



**NATIONAL ACTION PLAN
FOR TRADE CAPACITY BUILDING:
MEETING THE CHALLENGE OF
GLOBALIZATION**



VOLUME I: GENERAL STRATEGY

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NATIONAL ACTION PLAN FOR TRADE CAPACITY BUILDING

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FOREWORD

The National Action Plan for Trade Capacity Building for El Salvador has been prepared to define, prioritize, and articulate the country's trade-related capacity building needs. The Action Plan will serve as a management tool for mobilizing and managing trade capacity building assistance – both from public and private sources – to support: a) preparation for and participation in the United States-Central America Free Trade Agreement (US-CAFTA) negotiations; b) implementation of the agreement; and c) the transition and changes necessary to reap fully the benefits of the US-CAFTA. It has been conceived as an integral component of the country's trade development strategy.

The El Salvador Action Plan was prepared under the direction of the Trade Policy Department with the Ministry of Economy of El Salvador. Technical support was provided by the OAS-IDB-ECLAC Tripartite Committee.

For the preparation of the Action Plan a broad consultation was organized by the Government of El Salvador (GOES) with public entities with responsibilities in the area of trade, as well as with representatives of the private sector and other segments of civil society, including academic and research institutions. Each participant provided written inputs describing the organizational and policy making structure of the entity and identifying its needs for trade capacity building.

The main objective was to include in the Action Plan the relevant information necessary to present to potential donors –both public and private- well defined and articulated needs with an appropriate justification. The Action Plan will evolve over time, being revised and updated as appropriate, particularly in light of implementing obligations and structural changes.

An attempt was made to place the identified needs in the context of the broader development strategy, in general, and of the trade policy objectives, in particular. El Salvador is implementing a coherent and focused development strategy that will provide an effective framework in which to integrate the different cooperation projects and help avoid a piecemeal approach that could hamper cooperation efforts.

In identifying its priorities, El Salvador paid particular attention to the importance it attributes to strengthening the Central American integration process. Thus, many of the projects identified as top priorities were those that have a potential to be implemented as part of a sub-regional effort. This will certainly help rationalize donor's activities and ensure a better use of scarce resources. It will have the added advantage of strengthening the recently revitalized regional integration process.

The Action Plan consists of two volumes. The Volume I describes the TCB general strategy and includes two parts: Part A, which provides a brief discussion of the national context providing the current organizational and policy-making structure; and Part B, which includes El Salvador's trade capacity-building assessment, identifying a prioritized list of capacity needs in each.

The Volume II contains the project profiles since now identified in each of the areas described in the Volume I.

PART A: INTRODUCTION AND DESCRIPTION

I. GENERAL AND ECONOMIC VIEW

El Salvador is a republic and its form of government is a representative democracy. In March 1999, Francisco Flores was elected President of the Republic for the next five years. El Salvador is geographically the smallest and also the most densely populated of the five Central American Countries. It is bounded on the South by the Pacific Ocean, on the northwest by Guatemala and the northeast by Honduras, it is the only country without a border on the Caribbean Sea. El Salvador had a nominal gross domestic product (“GDP”) of approximately US\$13.7 billion in 2001, an increase of 23.4% from the 1997 GDP of approximately US\$11.1 billion. In the first six months of 2002, real GDP grew an annualized of 1.7%, compared to 1.6% during the first six months of 2001. It’s economy is oriented to light industry (manufacturing in 2001 comprised 23 percent of GDP) and services (61 percent of GDP). Agriculture, which in 2001 made up nearly 10 percent of GDP remains an important export sector and source of employment, but has decreased in overall economic significance; in 1981 the agricultural sector represented over a third of GDP.



Beginning in late 1989, the government began to implement a number of measures designed to strength the private sector and to minimize the government’s role in the economy. The principal steps taken by the government to stimulate the economy include the following:

- Adopting the Monetary Integration Act, which went into effect on January 1, 2001 and fixes the colon to US dollar at 8.75 to US\$1.00, allows free circulation on the US dollar in the Salvadoran economy and makes the US dollar the unit account for El Salvador’s financial sector?
- Reducing the role of government in many sectors of the economy trough a series of privatizations designed to encourage private investment and foster competition, among others the country’s electricity distribution companies and telecommunication providers. The government also granted private concessions for certain services and facilities at the international airport, considered one of the best of Latin America.
- Promoting trade and foreign investment through the elimination of some tariffs and the application of three tariff rates to approximately 90% of imports¹, the adoption of laws

¹ El Salvador has the lowest tariff of the Central American countries, with an average of around 4 percent, and import tariff revenue accounts for only about 9 percent of its current tax revenue. In keeping with its WTO commitments, El Salvador gradually, yet dramatically, reduced import duties for final and intermediate goods from up to 300 percent *ad valorem* in 1990, to a range of 5 to 15 percent by 1999. In 1995, import tariffs on capital goods and raw materials were reduced to zero.

allowing unlimited remittances of earnings by foreign companies, the provision for duty drawbacks on certain exports and the establishment of free trade zones covering more than 500,000 square meters. These measures are intended to stimulate manufacturing, principally by maquila plants, which are exempt from import and export duties and enjoy certain income exemptions. In addition to implementing the initiatives of the Central American Common Market, El Salvador has reached free trade agreements with strategic commercial partners and has qualified for enhanced, preferential access to US market under Caribbean Basin Initiative.

- Implementing a comprehensive tax reform that includes the simplification of the tax system and the reduction and elimination of some taxes and tax credits. The reforms commenced with the introduction of a value added tax in 1992 to provide a consistent revenue source.
- Decentralizing the government and modernizing, downsizing and closing public sector institutions.
- Reforming the pay-as-go pension system in 1996 by creating a private system modeled on the then-existing Chilean system.
- Privatizing the banking system in 1991, establishing an independent Central Bank and establishing a regulatory framework intended to promote competition among financial institutions.

Benefiting from these measures, El Salvador's real GDP increased at an average annual rate of 4.4% from 1992 to 2001 and 3.1% from 1997 to 2001. El Salvador's rate of inflation decreased from 12.1% in 1993 to 7.4% in 1996 and to 2.4% in 2002 (one of the lowest rates in Latin America). Primarily as a result of the Monetary Integration Act, the average interest rate on short- and long-term loans fell to 12.2% and 13.7% respectively, for December 2000 to 6.3% and 7.3%, respectively for July 2003.

A relatively open economy, about a third of El Salvador's economy is devoted to trade. Exports of goods and services experienced rapid growth during the 1990s, at an average annual rate of about 14 percent between 1991 and 2001, falling in 2002 with plummeting coffee prices. Main export products include coffee, pharmaceutical products, sugar, shrimp, textile and apparel, and cardboard boxes. Main export markets are the United States and the Central American countries.

In recent years, maquila has been the most dynamic activity within the economy, with maquila production increasing more than 65% in real terms from 1997 to 2002. As of July 2003 there were approximately 250 maquila plants in the country, and maquila exports represented more than 50% of total exports of goods.

In addition to the economic, monetary and fiscal reforms, since 1992, when it concluded the Peace Accords that ended a destructive 12-year armed conflict, El Salvador has implemented far-reaching political and social reforms. Political reforms, including reducing the scope of the military and establishing a National Civilian Police; reforming the electoral and judicial systems; and setting up a Land Transfer Program for ex-combatants and supporters of the opposition, led to democratic elections and electoral transitions.

As recognition of all of these efforts, El Salvador has been classified as one of the freest economies in the world, ranking the 23rd position in the Heritage Foundation Index in 2003 (the second position in Latin America after Chile), as well as one of the only three American countries with Investment Grade (along with Chile and Mexico).

In the last two years, El Salvador has signed free trade agreements with Mexico, Chile, the Dominican Republic and Panama, and is in the process of negotiating a similar agreement with Canada. Additionally, the CAFTA negotiation are well under way and will further the liberalization strategy already in place. El Salvador is convinced that the promotion of free markets and trade is the most powerful tool that can be use to advance economic prosperity and social development in the country in the medium and long term. There is a clear link between trade opportunity and economic development.

El Salvador is poised and ready for the challenge of working toward increased economic growth and the expansion of free trade. The opportunities and complementarities of the Salvadoran and US economy will be enhanced by CAFTA, providing the competitive edge needed to face the challenges of globalization, especially in the apparel sector where the elimination of quotas in 2005 will result in increased competition from exports like China.

A free trade agreement between Central America and the United States will not only consolidate an already strong relationship with our main trading partner but also will benefit American businesses, workers and consumers- while sending the world a powerful and distinct message that the United States and Central America are committed to free trade and economic integration and that together both can develop competitive solutions to benefit our people.

II. 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 to boost the productive and commercial development of the country. The MINEC is responsible for trade-related policy, conducting trade negotiations, and carrying out negotiations on investment and export promotion.

The MINEC's responsibilities are divided into two units, each headed by a Vice Minister: 1) the Vice-Minister of Economy; and 2) the Vice-Minister of Trade and Industry, both headed and coordinated by the Ministry of Economy:

The **Vice-Minister of Economy** is responsible for carrying out trade negotiations and following and implementing the process of Central American regional economic integration. In fulfilling his responsibilities, the Vice-Minister relies on two offices:

- The **Trade Policy Office** — *Dirección de Política Comercial* (DPC-MINEC), coordinates and conducts bilateral, regional and multilateral trade negotiations with the purpose of improving market access for Salvadoran exports and increasing investment and technology flows. The Trade Policy Office is mandated to consult regularly with other governmental agencies and entities responsible for areas related to the trade policy agenda. These include, among others: the Ministry of Agriculture (*Ministerio de Agricultura y Ganadería*), the Ministry of Public Health and Social Assistance (*Ministerio de Salud Pública y Asistencia Social*), the Ministry of Labor (*Ministerio de Trabajo*), the Ministry of Finance (*Ministerio de Hacienda*), the Ministry of the Environment and Natural Resources (*Ministerio de Medio Ambiente y Recursos Naturales*), and the National Council for Science and Technology (*Consejo Nacional de Ciencia y Tecnología*).

- The **Trade Agreements Administration Office** —*Dirección de Administración de Tratados* (DATCO) is the entity responsible for the implementation of trade agreements. Its mandate includes ensuring the compliance of obligations under trade agreements on the part of GOES as well as its trading partners; following tariff liberalization and the application and preparation of the administration of safeguards, antidumping and countervailing duties procedures; verification of origin and participation in National Committees. DATCO works in close cooperation with the Trade Policy Office.

The **Vice-Minister of Trade and Industry** is responsible for coordinating the efforts directed towards the improvement of the business climate in the country; facilitation of the establishment and operation of national and foreign investments; development and strengthening of the investment and export promotion schemes, and other initiatives designed to foment the productive and commercial competitiveness of the country. In the execution of his responsibilities, the Vice-Minister relies on the following offices of the MINEC and agencies of other Ministries:

- The **Competitive Development Exports Office**: is aimed to contribute to the diversification and development of the country's exportable offer and its exporting business capacity. The office is charged with conceptualizing, designing and developing tools and basic mechanisms for supporting technical specialists and business exporters. i) **The Competitive Intelligence Unit**: this identifies potential markets for the country's exportable offer; ii) **The Center of Export Services or 'Trade Point'**: which provides specialized trade-related information for the export sector.
- **The Trade and Investment Office**: aims to the support of the business sector, in order to increase production and boost efficiency and competitiveness in the national and international markets. The office is responsible for improving the business climate; facilitating the establishment and operation of investments; monitoring companies to identify obstacles to production and contribute to their solution; and developing the industrial roof for exports in the country. The office has two subdivisions:
 - i) **The National Investment Office (ONI)**: serves as a one-stop window to assist companies and individuals to process all the necessary permits and requirements to establish national and foreign investments/ a business (whether a branch, agency, office, or joint venture);
 - ii) **Support to Business Development**: This serves to facilitate the operation of national and foreign investments. In its functions the office: administers the Free Trade Zones Law and the legislation on export reactivation; monitors enterprises periodically in order to identify operational obstacles and support their solutions; and assesses and supports the development of an industrial roof in free zones and industrial parks.

The Office of the Fund for Export Promotion: administrates the Fund for Export Promotion (FOEX), which co-finances up to 50% of specific activities under the *Plan de Exportación de Pequeñas y Medianas Empresas* (Matching Grant for small and medium enterprises). FOEX's operation during the current pilot phase is governed by the Manual of Operations

authorized by the World Bank, which provides the resources, with charge to the Loan Agreement to Improve Competitiveness.

National Commission for Investment Promotion (PROESA): is an inter-ministerial committee made up of the Minister of Foreign Affairs, the Minister of Economy and the private sector, and headed by the Vice President of El Salvador. PROESA is a publicly-funded organization with strong private participation that is exclusively devoted to actively promoting foreign investment

The National Commission for the Micro and Small Enterprises (CONAMYPE): Its mission is to support the competitive development of Salvadoran micro and small enterprises. To this end, the Commission promotes, facilitates, and coordinates policies, strategies, and programs and projects (both public and private, national and foreign) for the development of micro and small enterprises, an important sector of Salvadoran industry.

Other Entities related with Trade and SME´s System

- The National Center of Export Procedures (CENTREX)
- The Consumer Protection Office (DPC)
- CENTROMYPE (NGO)
- The INFO-NETWORKS (*RED INFOCENTROS*) (NGO),
- The General Customs Office
- The National Council of Science and Technology
- The Salvadoran Institute for Professional
- Multi-Sector Investment Bank
- The Ministry of Foreign Affairs

PART B: CAPACITY BUILDING ISSUES BY AREA

I. TRADE NEGOTIATION AND PARTICIPATION PROCESS

The negotiation of the free trade agreement with El Salvador's main trading partner offers opportunities for economic growth by opening new markets to Salvadoran products, in accordance with the interests of the country. The region has recognized the need for an increasing participation of its citizens consistent with a commitment to transparency and to a development model based on political and economic freedom and democracy.

In this context, in the phase of "negotiation process", GOES has given high priority to ensuring that its negotiating team is provided with the appropriate information and tools to conduct a successful market access negotiation with its main trading partner and the participation of the civil society along the process.

In order to ensure the negotiation of the best agreement possible, it is necessary to implement a strategy to respond to the concerns of Salvadoran society regarding CAFTA so that there is the broadest possible support during 1) the negotiating process, 2) the ratification process and, 3) the participation in the activities that will assist in gaining benefits from the agreement.

To achieve such an objective it is essential to ensure that citizens have access to the necessary information and to appropriate channels to make their views known, GOES, through MINEC, has designed the "Process for Citizen Participation: Free Trade Agreement Central America-United States (hereinafter "Citizen Participation"). One of the goals of Citizen Participation is for the GOES to be kept abreast of the opinions and expectations of Salvadorans in relation to the objectives of US-CAFTA in an orderly, respectful and objective manner. The GOES considers that appropriate and timely international cooperation is key to the successful implementation of the Citizen Participation Strategy.

Such a strategy needs to fulfill the following objectives: 1) Channel the constructive inputs from society leading to negotiating positions that reflect a variety of visions and opinions with the purpose of achieving a balanced outcome and an agreement that responds to the diverse interests of the private sector, workers, consumers, etc.; 2) Provide the public with concrete, straightforward and timely information on free trade agreements in order to ensure an appropriate understanding of what is being negotiated and avoid the fears derived from the lack of information or misinformation; 3) Explain the concrete benefits of free trade in order to garner the broadest possible support from different sectors and society in general; 4) Build coalitions in favor of free trade, at both a national and regional level, in order to ensure the necessary support throughout the process; 5) Implement transparency and participation mechanisms throughout the process so that the population in general and those sectors that consider themselves most affected are aware that the government takes their concerns into consideration; 6) Ensure that the GOES and the different sectors talk with a unified voice that shows that this is a national project that seeks the welfare of the population in general.

The strategy for Citizen Participation includes a process of communication with the population. This is accomplished in several stages during the negotiating process through a series of modalities designed to maximize the participation of all Salvadorans in the negotiating process:

1. Exchange of Information: Organization of seminars, workshops and meetings with citizen participation with the purpose of providing objective and timely information and receiving inputs from the public, including Meetings and Seminars and other events.

These events are organized using different formats in order to ensure the greatest degree of transparency, including: town hall meetings; meetings with interest groups on specific issues; seminars and conferences on issues of interest to the public, MINEC is making an effort to organize these events throughout the country to reach the broadest possible audience and allow for the active participation of the population in the negotiating process.

2. Consultation Process

The consultation process seeks to achieve consensus at a national level or at the Central American level, as appropriate. This consultation process needs to be continued and broadened through, among others:

- **Consultation through ODASP:** The Office of Productive Sector Support for Trade Negotiations is the official link between the MINEC and the private sector. ODASP is comprised of representatives from the private sector organizations in El Salvador and is responsible for channeling to the MINEC the position of the sectors it represents in relation to the negotiations.
- **Consultations through MINEC:** Some other sectors present their positions directly to the MINEC and those are also taken into account when developing the country's position. In order to keep the citizens well informed of the negotiating process and encourage them to make their views known if they wish to do so, the MINEC makes every effort to ensure that the negotiations have the broadest coverage possible in the media. Likewise, the negotiating team in the MINEC is prepared to receive any sector that wishes to express their position or to advise them about the options that would best serve their interests.
- **Consultations with other Ministries:** The MINEC holds ongoing consultations with other governmental entities on different issues addressed in the negotiations. It is in permanent communication with, among others: the Ministry of Agriculture (*Ministerio de Agricultura y Ganadería*); the Ministry of Public Health and Social Assistance (*Ministerio de Salud Pública y Asistencia Social*); Ministry of Labor (*Ministerio de Trabajo y Previsión Social*); the General Customs Office (*Dirección General de la Renda de Aduanas*); National Registry Center (*Centro Nacional de Registros*), etc. On certain occasions, the MINEC participates in consultation together with other ministries involved in particular issues.

3. Active participation during the negotiating rounds: CUARTO ADJUNTO (Next Room): During the negotiating rounds with the United States, private sector representatives participate through the “next room” modality, through which they are informed and consulted as follows:

- **National Consultations:** The Salvadoran chief negotiator meets at least once a day with the domestic private sector to inform about the progress in each negotiating table and to consult on modifications to positions previously agreed to in consultations at the national or Central American level.

- **Regional Consultations:** At least twice during each round of negotiations the regional private sectors have the opportunity of meeting and exchanging ideas with the chief negotiators of each country on the progress made on the different issues.
- **Representatives of civil society** have also been invited to participate through this modality in order to strengthen the consultation mechanisms.

4. Channeling the views of the citizens

Mechanisms have been developed to receive and take into consideration the views of the Salvadorans on the negotiations, including:

- **Public audiences:** The first Public Audience was organized to allow the public to present their views orally –individually or collectively—about the objectives of CAFTA to the negotiating team. Other Audiences are programmed within the negotiation process.
- **Written comments:** In addition to the oral submissions, two new instruments have been put into place so as to allow interested parties to make their views known and contribute to the negotiating process: **Web page** where interested parties can express their views on specific aspects of the negotiation such as: market access objectives, labor and environmental issues, among others (The address is : audienciapublicatlc@minec.gob.sv and participacion-ciudadana-tlc@minec.gob.sv); likewise, an address has been established in the MINEC web-page where inputs on the negotiations can be posted regularly.

5. Developing tools for the mass dissemination of information

The GOES considers that it is essential to ensure that the largest number of Salvadorans possible be informed of the importance of the FTA negotiating process and of its potential benefits. It is considered that the following tools could help achieve this objective:

- **MINEC Web Page**
- **Audiovisual material**
- **The Media:** are addressing these issues so that the population is fully and continually informed.
- **INFOCENTROS:** The institutional infrastructure offered by the INFOCENTROS (network of public internet cabins) is being used to disseminate information on the negotiating process and on the benefits of the FTA to the broadest number of Salvadorans possible.
- **Educational material:** will be used in the dissemination campaigns

II. TRADE AGREEMENT IMPLEMENTATION

Since 1989, the GOES initiated a modernization process to strengthen the private sector and to minimize the government's role in the economy. A state modernization program was included in this process but there are still some areas that need to be strengthened to meet the new challenges that arise from the globalization process.

In this context, in the phase of the FTA implementation, the priorities will be concentrated in the strengthening of the institutions taking active role in the administration of the agreement. Special cooperation will be need in the following areas:

1. LABOR ISSUES

The Ministry of Labor and Social Welfare (ML) is the highest labor authority in El Salvador and defines national labor policy. The Ministry of Labor oversees the implementation of the legal framework in force in El Salvador, including Constitutional provisions, International Conventions ratified by El Salvador, the Labor Code and sector-specific legislation, and eventually, labor cooperation agreements with trading partners. Furthermore, the Ministry of Labor and Social Welfare is the entity responsible for planning, carrying out, and monitoring labor policies including: labor inspection, safety and health at work, social security and welfare, labor migration, development and design of employment policies, technical training, and cooperatives.

El Salvador is an active participant in the international efforts to protect, respect and promotes labor rights in multilateral forum specialized in labor issues, such as the International Labor Organization (ILO). In the context of the Central American Common Market (CACM) El Salvador is a member of the Central American Alliance for Sustainable Development (ALIDES) created in 1994. Signatory countries of ALIDES and the United States issued an Action Plan under the initiative called CONCAUSA (Central American-United States of America Joint Accord) to provide for the strengthening and modernization of the Ministries of Labor of the region and the implementation of a broad agenda on key labor issues.

During the Flores Administration, there has been a concerted effort to modernize and strengthen the labor functions of the Government. These efforts have involved primarily the Ministry of Labor and Social Welfare and the Labor Court system.

Given the limitations on resources of El Salvador as a developing country, and the unforeseen demands place upon the country by destruction caused by Hurricane Mitch and the earthquakes in 2001, an important component of the capacity building program has involved resources from outside donors, including the United States, Spain and the resources of the International Labor Organization. Many of the existing support programs have been developed in the context of support on labor for the countries of the Central American region.

Indeed, an initiative funded through U.S. AID and the Inter-America Development Bank, known as PROALCA, was initiated in the mid-1990s to help the Ministries of Labor of the region exchange information on their programs and initiatives and also coordinate their efforts to prepare for expanded international trade in anticipation of the Free Trade Area of the Americas and consistent with the labor component commitments identified in prior Summits of the Americas.

This support has been essential to permit the Ministries of Labor to improve their planning, assess their needs, exchange information, and develops a more strategic and integrated approach to modernizing the labor ministries of the region.

At the same time, a program supported by Spain has helped to provide resources to the Ministries of the region, including El Salvador, to improve the administration of the ministries, through support for new equipment, redesigned websites, management improvements and other administrative resources.

Moreover, in recent years the U.S. Department of Labor has provided essential support to El Salvador and the region, both through direct funding and through programs administered by the ILO.

Given the initiative of CAFTA and the increased demands and expectations on the Ministry of Labor to have a fully modernized labor administration capability, to make accelerated progress on assuring that core labor standards are fully protected and for the labor courts to provide timely judicial access and decisions, there is not doubt that El Salvador needs an ambitious program of further technical assistance and capacity building. That is in no way to minimize the very significant progress that has been made in recent years to provide improved services to the workforce and employers of El Salvador.

The following proposals reflect the priorities of El Salvador in the labor sector and in many cases build on initiatives that have already been started:

Labor Inspection: The Government of El Salvador increased the Ministry of Labor's budget by almost 20%. Much of these funds have been used to increase the number of labor inspectors, which have been increased by 25%, and to improve their training and professionalism. El Salvador has a zero tolerance policy with regard to corruption, and inspectors have been fired in recent years to enforce this policy.

It is critical to build on the investments and improvements that have been made, and to provide additional capacity building support for these inspectors through enhanced training to be provided by U.S. inspectors or ILO experts.

Industrial Relations and Fundamental Rights in the Workplace: This has been an area of work throughout the region, and an important ILO program known as Realcentro has already been initiated with support from the U.S. Department of Labor. This program supports our efforts to expand industrial dialogue, encourage concepts of win-win industrial relations, and put in place other ways to manage and reduce industrial conflict. Thus far more work needs to be done in this area.

We propose the need for support to do the following:

- Expanded employer and worker education programs on trade union rights and collective bargaining, and effective training programs for workers and employers on collective bargaining procedures.
- Expanded training for Ministry officials in mediation and conciliation, and support for the establishment of a fully professional and trained unit in the Ministry to undertake this function, and the establishment of an effective alternative dispute resolution capability.

Occupational safety and health, is another area where El Salvador has made important recent progress. Again, with support from the U.S. Department of Labor and the Inter-American Development Bank, and a donation of a building in San Salvador by the Government, an innovative and important regional center on occupational safety and health has been established to provide training, education, and technical equipment and expertise for the labor ministries, as well as employer and worker organizations in Central America.

Additional funding in this area would permit further accelerated improvements on modernizing the capacity of all of the actors in El Salvador and the region to further reduce accidents and dangerous exposures in our workplaces.

Training and Labor Market Information Systems: Of course, it is not possible to improve the conditions of work unless there are jobs for all those seeking them. We have made significant investments in improving our training systems but much more could be done with additional support. We also have a need for an integrated and technologically modern labor market information system that would allow computer access for employers to post job openings and workers to have access to the same data base. Such a system could also be integrated on a regional basis over time. Support for building such a network would be important.

Moreover, we are particularly proud of the effort of the Flores Administration to open up job opportunities for the disabled. Again, we had support for this effort from the U.S. Department of Labor, and additional resources would allow us to expand the opportunity for the disabled of our country to be full and productive participants in the world of work.

Child Labor: The Administration of President Flores is proud of the commitment that El Salvador has made to eliminate child labor on a "time-bound" under the ILO's International Program on the Elimination of Child Labor (IPEC). With the encouragement and commitment of support from the Government of the United States, El Salvador was the first country in the Western Hemisphere to commit to such an ambitious undertaking with the ILO, and one of only three nations globally (one in Africa and one in Asia). Thus far 6,000 children have been withdrawn from hazardous work, 2,500 hundred families have received support for alternative income generating initiatives, and plans are underway to withdraw almost 10,000 additional children from work and place them in schools, as well as to serve some 25,000 at risk children and their families. Still far more needs to be done, and El Salvador will need additional support from the U.S. Department of Labor to IPEC if El Salvador is to be able to succeed in this historic effort to effectively eliminate child labor in our nation.

Operations of the Labor Ministry: Although improvements have been made in recent years, and the Government of Spain has provided some support for modernization, the Ministry still faces challenges of resources, capacity and effective management. One of the ways the Ministry believes that management systems could be strengthened would be implementing systems that would permit certification of the labor inspectorate under the criteria of ISO 9000, and the Ministry would seek support for such an effort.

2. ENVIRONMENTAL ISSUES

El Salvador is an active participant in the international efforts to better protect the environment and promote the sustainable use of natural resources in regional and multilateral fora specialized in environmental issues. Under the framework of the ALIDES, El Salvador is pursuing several initiatives aimed at modernizing and strengthening environmental legislation and institutions. The goal of the signatories of ALIDES is to undertake all the necessary actions to ensure that economic, social and environmental policies contribute to sustainable development.

ALIDES signatory countries and the United States within the framework of an Action Plan under the initiative called CONCAUSA (Joint Declaration Central America-USA). This Action Plan promotes consultation and coordination for the adoption and implementation of policies, national legislation and standards that provide for high levels of environmental protection, conservation of biodiversity, energy development, reducing existing levels of pollution, and public awareness campaigns to strengthen sustainable use of natural resources.

El Salvador's current economic development strategy under the "*Alianza por el Futuro*", integrates environmental policies as an important component. This framework recognizes that the protection of the environment is essential to the sustainability of the economy, as well as the quality of life and health for present and future generations. The main law in El Salvador is the Environmental Law (*Ley de Medio Ambiente*), in force since March 2, 1998. Among the objectives of the Environmental Law are the following: to conserve and protect the flora and fauna, achieving cleaner air, enhancing access to safe water and sanitation services, and strengthening national capacities for integrated water resources management and for waste management.

The following areas were identified as issues where assistance is required:

Cleaner Production in El Salvador: i) a program for developing technical and legal standards for cleaner production in El Salvador, including: ii) a program for institutional strengthening in the effective application of technical and legal standards related to cleaner production in El Salvador; iii) a comprehensive training program on the application of technical and legal standards for cleaner production in El Salvador: iv) an incentive program for applying cleaner production in El Salvador

Conservation and Protection of the Biodiversity in El Salvador: i) Species in danger of extinction in the "Los C6banos" reef, and proposals for sustainable management; ii) Sustainable manage of the wetlands of Guija Lake, Olomega Lake, Cerr6n Grande and El Jocotal with purpose of the Sweetwater birds and marine costal birds of El Salvador; iii) Sustainable manage of 7 nest colonies for the reproduction of the Sweetwater birds and marine costal birds of El Salvador; iv) Protection and conservation of the biodiversity of the Barra de Santiago Complex protected natural area; v) Strengthening the technical and institutional capacity within the framework of managing and working with the rescue and rehabilitation of wildlife (fauna Silvestre); vi) Data Base of the marine biological diversity of El Salvador; vii) Strengthen environmental education, directed towards citizen participation and the environment, water resources, protected natural areas, and solid waste management; viii) Strengthening and development of the technical-scientific capacity of the National Land Studies.

Strengthening of Institutional Framework: i) Enhancing knowledge and strengthening personnel capacity on environmental issues (through workshops, exchanges of technical experts and technical information and literature); ii) Strengthening the Ministry of Environment to implement environmental cooperation agreement; iii) Enhancing knowledge and strengthening personnel capacity on environmental issues (through workshops, exchanges of technical experts and technical information and literature).

3. SANITARY AND PHYTOSANITARY SYSTEM

The Sanitary and Phytosanitary Measures (SPS) regulation came into force in 1999 and covers all topics related to sanitary and phytosanitary measures that could directly or indirectly affect trade among the parties, preventing them from becoming unnecessary barriers to trade. The regulation also develops the legal measures to gradually and voluntarily harmonize measures and procedures intraregional as well as with third parties, with the objective of protecting human, animal or plant life or health, as established in the General Treaty on Central American Economic Integration (Guatemala Protocol) and the WTO Agreement.

The Central America Regulation on Sanitary and Phytosanitary Measures goes more in depth in some issues than does the WTO SPS Agreement, especially in issues related to transparency and, particularly, harmonization of measures. It also includes specific obligations with regard to the registration of foods and veterinary and biological medicines and makes specific reference to the possibility of requiring zoo sanitary, phytosanitary or food safety certificates².

The SPS regime is administered by the Ministry of Agriculture (MAG) and the Ministry of Public Health and Social Assistance. The process for emitting the import authorization through both Ministries takes approximately 24 hours. Various areas of improvement were identified in the SPS area:

- Enhanced knowledge of SPS requirements in main trading partner markets.
- Survey of technical guides/Risk Assessment Procedures/regulations/processes of quality control for fruits/vegetables/fishery and agriculture products
- Capacity building for firms that process agricultural products for export to enable them to fulfill the technical requirements established by the importing country, with particular attention to those in the United States
- Strengthening the national SPS enquiry point
- Enhanced awareness of the disciplines and framework in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures

4. RULE OF ORIGIN AND CUSTOM PROCEDURES

The Trade Policy Office of the Ministry of Economy is responsible for the negotiation of origin and of customs procedures in the context of free trade agreements. Currently, the verification of origin is the responsibility of the Trade Agreements Administration Office (DATCO). Given the nature of this task, coordination with and support from the *Dirección General de la Renta de Aduanas del Ministerio de Hacienda* (Customs) has been indispensable. A comprehensive reform of the customs system has been supported by projects such as the

² In El Salvador the legal framework for the application of sanitary and phytosanitary measures includes the following laws: the Law of Plant and Animal Health; the Law of Promotion of the Hygienic Production of Milk and Milk Products and its regulations; Law and regulation of sanitary meat inspection; regulation for the accreditation of juridical persons interested in the supply and application of vaccination against Low Pathogenic Avian Influenza; program of prevention, control and eradication of Low Pathogenic Avian Influenza and its respective regulation; requirements and specifications for the import of milk and milk products; the Consumer Protection Law, as well as the Central America Regulation on Sanitary and Phytosanitary Measures and the WTO SPS Agreement.

IDB Program to Strengthen Custom Systems (TC0012037-ES) and actually the custom system is certificated with ISO9000.

The areas identified for cooperation needs include:

- Strengthening personnel capacity of DATCO in charge of rule of origin issues (US procedures and legislation in rules of origin)
- Strengthening private sector capacity for complying with origin (workshops, conferences, training)
- Technical assistance for the implementation of the framework on rules of origin and custom procedures to implement procedures for the verification of rules of origin
- Creation of a new body to verify the origin of imports within Custom authority
- Diagnostic for the determination and development and/or use of rules and custom procedures
- Modernization of the automated customs management system, including the registration of customs procedures
- Training for the Customs service officials on issues such as: fiscal control; smuggling prevention, etc.

5. TECHNICAL BARRIERS TO TRADE (TBT)

The entity responsible for directing and coordinating activities related to standardization, metrology, verification and certification of quality is the National Council of Science and Technology (CONACYT), an autonomous entity under the responsibility of the MINEC. Among its functions, this office accredits and registers accredited laboratories; develops programs to promote and disseminate information regarding the importance of standards, metrology, and quality certification and verification; trains personnel; exchanges information with international organizations working in the area of standardization and gives technical advice on quality verification reports received from accredited laboratories.

In the area of trade policy related to standards/TBT, the GOES is bound by the obligations of the WTO Agreement on Technical Barriers to Trade, and has signed the Code of Good Practice. El Salvador is a signatory to the General Treaty of Economic Integration of Central America and the Central American Regulatory System Standards, member of International Organization for Standardization (ISO), Codex Alimentarius, the Pan American Standards Commission (COPANT), the Inter-American Accreditation Cooperation (IAAC), and the Inter-American Metrology System (SIM).

El Salvador has put in place a national center for information on quality standards and conformity assessment, INFOQ (www.infoq.org.sv) an information center with on-line catalogs, and catalogs of El Salvador's technical standards, ISO standards, Codex Alimentarius standards and technical regulations of trade partners. A national legal metrology laboratory has been in operation since December 1995, with equipment that follows international standards to allow El Salvador to offer quality services.

Cooperation needs include training and technical assistance for:

- Strengthening El Salvador's conformity assessment structure (with regard to standardization, legal metrology and quality certification): developing human resources in areas of importance in trade with USA, enhancing the accreditation of

national laboratories that provide conformity assessment services for products, among others.

- Training for management and application of regulation and standards
- Strengthening of CONACYT's capacity for accreditation of laboratories and certification and inspection bodies.
- Enhancing the capacity of the Legal Metrology Laboratory
- Strengthening and decentralization of technical laboratories

6. SUBSIDIES, ANTIDUMPING, SAFEGUARDS AND DISPUTE SETTLEMENT

Within the MINEC, Trade Agreements Administration Office (DATCO) is responsible for the implementation of trade agreements. In this regard, DATCO administers provisions and procedures to address unfair import competition such as dumping or illegal subsidization or to avoid serious injury to a group of producers or industries through the use of safeguards. The Ministry of Agriculture, the Customs Office (*Dirección General de la Renta de Aduanas*) of the Ministry of Finance and the Central Bank (*Banco Central de Reserva*) play an important role and support DATCO in this area as sources of technical information and statistics. Consultations with the private sector are conducted through the *Oficina de Apoyo del Sector Productivo para las Negociaciones Comerciales* (ODASP), created with the participation of representatives of all the private sector associations.

The legal framework include: the WTO Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 and the WTO Agreement on Subsidies and Countervailing Measures. In the context of the Central American Common Market (CACM), El Salvador applies the Central American Regulations on Unfair Trade Practices.

The GOES regards the dispute settlement mechanism as an important component of FTAs and WTO system and as the ultimate guarantor that the parties will fulfill the substantive commitments they have made and realize the benefits they expected to derive from these agreements. On disputes between state parties, the legal framework in the area of dispute settlement includes the WTO Annex 2, Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), and the dispute settlement mechanisms agreed in the free trade agreements negotiated by GOES with Chile, the Dominican Republic, Mexico and Panama. In the context of the Central American Common Market (CACM), Ministers approved the Central American Dispute Settlement Mechanism in September 2002. GOES expects that this mechanism will enter into force relatively soon after the pending consultation and ratification procedures are completed.

Another important area for GOES is the development of mechanisms to facilitate and promote the use of arbitration and other alternative dispute settlement mechanisms to solve private trade disputes. El Salvador is party to the New York Convention on the Recognition and Implementation of Foreign Arbitral Awards and of the Inter-American Convention on International Commercial Arbitration.

The following areas were identified as issues where assistance is required to strength the institutional capacity of the DATCO:

- Reorganization of functions toward the new needs derived from the CAFTA
- Technical assistance to improve trade statistics to conduct and make determinations in anti-dumping, countervailing and safeguard procedures.

- IT resources (hardware and software) to upgrade existing technological capabilities and allow for the interactive access and use of all the entities involved on these procedures.
- Enhanced knowledge and information on the U.S. legislation in anti-dumping, countervailing and safeguard procedures (through studies, technical exchanges/internships and technical information and literature)
- Enhanced knowledge and strengthening of personnel capacity to apply dispute settlement mechanisms (workshops, exchanges of technical experts and technical information and literature).
- Development and training in i) dispute settlement mechanisms in trade agreements and ii) arbitration and other alternative dispute settlement mechanisms to solve private trade disputes.
- Workshops and awareness activities directed to lawyers, private sector and civil society. Private sector representatives identified the introduction of specialized courses, advanced programs and graduate degrees on dispute settlement issues in universities and law schools as a critical need.

7. INTELLECTUAL PROPERTY ISSUES AND COMPETITION POLICY

The Trade Policy Office of the Ministry of Economy is in charge of defining and implementing trade policy in the area of intellectual property rights, including pre-drafting of intellectual property rights (IPR) bills, negotiation of trade agreements with provisions on intellectual property and inter-agency coordination in this subject matter. The National Registry Center — *Centro Nacional de Registros* CNR— through the Office of Intellectual Property is responsible for the administrative procedures for the registration and granting of intellectual property rights as well as promoting public awareness and use of IPRs in El Salvador. Also important in the enforcement of rights are the Special Unit against infringement of Intellectual Property (*Unidad Especial de Delitos contra la Propiedad Intelectual*) under the Attorney General Office (*Fiscalía General de la República*) and the Judicial System to hear and decide on IPR disputes and infringement cases.

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) became part of El Salvador's legislation through its ratification of the Marrakech Agreement. As an international treaty in El Salvador, the WTO TRIPS Agreement constitutionally takes precedence over any conflicting domestic law. The main legislation in the area of intellectual property rights is the 1993 Law (*Ley de Fomento y Protección de la Propiedad Intelectual*). The Law on Trademarks and Distinctive Signs entered into force on June 2002. The law builds on established regulations for the acquisition, registration, and protection of trademarks, other distinctive signs and geographical indications. The law also provides for special protection for well-known marks. El Salvador has adhered to the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication, the World Intellectual Property Organization (WIPO) Copyright Treaty, the WIPO Performance and Phonograms Treaty, and the Rome Convention for the Protection of Performers, Phonogram Producers, and Broadcasting Organizations.

El Salvador has negotiated trade agreements with intellectual property chapters with the Dominican Republic, Mexico and Panama. The only CACM instrument on intellectual

property was the 1968 “Central American Convention for the Protection of Industrial Property,” addressing the issues of trademarks, trade names, advertising slogans or signs, appellations of origin, geographical indications and unfair competition. A protocol was signed and the convention repealed on January 1, 2000.

The GOES deems the promotion of Salvadoran creativity and enhancing public awareness to protect intellectual property rights as priorities in this area. A wide array of activities has been pursued including fairs, workshops and information sessions involving different institutions, private sector and civil society.

Regard Competition Policy, although there are sector-specific regulations to ensure that domestic markets remain competitive, El Salvador does not have a comprehensive legal framework for competition policy. GOES is actively designing and debating draft legislation to regulate competition conditions in the Salvadorian market and to establish a competition authority.

El Salvador has negotiated trade agreements including provisions on competition policy with Chile, Dominican Republic and Panama.

In both issues, assistance will require in the following areas:

- Enhance knowledge and strengthen capacity to apply the latest international agreements on intellectual property rights (technical assistance, exchanges of technical experts, training in trading partners IPR offices, technical information and literature).
- Enhance knowledge and information on the United States legislation and requirements for the protection of intellectual property rights
- Enhance practical experience in the area of competition policy

8. GOVERNMENT PROCUREMENT

Government procurement in El Salvador is regulated by the law 668 (Ley de Adquisiciones y Contrataciones de la Administración Pública-LACAP), which entered into force on June 29, 2002, and established more transparent processes for government purchases and contracts. Pursuant to law 668, the Regulating Unit for Government Procurement (UNAC), created under the Ministry of Finance, manages the National System of Government Procurement (SIAS). The SIAS incorporates all levels of government, including municipalities, and is empowered to define government procurement policy and set guidelines to regulate contracts and purchases of goods and services, enforce and implement the law and regulations.

El Salvador has negotiated trade agreements including provisions on government procurement with Chile, Dominican Republic and Panama. The free trade agreement with Mexico does not cover government procurement. However, pursuant to the FTA El Salvador-Mexico parties must start negotiating a chapter on government procurement.

The following items were identified as priorities in the area of government procurement:

- Develop a modern electronic system for government procurement
- Performance Benchmarking and Institutional Best Practices
- Improve collection of information and statistics on government procurement.
- Enhance knowledge and practical experience in the area of government procurement.

9. STATISTICAL INFORMATION

Accurate and reliable statistic information is considered an essential tool for policy making as well as to measure the impact that an FTA could have on the economy in terms of employment, exports, investments, sectoral growth and other issues. For this purpose El Salvador is modernizing its statistical system by creating a new **National Statistics Institute**—*Instituto Nacional de Estadística (MINEC)*. The process includes, in addition to organization of the Institute, the endowment of new statistics systems and methods and a new technological and computer platform.

In this context, external support and cooperation are required to deliver capacity-building and technical assistance programs in the following areas:

- Financial assistance for updating the multiple-use national cartography
- Technical assistance for formulating the Plan for making and conducting the 7th economic census
- Assistance for designing the economic survey system
- Technical assistance to improve statistics on FDI flows
- Upgrade of existing IT resources to gather and access information of the National Investment Office (ONI)
- Improvement in the collection, analysis and dissemination of trade statistics.
- Inter-connection between export clearinghouses (one stop shop for exports procedures) in Central America.

PHASE III. TRANSITION TO FREE TRADE

1. STRATEGY FOR COMPETITIVENESS ENHANCEMENT

As its internal market is limited in size and scope, El Salvador recognizes the importance of trade and market expansion to its economic well-being and progress. Current economic development strategy places great importance on regional integration with its Central American neighbors, which increases its market from 6 to 35 million people, and trade agreements with other major trading partners have the potential to exponentially increase these market opportunities.

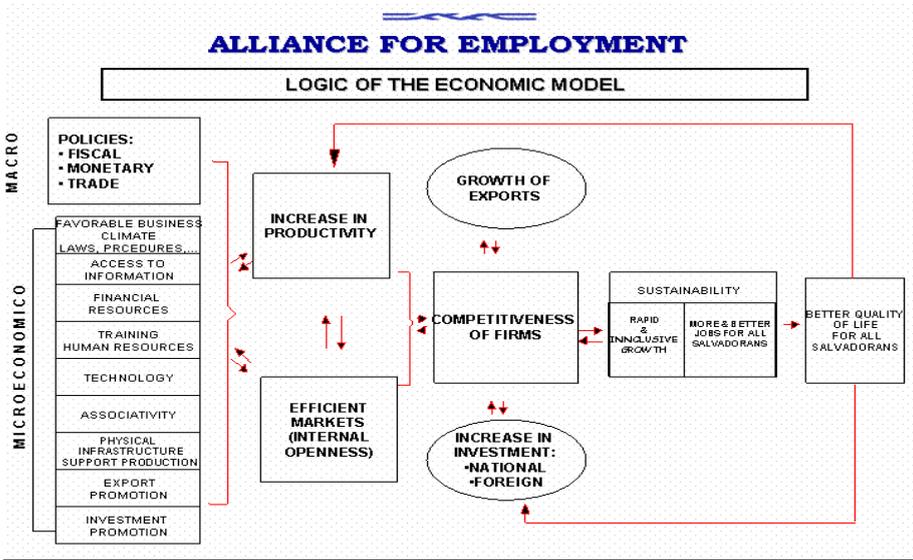
El Salvador's current economic development strategy provides a coherent and focused framework within which to integrate the projects that will comprise the National Action Plan. The Governmental Program, of the Francisco Flores, named "The New Alliance", aims as its principal objective to improve the quality of life and well-being of the Salvadoran people. As such, it establishes as a requirement accelerated development, that is inclusive and sustainable, that will be reached through the complementary components: of Macroeconomic Stability; the *Alliance for Employment*; the *Alliance for Solidarity*; the *Alliance for the Future*; and the *Alliance for Security*. All of these plans are being developed following the principle of shared responsibility, which holds that public and private efforts must be integrated in order to achieve economic, social and political development of the country.

Since 1999 the Government of El Salvador (GOES) has revised its trade policy in order to develop a strategy that will create more and better jobs, and recapture the economic dynamism of the country. The *Alliance for Employment*, which is the economic development strategy of the Flores Administration, portrayed below, integrates short, medium, and long term elements at the micro and macro level that aim to open markets and to increase the competitiveness of national industry to better adapt it to meet the challenges of globalization. This framework was designed to help the country to better take advantage of the opportunities that will be created through free trade.

As such, the *Alliance for Employment* contains the following Strategic Programs:

- System of Support to Agricultural Development
- Integral System of Support for the Development of Small and Medium Enterprises
- Export Development
- Investment Promotion and Attraction
- Salvadorans living abroad
- Productive and trade integration with Central America
- Development of a new work culture
- Development and strengthening of the economic and productive infrastructure

The *Alliance for Employment's* economic policy strategy has two main components: i) Market opening and diversification, and ii) Enhancement of the competitiveness of private firms (prioritizing the export sector).



In the new international economic environment, the GOES recognizes that free trade can serve as a sustainable and effective tool to combat poverty. Free trade can be a catalyst for orienting the efforts of the government's strategy and can help ensure that the benefits of free trade reach the majority of Salvadorans through the generation of better jobs and increased business opportunities. Trade is thus seen by GOES as means to:

- Overcome the constraints of small territorial and market size
- Open major trade and employment opportunities
- Increase investor's interest in El Salvador
- New sources of technology transfer.

The GOES also recognizes that these opportunities and benefits can only be gained by enhancing the competitiveness and improve the general productivity of El Salvador's resources, which is the main objective in the phase of "Transition to Free Trade". Efforts will be concentrated on: i) the elimination of obstacles to the production and trade of goods and services, principally allowing entrepreneurs access to relevant information, innovative financial resources, capacity building and technical assistance, clustering of firms, and innovation, quality and technology; ii) the improvement of the business climate, particularly by the strengthening the rule of law, elimination of red tape and competitive public services; iii) the strengthening of human resources to respond to the new needs of the productive sector.

As such, the GOES has worked consistently to create a **National System of Competitiveness Enhancement**, building upon the country's favorable macroeconomic conditions and including crosscutting efforts to increase resource productivity and market efficiency in all sectors.

Nevertheless the crosscutting efforts mention above, CAFTA will yield special challenges in some sectors which must still confront significant obstacles to compete in national and international markets, and have an active role in terms of employment generation and participation in GDP: the rural development and agricultural sector and the small and medium enterprises.

2. NATIONAL STRATEGY FOR AGRICULTURAL DIVERSIFICATION AND RURAL DEVELOPMENT

The Salvadoran agricultural sector, at the primary level, contributes more than 12% of gross domestic product (GDP); this contribution surpasses 20% when the agroindustrial sector is included. This relatively high participation allows to the sector to be an important supplier of inputs for other economic sectors; in addition to employing 21.4% of all the workers in the country.

Despite its importance, the agricultural sector has faced difficult times in recent years, due in part to its lack of diversification. The activity that maintains the highest participation in agricultural GDP is coffee, with 21.3%, followed by basic grains with 19.5%; the pork, beef and cattle sector follow with a participation of 16.8%. Agricultural exports are also concentrated in traditional products such as coffee, sugar and shrimp.

The agricultural policy of El Salvador seeks to provide the appropriate conditions to agricultural producers in order to facilitate their transition toward competitiveness, integration

in national supply channels and insertion in the world market; assuring an appropriate internal supply and promoting the participation of the sector in export growth.

Agricultural diversification is one of the most important policy areas, and should be carried out as a function of market demand through the promotion of activities that have the greatest comparative and competitive advantages, with a focus toward international markets and with emphasis on increased added-value. In recent years the Ministry of Agriculture has implemented a series of programs framed in this context, including the following:

- **National Fruit Program of El Salvador (FRUTALES):** the main objective is to increase fruit production and processing, through: technical assistance (from planting through harvesting, processing and marketing); certification and organization of greenhouses that produce seedlings; importation of certified seeds for fast-growing varieties of citrus, cashew and coconut.
- **Agribusiness Renewal Program (PRA):** promotes the increase of revenues of agricultural and forestry activities through the development of higher productive efficiency and greater value-added. Its main components are support services, such as improved market information and sanitary programs, as well as a technology fund and the rehabilitation of irrigation systems with expert technical assistance for their usage.
- **Program of Reconstruction and Rural Modernization:** the objective is to improve the social and economic conditions of the rural poor in 96 municipalities. Its main components are the reconstruction of some rural social and productive infrastructure; vocational training for non-tenant agricultural laborers and rural youth, and support for local credit programs and savings promotion.
- **Renovation and diversification of coffee areas:** the objective is the renewal of 35 thousand hectares of coffee, achieve a greater export capacity for high-quality specialty coffees, and income diversification of these farms through coffee production combined with fruit-bearing and forestry trees, creating new opportunities for exports of fruits, wood and industrial by-products.
- **National Horticultural Program:** main objective is to foment diversification of horticultural products by focusing on the whole supply chain. The main actions areas of the program are a packing plant, experimental crop areas, training in the use of irrigation, sustainable use of soil and water, post-harvest handling, and producer organization.
- **National Forestry Development Program:** the components are technical assistance and training for producers, from planting through harvest, processing and marketing; improvement of the national seed bank; assistance in financial administration; and market studies.

3. NATIONAL STRATEGY FOR THE MICRO, SMALL AND MEDIUM ENTERPRISES.

In El Salvador there are 520 thousand micro, small and medium enterprises (MSME's) that are composed by: 373 thousand self-employers workers, 140 thousand micro enterprises, 7 thousand small and one thousand medium businesses, of which 72% are located in urban area and 28% in rural area.

It is estimated that this sector contributes between 25% and 40% of the Gross Domestic Product (GDP), and represents 60% of the non farming population in the age and capacity of working. It is considered that more than 3 million Salvadorans belong to families who depend on the micro and small enterprises.

These economic indicators show the great importance of the sector to the Salvadoran economy, and demonstrate the challenges that the sector must face, such as, low productivity and profitability, slow growth in the markets in which they operate, limited and deficient access to financial services, access to development enterprises services, lack of quality, innovation and technology, isolation of the companies and workers in the input markets, and limited enterprise culture

Nevertheless, MSME's have advantages that can be taken as opportunities from the 2.2 millions of Salvadorans living in the United States that demand "ethnic" products of different nature that can be provided by MSME's from the country, because the fact that this product are made in El Salvador create them an identity mark. A lot of products are demanded from the country such as the ones mentioned in the following chart:

Potential Demand of Salvadoran Products

Product	Weakly consume(per family)	Product	Weakly consume(per family)
Tamal enlatado (lata)	1.00	Dulce de mazapán (lb.)	1.36
Frijoles enlatados (lata)	2.68	Quiebra dientes (lb.)	1.62
Frijoles Blancos (lb.)	1.87	Conserva de coco (lb.)	1.69
Chipilín (lb.)	1.55	Dulce de panela (lb.)	1.56
Hoja de Mora (lb.)	1.52	Total de quesos (lb.)	6.76
Verdolaga (lb.)	1.54	Queso blando (lb.)	1.78
Flor de Izote (lb.)	1.88	Queso capita (lb.)	1.76
Pito (lb.)	1.65	Queso morolique (lb.)	1.43
Semilla de Paterna (lb.)	2.04	Quesillo (achiclado) (lb.)	1.79
Quesadilla de queso (paquete)	2.17	Cebada (lb.)	1.55
Torta de Yema (paquete)	1.56	Chilate (lb.)	1.57
Salpor (lb.)	1.56	Atol Chuco (lb.)	1.57
		Atol de elote (lb.)	1.46

Source: Agricultural and Rural Development of Iowa State University (2001): Consumo Salvadoreño de productos étnicos en los Estados Unidos

The challenges faced by micro and small enterprises mentioned before, are considered by the national strategy to support micro, small and medium enterprises that has as a general goal: "To improve the opportunities of developing the productivity and competitiveness of the enterprises and their workers, as well as to improve its position in the national and

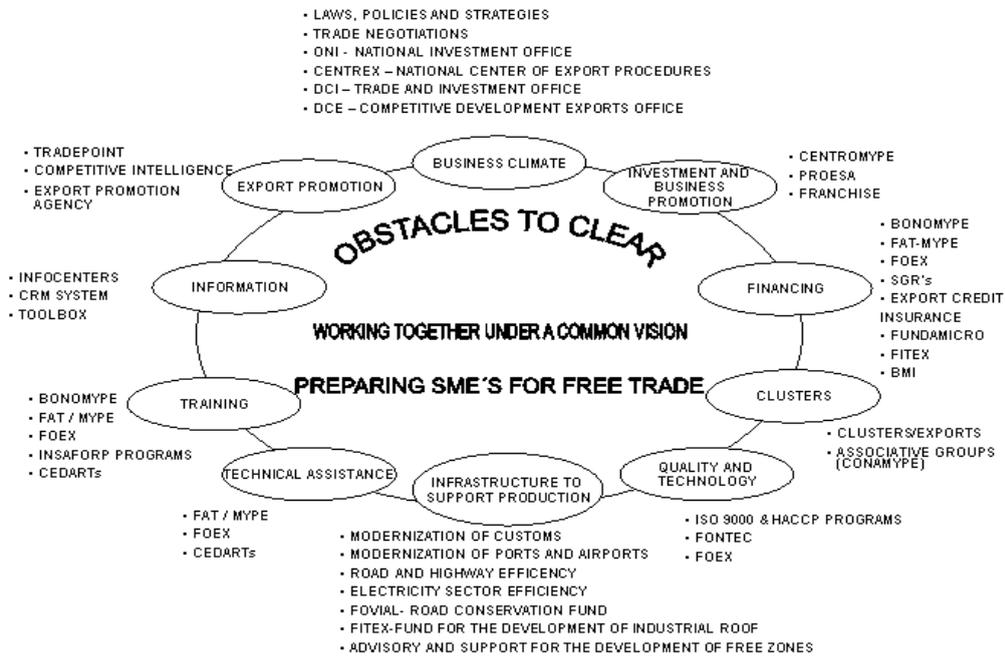
international markets, and to fortify the capacity of the sector to generate quality employment. The strategy includes the following programs and projects:

- **Development and Institutional Strengthening:** This program was created to eliminate the barriers to entry and exit of companies, as well as to create a friendly business climate. In this strategy are included the projects of Administrative Simplification for the Formalization of the companies of the sector, the project to coordinate national institutions and international cooperators.
- **Strengthening and Incentives for the Enterprise Culture:** This program has as a main objective to impel the values, attitudes and practice of good management, generating social responsibility in the companies.
- **Promotion Groups of Enterprises:** The main objective to promote the competitiveness of enterprises through the formation of groups as a key axis of the sector. The strategy considers the development of associative models that consolidate and fortify associative groups, the fortification of supply services and economic support to meet the demands of the associative services.
- **Improvement of the access of the entrepreneurs and workers to financial services:** With this program the strategy aims to promote and to improve the access of entrepreneurs and workers to financial services according to the characteristics and necessities of the sector. The developments of innovative tools are to include: programs to enlarge the coverage of microfinance, leasing, Societies of Mutual Guarantees, management of financial resources and the Law of non-bank Financial Institutions.
- **Improving access of entrepreneurs to Non Financial Services of Enterprises Development:** The main objective is to contribute to the development of the sector through the facilitation of quality development enterprise services that will allow the incorporation of new techniques and technologies by companies as well as to improve the productivity and competitiveness of the sector. The projects that are included in this program, utilizing mechanism of Matching Grants are: Technical Assistance Fund, Training bonds for micro and small enterprises, centers for artisan development, TRADEPOINT, and the project to promote exportations: FOEX.

Additionally the strategy offers information projects directed to the sector, which are: the Toolbox of management, Infocentros with over 40 establishments of internet services around the country so the entrepreneurs can access information technologies, and an Information Center specialized for micro and small entrepreneurs.

The following graphic shows the main challenges confronting the MSME's and the instruments and mechanisms created to support them:

**WORKING TOGETHER UNDER A COMMON VISION:
“PREPARING SME’S FOR FREE TRADE”**



4. COOPERATION NEEDS IN THE TRANSITION TO FREE TRADE

In its continuing efforts to enhance the competitiveness of Salvadorans firms, the GOES has identified a number of areas as requiring priority attention in the quest to achieve the objectives of the National System of Competitiveness Enhancement and the National Competitive Export Development System. These points apply to all Salvadoran firms, but particularly to the MSME’s, as they undertake the transition towards freer trade:

Quality and Productiveness Promotion and Strengthening:

- Establishment of permanent FDA/USA office in El Salvador
- Facilitate and assist local laboratories to become certified for FDA/USDA analysis and other requirements for market entry of Salvadorian exports
- Study and Strengthen institutions in charge of standardization, certification, accreditation and legal framework related to quality and standards
- Design and implement ongoing programs for training of trainers in specific certifications
- Program to raise consciousness and promote productiveness and quality subjects.
- Implement a program of standardized courses for total quality management and quality improvement tools.
- Implement certification programs for specialized skills (Private, Public and academic sector employees)
- Facilitate financial resources aimed at the certification of manufacturing facilities in the subjects identified (ISO, HACCP, WRAP, and others are examples of what can be considered critical to competitive advantage).

- Process optimization, robust design, and quality assurance
- Implement support mechanisms to co finance and facilitate technological transfer to optimize productiveness.
- Create, or strengthen existing funds, to co finance quality related activities.
- Create and promote a support network (universities, government institutions and establish strategic alliances with Salvadorian public and private institutions) and all related activities between participating institutions.
- Establish strategic alliances with the American Society of Quality.
- Facilitate local certification (of identified certifications) capacity on behalf of international authorized specialists
- Assistance in strengthening food safety programs, HACCP programs and Good Manufacturing Practice (GMP) programs

Technological Innovation Promotion and Strengthening:

- Establish a pilot manufacturing extension Center.
- Design and implement a policy for Science, Technology and Innovation.
- Design and implement a specialized innovation, research and incubation Center for technology development and transfer and innovation commercialization.
- Awareness rising about the importance of Science, technology, Innovation and research fro economic development
- Technological innovation training for public and private sector
- Develop a program for strengthening education and training in technical fields and innovation to optimize the manufacturing capability of the private sector.
- To set up a Scholarship fund aimed towards technical careers, engineering, science and any discipline related to innovation, science and technology, research and development.
- Implement mechanism to facilitate institutional capacity to support academic and private sector engagement (micro & SME's) and Universities alliances.
- Establish a mechanism to facilitate interface between micro & SME's and potential suppliers of technological and financial resources.
- Establish a network of educational and technical support institutions.

Developing and Strengthening of Information Technology (IT)

- Creation of an Informatics System Institute
- Design of an IT National Policy
- Studies to identify the current conditions and the potentialities of the IT sector development
- Training Program and certification for software designers
- Programs for promotes the use and application of IT in the SME's
- Enhance and accelerate the E-Government strategy
- Incubators projects and/or risk investments capital funds to facilitate the “start-up” of enterprises in the IT sector

Export activity and Competitive Intelligence promotion

- Strengthening of CI (Competitive Intelligence) activity in selected academic, public and private sector.

- Facilitate the creation of a network of trade commercial offices in the US. to strengthen actual export promotion efforts (e.g. PROEXPORT Colombia, ICEX España, AUSTRALIA Australia)
- Create information management capabilities in TPES to form a database specialized in commercial information and market intelligence.
- Technical assistance to adopt the CENTREX to the Ministry of Economics and create a service office for import activities processing
- Ongoing 5 year program, strengthening and special training of Trade Point El Salvador and private sector trade and technical specialists in understanding US Customs and FDA import requirements pertaining to Salvadoran goods of export interest.
- Training of public Sector and private sector on policies, merchandise strategies and logistic for the U.S.A. market place.
- Training in US/ES in Competitive Intelligence techniques, methods and resource including 3 or 4 seminars per year.
- To support training programs and scholarships in international trade related subjects directed towards exporting SME's
- Training and assessment to financial institutions (including micro finance), on project evaluation of export projects.
- Training for private and public sector trade specialists (at least 15 sectors), in US trade culture.
- Strengthen institutional framework and capacity to enhance export promotion programs.
- Expert assistance to facilitate a permanent mechanism to better contacts with buying offices of US selected retailers
- Facilitate financial resources and Technical assistance to increase SME export capacity
- Explore potential business development opportunities with US companies
- Assist in market research and development of new products with export potential
- Technical assistance to assist market penetration efforts, provide means to overcome non-tariff barriers to entry and comply with market requirements.
- Provide mechanism to obtain expert assistance to support trading activity
- Strengthen export capacity of micro, small and medium enterprises
- Facilitate and support alliance (long-term) building between the Ministry of Economy and its related agencies and export promotion agencies and organizations at the federal and/or state level in the US government.
- Strengthen and promote export activities of El Salvadorian exporting and trading companies.
- Promote strategic alliances with training and educational institutions to facilitate capacity building of selected academic and private institutions as well as exporting SME's in trade related subjects
- Strengthen Institutional Export Promotion Programs for SMME's
- Strengthen Institutional Investment Attraction Programs for SMME's
- Programmes to expedite MIPYMEs exports to the US market

Business Climate Improvement

- Implementing of a Immovable Assets Registry to facilitate the SME's to access to financial resources

- Strengthening the Consumer Protection Office
- Improve the legal framework to facilitate and promote the e-commerce
- Improve the legal framework to facilitate and promote risk capital funds
- Strengthening of the institutional and regulatory framework on telecommunications and power sector

Strengthening of human resources

- Set up a Scholarships Fund aim toward access to Salvadoran students for studying in US Universities in several carriers (engineering, science and any discipline) related to innovation, science and technology, research and development.
- Training programs for general and specialized English courses in all industries and commercial sectors

Agricultural Diversification

- Rehabilitation and Construction of Small Irrigation Systems
- Agro industrial Development for Coconut, Cashew and Horticultural Crops
- Agro tourism Development in El Salvador
- Structures for High Value Crops
- Promotion of production, processing and marketing of organic agricultural products
- Regional Aquaculture Sanitary Project
- Regional program for a common fishing politics in the Central American countries
- Ecotourism projects