

**CAFTA-DR**

**EL SALVADOR**

**NATIONAL PLAN OF ACTION  
FOR TRADE CAPACITY BUILDING**

**VOLUME I:  
GENERAL STRATEGY**

**UPDATED AS OF NOVEMBER 2007**

# NATIONAL PLAN OF ACTION FOR TRADE CAPACITY BUILDING

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## FOREWORD

The National Plan of Action for Trade Capacity Building in El Salvador aims to prioritize and articulate the country's needs regarding trade capacity building within the framework of the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR).

This document is intended to serve as a management tool for mobilizing and administering the public and private assistance provided for trade capacity building with a view to supporting: (a) the implementation of the Agreement in question, and (b) the transition and changes needed to ensure that all the benefits to be derived from CAFTA-DR are reaped.

The main purpose of this document is to present well-defined, coherent, and suitably justified cooperation requirements within the framework of CAFTA-DR to potential public and private donors.

The cooperation needs are set out within the context of a broader development strategy in general and, in particular, in light of the country's trade policy objectives, both of which are incorporated into the Government's "Safe Country Plan 2004-2009".

The National Plan of Action is divided into two volumes. Volume I outlines the general trade capacity building strategy and consists of two parts: Part A, which provides a brief overview of the current organizational and policy-making structure which shapes the national context; and Part B, which describes the strategies for the creation of the national Trade Capacity in 5 big subjects: Strategy to Improve Competitiveness, Openness and Integration: a Country Connected to the World, Agricultural Development: Extending the Value Chains, National Strategy for Micro, Small and Medium-Size Enterprises, and Strategy for Strengthening of the most sensitive and vulnerable sectors in reference with CAFTA-DR's phase out tariff Schedule. The strategy set out in this document updates the information provided in the strategy presented in January 2005.

Volume II contains the profiles of the projects identified in each area referred to in Volume I. This information is updated annually.

## **PART A: INTRODUCTION AND DESCRIPTION**

### **I. TRADE POLICY INSTITUTIONS AND POLICY-MAKING**

The **Ministry of Economy** (MINEC) is in charge of formulating and implementing policies, strategies and initiatives for the local, regional and international market, that further the development of the country's production and trade. MINEC is responsible for trade policy, trade negotiations, and negotiations that lead to the promotion of investment and exports.

MINEC's responsibilities are shared between two units, each of which is headed by a Vice Minister: (1) the Vice-Minister of Economy; and (2) the Vice-Minister of Trade and Industry, both of whom are supervised and coordinated by the Minister of Economy.

The **Vice-Ministry of Economy** is responsible for trade negotiations and furthering the regional economic integration of Central America. The Vice-Ministry has two offices devoted to fulfilling these responsibilities:

- The **Trade Policy Office** (DPC-MINEC), which coordinates and conducts bilateral, regional and multilateral trade negotiations with a view to improving market access for Salvadorian exports and increasing investment and technology flows. This Office has to consult regularly with the other government agencies and entities involved in trade policy issues. These include: The Ministry of Agriculture and Livestock, the Ministry of Public Health and Social Welfare, the Ministry of Labor, the Ministry of Finance, the Ministry of Environment and Natural Resources, and the National Science and Technology Council.
- The **Trade Agreements Administration Office** (DATCO) is the entity in charge of implementing trade agreements. Its mandate includes ensuring compliance with the commitments assumed in trade agreements both by the Government of El Salvador and its trading partners. It is also responsible for monitoring tariff reductions and the application and preparation of safeguards, antidumping and countervailing measures, verifying origin and participating in national committees. DATCO works closely with the Trade Policy Office.
- The CAFTA Office — Aimed at assisting in relevant activities to ensure effective follow-up of the Free Trade Agreement between Central America-Dominican Republic-United States of America (CAFTA-DR), and supporting the Ministry in promoting strategies to promote the effective implementation of CAFTA - DR in all its areas.

The **Vice-Ministry of Trade and Industry** is responsible for coordinating the tasks aimed at: improving the business climate in the country; facilitating the creation and implementation of national and foreign investment; the development and strengthening of investment and export programs, and other initiatives aimed at boosting the country's competitiveness in production and trade. In fulfilling these responsibilities, the Vice-Ministry coordinates its action with the following MINEC offices and other institutions:

- **The Business Competitiveness Office (DCE):** The purpose of this office is to investigate and analyze the conditions of supply and demand for Salvadorian products

and services and to identify the critical elements of competitiveness which, once attained, will enable El Salvador to take better advantage of trade opportunities. The DCE is also responsible for reporting the results of its research activities to the public and the private sector and for taking actions to encourage the use of existing instruments that support the strengthening of production chains and improve the competitiveness of the economy.

- **The Quality and Technology Office (DCT):** The purpose of this office is to promote the creation and improvement of the legal, institutional and operating conditions for public and private entities so as to encourage and facilitate the development of business capacities, especially through the ongoing improvement of human capital, the continuous upgrading of infrastructure and services for quality and productivity management, and the innovation and technological development that will enable entities to compete in local and international markets.
- **The Trade and Investment Office (DCI):** The purpose of this office is to help Salvadorian enterprises to increase their production and boost their efficiency and competitiveness in the national and international markets. This office is responsible for: contributing to the improvement of the business climate; facilitating the establishment and operation of investments; monitoring enterprises in order to identify obstacles to production and contribute to their removal; and developing the industrial capacity needed to support the country's exports. The office has two subdivisions:
  - **The National Investment Office (ONI):** which works as a customer service window for companies and individuals wishing to process the permits and requirements needed for making foreign or national commercial investments, whether these be branches, agencies, offices or a single undertaking); and
  - **Business Support:** which facilitates the handling of national and foreign investments. Its functions include: administering the Free Trade Zone Law and the legislation on export reactivation; monitoring enterprises on a regular basis so as to identify operational barriers and support the solutions to such problems; and advising on and supporting the development of adequate industrial capacity in free zones and industrial parks.
- **The Office of the Export Promotion Fund (FOEX):** The purpose of this office is to arrange non-reimbursable joint financing for the activities deemed eligible for such funding according to the Operations Manuals in force, so as to support micro, small and medium-size enterprises (MSMEs), either on an individual or a group basis in their efforts to carry out their production activities according to standards of quality, productivity, technological innovation, human resources training, and environmental protection that will enable them to attain the necessary level of competitiveness. This office is also responsible for supporting the promotion and placement of the products and services of MSMEs in open markets.
- **National Commission for Micro and Small Enterprises (CONAMPYME):** This commission is responsible for supporting the competitive development of micro and small enterprises in El Salvador. It therefore promotes, facilitates and coordinates national and international policies, strategies, programs and projects (in both the public

and private sector) to develop micro and small enterprises, which represent a significant portion of Salvadorian industry.

- **The National Export and Investment Promotion Commission (CONADEI):** This decentralized government institution, which is attached to the Office of the President of the Republic, was constituted by Executive Decree No. 57 of 23 November 2004 and supports the institutions and agencies devoted to the promotion of Salvadorian product and service exports (EXPORTA) and the promotion of foreign investments (PROESA). The objectives of CONADEI are to (a) promote Salvadorian product and service exports with a view to fostering the growth and diversification of exports and generating more and better job opportunities in the country; and (b) promote and facilitate access, so as to increase foreign investment which can complement national investment as a means of generating more and better job opportunities.

## **Part B: CAPACITY BUILDING BY AREA**

### **I IMPLEMENTATION OF THE TRADE AGREEMENT**

In 1989, the Government of El Salvador embarked upon a modernization process to strengthen the private sector and minimize the Government's role in the economy. This process included a State modernization program, but more work is still required in certain areas to help the country face the new challenges posed by globalization.

During the implementation and exploitation stages of CAFTA-DR, priority is being awarded to the strengthening of the institutions that play an active role in the administration of the agreement and in taking action that will enable companies to take advantage of it. Cooperation is required in the following areas and institutions in particular:

<b>AREA</b>	<b>INSTITUTIONES RELATED TO THE IMPLEMENTATION</b>
<b>1. SANITARY AND PHYTO-SANITARY SYSTEM</b>	Ministry of Agriculture and Livestock (MAG) Ministry of Public Health and Social Welfare (MSPAS)
<b>2. RULES OF ORIGIN AND CUSTOMS PROCEDURES</b>	The Trade Agreements Administration Office (DATCO) is responsible for ensuring compliance with the Rules of Origin provisions negotiated within the framework of the free trade agreements
<b>3. TECHNICAL BARRIERS TO TRADE (TBT)</b>	The National Science and Technology Council (CONACYT), an autonomous entity that operates under the responsibility of the Ministry of the Economy, is the entity responsible for directing and coordinating activities related to standardization, metrology, and quality verification and certification.  The Trade Agreements Administration Office (DATCO) is responsible for contributing in a timely manner to the elimination of barriers to trade, especially non-tariff barriers, and for fostering and promoting a climate that attracts and encourages investment.

<p><b>4. SUBSIDIES, ANTIDUMPING, SAFEGUARDS AND DISPUTE SETTLEMENT</b></p>	<p>The Trade Agreements Administration Office (DATCO) is the entity in charge of implementing trade agreements. DATCO is responsible for administering the chapters on trade remedies in the various trade agreements that the country has signed and for ensuring the correct application and control of the provisions set forth in those instruments. DATCO administers the provisions and procedures for handling cases of unfair competition in imports, such as dumping or illegal subsidies, and for applying safeguards to avoid serious damage to a group of producers or industries.</p>
<p><b>5. INTELLECTUAL PROPERTY ISSUES AND COMPETITIVENESS POLICY</b></p>	<p>The Trade Policy Office of the Ministry of Economy is in charge of defining and implementing trade policy on intellectual property rights (IPR), which includes drafting proposed legislation on intellectual property rights, participating in the negotiation of trade agreements containing provisions on intellectual property, and coordinating all agencies involved in intellectual property rights.</p> <p>The National Records Center (CNR), through the Intellectual Property Office, is responsible for the administrative procedures related to the registration and granting of intellectual property rights and for promoting public awareness about, and respect for, intellectual property rights in El Salvador.</p> <p>The Special Unit for Intellectual Property Crimes, which belongs to the Public Prosecutor's Office, and the Judicial System also play an important role in enforcing intellectual property rights through their handling of cases and the decisions handed down regarding IPR disputes and violations.</p> <p>DATCO is responsible for administering the chapters on intellectual property rights in the various trade agreements that the country has signed and for ensuring the correct application and control of the provisions set forth in those instruments.</p>
<p><b>6. GOVERNMENT PROCUREMENT</b></p>	<p>In accordance with Law 668, the Regulatory Unit for Government Procurement (UNAC), which falls under the responsibility of the Ministry of Finance, is in charge government procurement and handles the National Government Procurement System (SIAS).</p> <p>The Trade Agreements Administration Office (DATCO) is the entity in charge of ensuring compliance with the provisions on government procurement negotiated in the chapters on the subject in the Free Trade Agreements that El Salvador signs.</p>
<p><b>7. STATISTICS</b></p>	<p>The General Office for Statistics and Censuses (DIGESTYC) of the Ministry of Economy is responsible for the national statistics system.</p>

The implementation of the trade agreement is under the responsibility of the institutions identified above, the strengthening of the same through consultancies, internships and training, documentation, equipment, etc.. becomes relevant for the better administration of the Trade. The cooperation needs for these institutions are presented in the Volume II of this document.

## **II. THE TRANSITION TOWARDS FREE TRADE**

El Salvador focuses the strategies for the transition to free trade and the creation of national trade capacities, within the framework of CAFTA-DR, in 5 major themes: Strategy for Increased Competitiveness, Opening and Integration: a Country jointed with the World, Agricultural Development: Expansions of the Value Chain, National Strategy for the Micro, Small and Medium Enterprises and strategy for strengthening of the sectors most sensitive and vulnerable sectors in reference with CAFTA-DR'S phase out tariff schedule.

### **1. STRATEGY TO IMPROVE COMPETITIVENESS**

The international situation is changing the outlook for Salvadorian enterprises. The intensification of international trade relations means that they now have to compete in their local market and in foreign ones. This change is both unavoidable and irreversible and represents a huge opportunity for growth and development that becomes particularly relevant with the entry into effect of CAFTA-DR.

A country's development is based on attaining high levels of sustained growth over long periods, and this can only be achieved by boosting the competitiveness of its enterprises. Government policies therefore focus on creating the necessary conditions for economic growth to be generated by high productivity, i.e., higher yields by the country's production factors (capital and labor), which is achieved by lowering all production costs except those that affect workers' income.

Several measures have already been taken. These include steps to eliminate excessive red tape, improve the efficiency of basic services, lower financing costs, improving human resources, modernize production infrastructure, update legislation, and promote physical safety and legal security.

Technological innovation and the promotion of quality have become particularly important as key elements for accessing the developed markets in which El Salvador hopes to sell its products and services in the future. The country's economic platform is now oriented towards increasing the returns on national and foreign investment in the belief that investment is the only means of generating more and better jobs and consequently of sustaining the fight against poverty. The main pillars of this economic platform are:

- The Presidential Program "Connectivity Agenda", which promotes the use of information technology in various forms: electronic government, e-SMEs, e-commerce, the use of computers and Internet in schools, the strengthening of INFOCENTROS, etc.
- The Presidential Program "Discovering Production Potential", which establishes an advisory council with private-sector participation to promote the transformation of the Salvadorian production sector by identifying new and potentially successful activities.
- The Presidential Program "Efficient El Salvador", which aims to identify, streamline and improve the efficiency of government procedures that affect the competitiveness of the production sector, set up one-stop customer service windows and draw up charters of users rights to guarantee service quality and that procedures are completed within deadline.
- Definition of a technology development policy leading to the creation of the National Technological Innovation System. This involves the establishment of Technological



Research Fund, the statistics system for measuring productivity, the strengthening of joint investment funds for innovation in enterprise, the review of the institutional arrangements for supporting innovation (CONACYT), etc.

- The incorporation of new instruments into the National Innovation System, such as lines of credit and incentives for innovation and the adaptation of technology, especially to support SMEs and the agricultural sector.
- Creation of the National Quality Program, which target both the public and the private sector and involves the diffusion of quality standards, the upgrading of laboratories, the improvement of certification and accreditation schemes, etc.
- The design and implementation of a technology training policy for human resources, including the consolidation of scholarship programs for master's and doctorate degrees, the strengthening of INSAFORP so that its policies respond to the production sector's needs, and the revision of curricula with a view to ensuring that the demand of the production sector is met by the supply of the academic sector.
- Establishment of a program to encourage human resources training, especially in engineering, mathematics and sciences, with a view to the graduates of such training becoming teachers of the next generation as well as researchers and, as such, establishing the basic foundation for innovation in the country.
- Design and implementation of special funding programs for university studies so that students can continue their higher education.
- Improvement of the support infrastructure available to production, especially: increased efficiency in the port of Acajutla and the cargo operations at Comalapa airport; support for the construction of the port of Cutuco so that the project is completed according to schedule; investment in the strategic road network and continuation of FOVIAL; and support for regional electric integration, including the overhaul of the framework under which the electric sector operates so as to ensure competitive prices.
- Increased efficiency of customs services and coordination with other Central American governments to speed up border procedures for goods and persons.
- Review of the legal framework for trade and investment with a view to modernizing it and ensuring is contributes to national efforts to improve productivity and competitiveness.

The general objectives of the strategy are to: (i) Increase and diversify export supply; (ii) Boost the country's capacity to compete in markets; (ii) Foster the development of production, trade and managerial capacities, and (iv) Generate more and better jobs.

The areas the strategy focuses on are listed below. The goal is to: (i) Create a favorable business climate for investment; (ii) Improve of human resources; (iii) Increase quality and productivity; (iv) Build technological capacity; (v) Ensure the integral development of MSMEs; (vi) Promote self-discovery and production potential; (vii) Foster social responsibility among enterprises; and (viii) Support statistics for development.

## **2. OPENNESS AND INTEGRATION: A COUNTRY CONNECTED TO THE WORLD**

In the new international economic climate, the Government of El Salvador must continue to further the trade liberalization and integration process as a means of establishing El Salvador as a country that is connected to the rest of the world. According to the Government Plan, "The connectivity that is transforming the world forces countries to consider their international setting and to redesign their public policies to take advantage of the interrelation of modern societies in the pursuit of development."

The technological revolution, which is having a tremendous impact on all nations, is now accompanied by globalization and the formation of trade blocks. This brings with it several substantial collateral benefits, such as the generation of jobs and the transfer of technology. It also means, however, that in order to take advantage of international trade and investment flows, different government policies and strategies will have to be developed in the 21<sup>st</sup> century.

El Salvador is part of a region that is committed to commercial opening and integration with the North American trade block, but the country's efforts have not stopped there: El Salvador needs to be ambitious and has therefore also sought integration with other parts of the world through trade agreements with Colombia, as a gateway to South America; with Taiwan, as a gateway to the Asian market; and with CARICOM, as a gateway to the Caribbean. There is no other course open to the country. El Salvador has to adopt a bold approach to this process. It must also be a realistic one, because the world market poses not only great opportunities, but also great challenges.

Central American integration will be the springboard for the country's efforts to participate in international trade and investment flows because economies of scale, production volumes and technological advances make it essential for smaller economies like El Salvador to join larger blocks in order to survive. El Salvador will also take advantage of Central America's strategic location as a bridge between two large hemispheric regions to present itself as a safe and attractive destination for investment.

The country will further its trade liberalization strategy by seizing the opportunities generated by the entry into effect of CAFTA-DR and looking forward to those that will be generated by the FTAs with Taiwan and Colombia, which are due to enter into force during the first quarter of 2008, and the prompt completion of the agreement with CARICOM. El Salvador will thus be developing the country's international relations through an aggressive foreign policy aimed at enhancing the country's participation in bilateral and multilateral for a, promoting the country's exports, and attracting increasing amounts of foreign direct investment.

Some of the actions that the Government of El Salvador is carrying out in the pursuit of these objectives are as follows:

- Creation of the Presidential Program, "Connectivity Agenda", which aims to establish an integrated country that projects itself outwards towards the rest of the world.
- Strengthening of the Trade Policy Office of the Ministry of Economy and other government entities engaged in the country's trade negotiations, with a view to improving coordination and efficiency both in new negotiations and in the administration of the agreements already signed.
- Strengthening of the institutional capacity of the Ministry of Economy to take advantage of CAFTA-DR through the establishment of a CAFTA Office to assist in the generation of national strategies and support other government entities, including the Trade Policy Office and the Trade Agreements Administration Office, with strategic matters related to CAFTA-DR.
- Constant monitoring of the performance of the Free Trade Agreements currently in force with a view to improving conditions for the country's exporters.
- Strengthening of the country's leadership in the Central American integration process, aiming to finalize the agreements for the Customs Union in the short term.

- Improvement of dispute settlement mechanisms in Central America to ensure a rapid response in the case of disputes and to avoid the country's products facing border closures for no justifiable reason.
- Simplification and streamlining of foreign trade procedures, including import procedures, through the creation of a one-stop window for export procedures.
- Improvements in the efficiency of customs operations to speed up procedures and lower costs.

The general objectives of the strategy are to: (i) Increase access to foreign markets; (ii) Establish a predictable legal framework; (iii) Open up new production and trade opportunities; and (iv) Generate more and better jobs.

The areas the strategy focuses on are: (i) The negotiation and signing of free trade agreements (EU, Taiwan, Colombia, CARICOM); (ii) The consolidation of Central American integration (customs union, dispute settlement, etc.); (iii) Active participation in multilateral for a (WTO, WIPO, FTAA, etc.); (iv) Efficient management of the agreements (rules of origin, trade practices, etc.); and (v) The expansion of trade opportunities.

### **3. AGRICULTURAL DEVELOPMENT: EXTENDING THE VALUE CHAINS**

According to the Government's Safe Country Plan 2004-2009, "The new agricultural policy is oriented towards ensuring that agricultural workers obtain mover income by creating the necessary conditions for rural areas to participate more in national production and by generating jobs and wealth. The instruments for achieving this goal must incorporate advanced technology that will allow Salvadorian producers to attain productivity levels equal to those attained through the best practices in the world. It is important to mention, however, that efforts to generate jobs in rural areas should not be limited to farming activities, but should also encourage non-farming activities such as tourism, handicrafts, small and micro agro-industrial enterprises, etc."

Globalization and the increase in trade flows have made many products that form part of the staple diet in Central America available at lower prices on the international market. Although this is good news for consumers, as they obtain items of higher quality at lower prices, it is bad news for farmers because they do not receive the same benefits from marketing their produce. Also, the rich countries generally have extensive domestic support programs to compensate their farmers for these effects. This drives prices down even more and further complicates the situation for Salvadorian farmers.

Farmers in El Salvador are already facing a complex array of problems: high levels of indebtedness, low levels of technology, poor productivity, minimal association, and a whole series of difficulties stemming from the agrarian reform process and associated with the country's recent armed conflict. The huge challenge for agricultural policy therefore now consists in restructuring the sector's production and restoring its levels of profitability, boosting current activities and seeking out new technologies and potential products. This must be achieved without raising the cost of the products that form the staple diet of the people of El Salvador, however, given that one sector cannot benefit at the expense of the population as a whole.

The agricultural sector is being awarded particular importance within the Government's national policy because it has the potential to generate large numbers of jobs in the short term. Agricultural policy is therefore aimed at raising the incomes of farm workers by establishing the

conditions for rural areas to participate more in national production and by generating jobs and wealth.

Under the Government Plan, special attention will be paid to seeking profitable alternatives, and a Presidential Program has being set up for this specific purpose. A clear distinction will need to be made in the economic policies for the agricultural sector according to the characteristics of the populations they target. Policies targeting producers with little potential will have to have a more significant social component, while policies targeting producers with growth potential will have a larger production support component.

The most important activities contemplated in the current Government Plan for the development of the agricultural sector are listed below:

- Creation of the Presidential Program "Restructuring Agricultural Production: Strengthening Our Roots", which pays special attention to the restructuring and modernization of agricultural production.
- Encouraging the formation of farmers associations that focus on enterprise management and marketing, so that farmers can take advantage of exchanges of experiences and economies of scale in areas such as product marketing and farm input purchases. Local municipalities will play a key role in these efforts, which will form part of general rural development strategy.
- Establishment of a coordinated Rural Public Investment Program to boost the sustainable rural roads program, the rural electrification program, and the reservoir development programs and small irrigation projects for promising crops, among other initiatives.
- Creation, with the support of international cooperation, of seasonal employment programs to temporarily alleviate the difficult situation facing the inhabitants of the poorest areas affected by the coffee crisis (e.g. food for work programs).
- Modernization of the public institutions that support the agricultural sector (the National Agricultural School (ENA), the National Center for Agricultural and Forestry Technology (CENTA), and the Fisheries Development Center (CENDEPESCA)).
- Creation of a "farm outreach" program based on preparing agents to train and assist small and medium-size farmers in making their existing crops feasible or in changing over to the production of other crops (hydroponics, timber-yielding crops, citric fruits, tilapia, etc.).
- Generate statistics and information on current land use and the potential for diversification, and the establishment of customer service offices for farmers in rural areas to provide specific information on new crops (costs, yield, prices, markets, inputs, production technology, etc.).
- Creation of the National Technology Generation and Transfer System and strengthening of the support fund for innovative product initiatives in farming, so as to support the adoption of new practices and the processing of new products, as well as related training activities. Action in this area will be coordinated with existing public and private initiatives.
- Promotion of the quality and hygiene of agricultural products so as to be able to penetrate new markets and guarantee a safe food supply locally, by strengthening the plant and animal health system and implementing training and outreach programs.
- Continuation of the improved seed exchange programs to spread basic grain technology, and extension of this program as much as possible to other products.

- Continuation of the planting and marketing agreements between grain farmers and industrial grains processors, and extension of these kinds of agreements to other sectors, such as the cotton sector.
- Encourage the use of Farm Produce Exchanges to lend transparency to the marketing of such products and to prevent informal intermediaries profiting from the process.
- Pursue tariff harmonization throughout Central America for agricultural products so as to avoid triangulations that undermine the impact of domestic policies.
- Implement a billing and payment system for environmental services in the short term.
- Consolidate micro-lending programs through the Agricultural Development Bank (BFA) and other non-banking financial intermediaries so as to facilitate access to credit in rural areas.
- Encourage the diversification of agriculture towards more profitable crops (whether these be import substitutes or crops that are of use to agro-industry) by facilitating access to information on new crops, opportunities and market niches, and by attracting foreign investors as strategic partners who can transfer new technologies to the country.
- Implementation of a comprehensive forestry development program for the country that facilitates the establishment of plantations through the provision of suitable financing mechanisms that make plantations profitable in the first years of operations and by assisting with the identification of markets for their produce.
- Encourage the cultivation of timber-yielding crops and fruit trees associated with coffee growing so as to generate additional income and conserve the forested areas of the country. Also promote programs that add value to coffee production, such as investments in roasting facilities, brand name promotion, etc.
- Encourage the development of new products and byproducts based on sugar cane, with emphasis on the production of alcohol both for local consumption (as a fuel additive) and for export.
- Encourage the generation of renewable electrical energy obtained from the exploitation of plant waste produced on farms (e.g. sugar cane bagasse, coffee husks, rice hulls, and coconut husks).
- Pass a law on the use of a percentage of carburant alcohol in gasoline.
- Continuation of the Fruit Trees Program and the eradication of fruit fly so as to preserve the quality of Salvadorian fruits for the national and the international market.
- Encourage foreign investors to participate as strategic partners in innovative farming projects through the Association to Promote Salvadorian Business and Production (PROESA).
- Create a special program to help farming cooperatives and support them in the search for profitable projects and production alternatives.
- Revise the pertinent legislation, including the Law on Genetically Modified Organisms (to increase competitiveness) and the Law on the Lease of Land for Agricultural Use, and issue the necessary regulations.
- Implement programs to combat the smuggling of farm products, especially dairy products and sugar.
- Improve the development plans for the livestock sector, by providing training and technical assistance, focusing on quality improvements and market development and encouraging the formation of livestock breeding associations.
- Encourage the sustainable exploitation of the fishing sector starting with a review of the institutional framework for support and drafting a proposal for the development of continental sea fishing.

**The general objectives of the strategy are to:**

**(i) At the macro level:**

- Build the capacity to analyze and follow up macroeconomic policies and boost the capacity of the MAG to formulate and follow up on trade policy and facilitate trade;
- Eliminate the unfair competition generated by smuggling and the discretionary application of tariffs;
- Effectively and opportunely fight the various forms of unfair competition by enforcing the pertinent national laws and sanitary measures; and
- Improve the inspections and verification of origin of farm products.

**(ii) At the institutional level:**

- Build a short-, medium- and long-term planning and follow-up system to promote the development of the agricultural sector and train the human resources in the strategic areas set out in the Agricultural Development Plan for 2004-2009.

**The areas that the strategy focuses on include:**

**(i) At the macro level:**

- Strengthening the capacity of the MAG to provide the necessary advice on the administration of the trade agreements and set up an office devoted to facilitating trade in agricultural goods;
- Contributing to the establishment of a single tariff for all products imported from outside Central America, with exceptions only for economically or socially sensitive products;
- Ensuring compliance with the agreements negotiated in CAFTA-DR and avoiding the uncertainties that could arise from ambiguous translations or interpretations of specific clauses or from changes in United States legislation (the MAG will take the necessary measures to support the production sectors facing the greatest challenges).

**(ii) At the institutional level:**

- Design a policy, program and project scheduling, monitoring, follow-up and evaluation system for the agricultural action plan;
- Revise and update the investment policy of the MAG, arrange for the policy to be approved, and obtain financial support from both internal and external sources;
- Review and articulate the proposals for the restructuring of the MAG at the macro level in accordance with the new Government's proposals;
- Develop and implement a management information system for the MAG to integrate the information on the different subsystems of its administrative and technical divisions;
- Break down the technical and administrative functions of the MAG and distribute them among the hierarchical levels of its operations units;
- Establish alliances and agreements to facilitate the incorporation of the private sector in the provision of services;
- Revise and implement a human resources development plan for the MAG;
- Create mechanisms for the participation of the private sector and civil society in the planning, execution, and follow-up of the policies and projects promoted by the MAG;
- Establish an efficiency and profitability indicator system for each budget item;

- Modernize the strategic services of the MAG and extend the coverage of technical assistance and technology transfers to producers in the agricultural, forestry and fishing sectors.

### **Prospects:**

It is hoped that:

- The sustainable growth of the agricultural sector and the contribution it makes to the global economy are consolidated;
- The farming and the agro-industrial sector continues to generate more and more jobs (after generating 540,000 jobs in the farming cycle 2004/2005 and 625,00 jobs in 2006/2007);
- A more diversified agricultural sector is established, its exports grow and its activities contribute to the country's food security;
- International coffee and sugar prices remain favorable.

The emergence of new challenges and opportunities for the farming sector means that the public and the private sector need to construct a new vision for agriculture in the country.

The opportunities posed by the Free Trade Agreements (FTA) and the growing demand for renewable energies are two factors that will shape the development of the agricultural sector over the next few years.

## **4. NATIONAL STRATEGY FOR MICRO, SMALL AND MEDIUM-SIZE ENTERPRISES**

Micro, small and medium-size enterprises (MSMEs) play a key role in job creation and fighting poverty inasmuch as they represent a considerable percentage of the economically active population in El Salvador. According to the preliminary results of the 7<sup>th</sup> Economic Census of 2005, 99.6% of the businesses in the industry, trade, and services sectors are MSMEs. As the engine for growth and employment in the country, the MSME sector requires and deserves special attention.

Immersed as the country is in trade negotiations with other countries, MSMEs now have a huge opportunity to sell their products and services in a much larger market, either by exporting their products directly, selling them indirectly through specialized traders, or becoming suppliers of raw materials, inputs and services for exporters. The sector needs, however, to make improvements in terms of productivity and quality and to specialize, diversify and expand the goods and services it offers.

The Government Plan has two lines of approach for supporting the MSME sector: a job creation strategy for the subsistence micro-enterprise sector, on the one hand; and an economic expansion and development strategy for the enterprises with growth potential, on the other. Both social and economic concerns are thus being addressed simultaneously.

President Saca's administration is implementing a special policy for MSMEs aimed at improving the opportunities for developing the productivity of both the enterprises and their workers by boosting their production, management and trade capacities so that they can improve their position in national and international markets, generate better jobs and effectively contribute to the fight against poverty. The pursuit of these activities outside the large towns and cities will

help decentralize the country's economic growth and thus contribute to local development and a more even geographical distribution of economic development. This policy will be officially launched in October 2007.

The challenges that micro, small and medium-size enterprises must face in this process are addressed in the National Support System for MSMEs whose basic purpose is to: "Improve the opportunities for developing the productivity and the competitiveness of enterprises and their workers, as well as improve their position in national and international markets and increase the capacity of the sector to generate better jobs." The following programs and projects are included in the System:

- **Institutional Strengthening and Development:** This program was created to eliminate the obstacles that enterprises face and to foster a more friendly business climate. The strategy includes efforts to simplify procedures and formalize the sector, as well as a project to coordinate the activities of the national institutions and international donors involved in supporting the sector.
- **Development of a Business Culture and Incentives:** The main objective of this program is to promote good management practices, values and attitudes, with a view to generating a sense of social responsibility among enterprises.
- **Business Promotion Groups:** The main objective is to promote the competitiveness of enterprises through the formation of groups that can then constitute the main pillars of the sector. The strategy contemplates the formation of associations that strengthen enterprises by consolidating them into groups and activities to improve supply and support services to meet the demand of such associations.
- **Improved Access for Entrepreneurs and Workers to Financial Services:** This program aims to promote the financial services that respond to the characteristics and needs of the MSME sector and to improve access to such services for both entrepreneurs and workers. The innovative tools developed in this respect include: programs to increase the scope of micro-financing, leasing schemes, mutual guarantee funds, financial resource management schemes, and the Law on Non-Banking Financial Institutions.
- **Improved Access for Entrepreneurs to Non-Financial Business Development Services:** The main objective of this program is to further the development of the sector through the provision of quality business development services that help enterprises incorporate new techniques and technologies into their operations and to enhance the sector's productivity and competitiveness. The parallel subsidies mechanism is used in the program through the following projects: the technical assistance fund, training grants for micro and small enterprises, skills development centers, TRADEPOINT, and the export promotion project involving FOEX and the Production Development Fund (FONDEPRO).

The Government Plan also includes the following activities and measures:

- Design and implementation of a comprehensive support policy for MSMEs, including the revision of the institutional framework for the assistance given to the sector, with a view to improving the coordination and effectiveness of the support provided.



- Development of the financial services market for MSMEs by strengthening non-banking financial intermediaries and expanding micro-credit schemes especially in rural areas, among other activities.
- Reorganization of the mortgage bank (Banco Hipotecario) to make it into an effective instrument for providing a full range of services to MSMEs.
- Strengthening of the reciprocal guarantees system so as to facilitate MSME access to financing and business opportunities.
- Promotion of the regulatory framework that would make it possible for the invoices issued by MSMEs to be paid quickly and transparently.

The general objectives of the strategy are to: (i) Increase and diversify export supply; (ii) Boost the country's capacity to compete in markets; (iii) Foster the development of production, trade and managerial capacities; and (iv) Generate more and better jobs.

The areas the strategy focuses on are listed below. The goal is to: (i) Create a favorable business climate for investment; (ii) Improve of human resources; (iii) Increase quality and productivity; (iv) Build technological capacity; (v) Ensure the integral development of MSMEs; (vi) Promote self-discovery and production potential; (vii) Foster social responsibility among enterprises; and (viii) Support statistics for development.

## **5. STRATEGY FOR STRENGTHENING OF THE MOST SENSITIVE AND VULNERABLE SECTORS IN REFERENCE WITH CAFTA-DR'S PHASE OUT TARIFF SCHEDULE**

CAFTA-DR is undoubtedly El Salvador's more sensible and important FTA, because of its volume in actual and potential trade, as well as for the importance that the United States represents for El Salvador in its foreign trade. The United States together with Central America is by far our main trading partner. In consequence, this Agreement is a last generation agreement, which intensifies and deepens all trade aspects with much more impact than any other FTA that El Salvador has.

Through CAFTA, many obligations are created in all trade issues, ranging from market access (industrial and agricultural), to Sanitary and Phytosanitary and Telecommunications issues; furthermore, CAFTA also becomes an Agreement that involves trade aspects never before contemplated or regulated in Free Trade Agreements (Labor and Environment)

As such, this Agreement offers tremendous opportunities, but also puts forwards challenges for important and sensitive sectors in our domestic production. This is why we consider that besides offering assistance to take advantage of the opportunities that the Agreement offers, we must also provide our most sensitive sectors subject to trade liberalization with the adequate means to prevent and get prepared in an efficient way, to face any threat and impact that tariff reduction might represent.

In that sense, our evolving strategy is focused in aiming the cooperation resources that are actually being incorporated in our National Action Plan (NAP) so that they are pro-actively being targeted to taking measures to prevent or in any case reduce any negative impact that tariff phase out in CAFTA-DR might have in those sectors that greatly contribute in job generation and national production in our country.

## I. Current State of Tariff Reduction Schedule under CAFTA-DR

On the eve of CAFTA-DR's second anniversary in El Salvador, an important increase in El Salvador's exports to the United States is clear. This is much due to the fact that tariff and non-tariff barriers to our exports to the United States have been significantly reduced because of CAFTA-DR.

Nonetheless, in order to gain preferential access, concessions had to be logically made by El Salvador. Even though these concessions made by El Salvador took into account the levels of development of the Parties. In this regards, the main sectors in our domestic production and job generation have been identified, with the purpose of establishing the status for that sector in the phase out schedule, and thus determine what actions may be required to better prepare that sector. The industries or sectors identified are the following:

Agriculture:

- |          |                         |
|----------|-------------------------|
| 1. Pork  | 6. Chicken Leg-Quarters |
| 2. Tuna  | 7. Yellow Corn          |
| 3. Dairy | 8. White Corn           |
| 4. Rice  | 9. Sugar                |
| 5. Oils  | 10. Juices              |

Industrial:

- |                                   |                        |
|-----------------------------------|------------------------|
| 1. Fuels                          | 8. Paper               |
| 2. Medicines                      | 9. Textile and Apparel |
| 3. Paints                         | 10. Shoes              |
| 4. Hygiene and cleansing articles | 11. Iron and Steel     |
| 5. Plastics                       | 12. Metal tools        |
| 6. Travel Bags                    | 13. School goods       |
| 7. Wood Goods                     |                        |

When analyzing El Salvador's tariff reduction Schedule and general notes certain special treatment (like quotas) for specific sectors may be identified. Trade liberalization for these sectors can be summed up as follows:

In agriculture, most sectors are liberalized by quotas which restrict the access of these goods in quantities that may affect domestic production. Notwithstanding, after some years, the quotas disappear and these sectors must then compete with the US products in sensitive sectors such as pork, dairy, rice, chicken leg-quarters, etc.

Sector	Year when products become duty free	Comments
Pork Meat	2021	Liberalization is in quota with a 10% increase, in year 15 the quota has no limit. 750 MT of the quota are subject to performance requirement.
Tuna Fish	2006	Duty - free

Sector	Year when products become duty free	Comments
Dairy Products	2026	Liberalization of the sector is through a quota with a yearly compound increase of 5%. In the year 20, the quota has no limit and all the products have duty free access to the territory of El Salvador. The tariff for the rest of products out of quota phases out in category "F" (10 years of stand still period and 10 years of linear phase out). This applies to fluid milk and powdered milk, whey, butter, yogurt, ice cream, and other dairy products.
Rice	2024	Liberalization of the sector is through a quota with a 2% yearly increase, in year 18, the quota has no limit and all the products have duty free access to the territory of El Salvador. The rest of products out of quota are subject to a phase out category "P" (10 year stand still period and 8 years non-linear phase out). This applies to rough rice and milled rice.
Oil	2018 and 2021	These products are subject to phase out categories "N" and "D", and they both reflect linear phase outs in 12 and 15 years respectively.
Chicken Leg Quarters	2024	Liberalization of the sector is through a quota with a growth with determined amounts. In year 18, the quota has no limit and all the products have duty free access to the territory of El Salvador. The rest of products out of quota are subject to phase out under category "P" (10 year stand still period and 8 years non linear phase out).
Yellow Corn	2021	Liberalization of the sector is through a quota with a 5% increase, in year 15, the quota has no limit and all the products have duty free access to the territory of El Salvador. The rest of products out of quota are subject to phase out category "O" (6 year stand still period and 9 years non linear phase out). El Salvador may maintain performance requirements for 100,000 MT within the quota.
White Corn	There is not a complete liberalization	Liberalization of the sector is through a quota with a yearly growth of 5%. In year 15 and beyond, the quota grows in 750 MT every year. The rest of products out of quota are subject to the MFN duty. El Salvador may maintain performance requirements for 15,000 MT within the quota until year 15.
Sugar	2021	United States sugar will have preferential treatment in category "D" to the amount that US exports surpass their imports in that product. In other words, it will only have preferential treatment when the US becomes a sugar net exporter.
Fruit Juices	2016	Juices will phase out lineally in 10 identical cuts.

In the industrial sector, phase out is somewhat simpler than in the agricultural sector, since industrial products shall phase out in a maximum of 10 years. There is only flexibility in the way that the duty is phased out. For example, there is the "M" category (non linear 10 year cuts) that applies for products such as plastics, vehicles and paper.

Sector	Year when products become duty free	Comments
Fuels	2006 and 2016	Fuels will phase out immediately, except some oils for industrial use that will phase out in 10 identical annual cuts.
Medicines	2011 and 2016	Medicine shall phase out in five and ten identical annual cuts (only those for sale, the rest shall be duty free an MFN rate).
Paints	2006 and 2016	Paints shall phase out immediately except some paints and varnishes that shall phase out in 10 identical annual cuts. The varnishes used by artists shall phase out in 10 years (non linear cuts).
Cleaning and hygiene products	2016	The cleaning and hygiene products will be phased out in 10 yearly cuts (linear cuts).
Plastics	2011 and 2016	Plastics will be phased out in 5 and 10 yearly cuts (linear cuts). The plastic metalized packing shall phase out in 10 years (non linear cuts).
Leather bags	2006	The leather handbags are duty-free
Wooden cases and boxes	2006	The wooden cases and boxes are duty – free.
Paper	2011 and 2016	Paper shall be phased out in 5 and 10 yearly cuts (linear cuts). Some kinds of papers shall be phased out in 10 years (non linear cuts).
Textile and Apparel	2006	Textile and apparel is duty free, except for jute bag which phase out in 10 years.
Footwear	2011 and 2016	Footwear shall be phased out in 5 and 10 yearly cuts (linear cuts). Some kinds of footwear shall be phased out in 10 years (non linear cuts).
Iron and Steel	2016	Iron and steel products shall be phased out in 10 years (linear and non linear cuts).
Aluminum Foil Packing	2016	Aluminum Foils Packing shall be phased out in 10 years (non linear cuts)
School and office supplies	2011 and 2016	The School and office supplies shall be phased out in 5 and 10 yearly cuts (linear cuts).
Metal tools	2016	The metal Tools shall be phased out in 5 and 10 yearly cuts (linear cuts).

**Annex I: Tariff elimination Schedule Graphic**

