

# PROESA

## El Salvador



A country of opportunities

April 2017

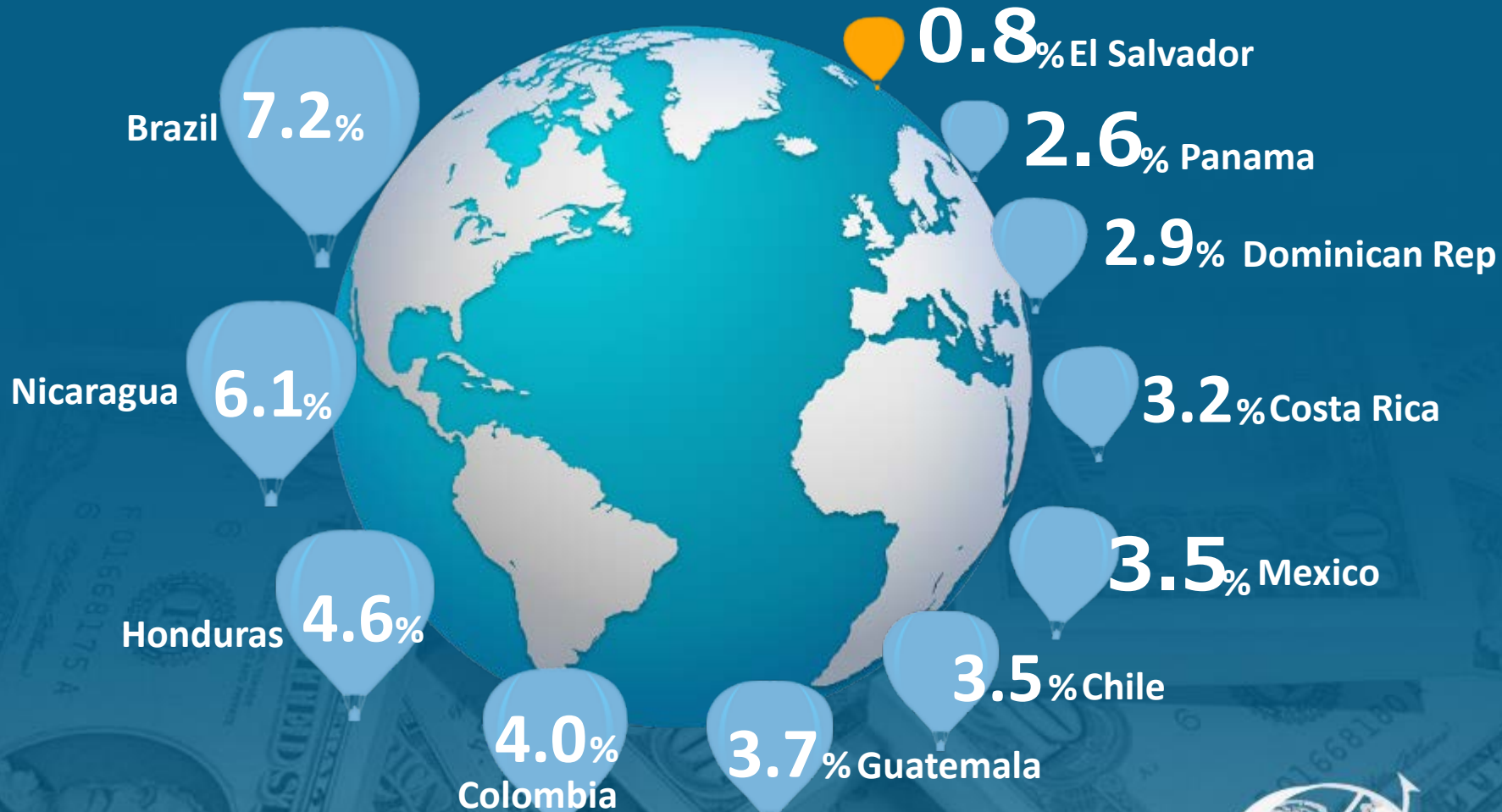
**El Salvador,**  
located in the  
heart of the  
Americas, is an  
export-oriented  
free-market  
economy



<b>Capital:</b>	San Salvador
<b>Official Language:</b>	Spanish
<b>Area (km<sup>2</sup>):</b>	21,041 Km <sup>2</sup> /8,124 mi <sup>2</sup>
<b>Population (million):</b>	6.5
<b>GDP (billion USD):</b>	26.8
<b>GDP per capita (USD):</b>	4,148
<b>Time Zone:</b>	UTC - 6



We are the only country in Central America with the U.S. dollar as legal tender and our inflation rates have remained below the average of the rest of the Latin American countries



Source: International Monetary Fund (2012-2016 average)



One of our main advantages is our labor force, world famous for its industriousness, efficiency and work ethic.

**2.9** million

Labor force

**57 %**

of the labor force is 39 years or younger

**23,000**

technicians and professionals join the country's labor force every year

**21 %**

Engineering and Technology graduates

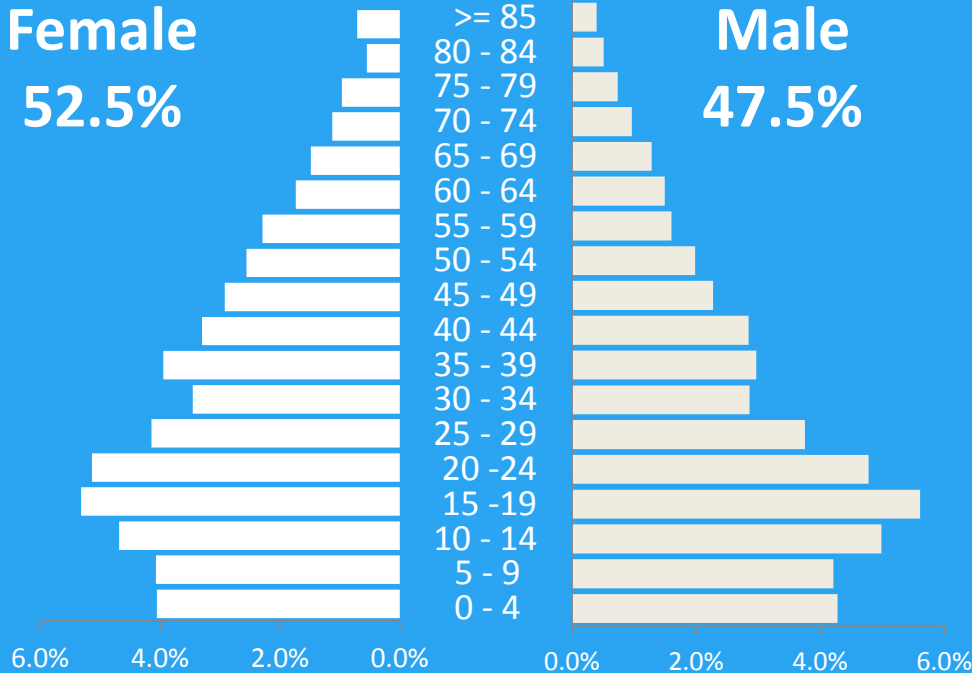
**40**

technical and higher education institutions



**We offer a young population  
capable of developing new  
skills in a short period of time**

**Female  
52.5%**



**Male  
47.5%**

**7%**

**Unemployment rate**

**34.9%**

**Underemployment rate**



**El Salvador enjoys wide-spread international support with solid international partnerships**



- **Only** country in the Western Hemisphere, and one of four nations in the world, to be selected by the US Government to work jointly under a new initiative that seeks to reduce barriers to economic growth.
- **Only** country in Central America that has received funds on two occasions from the Millennium Challenge Corporation for its good governability, investment in human resources and economic freedom.
- This second compact will generate USD 365 million in investment and will contribute to the development of the country.



**El Salvador**  
is the most cost-  
competitive country  
to set up and  
operate a business  
in the region



**No. 1**

The Financial Time's  
investment journal fDi  
Intelligence has classified  
El Salvador as the most cost  
effective country in  
Central America





Here you will have access to an outstanding labor force at a competitive cost



## Minimum Monthly Wage per Sector (in USD)



**200.1**  
Agriculture



**300.0**  
Industry



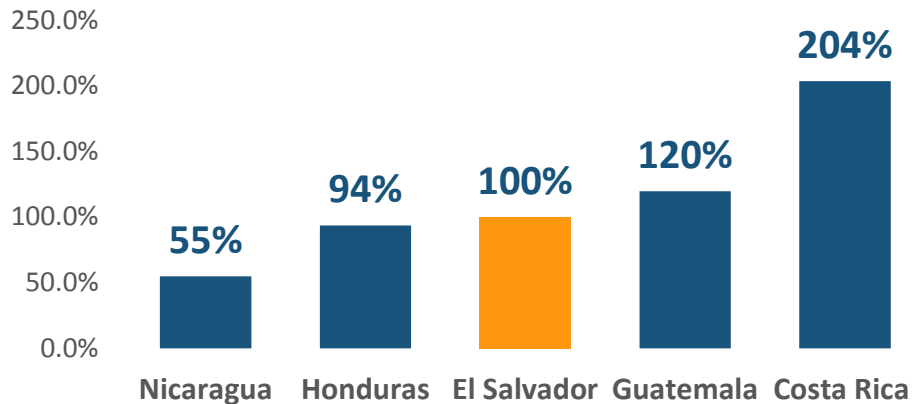
**300.0**  
Commerce and services



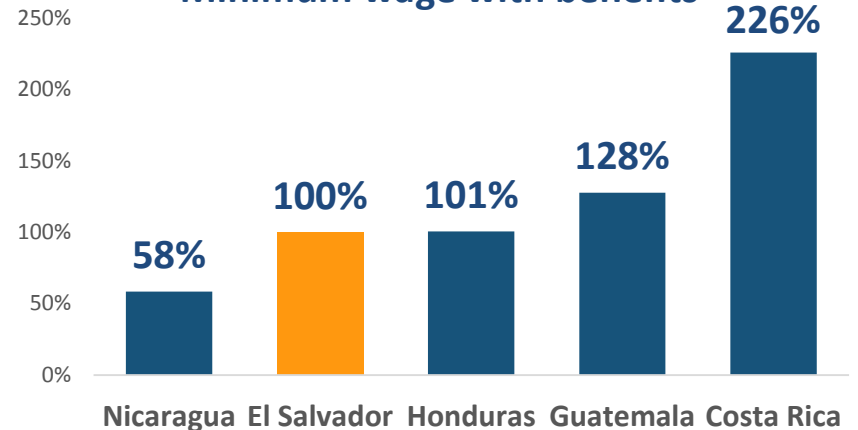
**295.2**  
Textile and apparel maquila

## Comparative minimum wages for companies located in free zones

Minimum wage (nominal)



Minimum wage with benefits







El Salvador is the most competitive country in Central America in terms of benefits Paid by employer

Salvadoran legislation provides the following benefits:

**(20.67 % of the nominal wage)**



**7.50 %** +

(ISSS)



**6.75 %** +

Fund (AFP)



**4.17 %** +

Christmas Bonus



**1.25 %** +

Annual paid vacations



**1.00 %** +

(Insaforp)



**8.33 %**

Compensation for unjustified dismissal

or

**4.17%**

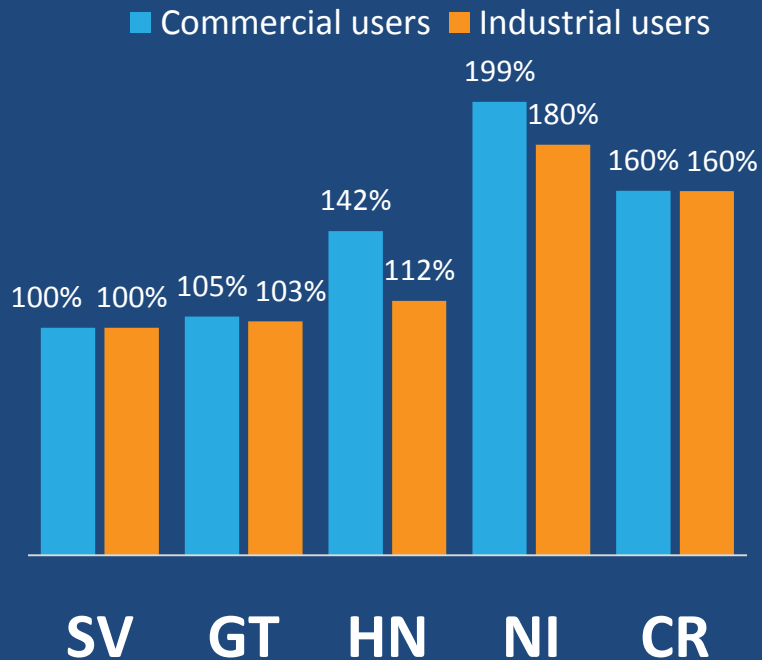
Compensation for voluntary resignation

Total benefits paid by employer including compensation for unjustified dismissal or compensation for voluntary resignation

Up to a maximum of **29.00 %**

# And offers competitive electricity rates for commercial and industrial users

## Comparative Electricity Rates



Source: ICE, Costa Rica. Rates are for commercial users with 15,000 kWh of consumption and power demand of 41 kW, and industrial users with 100,000 kWh of consumption and power demand of 274 kW, 50% load factor. September 2016.

## Electricity rates (USD/kWh)\*

<b>Medium demand</b>	Low voltage	\$0.13-\$0.14
	Medium voltage	\$0.12
<b>Time - differentiated metering</b>		
<b>Medium and Large demand</b>	<b>Low voltage</b>	
	Peak hours	\$0.14
	Mid-peak hours	\$0.14
	Off-peak hours	\$0.13
	<b>Medium voltage</b>	
	Peak hours	\$0.13
Mid-peak hours	\$0.13	
Off-peak hours	\$0.12	

\*Rates in force since January, 2017. Besides energy charges, electricity rates are composed of a fixed monthly charge for commercialization (customer service) and variable charges for distribution – power (US\$/kW – month).

# El Salvador has also been placed among the countries with the lowest total tax rate in the region

## Income tax

**30%** over taxable income

**25%** (reduced rate for taxable income  $\leq$  US\$150,000)

## Value Added Tax (IVA for its acronym in Spanish)

**13%** value added tax for goods and services.



## Dividend Tax

**5%** tax retention over dividends paid or credited to shareholders (individuals or legal entities)

## Tax on Transfers of Real Estate Property

**3%** applicable on amounts exceeding USD 28,571.43

## Special contribution for security to large taxpayers

**5%** special contribution over net profits  $\geq$  US\$500,000.

## Municipal taxes

Taxes are paid according to each municipality based on the company's total assets.





## Airports

59 COSTA RICA

74 EL SALVADOR

83 HONDURAS

98 GUATEMALA

109 NICARAGUA



## Highways

73 EL SALVADOR

76 HONDURAS

84 NICARAGUA

92 GUATEMALA

125 COSTA RICA

Global Competitiveness Report Quality of infrastructure ranking 2016-2017 (out of 138 countries)

**Besides our recognition as a cost-effective location, our infrastructure is among the most competitive in Latin America and the Central American region**



## Ports

51 HONDURAS

86 GUATEMALA

91 EL SALVADOR

102 COSTA RICA

116 NICARAGUA





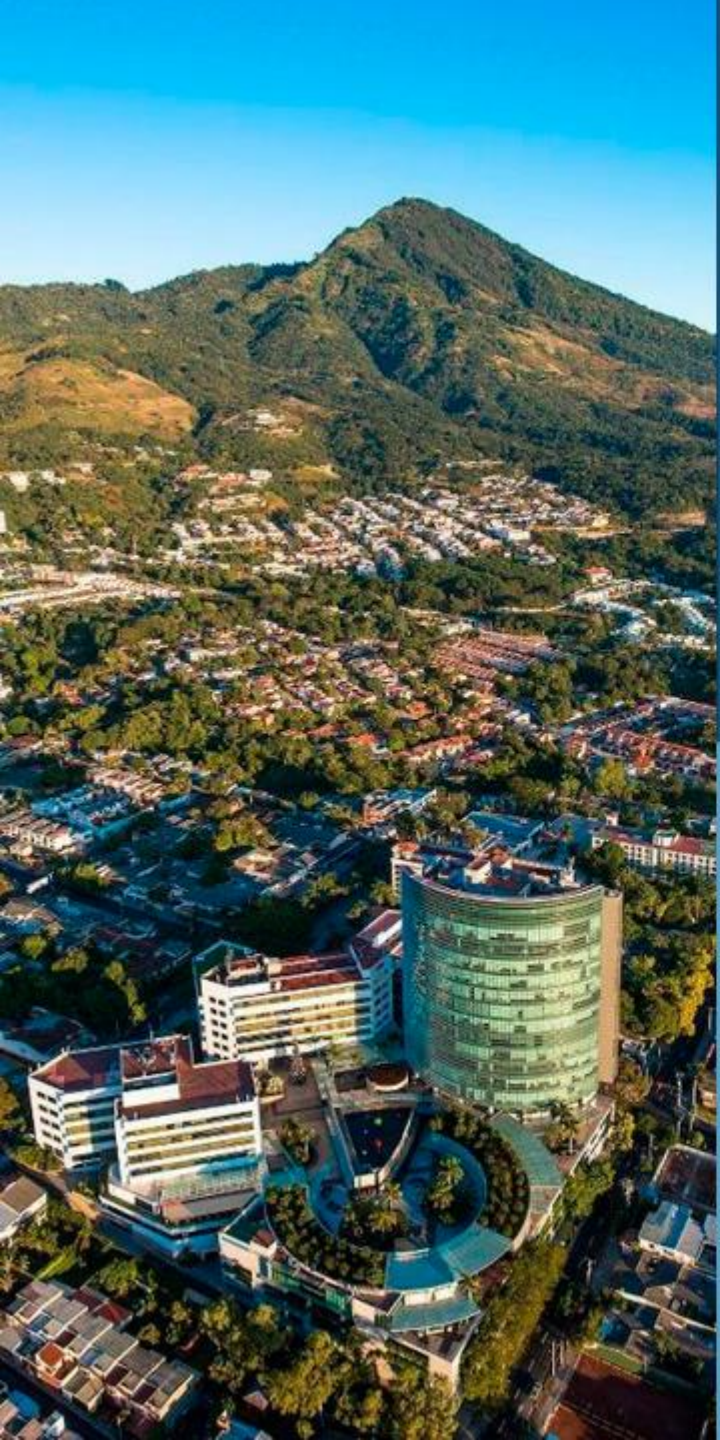
**El Salvador** has free zones and service parks that stand out for their strategic location and easy access to competitive infrastructure



## Free Zones

1. Free Zone Franca Santa Ana
2. Free Zone Las Mercedes
3. Free Zone 10
4. Free Zone EXPORTSALVA\*
5. Free Zone PIPIL
6. Free Zone SAM-LI
7. Free Zone American Park\*
8. Free Zone Santa Tecla\*
9. Free Zone San José
10. Free Zone San Marcos
11. Free Zone San Bartolo
12. Free Zone Santo Tomás
13. Free Zone Internacional\*
14. Free Zone MIRAMAR\*
15. Free Zone El Pedregal
16. Zone Concordia Industrial Park
17. Free Zone Calvo

\*Also operate as service parks



## As part of our commitment to attract investment, we have implemented attractive tax incentives



### Free Zones Law

- Incentives to industrial activities
- Tax exemptions (income, municipal taxes and real estate transfers) and import duties



### International Services Law

- Incentives to strategic sectors (contact centers, BPO's, maintenance and repair of airplanes, logistics, etc.)
- Total permanent tax exemptions (income and municipal taxes) and import duties



## El Salvador's Free Zones Law offers generous tax incentives to export-oriented manufacturing companies located in Free Zones or Warehouses for Inward Processing (DPA)

### ☐ Eligible Activities

Production of industrial goods included in Chapter 3 and Chapters 25 onwards of the Harmonized System

Fishing of maritime species to undergo industrial transformation, as well as their respective processing and commercialization

Cultivation, processing and commercialization of flora species grown in protected structures in greenhouses and laboratories

Breeding and commercialization of amphibian and reptile species in captivity

Dehydration of ethyl alcohol

### ☐ Benefits

✓ Full exemption from customs duties and other taxes on the import of raw materials, machinery, equipment and other goods used for production

✓ Full exemption from taxes on the transfer of real-estate property

✓ Income tax exemption for a period of up to 60 years\* and income tax exemption on the distribution of profits and dividends during the first 12 years

✓ Exemption from municipal taxes\*

*\*Exemption period will vary according to the location of the company: free zone versus DPA, inside or outside San Salvador Metropolitan Area.*



## Number of years with 100% Income Tax exemption



**El Salvador's Free Zones Law provides full income tax exemption for a longer period of time compared to the rest of the Central American countries**

Fuente: PROESA with information from Central American free zones laws

### ✓ Income tax exemption:

Location	Percentage of Exemption	Period of exemption for companies in a Free Zone	Period of exemption for companies operating as DPA
San Salvador Metropolitan Area	100%	For 15 years	For 10 years
	60%	For the following 10 years	For the following 5 years
	40%	For the following 10 years	For the following 10 years
Outside SSMA	100%	For 20 years	For 15 years
	60%	For the following 15 years	For the following 10 years
	40%	For the following 10 years	For the following 10 years

### ✓ Exemption from municipal taxes:

Location	Percentage of Exemption	Period of exemption for companies in a Free Zone	Period of exemption for companies operating as DPA
San Salvador Metropolitan Area	100%	For 15 years	For 10 years
	90%	For the following 10 years	For the following 5 years
	75%	Hereinafter	Hereinafter
Outside SSMA	100%	For 20 years	For 15 years
	90%	For the following 15 years	For the following 10 years
	75%	Hereinafter	Hereinafter

- Upon the expiration of the full exemptions period, investors established in free zones can benefit of an additional 5 years of total exemptions if they have increased their investment (in relation to their initial investment) by 100%.
- Certain strategic industries may benefit of an additional period of 5 to 10 years of total exemptions.



# El Salvador's International Services Law is the only law in the region that provides full exemption from income tax for an indefinite period of time



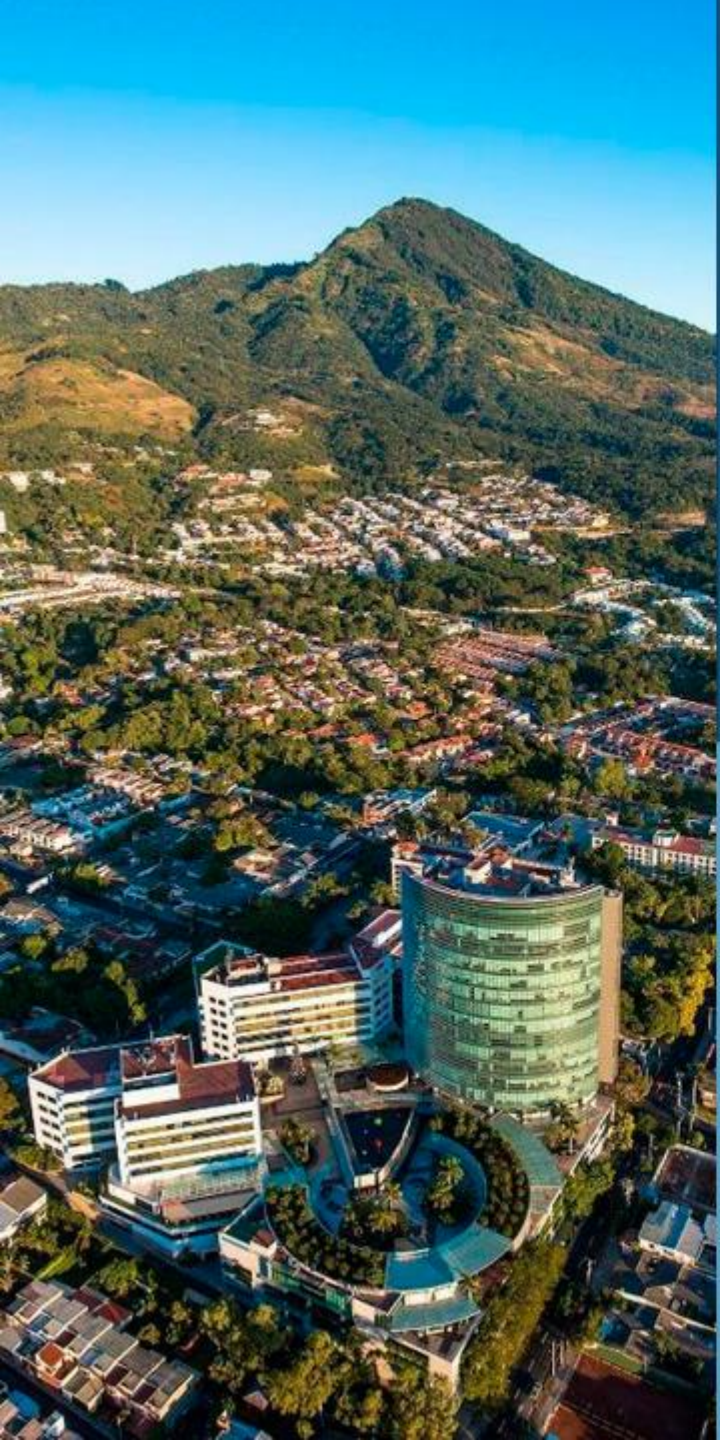
## ☐ Eligible activities

- International Distribution
- International Logistics Operations
- Information Technologies
- Research and Development
- International Financial Services
- Technological Equipment Repair
- Cinematography
- International Call Centers / Contact Centers
- Business Processing Outsourcing (BPO)
- Medical and Hospital Services
- Elderly and Convalescent Care
- Telemedicine
- Maintenance and Repair of Airplanes
- Maintenance and Repair of Maritime Vessels
- Maintenance and Repair of Containers

## ☐ Benefits

- ✓ Full exemption from customs duties and other taxes on the import of machinery, equipment, tools, replacement parts, accessories, furniture, office equipment and other required for the execution of the incentivized activity
- ✓ **Total exemption from income tax**, for income deriving from the incentivized activity, **during the period of operation in the country**
- ✓ Total exemption from municipal taxes on company assets during the period of operation in the country





## Tourism Law

- Requires minimum of USD 25,000 investment
- Corporate tax exemption (income and municipal)
- Real estate transfer and import tariff exemptions



## Renewable Energy Incentives Law

- Customs duties exemption on imports of machinery, equipment and materials for 10 years
- Income tax exemption for a period of 5 to 10 years
- Total tax exemption on revenues from the sale of Certified Emission Reductions



## Investment Funds Law

- Investment funds benefit from tax exemptions (income, VAT and other taxes), as well as exemption from charges applied to the transfer of assets for investment fund establishment
- Investors benefit from income tax exemptions or reduced rates over income or gains derived from their participation in the investment fund.

**We have developed a legal framework that facilitates and guarantees the protection of investments because we are interested in developing a long-term relationship with investors**

### **Investment Law**

- Equal treatment to national & international investors
- Liberty to transfer funds and profits abroad
- Access to local financing

### **Public Private Partnership Law (PPP)**

- Establishes a legal framework for the development of PPP projects regarding public infrastructure and services.
- The minimum investment to qualify for a PPP project is USD 13.5 million



## Law of Legal Stability for Investments

- Guarantees legal certainty to investors on taxes, customs and immigration issues, for a period of up to 20 years depending on the amount of the investment.
- Applies for an amount greater than or equal to USD1,266,000 in new investment projects or the expansion of existing investments.

## Electronic Signature Law

- This law equates the simple electronic signature and the certified electronic signature to a handwritten signature
- The law also confers legal value and effectiveness to the certified electronic signature, data messages and all information in electronic format with a certified electronic signature





**We're working with determination to improve our public security levels and our efforts are already producing results**

**1**

Implementation of El Salvador Safe Plan (*Plan El Salvador Seguro*)

**2**

Strengthening of public security actions in coordination with other related institutions

**3**

Implementation of extraordinary actions to fight against crime

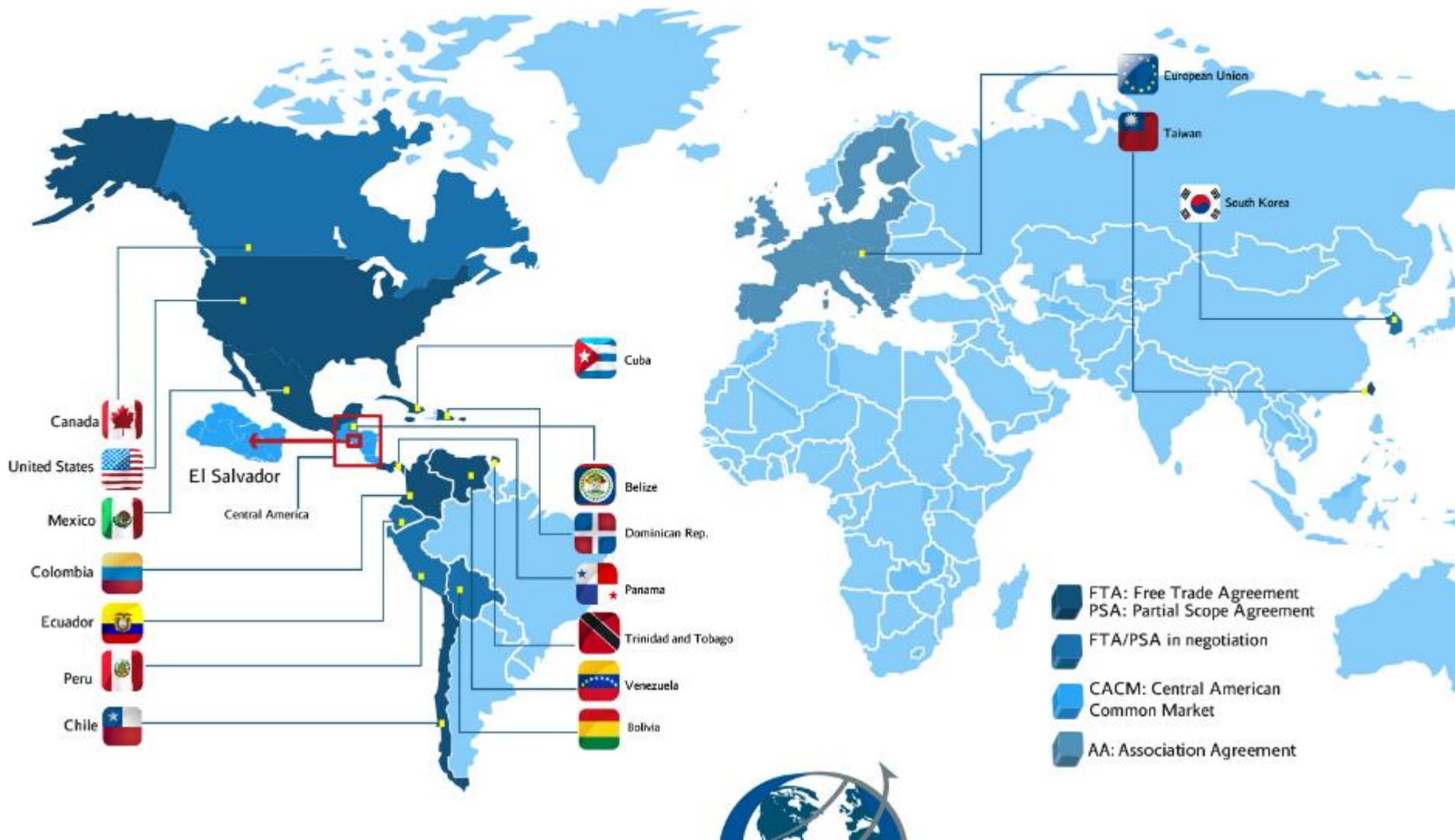
**4**

Promotion of an effective strategy for violence prevention



**Dramatic reduction in homicides and extortion during 2016**

# In terms of trade openness, we offer preferential access to a potential market of 1.2 billion consumers in 43 countries around the world





And our strategic geographic location enables a short access time to major cities in America

### Main Freight Companies

#### Air Cargo

- DHL
- UPS
- Arrow

#### Maritime

- MAERSK
- CROWLEY
- MSC
- SEABOARD
- NIPPON
- CSAV
- APL
- Hamburg Süd

### Main airlines serving El Salvador



### Regular charter flights



(Montreal, Toronto)



# For all these reasons, many prestigious multinational companies have chosen El Salvador as an investment destination



As a result, El Salvador has recorded growing FDI flows over the last years

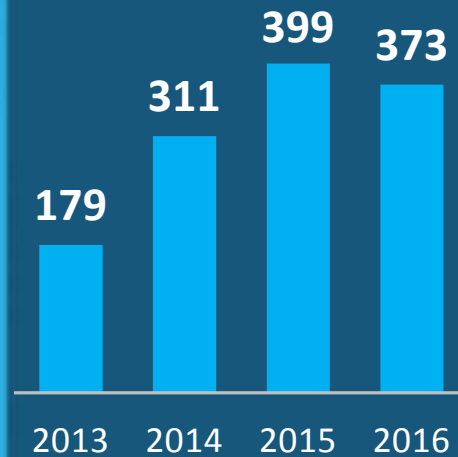
## Foreign Direct Investment

FDI Stock 2016 USD

**9.2**  
billion

**34%**  
of GDP

## FDI net inflows (million USD)



## Main FDI growing sectors 2016

 **Manufacturing**  
US\$295.64 million

 **Finance and Insurance**  
US\$140.8 million



# We invite you to explore El Salvador's attractive investment opportunities in strategic sectors:



AERONAUTICS



AGROINDUSTRY



ENERGY



LIGHT  
MANUFACTURING



OFFSHORE  
BUSINESS  
SERVICES



SPECIALIZED TEXTILES AND  
APPAREL



TOURISM





## Aeronautics

# Successful World-Class Operations with Strong Continuous Expansions

### Investment Opportunities:

- Commercial aircrafts maintenance
- Helicopter and corporate aircrafts maintenance
- Distribution and warehousing services for aircraft parts
- Component maintenance shops
- Aeronautics ground services
- Light Sport Aircraft (LSA) airframe manufacturing and parts for wing tips, engines and others, in composite materials
- Aircraft harness system assembly
- Reconditioning on previous LSA models

Experience of  
more than  
**30 years**



**40%**  
More  
competitive  
labor costs than  
U.S. and Mexico



Less than **2%**  
employee  
turnover



## Agroindustry

**Ideal location for the production and processing of food, as well as to address specific market niches that go beyond the traditional agricultural industries**

### Investment Opportunities:

- **Ornamental plants:** Cuttings or stakes for the export market
- **Aquaculture Sector:** production and commercialization of fresh fish fillets to markets in developed countries
- **Fruit Sector:** cultivation of fine aroma cacao, as well as fresh fruits that have access to the U.S. market: hybrid coconut, Persian lime, improved cashew, papaya and pineapple MD-2 variety
- **Processed Food and beverages:** establishment of food production, processing and distribution centers for export



## Sugar Provision

Its is possible to negotiate fixed term contracts for up to 5 years



## Complementary Industries

In areas such as containers, packaging and process technologies



## 12

Trade Agreements that may be used to export agro and agro-industrial products





## Energy and LNG Hub for the Central America Region

### Investment Opportunities

- Processes of international bidding and long term contracts of up to 20 years, based on implemented market costs

- Diversification of the energy matrix, developing the potential of: wind, geothermal, small hydroelectric power plants, biomass, biogas, solar photovoltaic, concentrated solar thermal, coal and natural gas sources

- Distributed generation projects at industrial level
- Large hydraulic, geothermal and solar projects in national public generation

- Categorization of activities or projects for the better use of renewable energy sources in conjunction with the Ministry of Environment and Natural Resources SIEPAC Central American interconnection line



**1,659.6 MW**  
Installed capacity



## Available Renewable Resources

Wind, PV Solar and Thermal Solar, Geothermal, small hydroelectric power plants, Biogas, Biomass



Bids based on long term contracts of up to  
**20 years**



## Light Manufacturing

Successful export platform with strategic location, high productivity and competitive costs



Investment Opportunities:

Manufacturing plants for:

Logistics Hub for the region

- **Auto parts** (automotive harnesses, car seats, airbags, seat belts, automotive sensors)
- **Medical devices** (medical supplies, orthopedic products, hospital furniture, etc.)
- **Passive electronic components** (tantalum and ceramic capacitors, transistors, resistors, etc.)
- **Footwear** (assembly of components and parts, manufacturing of inputs, components and accessories and footwear manufacturing)
- El Salvador provides a strategic location for companies that want to service the 46 million people Central American market.

The Light  
Manufacturing sector  
has turnover rates  
lower than  
**10%**



El Salvador has  
production efficiency  
rates higher than  
**90%**  
in the Light  
Manufacturing sector



The Light Manufacturing  
exports represent about  
**11.4%**  
of total exports in 2016.





## Offshore Business Services

## Cost effective near-shore location with exceptional performance

### Investment

#### Opportunities:

#### Contact centers:

Product sales, Order taking, Cross sale & Up sale, Customer Relationship Management, Technical support, Customer service, Customer Surveys, Technical support for guarantees, Incoming and outgoing call service, others

### Business processing services:

Transaction Management, General Accounting, Data and Order Processing, Bank Reconciliations, Procurement, Fixed Asset Accounting, Human Resources Management, Inventory Accounting, Financial Reporting, Performance Management

### IT services:

Software development, Help Desk, testing, business process management (BPM) and applications management

El Salvador has been rated by The Economist as: **"The country for outsourcing"**.



**19%**

Historic growth rate



**20,000**

jobs and more than 11,000 workstations



## Specialized Textiles and Apparel

Weaving a bright and responsible future with a vertically integrated industry and easy access to market



### Investment Opportunities:

- Manufacture of yarn and fabrics
- Manufacture of knitted garments with accessories and embellishments (embroidery, screen printing, heat transfers, etc.), athletic wear, sportswear, performance wear and swimwear manufacturing
- Garments manufacturing included in the "Cut and Assemble" Rule of Origin category: bras, girl dresses, boxer shorts, sleepwear, luggage, among others



It is the **only**  
country that has been  
able to develop a full  
synthetic cluster in  
Central America.



The sector is vital for  
the economy of El  
Salvador, making up

**47%** of the  
country's total  
exports.



In 2016, El Salvador  
exported  
**US\$2,521**  
million of textile and  
apparel products





# Tourism

## The destination of choice for Tourism, Medical Tourism and Business

### Investment Opportunities in Tourism

- Hotels
- Boutique hotels
- Convention Centers
- Marinas
- Spas and wellness centers
- Mixed use development

### Investment Opportunities in Health Services

- Hospitals
- Specialized clinics
- Medical spas
- Resort hospitals



**4%**

Increase in visitors  
in 2016



**5%**

Increase in income  
from touristic  
activities in 2016



**4.51%**

of the GDP represents  
the tourism sector



# PROESA offers various services to support you during the process of evaluation, establishment and operation of your business in El Salvador

## Business opportunities



- Information on investment opportunities, incentives and advantages of investing in FDI growth sectors.
- Statistics and customized industry information



## Strategic information



- Information on costs, regulations, availability of human capital, business climate and any other information required in the country evaluation process
- Personalized attention to specific enquiries



## Advisory and technical assistance



- Tailored agendas for visits to **El Salvador**
- Specialized support before, during and after the investment
- Generation of local business contacts
- Comprehensive support in procedures required to establish or expand business operations in the country



# PROESA

EXPORT AND INVESTMENT PROMOTION  
AGENCY OF EL SALVADOR

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