

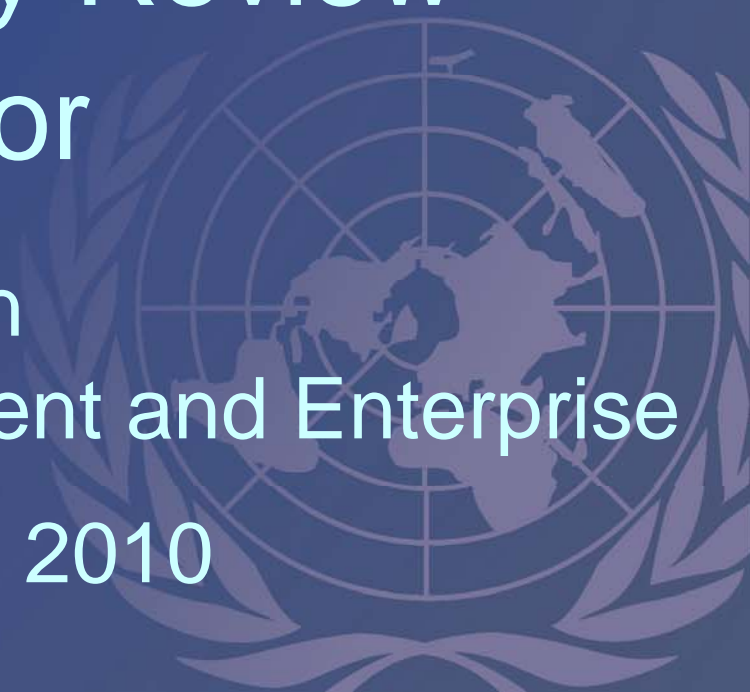


Investment Policy Review El Salvador

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Geneva, 27 April 2010





Context

- An open market-economy, a firm strategic choice:
 - ✓ Integration within Central America
 - ✓ Free trade agreements, open to external competition
 - ✓ Liberal FDI entry regime
 - ✓ Has been the strategy of all high-income small economies
- Increasingly diversified and modernized economy
- Key challenges:
 - ✓ Poverty, inequality and job creation
 - ✓ Reach the high-end of upper middle-income countries





FDI prospects and potential contributions

- Potential for larger beneficial FDI inflows is high
 - ✓ Core attraction conditions are present in El Salvador
 - ✓ Relative FDI inflow data show room for improvement
- Expectations need to be realistic:
 - ✓ Local investors must drive wealth creation
 - ✓ Appropriate strategies, policies and regulations needed
- FDI can play a catalytic role in important areas:
 - ✓ Infrastructure, human capital
 - ✓ Process upgrading, modernisation of domestic firms
 - ✓ New technologies and dynamic sectors





IPR: 3 key areas of recommendations

FDI in support of
national
competitiveness

FDI for
sustainable
development

Implications for
investment promotion





FDI in support of national competitiveness

Five key areas for Government action

Leveraging FDI for human capital development

Achieving excellence in investment regulation and facilitation

Strengthening infrastructure through FDI

Promoting capital markets development

Fostering linkages and the internationalisation of firms





Concrete steps towards competitiveness (1)

- Proactively promote FDI in education:
 - ✓ Lift legal barriers to FDI in higher education
 - ✓ Strengthen compulsory quality controls
 - ✓ Build bridges between private sector and universities
 - ✓ Join Bologna Policy Forum and promote exchanges
- Focus on infrastructure:
 - ✓ Give top priority to La Unión concession
 - ✓ Adopt legal framework for PPPs in infrastructure
 - ✓ Prepare indicative power Master Plan to promote investments in generation and desired energy mix





Concrete steps towards competitiveness (2)

- Promote linkages and internationalisation:
 - ✓ Tax credits for suppliers development programmes
 - ✓ Linkages opportunities database, fairs and conferences
 - ✓ Increase absorptive capacity of local firms (EMPRETEC)
- Prepare capital markets development policy:
 - ✓ Listing requirements, mutual funds, venture capital
- Achieve excellence in regulation & facilitation:
 - ✓ Reformed tax system with targeted incentives
 - ✓ Benchmark customs performance against the best
 - ✓ Strengthen regulatory institutions and judicial system





FDI for sustainable development

- Build a “green and responsible” FDI strategy:
 - ✓ Rising business opportunities can be built upon
 - ✓ Test strategy in EPZs, generalise it if successful
 - ✓ Part of an overarching policy of sustainable development
- Concrete measures:
 - ✓ Accelerated depreciation of certain assets
 - ✓ Excess deductions on specified expenses
 - ✓ Development of “green” value chains
 - ✓ Adopt a widely accepted carbon-accounting methodology
 - ✓ Promote production of renewable electricity (Master Plan)





Implications for investment promotion

- Image building: time is ripe for stepped-up efforts
- Outreach to the Diaspora:
 - ✓ Use Diaspora as “sales force”, develop brochures
 - ✓ Set up a desk at the airport
- Continuously assess sectoral targeting
- Increased role for aftercare and advocacy
- Optimise synergies in investment and export promotion
- Increased resources will be needed





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