemeal. The average recovery rate is 33.2 cents per U.S. dollar. El Salvador scores 2 out of 3 points on the commencement of proceedings index, 4 out of 6 points on the management of debtor's assets index, 0 out of 3 points on the reorganization proceedings index, and 3 out of 4 points on the creditor participation index. El Salvador's total score on the strength of insolvency framework index is 9 out of 16. Globally, El Salvador ranks 79 out of 189 on Ease of Resolving Insolvency.

Website:
http://www.doingbusiness.org/data/exploreeconomies/~/media/giawb/doing%20business/documents/profiles/country/SLV.pdf?ver=3

Investment Disputes

An investment dispute between the GoES and a multinational mining company remains pending before the World Bank's International Centre for Settlement of Investment Disputes (ICSID). In 2009, Pacific Rim, a Canadian mining company with a small U.S. subsidiary, filed an international arbitration proceeding against the GoES alleging various violations of the obligations in Chapter Ten of the CAFTA-DR. Pacific Rim's lawsuit claimed El Salvador had unfairly denied its mining permit after it had already begun an exploration process for gold mining, costing it millions of dollars in potential profits. The GoES claimed the company had failed to deliver the required environmental tests and administrative steps of land acquisition to continue. Australian mining concern OceanaGold purchased a controlling stake in Pacific Rim in 2012, and continued the ICSID arbitration. In June 2012, the ICSID determined that the

U.S. subsidiary lacked sufficient business activities in the United States to qualify for the guarantees under CAFTA-DR. However, the tribunal determined it had jurisdiction to proceed on an evaluation of the merits of the OceanaGold's claims under Salvadoran investment law. The case is still pending a decision from ICSID.

Another investment dispute within the past several years involved La Geo, a geothermal company, previously a joint venture between Italian concern Enel Green Power and the GoES. New investment in La Geo had been stunted by lengthy legal disputes between the GoES and Enel. While international arbitration proceedings had ruled in favor of Enel, the Salvadoran Supreme Court ruled in 2012 that the original geothermal concession to La Geo was unconstitutional. In November 2013, the Attorney General's office filed criminal charges against EGP and the former GOES officials alleging corruption and fraud. As part of the 2014 settlement agreement GOES agreed to indemnify Enel and drop the criminal case against the parties involved in signing the original partnership agreement.

International Arbitration

Amended Article 15 of the 1999 Investment Law limits a foreign investor's access to international dispute resolution and may obligate them to use national courts, if the foreigner comes from a country without a pre-existing trade agreement with El Salvador. The rights of investors from CAFTA-DR countries are protected under the trade agreement's dispute settlement procedures. Submissions to national dispute panels and panel hearings are open to the public, and interested third parties have the opportunity to be heard. 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.

El Salvador approved the Mediation, Conciliation and Arbitration Law in 2002. However, 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. According to the Law, arbitration is performed at the Arbitration and Mediation Center which is organized as a branch of the Chamber of Commerce and Industry of El Salvador.

Website: http://www.mediacionyarbitraje.com.sv/

ICSID Convention and New York Convention

El Salvador ratified is a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention). ICSID is included in a number of El Salvador's investment treaties as the forum available to foreign investors. Within the domestic legal framework it is also mentioned in the Investment Law, with the limitations mentioned above regarding the change to the Arbitration Law in 2009.

El Salvador is a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) and the Inter-American Convention on International Commercial Arbitration (The Panama Convention).

Duration of Dispute Resolution – Local Courts

Local investment and commercial dispute resolution proceedings in El Salvador routinely last many years. The Salvadoran Foundation for Economic and Social Development (FUSADES), an internationally-recognized think tank and research entity, characterizes domestic courts as being unwilling to enforce arbitration awards and instead opting to politicize conflicts between the government and the investors.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The February 2013 reforms to the country's 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. 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.

Investment Incentives

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

The 1998 law established rules for export processing zones and bonded areas. The foreign trade 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 foreign trade zone to produce goods or services for export or to provide services linked to international trade. The regulations for the bonded areas are similar.

Qualifying firms located in the foreign trade 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 foreign trade 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 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 regulations also included 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 Import and Export Center (Centro de Trámites de Importaciones y Exportaciones - CIEX El Salvador). More information about the procedures can be found at: http://www.ciexelsalvador.gob.sv/registroSIMP/

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 are 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, i.e., 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.

The Tourism Law establishes fiscal incentives for those who invest a minimum of $25,000 in tourism-related projects in El Salvador, including: value-added tax exemption for the acquisition of real state; import tariffs waiver for construction materials, goods, equipment (subject to limitation); and, a ten-year income tax waiver. 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 its profits during the exemption period to a government-administered Tourism Promotion Fund.

The Renewable Energy Incentives Law promotes investment projects that use of renewable energy sources. On October 15, 2015, the Legislative Assembly approved amendments to the Law in order to encourage the use of renewable energy sources and reduce dependence on environmentally-unfriendly fossil fuels. These reforms extended the benefits and tax for new investments in projects to install power generation plants and for projects expansion, using renewable energy sources, such as hydro, geothermal, wind, solar, marine, biogas and biomass.

The incentives include full exemption, during the first 10 years, from customs duties on the importation of machinery, equipment, materials, and supplies used for the construction and expansion of substations, transmission or sub-transmission lines. Revenues directly derived from power generation based on renewable sources enjoy full exemption from income tax for a period of five years in case of projects above 10 MW and 10 years for projects below 10 MW. The Law also provides an exemption from payment of any type of income tax derived directly from the sale of certified emission reductions (CERs) under the Mechanism for Clean Development of the Kyoto Protocol, or carbon markets (CDM).

Research and Development

The Government does not finance or subsidize research and development programs.

Performance Requirements

Investors 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 totaling more than $1 million have the right to obtain an Investor's Residency status, which allows them to work and remain in the country. This type of residency may be requested within 30 days after the investment has been registered. The residency status covers the investor and their family, and is issued for a period of one year, but may be extended annually.

It is customary for companies to employ local lawyers to manage the process of obtaining residency. The American Chamber of Commerce in El Salvador can also provide information regarding the process. Website: http://www.amchamsal.com/?lang=en

Current labor laws require that 90 percent of the workforce in plants and in clerical positions be comprised of Salvadoran citizens. These restrictions regarding nationality and percentages are more lax for professional and technical jobs.

U.S. companies have complained of indiscriminate 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 also unclear. Failures in Salvadoran custom's computer systems in February and March 2016 led to significant delays and traffic back-ups at border points with Guatemala and Honduras.

The International Services Law establishes benefits for businesses that invest at least $150,000 during the first year of operations, including working capital and fixed assets, hire no fewer than 10 permanent employees, and 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. Hospitals or clinics must be located outside of major metropolitan areas, and medical service must also be provided only to patients with insurance.

Data Storage

El Salvador's Investment Law does not require investors to incorporate a specific percentage of local content, to turn over source code or provide access to surveillance, or to fulfill other performance criteria.

6. Protection of Property Rights

Real Property

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 hire competent local legal counsel to advise them on the property's title prior to purchase.

No single natural or legal person--whether national or foreign--can own more than 245 hectares (605 acres) of land. Per the State's Constitution, a principle of reciprocity is applied regarding the ownership of rural land, i.e., there are no restrictions on the ownership of rural land by foreigners in El Salvador, unless this restriction is applied to Salvadoran nationals in the corresponding states. If the rural land will be used for industrial purposes, however, the reciprocity requirement is lifted.

Real property can be transferred without government authorization. For title transfer to be valid vis-à-vis third parties, however, it needs to be properly registered. Real estate lease law tends to heavily protect the interests of tenants, e.g., the law allows tenants to remain on property after their lease expires, provided they continue to pay rent. Likewise, the law limits the amount of rent that can be charged and makes eviction processes extremely difficult.

Squatters occupying private property in good faith can eventually acquire title. If the owner of the property is unknown, squatters can acquire title after 20 years of good faith possession through a judicial procedure; if the owner is known, squatters can acquire title after 30 years.

Squatters may never acquire title to public land, although municipalities often grant the right of use to the squatter.

Zoning is regulated by municipal rules. Municipalities have broad power regarding the use of property within their jurisdiction. Zoning maps, if they exist, are generally not available to the public.

The ineffectiveness of the judicial system discourages investments in real estate and makes execution of real estate guarantees difficult. The real property lease law provides extensive protection to tenants, but landowners' interests often go unprotected. Securitization of real estate guarantees or titles is legally permissible but does not occur frequently in practice.

In April 2012, the Legislative Assembly passed a constitutional reform recognizing the existence and the rights of indigenous peoples. However, there are no provisions for traditional use of lands or for indigenous peoples to share in revenue from exploitation of natural resources, as the government does not specifically demarcate any lands as belonging to indigenous communities.

According to the latest agricultural census (2007-2008), agricultural land in El Salvador totals 2,283,444.48 acres, of which 1,695,653.4 acres are owned (74 percent), 478,127.32 acres are rented (21 percent), and 109,665.48 acres (5 percent) are not clearly defined.

Website: http://www.censos.gob.sv/

El Salvador ranks 56th of 189 economies on the World Bank's Doing Business 2016 report in the Ease of Registering Property category. According to the collected data, registering a property takes on average of five steps over a period of 31 days, and costs 3.8 percent of the reported value of the property.

Intellectual Property Rights

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 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 five and 10 years respectively, and ratified an international agreement extending protection to satellite signals.

In May 2015, the Constitutional Chamber of the Salvadoran Supreme Court, finding that no treaty could commit the Salvadoran Legislative Assembly to ratifying, or acceding, to another treaty, declared unconstitutional Article 15.1:5(a) of CAFTA-DR in which all parties (except Nicaragua and Costa Rica) committed to the ratification of, or accession to, the International Union for the Protection of New Varieties of Plants (UPOV Convention 1991) by January 1, 2006. Nonetheless, in El Salvador, plant and animal varieties are protected under the country's Intellectual Property Law and may be patented for 20 years from date of application.

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 regulations and establishment of price controls on the sale of pharmaceuticals. The new regulations were published by the Directorate in December 2012. The National Directorate of Medicines reviews maximum prices annually and releases revised parameters, which covers trademarked products and generics, every January.

In November 2014, the Ministry of Economy and the National Registry Center, with support from the World Intellectual Property Organization, unveiled the National Intellectual Property Policy. The Policy recognizes protection of intellectual property rights as a key element for the future development and competitiveness of the Salvadoran economy and calls for the establishment of an Intellectual Property (IP) National Council supported by a Technical Committee. The Policy also specifically addresses geographical indicators (GIs) with an eye toward the promotion of Salvadoran products. In January 2015, the GoES established a National Intellectual Property Council consisting of various government officials. Per the Salvadoran Intellectual Property Association (Asociacion Salvadoreña de Propiedad Intelectual, or ASPI) implementation of the policy has been slow, ostensibly due to a lack of resources.

On February 12, 2015, the National Registry Center, in conjunction with counterpart national IP authorities in Central America and the Dominican Republic, introduced a Harmonized Trademark Manual. The main objective of the document, again with the support of the World Intellectual Property Organization, is to provide individuals and businesses, relevant governmental entities, and lawyers an overview of trademark laws and practices in the region and serve as a common reference for trademark law in order to standardize regional procedures and best practices.

On October 1, 2014, the National Registry Center inaugurated a public online non-real state (fixed asset) registry. This public registry was created as a result of the Non-Real Estate Secured Transaction Law, passed by the national Legislative Assembly in 2013. The Law was designed to facilitate credit access to micro, small, and medium businesses, allowing them to obtain loans using collateral other than real estate. The collateral can be tangible or intangible assets such as inventories, receivables, intellectual property rights, consumables, and in general, any good with an economic value. The public registry tracks the transactions and related collateral. Creditors are able to choose a preferred enforcement mechanism: arbitration, out-of-court notarized process, or the traditional judicial process.

The Software Alliance (BSA) published a study in July 2014 estimating that 80 percent of the software in El Salvador in 2013, with a value of about $2 million, was being used without a proper license.

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. Despite growing recognition of the importance of IPR, the piracy of optical media, and both music and video, remains a concern. Optical media imported from the United States into El Salvador are being used as duplication masters for unauthorized copies of copyrighted works. The business software industry continues to report very high piracy rates and inadequate enforcement of cable broadcast rights places legitimate providers of this service at a competitive disadvantage.

El Salvador was removed from the Special 301 Watch List in July 1996. A September 2014 “out-of-cycle” U.S. Trade Representative’s Watch List review of El Salvador determined that the country did not need to be re-listed. El Salvador is not listed in the notorious market report.

El Salvador is a signatory of the Berne 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; the Rome Convention for the Protection of Performers, Phonogram Producers, and Broadcasting Organizations; and the Beijing Treaty on Audiovisual

Performances (2012), which grants performing artists certain economic rights (such as rights over broadcast, reproduction, and distribution) of live and recorded works.

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/details.jsp?country_code=SV

Embassy point of contact: office.sansalvador@trade.gov

Resources for Rights Holders

USG Contact:

U.S. Trade Center
Calle Liverpool # 31, Col. Juárez
Mexico City, 06600
Tel: + 52 (55) 5080-2000 ext. 5207
Fax: + 52 (55) 5566-1115

Country/Economy resources:

American Chamber of Commerce of El Salvador
Office Location:
AmCham El Salvador, Edificio World Trade Center, Torre II, Nivel 3, Local 308, 89 Av. Norte, Col. Escalón, San Salvador, El Salvador
Phone: (503) 2263-9494,
Fax: (503) 2263-9393,
E-mail: amchamsal@amchamsal.com
Website: www.amchamsal.com/index.php?lang=en

List of local lawyers: http://sansalvador.usembassy.gov/local-information/list-of-attorneys.html

7. Transparency of the Regulatory System

The laws and regulations of El Salvador are relatively transparent and generally foster competition. However, the government controls 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 reforms allowed SIGET to develop a cost-based pricing model for the electricity sector, which it 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 99 kWh monthly. The electricity subsidy costs the government upwards of $141.8 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 GoES publishes some of its draft laws and regulations for public comments online, especially the ones that affect the financial sector, and some other economic laws that pertain to the Minister of Economy. However, some pending legislation, such as the Fiscal Responsibility Law for the Sustainability of Public Finances and Social Development that is under study at the Legislative Assembly, has not been circulated. There were also delays in the publication of a draft pension reform plan based on the creation of a mixed system, under which a large portion of contributions would pass to the public system and the remainder would be managed by the private companies. The discussion on this reform is still underway. Companies have complained of laws that have passed without the proper notification process and are not in accordance with CAFTA-DR and WTO regulations. There are opportunities to provide comments when the government forms committees to discuss the laws and regulations when they are being developed at the respective government agencies.

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. Accounting systems are generally consistent with international norms.

8. 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. Foreign investors may obtain credit in the local financial market under the same conditions as local investors. According to the legislation, the maximum interest rate for credit cards and loans is 1.6 times the simple average effective rate established by the Central Bank.

On July 31, 2014, the Legislative Assembly approved the Financial Transactions Tax Law. The law assesses a 0.25 percent tax on many financial transactions such electronic, check or wire transfers and payments exceeding $1,000; loan or disbursements; and transactions between entities of the financial system. There are also several exemptions from the tax, such as end-use credit card payments; social security, pensions, and insurance payments; and transactions made by the state, NGOs, diplomats, or international organizations. The 0.25 percent withholding tax is designed to capture some revenue from the informal sector and expand the tax base. The taxes withheld are credited against any obligation due to the tax authorities within a two-year period of the withholding date.

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 2014 and 2015, the exchange averaged daily trading volumes of about $10.2 million. Government-regulated private pension funds, Salvadoran insurance companies, and local banks are the largest buyers on the Salvadoran securities exchange.

Money and Banking System, Hostile Takeovers

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 February 2016 totaled $15 billion. Under Salvadoran banking law, there is no difference in regulations between foreign and domestic banks and foreign banks can offer all the same services as domestic banks.

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 Insurance Companies Law regulates the operation of both local and foreign insurance firms. Foreign firms, including U.S., Colombian, Canadian, and Spanish companies, have invested in Salvadoran insurers.

The Monetary Integration Law of January 1, 2001, made the U.S. dollar the principal legal currency by affixing the exchange rate of the Salvadoran colon (SVC) at 8.75 to every $1. The Central Bank tracks macroeconomic statistics, s regulates the financial system, administers international reserves, manages the payments system and financial services, functions as the financial agent of the state, carries out economic and financial research, and provides services to exporters and importers through the Export and Import Center (Centro de Trámites de Importaciones y Exportaciones CIEX El Salvador).

9. 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. El Salvador maintains state-owned enterprises (SOEs) in energy production, water supply and sanitation, ports and airports, and the national lottery.

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. The primary water service provider is the National Water and Sewer Administration (ANDA), which provides services to 40 percent of the total population of El Salvador. As an umbrella institution, ANDA defines policies, regulates and provides services. The Autonomous Executive Port Commission (CEPA) operates both the ports and the airports. CEL, ANDA and CEPA Board Chairs hold Minister-level rank and report directly to the President.

The Law on Public Administration Procurement and Contracting (LACAP) covers all procurement of goods and services by all Salvadoran public institutions, including the municipalities. Exceptions to LACAP include: procurement and contracting financed with funds coming from other countries (bilateral agreements) or international bodies; agreements between state institutions; and the contracting of personal services by public institutions under the provisions of the Law on Salaries, Contracts and Day Work. The government has a website where tenders by government institutions are published.

Website: https://www.comprasal.gob.sv/comprasal_web/.

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 commercial practices, including financial reporting, are non-transparent.

OECD Guidelines on Corporate Governance of SOEs

While El Salvador does not formally adhere to the OECD Guidelines on Corporate Governance for state-owned enterprises, all State-owned enterprises have boards comprised of members from both the public and private sectors. The Chairs of the SOEs hold cabinet-level rank and is appointed, and reports directly to, the President of El Salvador.

The government of El Salvador has no formal policy of encouraging foreign and local enterprises to follow the generally accepted CSR principles of the OECD Guidelines for Multinational Enterprises or the United the United Nations Guiding Principles on Business and Human Rights, endorsed by the UN Human Rights Council in 2011.

Sovereign Wealth Funds

El Salvador does not have a sovereign wealth fund.

10. Responsible Business Conduct

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 Corporate Social Responsibility 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.

The Secretariat of Transparency and Corruption was launched in 2009 with the mandate to develop guidelines, strategies, and actions to promote transparency and combat corruption in government. In 2011, the Law on Access to Public Information was approved. Also in 2011, El Salvador joined the Open Government Partnership, becoming one of the first countries to do so. The Open Government Partnership promotes government commitments made jointly with civil society on transparency, accountability, citizen participation and use of new technologies.

El Salvador's Legislative Assembly passed the Special TIP Law Against Trafficking in Persons (*La Ley Especial Contra la Trata de Personas* in Spanish or Special TIP Law) in October 2014. The law took effect January 12, 2015, and strengthens the TIP Council which is responsible for the coordination and evaluation of a national policy, and created National Plan of Action on Trafficking in Persons. The Special TIP Law increases prison terms for TIP convictions from four to eight years to 10 to 14 years, and from 20 to 25 years in aggravated circumstances. In 2015, the government renewed its National Action Plan to cover 2016-2019. The Plan includes eight objectives: prevention, victim identification, protection of victims, and prosecution of traffickers, inter-agency coordination, public cooperation, and training. The National Action Plan involves several government agencies, including the Ministry of Foreign Affairs, The Ministry of Justice and Public Security, the National Civil Police, the Attorney General's Office.

Websites:

http://gobiernoabierto.abiertoalpublico.org/

http://www.opengovpartnership.org/country/el-salvador

El Salvador does not waive or weaken labor laws, consumer protection, or environmental regulations to attract foreign investment.

11. Political Violence

El Salvador's 12-year civil war ended in 1992 upon the signing of peace accords. Since then, there has been no political violence aimed at foreign investors, their businesses, or their property.

12. Corruption

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 72 out of 168 countries in Transparency International's Corruption Perceptions 2015 Index. El Salvador has laws, regulations and penalties to combat corruption, but their effectiveness is questionable. Soliciting, offering, or accepting a bribe is a criminal act in El Salvador. The Attorney General's Anticorruption and Complex Crimes Unit handles allegations of corruption against public officials. The Constitution establishes a Court of Accounts that is charged with investigating public officials and entities and, when necessary, passing such cases to the Attorney General for prosecution. Executive-branch employees are subject to a code of ethics, including administrative enforcement mechanisms, and the government established an Ethics Tribunal in 2006.

Corruption scandals at the federal, legislative, and municipal levels are commonplace and there have been credible allegations of judicial corruption. El Salvador has an active, free press that reports on corruption.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

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.

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:

Doctor Marcel Orestes Posada, President of the Court of Government Ethics

Court of Government Ethics (Tribunal de Etica Gubernamental)

Tribunal de Etica Gubernamental, Calle Los Espliegos #30, Colonia San Francisco, San Salvador

(503) 2560-6400
Mo.posada@teg.gob.sv
http://www.teg.gob.sv/

Contact at "watchdog" organization (international, regional, local or nongovernmental organization operating in the country/economy that monitors corruption, such as Transparency International):

Roberto Rubio-Fabián
Executive Director
National Development Foundation (Fundación Nacional para el Desarrollo)
Fundación Nacional para el Desarrollo, Calle Arturo Ambrogi #411, entre 103 y 105 Avenida Norte, Colonia Escalón, San Salvador
(503) 2209-5300
direccion@funde.org
http://www.funde.org/transparency

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

El Salvador has bilateral investment treaties in force with Argentina, Belize, BLEU (Belgium-Luxembourg Economic Union), Chile, Czech Republic, Finland, France, Germany, Israel, Republic of Korea, Morocco, the Netherlands, Paraguay, Peru, Spain, Switzerland, Taiwan Province of China, United Kingdom, and Uruguay.

The Dominican Republic-Central American Free Trade Agreement (CAFTA-DR FTA), between the United States, Central American countries and the Dominican Republic entered into force 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 this agreement, U.S. investors enjoy 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. The government of El Salvador now recognizes CAFTA-DR as a multilateral agreement, as opposed to a bilateral agreement with the United States. In the past, the government has been unclear on its interpretation regarding this point.

El Salvador has free trade agreements with Mexico, Chile, Panama, Colombia, and Taiwan. 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 to receive access to a wider range of EU development aid, which entered into force with El Salvador in August 2013.

The five Central American Common Market countries, which include El Salvador, have an investment treaty amongst 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, South Korea, and Belize that are expected to contain investment provisions. The Salvadoran government signed a Partial Scope Agreement (PSA) with Cuba in 2011 and is negotiating another with Ecuador.

El Salvador does not have a bilateral taxation treaty with the United States.

On June 1, 2015, El Salvador signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, becoming the 86th signatory. El Salvador is the 8th Latin American country and the 3rd member of the Central American Common Market - after Costa Rica and Guatemala - to join the Convention.

El Salvador became a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes in 2011. El Salvador's Phase 1 peer review report, which demonstrates its high level of commitment to the international standard for tax transparency and exchange of information, was published in March 2015. The 86 jurisdictions participating in the Convention can be found at: www.oecd.org/ctp/exchange-of-tax-information/Status_of_convention.pdf

14. Foreign Trade Zones/Free Ports/Trade Facilitation

There are 17 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, as of November 2015 the firms employed a labor force of approximately 73, 350 people. Section 5, above, on Performance Requirements and Incentives, outlines the incentives available to investors in these zones.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	

Host Country Gross Domestic Product (GDP) ($M USD)	20015	$ 25.85 billion	2014	$25.16 billion	www.worldbank.org/en/country http://www.bcr.gob.sv/esp/
Foreign Direct Investment	Host Country Statistical source		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2015	$2.64 billion	2014	$ 2.81 billion	BEA data available at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm http://www.bcr.gob.sv/esp/
Host country's FDI in the United States ($M USD, stock positions)	2014	N/A	2014	-$18 million	BEA data available at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2015	10.2%	2014	11.2%	N/A

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	8,504	100%	Total Outward	3	100%
United States	2,414	28%	Mexico	1	33%
Panama	2,056	24%	Guatemala	1	33%
Mexico	971	11%	Nicaragua	0	0%
Colombia	703	8%	Costa Rica	0	0%

Spain	542	6%	Honduras	0	0%
"0" reflects amounts rounded to +/- USD 500,000.					

Table 4: Sources of Portfolio Investment

There is no IMF data for portfolio investment assets available for El Salvador.

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