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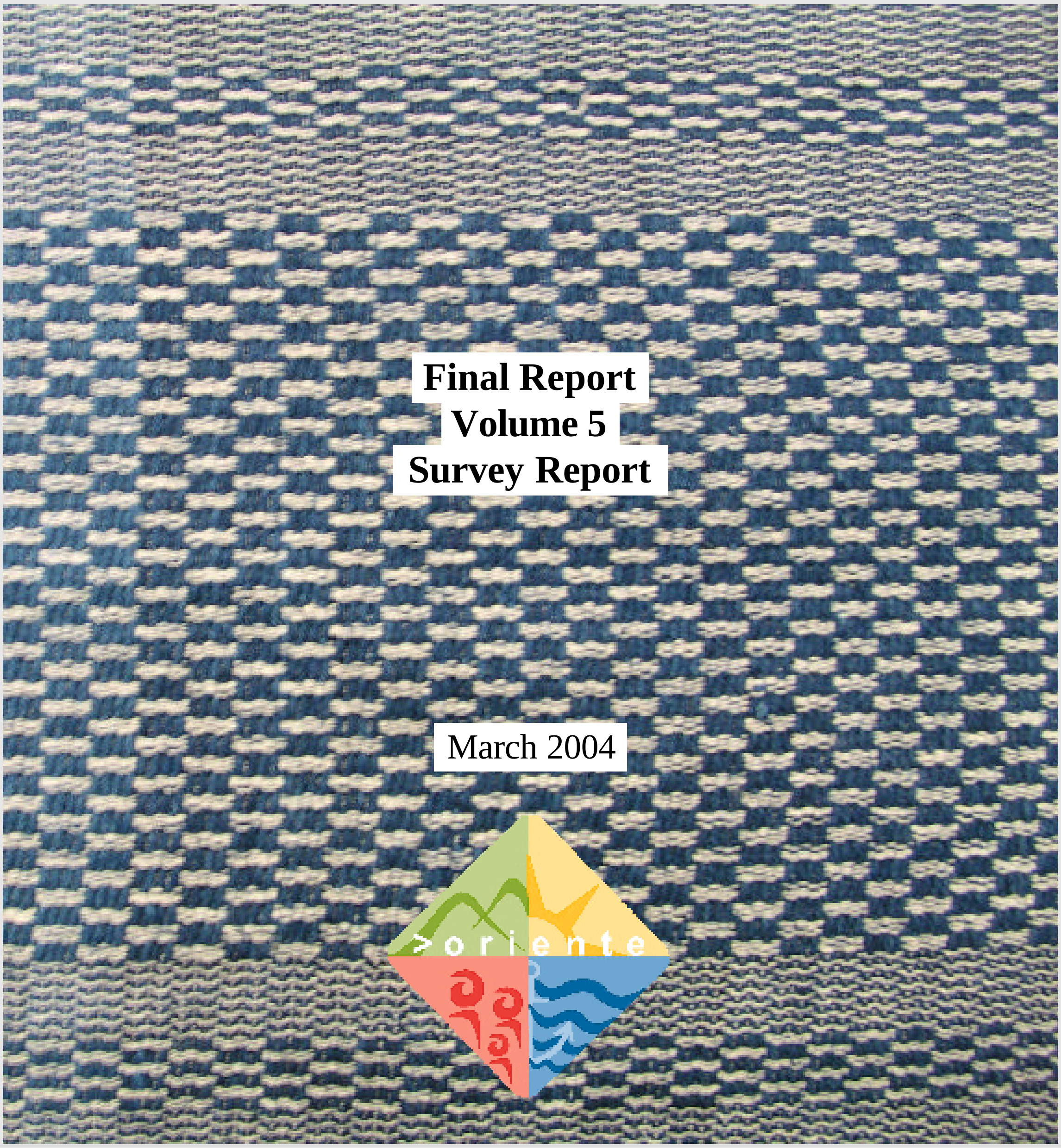
Japan International Cooperation Agency (JICA)

Comisión Nacional de Desarrollo
The Republic of El Salvador

The Study on Economic Development, Focusing on the Eastern Region, of the Republic of El Salvador



Final Report
Volume 5
Survey Report

March 2004

RECS International Inc.
Nippon Koei Co., Ltd.
UNICO International Corp.

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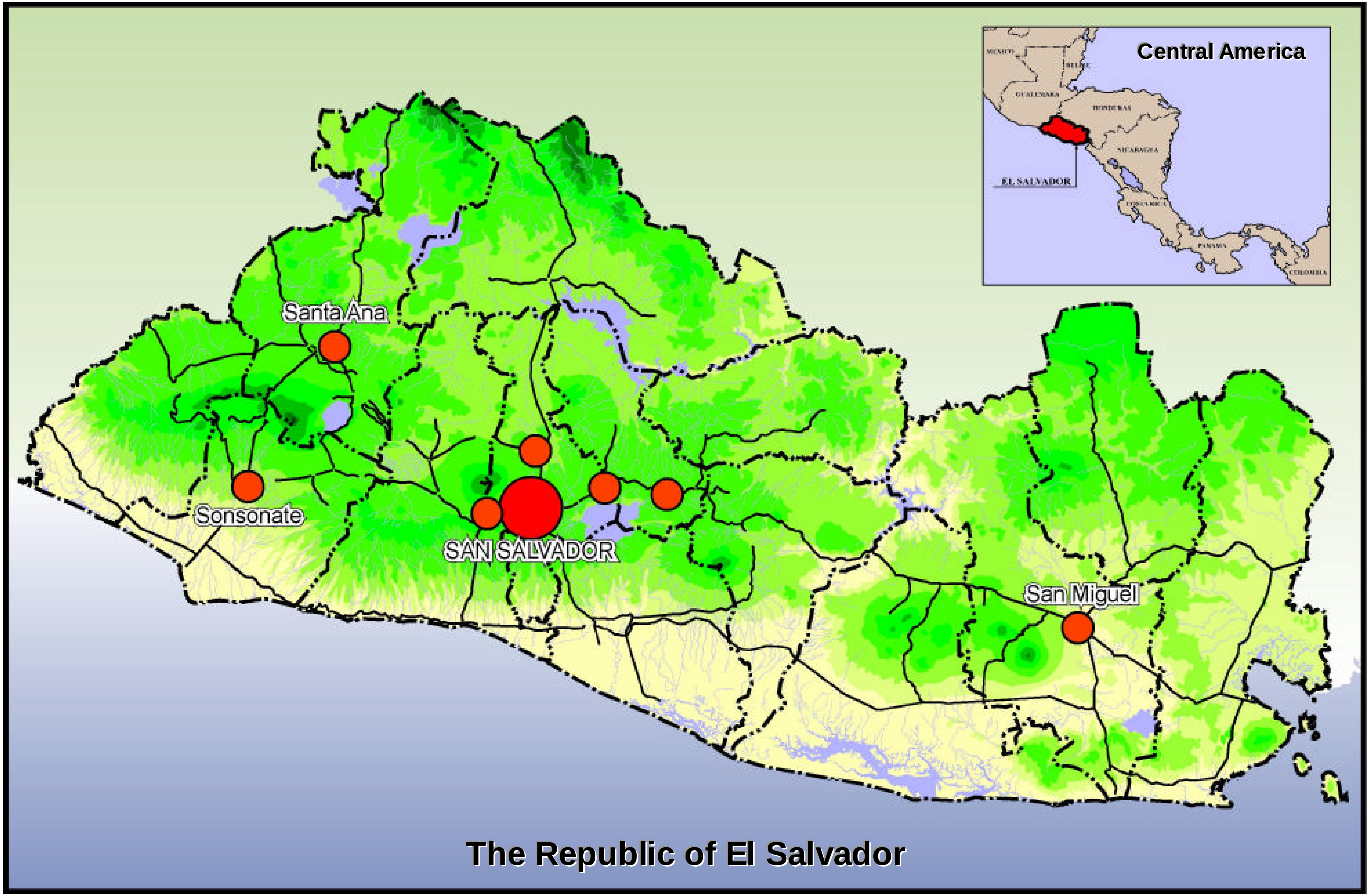
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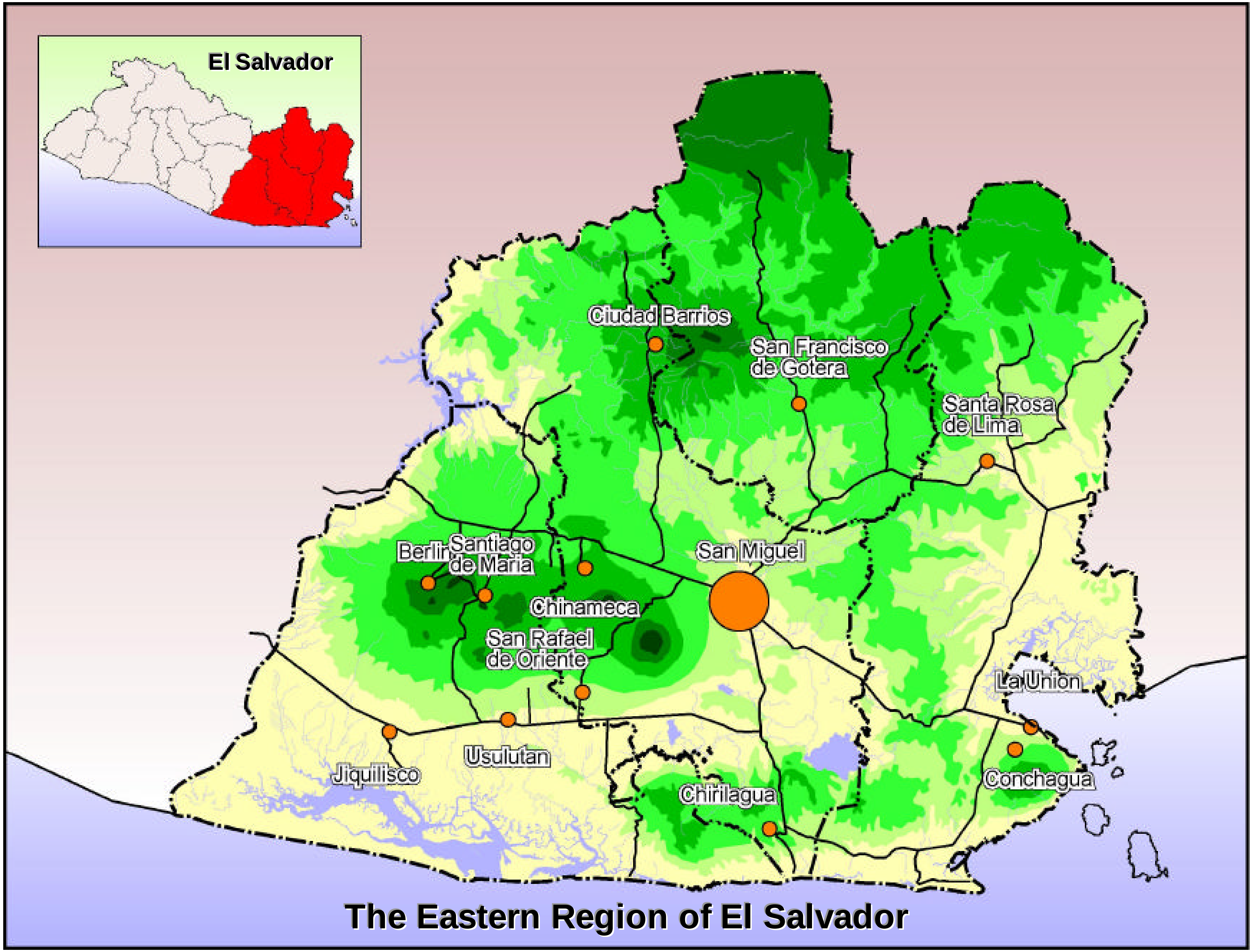
The Republic of El Salvador



The Eastern Region of El Salvador

Final Report
Volume 5
Survey Report

Survey 1

Industrial Location Survey

The Study on Economic Development,
Focusing on the Eastern Region,
of the Republic of El Salvador

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SURVEY 1: INDUSTRIAL LOCATION SURVEY (ILS)

Introduction

Industrial location survey (“ILS” hereafter) was conducted in order to clarify present operation condition, evaluation of important factors for making investment decision and possibility of making investment in the Eastern Region and the La Union hinterland targeting the 14 companies which developed and operate the existing free trade zones (FTZs) in El Salvador and 112 companies operating within these FTZs. ILS was carried out from May to June in 2003.

This section is divided into following two parts.

Part A: Results of ILS for 14 FTZ Operating Companies
Part B: Results of ILS for 112 Companies Operating within 14 FTZs

Part A: Results of ILS for 14 FTZ Operating Companies

A1. Information on FTZs and Companies

A1.1 Equity

Investment by Salvadoran companies accounted for 71% of the 14 cases as shown below.

Table A1. Equity Structure

Source of investment	Number	%
El Salvador only	10	71.4
Foreign only	2	14.3
Mixed	2	14.3
Total	14	100.0

The foreign investments under four cases originated in the following countries with the shares of foreign equity in parenthesis.

<u>Foreign only</u>

- Korea (100%)
- U.S. and Korea (100%)

<u>Mixed</u>

- U.S. (25%)
- U.S. and Korea (75%)

A1.2 Year of establishment

Most, or 86%, of the FTZs were established after the peace agreement in 1992 as shown below.

1974:	1	1998:	1
1990:	1	1999:	1
1992:	2	2000:	2
1993:	3	2001:	1
1996:	1	2002:	1
	Total	14	

A1.3 Land area of FTZs and proportion of filled land

The land area of the majority of FTZ are less than 20 hectares. The largest FTZ has a land area of 84 ha. The FTZ with its total land filled at less than 40% accounts for 88%.

Table A2. Land Area of FTZs

Total land area of FTZ (ha)	Number	%
1-20	8	57.1
20.1-40	2	14.3
40.1-60	2	14.3
60.1-80	1	7.1
80.1-100	1	7.1
Total	14	100.0

Table A3. Proportion of land already filled

Proportion of land already filled (%)	Number	%
1-20	6	42.9
20.1-40	5	35.7
40.1-60	1	7.1
60.1-80	0	0.0
80.1-100	2	14.3
Total	14	100.0

A2. Investment in the Existing FTZs

A2.1 Consideration on locating the FTZ at other location and reasons for selecting the present location

The companies which considered locating their FTZ at different locations numbered 4 out of 14, or 29% as shown below.

Table A4. Consideration on Other Locations

Answer	Number	%
Considered other location	4	28.6
Not considered	10	71.4

Other locations considered include La Union (two cases), the airport area (1 case) and Managua, Nicaragua (2 cases).

The following are the reasons why the companies selected the present FTZ locations.

- Location (14)
- Labor force offered (6)
- Infrastructure (6)
- Business opportunity (2)
- Development area (1)
- Government disposition (1)

"Location" includes access to port and airport. Good road and availability of water are included in "Infrastructure".

A2.2 Construction cost in relation to land area

Information on construction cost in relation to land area is summarized as follows. The information, however, are currently under review, in consideration of peculiar values in some cases.

Table A5. Development Cost of the Existing FTZs

No.	2-2-1 Construction cost (US$)	1-8 Land area (ha)	Unit devt. cost ($/m^2)
1	20,000	28.0	0.1
2	0	43.3	0.0
3	3,000,000	2.1	143.1
4	16,000,000	30.8	52.0
5	0	9.1	0.0
6	800,000	1.0	80.0
7	101,600	17.5	0.6
8	10,000,000	47.5	21.0
9	15,000,000	83.9	17.9
10	15,000,000	5.6	266.9
11	0	5.0	0.0
12	2,000,000	5.6	35.8
13	30,000,000	72.0	41.7
14	5,000,000	3.0	167.5

A2.3 Origins of investment expected prior to the opening of FTZs, actual and expectation in the next 3-5 years

Prior to the opening of the FTZs, the region most highly expected as investment origin was Asia with 91% of the respondents choosing “high expectation”. China, Korea and Taiwan were expected countries. The North American region, especially the US, followed with 64% answering “high expectation”. For both regions, North America and Asia, actual results were generally satisfactory, with “more than expected” and “as expected” combined accounting for 92% and 75% of all the respondents respectively. These two regions are also highly expected regions as investment origin. Japan is mentioned as a prospective Asian country.

Table A 6. Source Region of investment, expected prior to the Opening of FTZs, actual and in the next 2-5 years

(Prior to opening the FTZs)

Region	Number			%			Countries listed
	High expectation	Some expectation	Low/no expectation	High expectation	Some expectation	Low/no expectation	
North America	7	4	0	63.6	36.4	0.0	U.S.
Latin America	1	0	3	25.0	0.0	75.0	Mexico
Europe	0	2	1	0.0	66.7	33.3	n.a.
Asia	10	1	0	90.9	9.1	0.0	China, Korea, Taiwan
Oceania	0	1	1	0.0	50.0	50.0	n.a.
Other	1	0	0	100.0	0.0	0.0	El Salvador

(Actual situation)

Region	Number			%			Countries listed
	More than expected	As expected	Less than expected	More than expected	As expected	Less than expected	
North America	5	6	1	41.7	50.0	8.3	U.S.
Latin America	0	4	4	0.0	50.0	50.0	Honduras, Mexico
Europe	0	2	3	0.0	40.0	60.0	Holland
Asia	5	4	3	41.7	33.3	25.0	China, Korea, Taiwan
Oceania	1	1	2	25.0	25.0	50.0	n.a.
Other	0	2	0	0.0	100.0	0.0	El Salvador

(Next 2-5 years)

Region	Number			%			Countries listed
	High expectation	Some expectation	Low/no expectation	High expectation	Some expectation	Low/no expectation	
North America	6	5	2	46.2	38.5	15.4	U.S.
Latin America	0	2	3	0.0	40.0	60.0	Mexico
Europe	1	3	2	16.7	50.0	33.3	n.a.
Asia	6	5	1	50.0	41.7	8.3	Japan, Korea, Taiwan
Oceania	0	2	3	0.0	40.0	60.0	n.a.
Other	0	1	0	0.0	100.0	0.0	Central America

A2.4 Important factors in making an investment decision

The importance of various factors in making an investment decision as well as the condition of the Existing FTZs are evaluated by deriving scores for each factor. The calculation was made with the following equations.

Evaluation of factors

Score= (% of “highly important” × 3) + (% of “important to some extent” × 2) + (% of “not important” × 1)

Evaluation of Existing FTZs

Score= (% of “Yes, highly so” × 4) + (% of “Yes, to some extent” × 3) + (% of “Not so much” × 2) + (% of “No, not at all” × 1)

Table A7 lists the factors in the order of score. “High quality of labor” is placed as the most important factor, whereas it is ranked second in evaluating the existing FTZs. The FTZ investors have most likely selected the locations where good quality labor force is available. Though labor cost is regarded as an important factor, many FTZs do not seem to be enjoying this merit judging from its rank at 15 in Table B.

“Low cost of utilities” as well follows this pattern. Despite company’s expectation for low utility costs, they are actually regarded as high. Expectation for “availability of good infrastructure facilities” is satisfied. While expectation for “ simple procedures for starting and operating business” is not high, the existing FTZ seem to be enjoying this point. This would probably be a nationally common factor rather than area-specific one.

Table A7. Scores for Factors Considered Important in Making Investment Decision

(1) Evaluation of factors

No.	Factor	Score
1	High quality of labor	300
2	Other	300
3	Low labor cost	293
4	Good infrastructure facilities	293
5	Low cost of utilities	293
6	Low country risk	279
7	Good nationality	279
8	Availability of incentive measures	279
9	Dollarized economy	279
10	Good living environment	257
11	Good security	250
12	Supportive attitude of government officers	250
13	Good access to market	236
14	Consistent and simple laws and regulations	236
15	Daily support by the government	229
16	Simple procedures for starting and operating business	229

(2) Evaluation of present FTZs

No.	Factor	Score
1	Low country risk	325
2	High quality of labor	196
3	Simple procedures for starting and operating business	196
4	Good nationality	186
5	Good infrastructure facilities	182
6	Good security	177
7	Good living environment	170
8	Dollarized economy	165
9	Supportive attitude of government officers	162
10	Availability of incentive measures	150
11	Good access to market	146
12	Consistent and simple laws and regulations	144
13	Daily support by the government	138
14	Low cost of utilities	136
15	Low labor cost	132
16	Other	53

A2.5 Expected improvements on the part of the government

The following improvements are expected by the FTZ operating companies.

a. Less customs bureaucracy: 6 comments
b. More incentives: 3 comments
c. Fair customs regulations: 3 comments
d. Road improvement: 1 comment
e. No rise in minimum wage: 1 comment

The most frequent comment is related with customs system.

A2.6 Consideration on locating FTZ in the Eastern Region

All the 13 FTZs except that in Usulutan did not consider any location in the Eastern Region as candidate locations for their FTZs. The reasons for not considering the Eastern Region as a possible investment location include the following.

a. Harsh climate: 7
b. Limited infrastructure: 4

c. Distance from port: 2
d. Distance from airport: 2
e. Land was already available at the present location: 1
f. Distance: 1
g. Prefers homeland: 1
h. Authority's attitude: 1

"Harsh climate" was the reason cited by the largest number of respondents at 7 or half the interviewees. Though this factor is an external factor that cannot be improved by government efforts, its significance would fall as other positive aspects of the Eastern Region begin to be seen. Most of the other factors could be significantly improved by various measures being undertaken by the government except "e." and "g.". Although road distance to the airport would remain unchanged, drive hour will be reduced by road improvement. The attitude of related Central Government organizations and municipal governments needs to be improved, geared toward promoting the private sector to move into the Eastern Region.

A3. Investment in the Future

A3.1 Possibility of investment in the future

The companies that already have specific plans to make an investment in the Eastern Regions numbered 2 or 18%. Those highly or fairly interested in the Eastern Region together number 4 or 38%. These proportions will grow as the developments proceed and accordingly the investment environment become more attractive.

Table A8. Possibility of Investment in the Eastern Region

Answer	Number	%
a. Our company already has a specific plan to make an investment in the Eastern region.	2	18.2
b. Our company will be highly interested in this prospect and will positively look into an investment possibility.	1	9.1
c. Our company is fairy interested in this prospect and will keep an eye on the development.	3	27.3
d. Possibility of investment will be limited for our company.	3	27.3
e. Other	2	18.2

A3.2 Rating of major cities and the Eastern Region as investment locations

The major cities and the Eastern Region were rated as an investment location assuming "100" as the perfect location and "0" as impossible location. Under the present condition, Santa Ana comes first as the investment location with an average score at 58, followed by San Salvador (50) and the Eastern Region (24). The Eastern Region in the future, however, overtakes the first position at 65, reflecting high expectation for the Eastern Region development.

Table A9. Score of Major Cities and the Eastern Region as Investment Location

City	Ave score	Max score	Min score
San Salvador	50	90	0
Santa Ana	58	100	40
Eastern Region			
Now	24	60	0
Future	65	100	40

A3.3 Important factors for making an investment in the Eastern Region

The factor most highly regarded is the "daily support and cooperation of the government, both central and local", indicating the need for establishing a system in which the government plays an effective role in providing incentives, information dissemination, guidance, application of laws and regulations in a consistent manner, and human resources development as well as securing good quality infrastructure and efficient operation. These elements would be particularly important for such an area as the Eastern Region where development starts from almost zero ground. Consistent with the result on general important factors for investment decision presented in 1-6, "availability of high quality labor force" is highly rated taking the second place. This result indicates the need for human resource development in the Eastern Region. The two factors in the third and fourth places are all essential tasks being undertaken or seriously considered by the government: "availability of satisfactory infrastructure" and "efficient port operation". " Security" and " low wage" come next. "Special privileges for the Eastern Region" would play a decisive role in combination with the other important requirements fulfilled.

Table A10. Important factors in making an investment decision in the Eastern Region

Factors	No. of answers selected	%
a. Daily support and cooperation of the government (central/local)	9	22.5
d. High quality of labor force	7	17.5
h. Satisfactory infrastructure facilities	6	15.0
f. Availability of an efficiently operated port	5	12.5
c. Security	4	10.0
e. Low wage level of labor force	4	10.0
l. Special privileges for the Eastern Region	3	7.5
g. Good access to port	1	2.5
i. Good living environment in the vicinity (housing, medical facilities, etc.)	1	2.5
b. No corruption of the government (central/local)	0	0.0
j. Availability of an international school	0	0.0
k. Availability of recreational opportunities	0	0.0
m. Other	0	0.0
Total	40	100.0

A3.4 Evaluation of major cities in the Eastern Region

The four major cities in the Eastern Region, administrative capitals of the 4 departments, are evaluated as investment locations assuming developments planned. La Union and San Miguel are regarded as most prospective investment locations with “very attractive” and “worth consideration” combined accounting for 78% and 71% respectively. Though “no possibility” reached 50% for Usulutan and San Francisco Gotera, these proportions might decline as division of functions among major cities is clarified with the hinterland characteristics fully taken into consideration.

Table A11. Evaluation of 4 Administrative Capitals of the Eastern Region Departments as Investment Location

City	Very attractive	Worth consideration	No possibility	Other	No response
(Number)					
La Union	5	6	3	0	0
San Miguel	3	7	2	0	2
Usulutan	0	3	7	0	4
San Francisco Gotera	0	3	7	0	4
Other	0	1	0	0	13
(%)					
La Union	35.7	42.9	21.4	0.0	0.0
San Miguel	21.4	50.0	14.3	0.0	14.3
Usulutan	0.0	21.4	50.0	0.0	28.6
San Francisco Gotera	0.0	21.4	50.0	0.0	28.6
Other	0.0	7.1	0.0	0.0	92.9

A3.5 Evaluation of La Union FPEZ as an investment location

Half of the FTZ operating companies indicated that they are either highly or fairly interested in La Union Free Port and Economic Zone. These proportions would rise as developments proceed and investment opportunities begin to be seen as more realistic possibilities.

Table A 12. Evaluation of La Union FPEZ as Investment Location

Answer	Number	%
a. Our company will be highly interested in this prospect and will positively look into investment possibility.	2	14.3
b. Our company is fairy interested in this prospect and will keep an eye on the development.	5	35.7
c. Possibility of investment will be limited for our company.	3	21.4
d. Other	4	28.6
Total	14	100.0

Part B: Results of ILS for 112 Companies Operating within 14 FTZs

B1. Outline of Companies/Factories

B1.1 Equity

Equity composition of the 112 companies operating within the existing 14 FTZs in El Salvador is found to be as follows.

Table B1. Equity Composition of 112 Companies

Source of investment	Number	%
Foreign 100%	78	70
El Salvador 100%	22	20
Mixed	12	10
(0-10%)	(3)	-
(21-30%)	(5)	-
(31-40%)	(4)	-
Total	112	100

Note: Proportions in parenthesis are those of national equity.

The major countries of investment origin are as follows.

Table B2. Major Countries of Investment Origin

Origin country of investment	Number	%
U.S.	40	35.7
Korea	17	15.2
Guatemala	5	4.5
Honduras	4	3.6
Mexico	4	3.6
Taiwan	4	3.6
Japan	3	2.7
Panama	2	1.8

Note: The countries of 1 case includes China, Republic of Dominica, Germany, Hong Kong, Virgin Island, Nicaragua and South Africa.

B1.2 Year of establishment

As the following table shows, the factories established in the 1990's numbered 105 or 94% of the total.

Table B3. Year of Establishment of Factories

Year of establishment	Number	%
Before 1980	3	2.7
1980-1984	1	0.9
1985-1989	3	2.7
1990-1994	14	12.5
1995-1999	38	33.9
2000-2003	53	47.3
Total	112	100.0

B1.3 Land area of factories

Two thirds of the factories interviewed had a land area of less than 5,000 square meters as shown below. The average land are of the factories is 4,356 square meters.

Table B4. Land Area of Factories

Total land area of FTZ (m^2)	Number	%
Up to 5,000m^2	72	64
5,000-10,000m^2	21	19
Over 10,000m^2	19	17
Total	112	100

B1.4 Type of products and services provided

The table below shows type of services and products provided by companies operating in the 14 FTZs. It is found that "clothes" and "textile" are the commodities produced by largest number of factories, accounting for 60% combined. FTZs function as production base, but also as service base as shown by the existence of "storage", "distribution" and "transportation and logistics" combined accounting for 16%.

Table B5. Type of Commodities and Services Provided

Product/service	Number	%
Accessories	1	0.9
Food	6	5.4
Storage	1	0.9
Distribution	12	10.7
Paper	2	1.8
Prosthesis	1	0.9
Services	1	0.9
Land preparation	1	0.9
Clothes	45	40.2
Textiles	22	19.6
Transportation and logistics	5	4.5
Machinery and replacement, part sales	15	13.4
Other	0	0.0
Total	112	100.0

B1.5 Annual sales

Information on annual sales could be obtained only from 26 interviewees. Their annual sales in 2002 are found to be in the following ranges.

Table B6. Annual Sales

Annual sales ($)	2002	
	Number	%
Up to 100,000	1	3.8
100,000-500,000	6	23.1
500,000-1,000,000	6	23.1
1,000,000-2,000,000	2	7.7
2,000,000-5,000,000	4	15.4
5,000,000-10,000,000	1	3.8
10,00,000-20,000,000	4	15.4
20,000,000-30,000,000	1	3.8
30,000,001 or more	1	3.8
Total	26	100.0

B1.6 Business situation

About half the companies interviewed regard their business growing as shown below.

Table B7. Business Situation

Business situation	Number	%
a. Growing	58	51.8
b. Stable	39	34.8
c. Shrinking	14	12.5
NA	1	0.9
Total	112	100.0

B2. Investment for Present Factories

B2.1 Consideration on locating their factories at other location

Of the 112 companies, 63 or 56% considered locating their factories at different locations.

Table B8 Consideration on other locations

Answer	Number	%
Considered other location	63	56.3
Not considered	49	43.8

Specific locations considered include the following.

- Nicaragua: 11
- Honduras: 11
- Honduras and Mexico: 6
- Guatemala: 5
- Guatemala/Honduras: 3
- Guatemala/Costa Rica: 1
- Mexico: 2
- Dominican Republic: 1

Nicaragua and Honduras are the strongest competitors for El Salvador followed by Guatemala. It seems that medium to lower income countries in the Central America are in the position to be compared with El Salvador with comparable characteristics rather than higher income countries such as Costa Rica and Panama.

B2.2 Reasons for selecting the present FTZ

The following are the reasons why the interviewed companies selected the present location. Access/location factor plays the most important role, followed by quality of labor, cost, and infrastructure condition.

Table B9. Reasons for Selecting the Present FTZ

Reason	Number	%
Access/location	56	47.9
Client	*16*	-
Airport	*11*	-
Customs/border	*5*	-
Urban area	*3*	-
Not specified	*21*	-
Quality of labor	18	15.4
Cost	15	12.8
Infrastructure	7	6.0
Room for expansion	4	3.4
Convenience	4	3.4
Good service	4	3.4
High concentration of textile manufactures	4	3.4
Relation with other companies	3	2.6
Proper taxes	1	0.9
American environment	1	0.9
Total	117	100.0

B2.3 Market

As shown in Table 10, the North America, mostly the U.S., comes first in terms of market of commodities and services, with 49% of interviewees mentioning it. Dependency on the U.S. market varies from company to company ranging between 10% and 100%. El Salvador and the Central America follow with 21% and 13%. Three major countries in Asia market are Korea, Taiwan and Japan.

B2.4 Raw materials

In terms of regions and countries from which the factories in the 14 FTZs procure their raw materials, Asia takes the first place accounting for 38% of answers, mainly Eastern Asian countries such as China, Japan, Korea, Taiwan and Hong Kong as shown in Table B11. The U.S. is the major country supplying raw materials from the North America. Honduras and

Guatemala are the two major countries in the Central America.

Table B 10. Markets

Region/country	Number	%
Asia	**33**	**37.5**
China	*8*	-
Japan	*7*	-
Korea	*6*	-
Taiwan	*4*	-
Hong Kong	*3*	-
Pakistan	*2*	-
India	*1*	-
Other/not specified	*2*	-
North America	**20**	**22.7**
U.S.	*17*	-
Mexico	*2*	-
Canada	*1*	-
El Salvador	**12**	**13.6**
Central America	**12**	**13.6**
Honduras	*5*	-
Guatemala	*4*	-
Nicaragua	*1*	-
Other/not specified	*2*	-
Europe	**7**	**8.0**
Italia	*4*	-
Germany	*2*	-
Spain	*1*	-
South America	**4**	**4.5**
Brazil	*2*	-
Chile	*1*	-
Colombia	*1*	-
Total	**88**	**100.0**

Table B11. Origin regions and Countries for Raw Materials

Region/country	Number	%
North America	**78**	**49.4**
U.S.	*71*	-
Mexico	*4*	-
Canada	*3*	-
El Salvador	**33**	**20.9**
Central America	**21**	**13.3**
Honduras	*3*	-
Nicaragua	*3*	-
Guatemala	*2*	-
Costa Rica	*2*	-
Other/not specified	*11*	-
Europe	**12**	**7.6**
UK	*3*	-
Spain	*1*	-
Other/not specified	*8*	-
Asia	**9**	**5.7**
Korea	*3*	-
Taiwan	*3*	-
Japan	*2*	-
Other/not specified	*1*	-
Caribbean	**3**	**1.9**
Dominican Republic	*1*	-
South America	**1**	**0.6**
Worldwide	**1**	**0.6**
Total	**158**	**100.0**

Raw material supply from North America and El Salvador cover a wide range of goods. Those from the Asian regions tend to be non-bulky and machinery related materials. Variety of materials coming from Europe and South America are more limited. Table B12 below shows origin regions and countries by type of commodity.

Table B 12. Origin Regions and Countries of Raw Material Supply by Type of Commodity

Commodities	Asia	North America	El Salvador	Central America	Europe	South America
Accessories	*	*	*	*	*	
Food		*	*	*		
Bags and boxes		*	*	*		
Buttons, elastics, labels	*			*	*	
Paper and cardboard		*	*	*	*	
Ceramic	*				*	*
Organic components	*		*			
Office equipment		*				
Thread	*	*	*			

Commodities	Asia	North America	El Salvador	Central America	Europe	South America
Information		*	*			
Wood		*	*	*		*
Machinery	*	*				
Defective clothing	*	*	*	*		
Finished products	*	*		*		*
Chemicals		*		*		
Replacement parts	*	*				
Cloth	*	*	*	*	*	
Other	*	*	*	*		

B3. Opinion on Investment in the Future

B3.1 Important factors in making an investment decision

The importance of various factors in making an investment decision as well as the condition of the existing FTZs, in which interviewed companies are operating, are evaluated by deriving scores for each factor. The calculation was made using the following equation. It should be noted that these factors be referred to check the relative importance among factors rather than evaluating each factor's absolute level.

Evaluation of factors

Score= ((% of "highly important" × 2) + (% of "important to some extent" × 1) + (% of "not important" × 0)) / 2

Evaluation of Existing FTZs

Score= ((% of "Yes, highly so" × 3) + (% of "Yes, to some extent" × 2) + (% of "Not so much" × 1) + (% of "No, not at all" × 0)) / 3

The following tables list the factors in the order of score. First it should be kept in mind that the companies with 100% foreign equity accounted for 70% of all the interviewed companies. The scores derived here are, therefore, largely reflecting views of the foreign investors as compared with the views by FTZ developers who are mainly Salvadoran. The factors usually regarded highly by foreigners such as "low country risk" and "good security" were two top factors as expected, though the existing FTZs are valued as lower than expectation in these regards. The factors valued higher than expected include "dollarized economy", "high quality of labor", "good access to market" and some others. Cost factor seems to be evaluated low, judging from lower evaluation of FTZs in terms of "low cost of utilities" and "low labor cost".

Table B 13. Scores Derived for Factors in Making an Investment Decision

(Evaluation of factors)

Factor	Score
Low country risk	90.6
Good security	89.3
Good nationality	86.4
High quality of labor	84.8
Low labor cost	84.7
Good infrastructure facilities	82.9
Dollarized economy	82.9
Good access to market	80.3
Low cost of utilities	79.6
Availability of incentive measures	79.5
Simple procedures for starting and operating business	78.1
Daily support by the government	76.3
Good living environment	76.3
Supportive attitude of government officers	75.9
Consistent and simple laws and regulations	74.8

(Evaluation of FTZs)

Factor	Score
Dollarized economy	83.9
High quality of labor	82.3
Good nationality	78.4
Good access to market	75.4
Good infrastructure facilities	75.4
Good security	74.1
Low country risk	72.6
Availability of incentive measures	71.7
Simple procedures for starting and operating business	71.7
Good living environment	70.0
Supportive attitude of government officers	69.5
Low labor cost	68.2
Daily support by the government	67.6
Consistent and simple laws and regulations	66.3
Low cost of utilities	65.3

B3.2 Existing link with the Eastern Region

Those companies with some kind of links with the Eastern Region accounted for 45%. Their forms of link included “selling products”, “having sales base”, “procuring raw materials”, “employing employees”, “collecting information on the Eastern Region” and
“having a production base” and “one of investors from the Eastern Region”.

Table B14. Existing Links with the Eastern Region

Item	Number	%
a. No link.	87	55.1
b. Some links	71	44.9
b.1 We already have a production base.	*4*	*2.5*
b.2 We already have a sales base.	*8*	*5.1*
b.3 Procuring raw materials	*8*	*5.1*
b.4 Selling products/services (market)	*11*	*7.0*
b.5 Employing workers from the Eastern Region	*5*	*3.2*
b.6 One of the investors is from the Eastern Region.	*1*	*0.6*
b.7 Collecting information on the Eastern Region	*5*	*3.2*
b.8 Not specified	*25*	*15.8*
b.9 Other	*4*	*2.5*
Total	158	100.0

B3.3 Possibility of investment

Slightly more than half the responses see some possibility of investment in the Eastern Region. In this case and case b. where they see a high possibility, production base is considered more than just sales base. The companies, which already have investment plans, are, on the contrary, considering sales base more than production base. Generally speaking " watch and see" attitude, which is quite understandable for private investors' behavior, is observed. As actual developments proceed in the Eastern Region, the proportions in each category will start shifting toward more positive categories.

Table B15. Possibility of Investment in the Eastern Region

	Item	Number	%
a	We are considering making an investment in the Eastern Region.	6	5.0
	(a-1) for establishing/expanding a production base, or	*1*	-
	(a-2) for establishing/expanding a sales base.	*5*	-
b	There will be a high possibility of an investment in the Eastern Region in the future.	22	18.3
	(b-1) for establishing/expanding a production base, or	*13*	-
	(b-2) for establishing/expanding a sales base.	*9*	-
c	There will be some possibility of an investment in the Eastern Region in the future.	63	52.5
	(c-1) for establishing/expanding a production base, or	*40*	-
	(c-2) for establishing/expanding a sales base.	*23*	-
d.	There will be no possibility of an investment in the Eastern Region in the future	29	24.2
	Total	120	100.0

As comment, positive view listed such factors as "new business opportunity", "new market creation", and "closeness to Nicaragua". The reason for giving negative answer included "Non-availability of qualified labor", "Market being USA", "no interest", and "Atlantic route as their trade route". "Wait and see" attitude hinted a number of conditions they would like to see such as "other companies' action", "success of port", "incentives and profitability", "infrastructure", "demand for their services", and "availability of FTZ".

B3.4 Rating of major cities in El Salvador and the Eastern Region as investment locations

Major cities in El Salvador and the Eastern Region were rated as an investment location assuming "100" as the perfect location and "0" as impossible location. Under the present condition, Santa Ana comes first as the investment location with an average score at 68, followed by San Salvador (65) and the Eastern Region (32). The Eastern Region in the future, however, overtakes the first position at 71, reflecting high expectation for the Eastern Region development.

Table B16. Score of Major Cities and the Eastern Region as Investment Location

City	Ave score	Max score	Min score
San Salvador	65	100	0
Santa Ana	68	100	0
Eastern Region			
Now	32	100	0
Future	71	100	0

B3.5 Important factors for making an investment in the Eastern Region

"Good security" was the first place. Two factors are considered: general perception by people that the Eastern Region has a security problem and the sensitiveness of foreign investors. How to promote the Eastern Region would depend first on clarification of the actual security condition in the Eastern Region. Actually the security condition in the Eastern Region was found to be better than other parts of the country by the Security Survey carried out as part of the present project. Investment promotion strategy should stress this positive aspect of the Eastern Region to overturn the people's misconception. Some comments made on "security" factor pointed better customs operation, indicating the present customs system causing insecurity in their business.

Consistent with the result on general important factors for investment decision presented in 1-12, "availability of high quality labor force" is highly rated taking the second place. This result indicates the need for human resource development in the Eastern Region. There were many comments indicating that potential investors would like to have "hard working and responsible workers" and "workers with quality and experience". Human resources development program should be provided rather with the government initiative than private initiative, considering a comment saying that investors themselves are rather reluctant to provide basic training programs. The training programs would need to include "work ethics" component as well as technical subjects.

The three factors from the third to fifth places are all essential tasks to be undertaken by the government: "supportive attitude of government officials", "availability of incentive measures, special for the Eastern Region" and "good infrastructure facilities". Concerning infrastructure, investors need good infrastructure to achieve speedy and efficient business operation. An efficient operation of the la Union Port is considered essential in this connection. Many interviewees consider special incentives for the Eastern Region as a decisive factor for making an investment in the Eastern Region.

"Low labor cost" at the 6th place does not seem to be a problem in the Eastern Region. "Low cost of utilities" and "Consistent and simple laws and regulations" at 7th and 8th places are also important factors to be fulfilled by the government effort.

Table B17. Important Factors in Making an Investment Decision in the Eastern Region

Item	Number	%
a. Good security	62	19.2
d. High quality of labor	47	14.6
c. Supportive attitude of government officials	46	14.2
h. Availability of incentive measures, special for the Eastern Region	38	11.8
f. Good infrastructure facilities	33	10.2
e. Low labor cost	32	9.9
g. Low cost of utilities	27	8.4
k. Consistent and simple laws and regulations	17	5.3
b. Good living environment	5	1.5
j. Simple procedures for staring and operating the business	5	1.5
l. Good access to market (physically and institutionally)	5	1.5
m. Other	4	1.2
i. Daily support by the government	2	0.6
Total	323	100.0

B3.6 Evaluation of major cities in the Eastern Region

The four major cities in the Eastern Region, administrative capitals of the 4 departments, are evaluated as investment locations assuming developments planned as shown in table B18. La Union and San Miguel are regarded as most prospective investment locations with “very attractive” and “worth consideration” combined accounting for 81% and 76% respectively. Usulutan follows with the equivalent proportion at 61%. Though “no possibility” reached 67% for San Francisco Gotera, this proportion would decline as developments in the Eastern Region actually start and investment possibilities begin to be seen taking into consideration potential in relation with its hinterland.

Table B18 Evaluation of 4 Administrative Capitals of the Eastern Region Departments as Investment Location

Item	Very attractive	Worth consideration	No possibility	other	NA	Total
(in number)						
La Union	44	47	14	0	7	112
San Miguel	43	42	19	0	8	112
Usulutan	9	59	36	0	8	112
San Francisco Gotera	1	23	75	0	13	112
Other	2	2	0	0	108	112
(in %)						
La Union	39.3	42.0	12.5	0.0	6.3	100.0
San Miguel	38.4	37.5	17.0	0.0	7.1	100.0
Usulutan	8.0	52.7	32.1	0.0	7.1	100.0
San Francisco Gotera	0.9	20.5	67.0	0.0	11.6	100.0
Other	1.8	1.8	0.0	0.0	96.4	100.0

B3.7 Evaluation of La Union FPEZ as an investment location

Nearly two-thirds (63%) of the companies indicated that they are either highly or fairly interested in La Union Free Port and Economic Zone. Excluding “other” and “no answer”, this proportion rises to 80%. “Wait and see” attitude is observed here as well. These views will shift to more positive categories as actual developments proceed.

Table B19. Evaluation of La Union FPEZ as Investment Location

Answer	Number	%
a. Our company will be highly interested in this prospect and will positively look into investment possibility.	8	7.1
b. Our company is fairy interested in this prospect and will keep an eye on the development.	62	55.4
c. Possibility of investment will be limited for our company.	18	16.1
d. Other	11	9.8
No answer	13	11.6
Total	112	100

B4. Overall Comments

Major comments given at the end of the questionnaire are summarized as follows.

- The customs system should be improved.
- Infrastructure facilities such as road, airport and hotel should be upgraded or provided.
- Education and training programs should be provided.
- They would like to see the election result.
- They are interested in making investment, but do not know how.
- They are interested the project because they work with Honduras and Nicaragua.
- They expect no rise in minimum wage.
- Safety should be secured.
- Workers laws are not friendly for investment.
- Low labor cost is an advantage.
- Conditions for hiring part-time professionals needs to be improved.
- They need more information.
- They need help for purchasing machines.
- Privileges should be provided.
- There should be lower corruption.
- Interest rates should be lower.
- Farms in the Eastern Region should be mechanized.

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Survey 2

Investment Potential Survey in El Salvador and Neighboring Countries

The Study on Economic Development, Focusing on the Eastern Region, of the Republic of El Salvador

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SURVEY 2: INVESTMENT POTENTIAL SURVEY IN EL SALVADOR AND NEIGHBORING COUNTRIES (IPS)

1. Objective

The objective of Investment Potential Survey ("IPS" hereafter) is to collect information, from Salvadoran and foreign potential investors, covering a wide range of economics activities, on the level of their interest in making a new investment in El Salvador, especially the Eastern Region and major factors they consider essential for making such an investment decision. IPS was conducted from May to June in 2003.

2. Methodology

For carrying out IPS, interview surveys were conducted. Table 2.1 presents the target and actual number of interviews carried out.

Table 2.1. Samples - Target and Actual

Item	Target	Actual
El Salvador		
American and other countries	60	34 (57%)
Manufacturing companies	50	61 (122%)
Land developers	10	9 (90%)
Hotels	10	1 (10%)
Privates hospitals	3	2 (67%)
Supermarkets	10	1 (10%)
Banks	10	2 (20%)
Others	7	11 (157%)
Subtotal	160	121 (76%)
Costa Rica	15	1 (7%)
Panamá	15	6 (40%)
Honduras	10	3 (30%)
Total	200	131 (66%)

The interview surveys were carried out following the distribution of questionnaire sheets at two seminars, one in San Pedro Sula, Honduras on June 3, 2003 for 12 companies and the other in San Salvador in June 2003 for 25 companies. Additional interview sheets were individually distributed later.

3. Results of IPS

3.1 Outline of Surveyed Companies

Tables 3.1, 3.2 and 3.3 present the characteristics of the surveyed companies in terms of equity structure, number of workers and the year of establishment. Tables marked with "all companies" include both Salvadoran companies and those in the neighboring countries. They are presented separately when so mentioned.

Table 3.1. Equity Structure (All Companies)

Source of investment	Number	%
Foreign 100%	16	12.2
El Salvador 100%	91	69.5
Mixed	21	16.0
(1-25%)	13	(9.9)
(26-49%)	2	(1.5)
(50-99%)	7	(5.3)
No response	2	1.5
Total	131	100

Table 3.2. Number of Workers (All Companies)

No. of workers	Number	
Less than 10	7	5.3
10-49	40	30.5
50-99	17	13.0
100-499	43	32.8
More than 500	19	14.5
No response	5	3.8
Total	131	100.0

Table 3.3. Year of Establishment (All Companies)

Yr established	Number	%
Before 1950	14	10.7
1950-1959	13	9.9
1960-1969	28	21.4
1970-1979	23	17.6
1980-1989	16	12.2
1990-1999	27	20.6
2000-2003	7	5.3
No response	3	2.3
Total	131	100.0

3.2 Business Performance

Business performance of the interviewed companies can be summarized in Table 3.4. Salvadoran companies are operating under more favorable conditions.

Table 3.4. Business Performance of the Interviewed Companies

Business performance	Total	El Salvador	Neighboring countries
Stable (% responded)	48.1	46.7	66.7
Growing (%)	45.7	47.5	22.2
Declining (%)	6.2	5.8	11.1

3.3 Investment and Interest in Neighboring Countries

Table 3.5 shows the level of investment made by the interviewed companies in the neighboring countries, their level of interest and availability of information on those neighboring countries. Aside from El Salvador, Guatemala receives the highest number of investments accounting for 38.5% of all the interviewed companies, followed by Honduras at 34.6%. These are also the countries where the largest proportions of the companies are interested in making investment. It should be noted that these tendencies are largely those of the Salvadoran companies.

Table 3.5. Investment and Interest in Neighboring Countries

(Unit: %)

Country	Already invested	Considering investment	Have some interests	Have no information	Total
(Salvadoran Companies)					
El Salvador	91.6	0.8	0.8	6.9	100.0
Mexico	12.3	6.2	11.5	70.0	100.0
Costa Rica	23.1	7.7	11.5	57.7	100.0
Panama	22.3	6.2	9.2	62.3	100.0
Guatemala	38.5	8.5	12.3	40.8	100.0
Honduras	34.6	7.7	12.3	45.4	100.0
Nicaragua	26.2	6.9	10.0	56.9	100.0
Belize	9.2	4.6	7.7	78.5	100.0
(Companies in the neighboring countries)					
El Salvador	20.0	10.0	0.0	70.0	100.0

3.4 Factors Investors Consider Essential for Investment Decision

Table 3.6 presents the judgment of potential investors concerning factors that could affect investment decision. They were requested to choose one from "Highly important", "Important to some extent", or "Not important" for each factor. The five most important factors in terms of the proportion of "Highly important" are "Low country risk (85.1%)", "Consistent and simple laws and regulations (76.9%), "Good security (72.7%)", "Good access to market (72.7%)", and "Low cost of utilities (66.9%)". The factor regarded as not important was "Good nationality (55.3%)".

Table 3.6. Essential Factors for Making Investment Decision (All Companies)

(Unit:%)

Factors	Very important	Somewhat important	Not important	Total
Low country risk	85.1	14.9	0.0	100.0
Consistent and simple laws and regulations	76.9	22.3	0.8	100.0
Good security	72.7	27.3	0.0	100.0
Good access to market	72.7	25.6	1.7	100.0
Low cost of utilities	66.9	30.6	2.5	100.0
Simple procedures for starting and operating business	66.1	33.1	0.8	100.0
Supportive attitude of government officers	62.0	33.9	4.1	100.0
Good infrastructure facilities	61.2	38.8	0.0	100.0
High quality of labor	56.2	37.2	6.6	100.0
Daily support by the government	54.5	41.3	4.2	100.0
Dollarized economy	52.9	38.0	9.1	100.0

Factors	Very important	Somewhat important	Not important	Total
Availability of incentive measures	49.6	44.6	5.8	100.0
Low labor cost	34.7	51.2	14.0	99.9
Good living environment	5.0	75.2	19.8	100.0
Good nationality	5.0	39.7	55.3	100.0

3.5 Evaluation of El Salvador as Investment Location

Table 3.7 presents the images of El Salvador as an investment destination perceived by the interviewed Salvadoran companies and those in the neighboring countries. El Salvador is regarded favorably by both groups of companies as summarized below in terms of the essential factors for investment decision and the ranks of those factors for El Salvador.

Evaluation of El Salvador (Summary)

Evaluation factor	Rank by Salvadoran companies	Rank by companies in neighboring countries
Low country risk	2	9
Consistent and simple laws and regulations	3	4
Good security	1	1
Good access to market	4	1
Low cost of utilities	6	4

3.6 Links with the Eastern Region

Table 3.8 presents if the interviewed companies have any link with the Eastern Region or not and if so types of links. It is shown that nearly 70% of the companies have some links with the Eastern Region. The most frequent type of link is the Eastern region as the market of their products and services. This is followed by employment of workers form the Eastern Region.

Table 3.8. Links with the Eastern Region (All Companies)

(Unit: %)

Type of links with the Eastern Region	Yes	No
No links	30.6	69.4
Some links		
We already have manufacturing plant.	12.3	87.7
We already have a sales office.	40.7	59.3
We procure raw materials.	9.9	90.1
We sell products and services.	79.0	21.0
We employ workers from the Eastern Region.	54.3	45.7
One of our investors is from the Eastern Region.	13.6	86.4
We are collecting information on the Eastern Region.	17.3	82.7

Table 3.7. Evaluation of El Salvador by Respondent Companies

(Salvadoran Companies)

(Unit:%)

	Evaluation factor	Not at all	Not much	Somewhat	Very much	Unsure	Total
1	Low country risk	0.0	1.7	24.0	74.3	0.0	100.0
2	Good security	0.8	1.7	21.5	76.0	0.0	100.0
3	Good nationality	17.4	38.0	37.2	6.6	0.8	100.0
4	Good living environment	6.6	20.7	61.2	9.9	1.6	100.0
5	Supportive attitude of government officers	1.7	5.0	43.0	54.4	0.0	104.1
6	High quality of labor	0.8	6.6	39.7	52.9	0.0	100.0
7	Low labor cost	4.1	12.4	46.3	37.2	0.0	100.0
8	Good infrastructure facilities	0.0	3.3	28.1	68.6	0.0	100.0
9	Low cost of utilities	0.8	6.6	25.6	66.1	0.9	100.0
10	Availability of incentive measures	1.7	8.3	46.3	43.0	0.7	100.0
11	Daily support by the government	0.8	3.3	34.7	61.2	0.0	100.0
12	Simple procedures for starting and operating business	0.0	0.8	36.4	62.8	0.0	100.0
13	Cosistent and simple laws and regulations	0.0	1.7	25.6	72.7	0.0	100.0
14	Good access to market	0.8	0.8	28.9	69.4	0.0	99.9
15	Dollarized economy	0.8	10.7	28.9	59.5	0.0	99.9

(Companies in Neigbboring Countries)

	Evaluation factor	Not at all	Not much	Somewhat	Very much	Unsure	Total
1	Low country risk	0.0	0.0	42.9	57.1	0.0	100.0
2	Good security	0.0	0.0	0.0	100.0	0.0	100.0
3	Good nationality	0.0	42.9	57.1	0.0	0.0	100.0
4	Good living environment	0.0	0.0	57.1	42.9	0.0	100.0
5	Supportive attitude of government officers	0.0	0.0	57.1	42.9	0.0	100.0
6	High quality of labor	0.0	14.3	14.3	71.4	0.0	100.0
7	Low labor cost	0.0	14.3	14.3	71.4	0.0	100.0
8	Good infrastructure facilities	0.0	0.0	42.9	57.1	0.0	100.0
9	Low cost of utilities	0.0	0.0	14.3	85.7	0.0	100.0
10	Availability of incentive measures	0.0	0.0	57.1	42.9	0.0	100.0
11	Daily support by the government	0.0	0.0	42.9	57.1	0.0	100.0
12	Simple procedures for starting and operating business	0.0	0.0	14.3	85.7	0.0	100.0
13	Cosistent and simple laws and regulations	0.0	0.0	14.3	85.7	0.0	100.0
14	Good access to market	0.0	0.0	0.0	100.0	0.0	100.0
15	Dollarized economy	0.0	0.0	0.0	100.0	0.0	100.0

3.7 Possibility of Making an Investment in the Eastern Region

Table 3.9 presents views of the potential investors with regard to making investment in the Eastern Region. Those with a high possibility for making investment reach 57% of the total (43.2% plus 14.4%). Most of them or 86%, however, is for the purpose of selling their products and services. Out of the 6 companies in the neighboring countries, there were four answers stating that there will be no possibility of investment. The remaining two companies include that stating that they are considering investment for establishing or expanding their production base and the other mentioning that there will be some possibility of investment for production base.

Table 3.9. Possibility in Making Investment in the Eastern Region (Salvadoran Companies)

Possibility	Frequency	%
a. We are considering making an investment in the Eastern Region	54	43.2
for establishing /expanding a production base	*6*	*4.8*
for establishing/expanding a sales office	*48*	*38.4*
b. There will be a high possibility of an investment in the future	18	14.4
for establishing /expanding a production base	*4*	*3.2*
for establishing/expanding a sales office	*14*	*11.2*
c. There will be some possibility	17	13.6
for establishing /expanding a production base	*4*	*3.2*
for establishing/expanding a sales office	*13*	*10.4*
d. No possibility for investment	21	16.8
e. Possibility to invest in other products or services	15	12.0
Total	125	100.0

3.8 Possibility of Investment in La Union Hinterland

Those companies that are interested, highly or fairly, in making investment in the La Union hinterland reach 60.8% (Table 3.10). One comment referred to one condition saying that they would make an investment, if the new port makes their export and import activities more economical. Another comment touching upon the advantage mentioned that it would be a very important route to bring the raw materials coming from South America.

Table 3.10. Possibility of Investment in La Union Hinterland (Salvadoran Companies)

View on La Unión Hinterland	Frequency	(%)
a. Our company will be highly interested in this prospect and will positively look into investment possibility.	37	28.5
b. Our company is fairy interested in this prospect and will keep an eye on the development.	42	32.3
c. Possibility of investment will be limited for our company.	33	25.4
d. Other	17	13.1
e. No answer	1	0.7
Total	130	100.0

There were two companies each in the neighboring countries stating that they will keep an eye on the development and that the possibility for investment will be limited for them.

3.9 Access to Investment Information in El Salvador

Table 3.11 presents frequency of obtaining information on investment opportunities in El Salvador and accessibility to such information. Those companies trying to obtain those information, either often or sometimes, reaches 57%. Despite this level of demand for information, 62% of the respondents pointed to the lack of required information. This indicates the need for improving investment-related information dissemination mechanism.

Table 3.11. Frequency of Obtaining Investment Information and Availability

(Unit: %)

Item	Total	El Salvador	Neighboring countries
(Frequesncy of obtaining information)			
a. Often	20.0	21.5	0.0
b. Sometimes	36.9	38.8	11.1
c. Seldom	43.1	39.7	88.9
Total	100.0	100.0	100.0
(Availability of information on El Salvador)			
Sufficient information is available.	26.9	28.9	0.0
Information for making investment decision is lacking.	62.3	62.0	66.7
No need to collect investment information	10.8	9.1	33.3
Total	100.0	100.0	100.0

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Survey 3

Investment Potential Survey in Japan

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SURVEY 3: INVESTMENT POTENTIAL SURVEY IN JAPAN (IPSJ)

1 Objective

The objective of Investment Potential Survey in Japan ("IPSJ" hereafter") is to gather information concerning the condition of investment to El Salvador and the potentiality of Japanese enterprises making direct investment in El Salvador as well as the Eastern Region.

2. Survey Method

2.1 Procedure

A questionnaire survey was conducted by mailing distribution and fax collection, following the procedure below.

1) Preparation of questionnaire
2) Preparation of a letter for cooperation request
3) Confirmation of person in charge by telephone
4) The questionnaires with explanation letters were mailed, and collected by the fax
5) Inquiry by telephone in case the questionnaire is uncompleted
6) Data input
7) Compilation and analysis
8) Preparation of a summary report

2.2 Response and Outline of Companies Surveyed

2.2.1 Response by companies

IPSJ targeted 154 Japanese companies, which had already experienced business in Mexico and the Central America region. The responses are classified as follows.

(1)	Refused to answer the questionnaire at the point of identifying person in charge due to the reasons below	37
	i. Not to answer any questionnaire	4
	ii. Busy or not interested	6
	iii. No plan to start business nor any business relation in the Central America region	27
(2)	Questionnaire sent out	117
	i. Questionnaire collected	40
	ii. Refused to answer	77

2.2.2 Attributes of respondents

(1) Capital

100,000,000,000 yen or more	11
From 10,000,000,000 to less than 100,000,000,000 yen	12

	From 5,000,000,000 to less than 10,000,000,000 yen	5
	Less than 5,000,000,000 yen	11
	No response	1
(2)	Number of employees	
	10,000 people or more	8
	From 5,000 to less than 10,000 people	9
	From 1,000 to less than 5,000 people	12
	Less than 1,000 people	9
	No response	2

3. Results of IPSJ

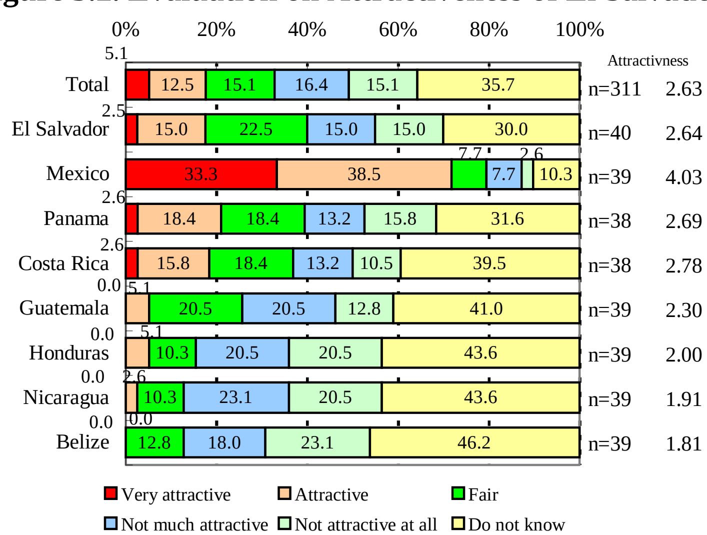
3.1 Business Experience and Interest in El Salvador and Other Countries

As shown in Figure 3.1, seven out of 40 respondents answered "no visit has been made" to El Salvador. There are 13 companies with experience in dispatching staff for information collection to El Salvador. Only 7 companies have actually invested in El Salvador. On the other hand, there are 38 companies with experience of dispatching staff for information gathering to Mexico. Thos who actually invested in Mexico was 37.

3.2 Attractiveness of El Salvador Compared with Other Countries

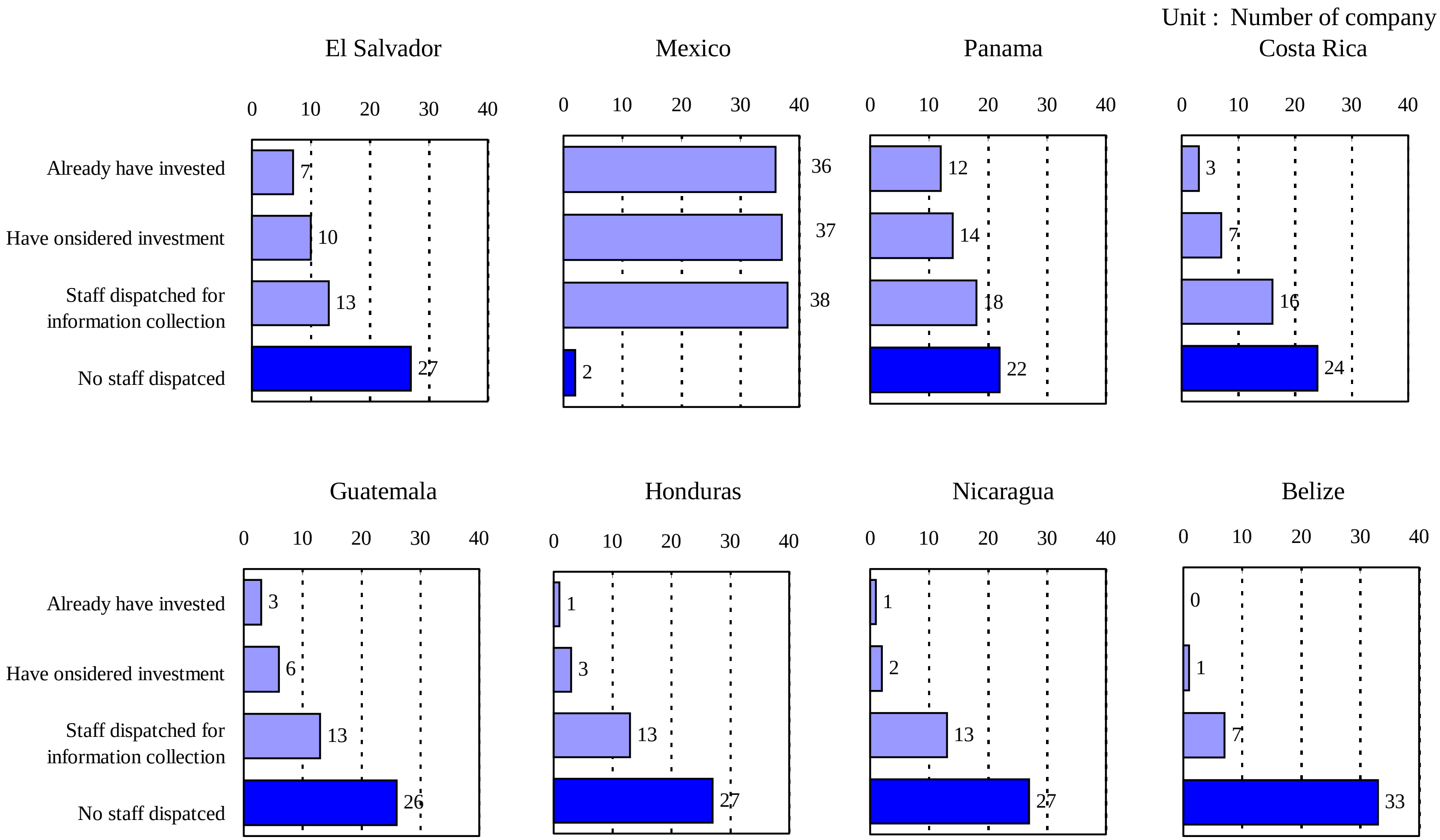
Figure 3.2 presents views on attractiveness of El Salvador and other countries. El Salvador with the score at 2.63 can be grouped into the second group together with Panama and Costa Rica after Mexico.

Figure 3.2. Evaluation on Attractiveness of El Salvador



Attractiveness = (No. of "very attractive" × 5 points + No. of "attractive" × 4 points + No. of "fair" × 3 points + No. of "not so attractive" × 2 points + No. of "Not attractive at all" × 1 point)/(total answered number - No. of "Do not know"

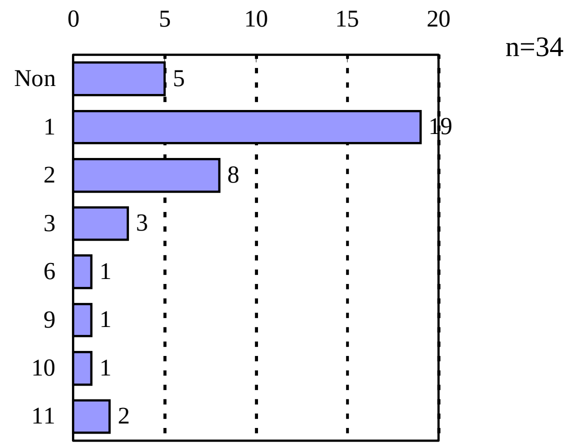
Figure 3.1. Business Experience and Interest in El Salvador and Other Countries



3.3 Number of Subsidiary Companies in Mexico and Central American Countries

Figure 3.3 below shows the number of subsidiary companies established by surveyed Japanese companies or their subsidiary companies in other countries. The companies with one or more subsidiary companies reach 27 or 79%.

Figure 3.3. Number of Subsidiary Companies



3.4 Characteristics of Subsidiary Companies

3.4.1 Location

- Mexico 31
- Panama 4
- El Salvador 1
- Honduras 1
- No response 3
- Total 40

- There are many companies (31) with their representative subsidiaries in Mexico.
- There is only one company with its subsidiary in El Salvador.

3.4.2 Capital

- 50,000,000 dollars or more: 3
- From 5,000,000 to less than 50,000,000 dollars:10
- From 1,000,000 to less than 5,000,000 dollars: 12
- Less than 1,000,000 dollars 12
- No response: 3
- Total: 40

3.4.3 Share of parent company

- 100% 24
- From 80 to less than 100% 3
- From 60 to less than 80% 1
- From 40 to less than 60% 4

- 40% or less 2
- No response 6
- Total 40

24 subsidiaries (60%) have 100% investment directly from a parent company or through its overseas subsidiary.

3.4.4 Main products and services

- Automobile related 8
- Importing and exporting 5
- Precision instrument and electronic equipment 5
- Plastics molding 4
- General consumer goods including consumer electronics 2
- Design and manufacturing of freezer and refrigerator 2
- Medical treatment articles sales 1
- Control cable and window regulator 1
- Sales of bearing 1
- Textile 1
- Industrial products 1
- Consignment processing from related companies 1
- Manufacturing, sales, and maintenance of equipment for elevator and electric equipment 1
- Export of dynamo plant and industrial soda 1
- Fishing net 1
- Communications 1
- Total 40

3.4.5 Main business activities

- Sales base 11
- Production + sales base 20
- Production 3
- No response 6
- Total 40

3.4.6 Main markets (multiple answer)

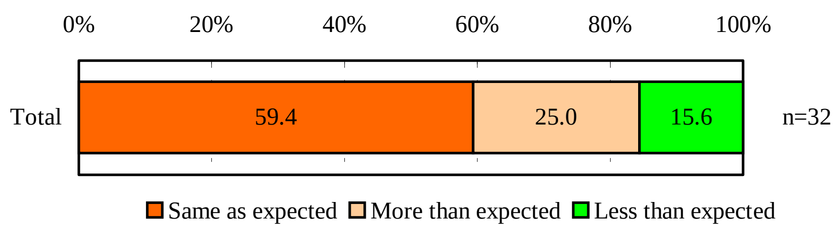
- Mexico 20
- USA + Canada 18
- Japan 4
- Central America 5
- South America 3
- Belgium 1
- South Korea 1
- Thailand 1
- Total 53

The most common market is Mexico accounting for 38%, followed by US and Canada at 34%.

3.5 Changes in Evaluation of Attractiveness of Country before and after Investment

Figure 3.4 gives any change in view toward the country where the companies made investment before and after the investment. The common reasons for "less than expected" are decrease of earnings due to Peso appreciation, weakening preference of Maquiladora system and unclear protective policy by the Mexican government, unexpected recession according to the change in worldwide telecommunication environment, and restrain of investment due to the shift from voice communication to data communication.

Figure 3.4. Changes in Evaluation before and after Investment



3.6 Important Factors for Making Investment

Figure 3.5 shows the view on important factors for making investment in Mexico and Central American countries and their importance indicators calculated applying the following equation:

> Importance score = (Number of "highly important" $\times$ 5 points + number of "important to some extent" $\times$ 3 points + number of "not important" $\times$ 1 point)/total number of respondents

The figures regarded most important by Japanese companies are "low country risk" (4.42), "good security" (4.38), "high quality labor" (4.18), "good access to market" (4.00) and "good infrastructure facilities" (3.87).

Figure 3.5. Important Factors for Making Investment

Note: "Others" include "Development of automobile industry", "Large market", "Unclear procedure for PITEX and export promotion measures".

3.7 Evaluation of El Salvador and Other Countries

Figures 3.6 through 3.10 present an evaluation of El Salvador and other countries as investment destination by each factor. Table 3.1 presents the ratings of El Salvador and Mexico for the five most important factors. In case of El Salvador, two cases are presented, an evaluation by all the surveyed companies and the other only by 7 Japanese related companies operating in El Salvador.

Table 3.1. Ratings of El Salvador and Mexico on Important Factors

5 most Important factors	El Salvador		Mexico (all companies)
	All companies	7 operating companies	
1. Low country risk	5 (2.96)	6 (3.00)	4 (3.43)
2. Good security	12 (2.43)	1 (3.80)	15 (2.41)
3. High quality labor	8 (2.79)	12 (2.80)	6 (3.14)
4. Good access to market	12 (2.67)	6 (3.00)	1 (4.14)
5. Good infrastructure facilities	14 (2.42)	2 (.60)	7 (3.00)

The following are the noteworthy findings.

a. In all the factors except "good security", the scores for Mexico exceed those of El Salvador when all the samples are compared.

b. When limited to the 7 companies with business experience in El Salvador, however, the scores are improved for all, especially so for "good security" (2.43 to 3.80) and "good infrastructure" (2.42 to 3.60), the latter exceeding that of Mexico. This indicates that there is a big gap in conception about El Salvador between the companies with business experience there and those without.

c. While Mexico fulfills the requirements of the Japanese companies more than El Salvador does in the case of all the companies compared, the difference becomes smaller if only the companies with business experience in each country are compared.

The following indications are observed for investment information dissemination.

a. "Low country risk" should be stressed as a strong advantage of El Salvador.

b. Low rating on "good security" by the companies without experience in El Salvador could have derived from civil war image. This kind of old image should be overturned by disseminating information on reality, by introducing experiences of the Japanese companies operating in El Salvador.

c. Human resource development should be emphasized in government policy. "Hard working" nature of Salvadoran workers should be stressed to complement this aspect.

d. There is a good chance to improve "good access to market" aspect. Investment promotion activities should stress the opening of the La Union Port and CAFTA under negotiation to drastically improve the image of market accessibility.

e. Low rating for "good infrastructure facilities" should also be overturned by introducing actual condition with experiences of companies from Japan and other countries.

Figure 3.6. Evaluation of Mexico

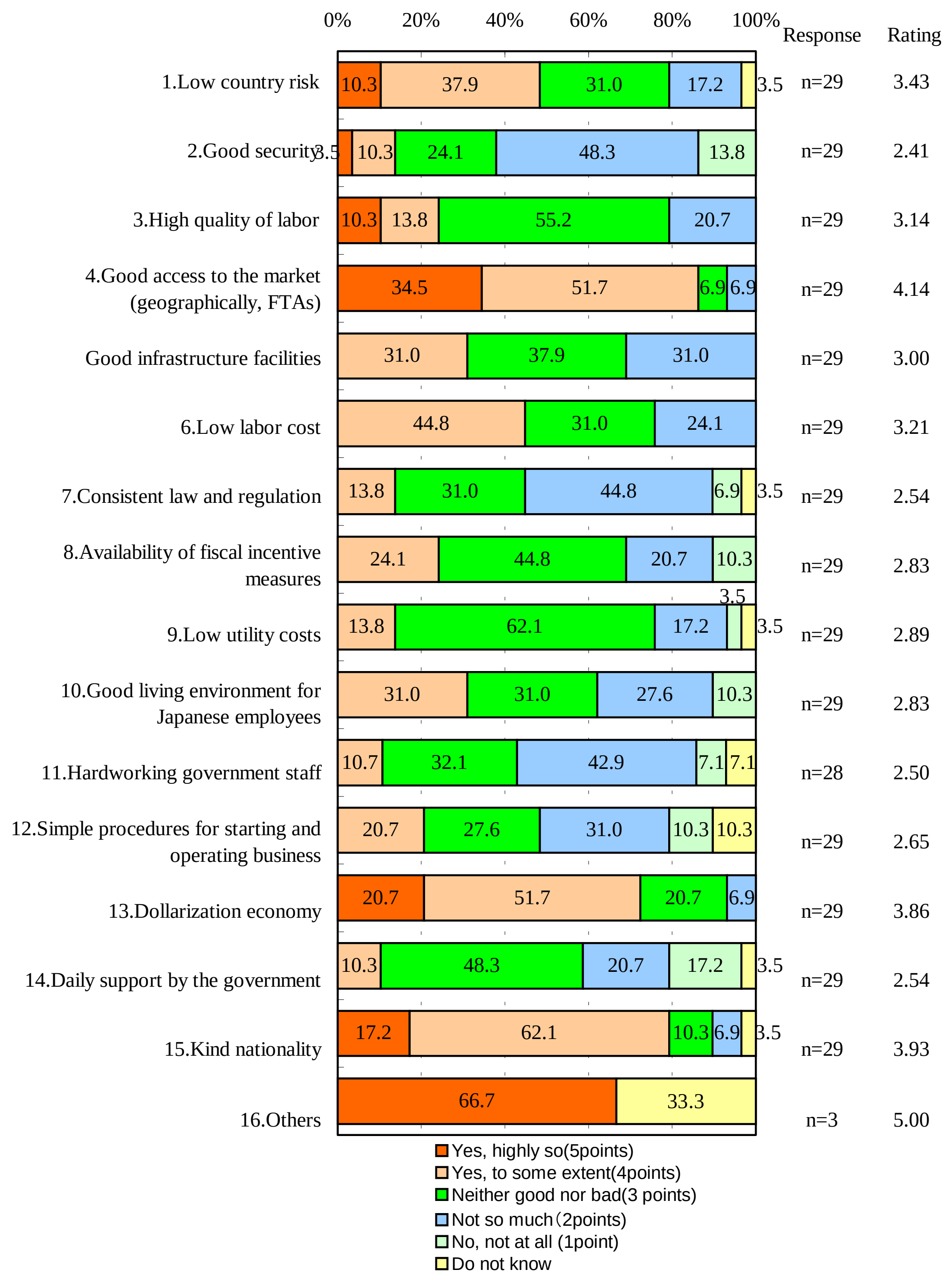


Figure 3.7. Evaluation of Panama

Figure 3.8. Evaluation of Costa Rica

Figure 3.9. Evaluation of El Salvador by All Companies Surveyed

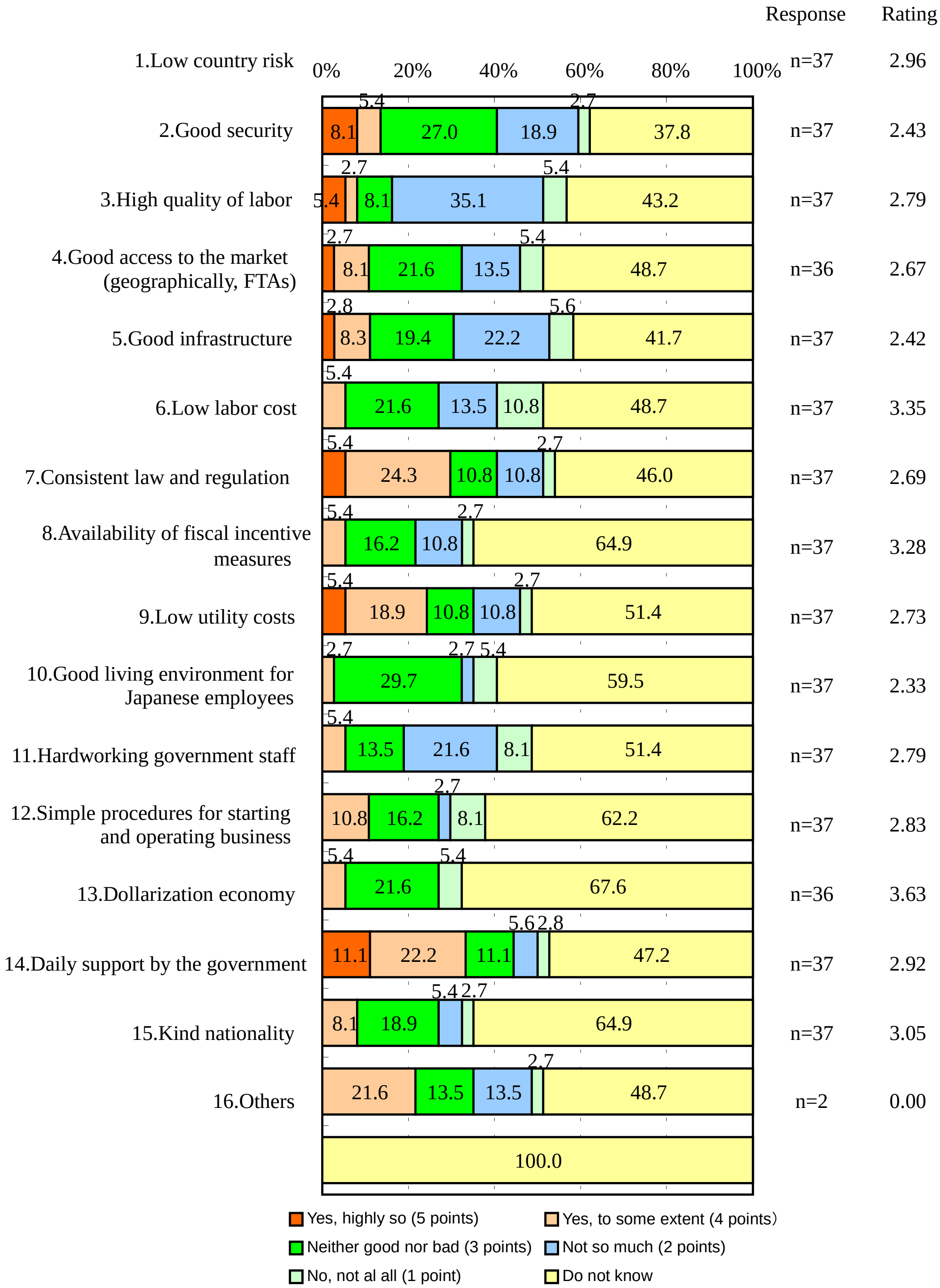


Figure 3.10. Evaluation of El Salvador by 7 Japan-related Companies Operating in El Salvador (1/2)

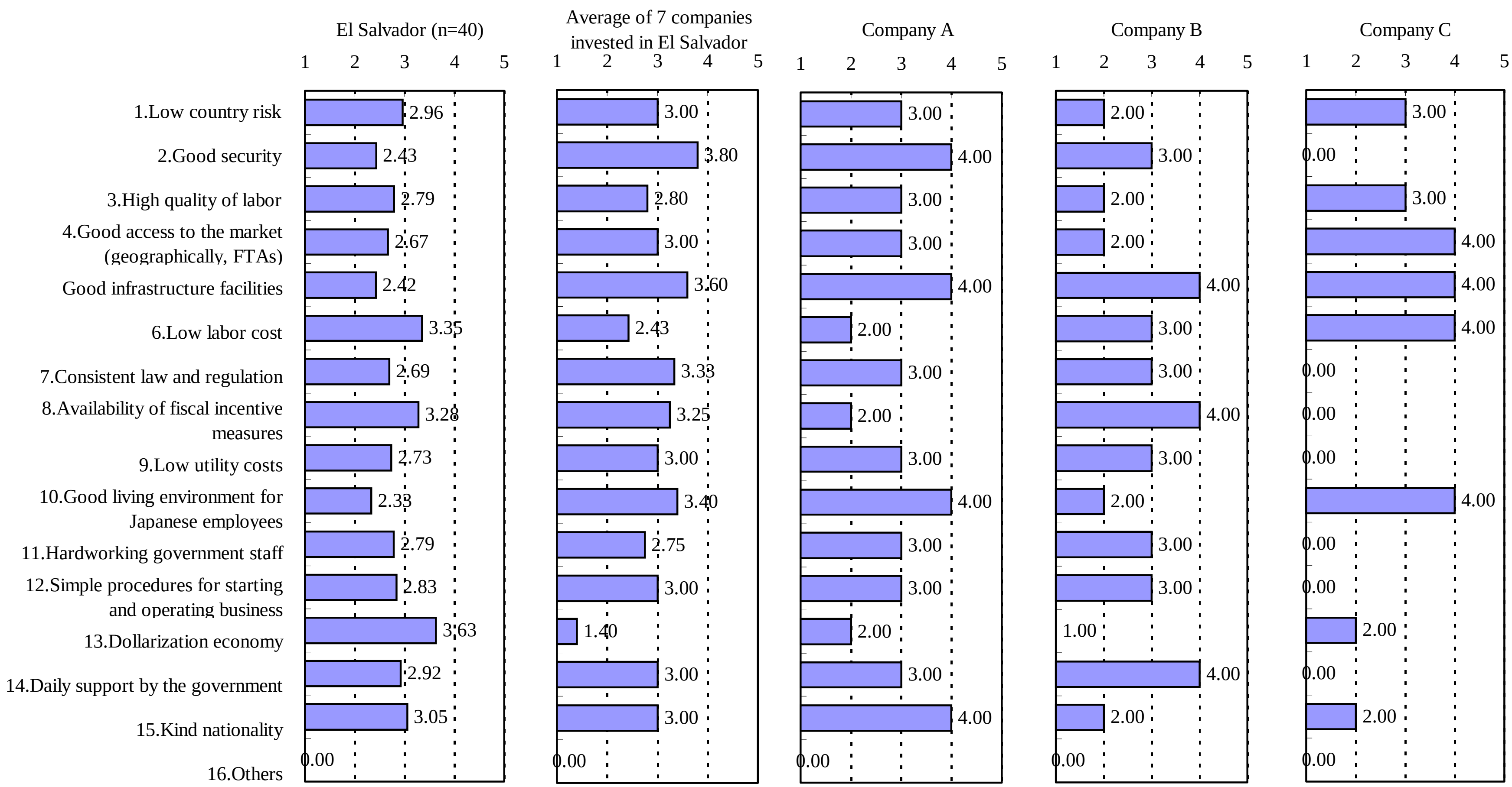
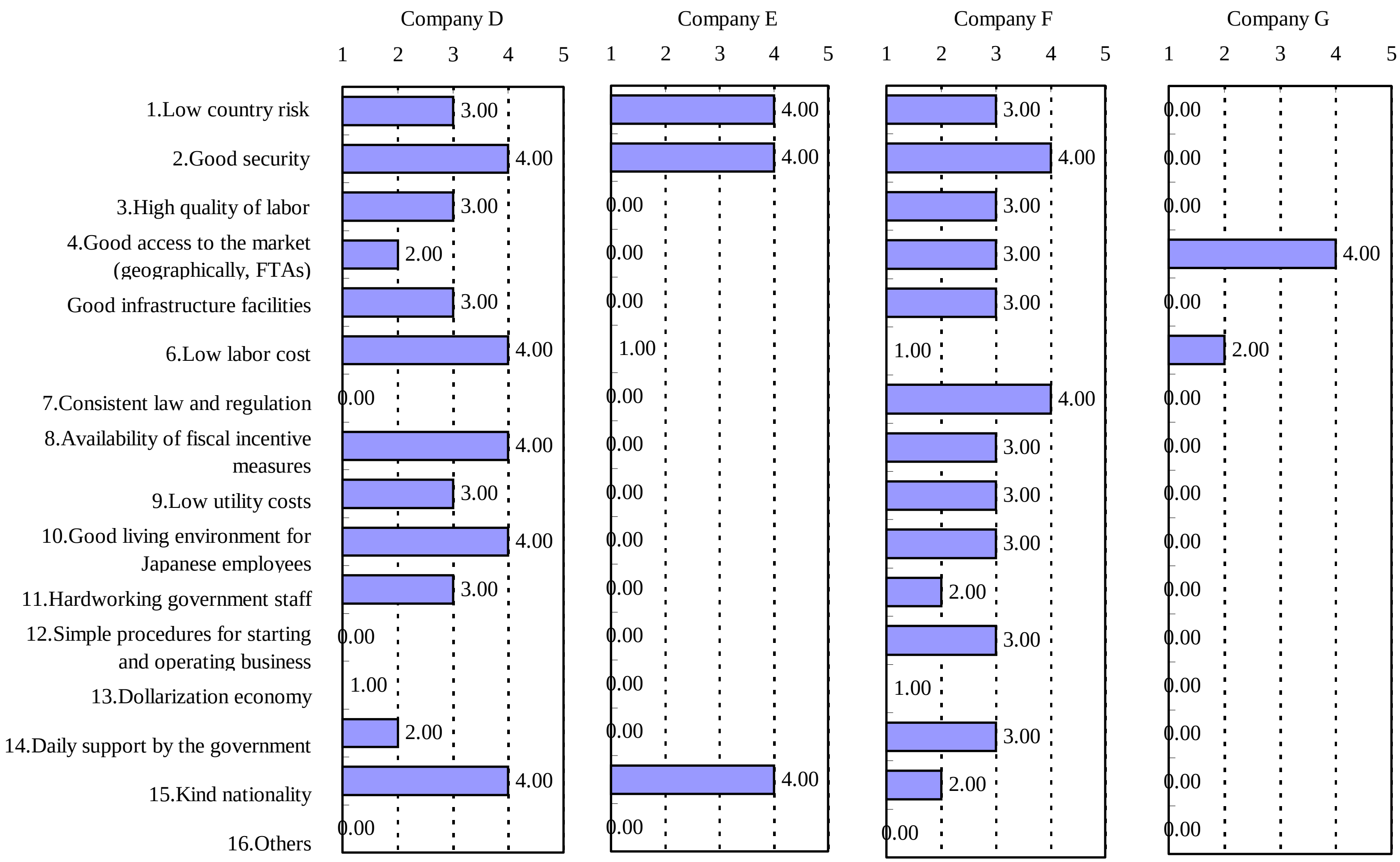


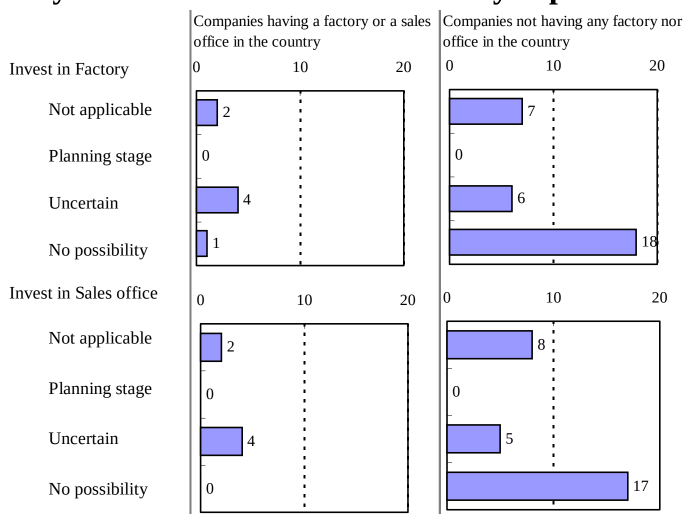
Figure 3.10. Evaluation of El Salvador by 7 Japan-related Companies Operating in El Salvador (2/2)



3.8 Possibility of Investment in El Salvador at Present and in the Future

Figure 3.11 presents the possibility of expanding ongoing business or starting new business in El Salvador at this time. While companies with no operation in El Salvador had 63% (19) or 50% (19) with no possibility for investment, those with business experience in El Salvador had 57% (4) or 33% (2) for "uncertain", indicating both possibilities of making investment or no investment. The possibility of investment by Japanese companies would increase when the Japanese economy improves and investment promotion activities pin-pointed at them are accelerated.

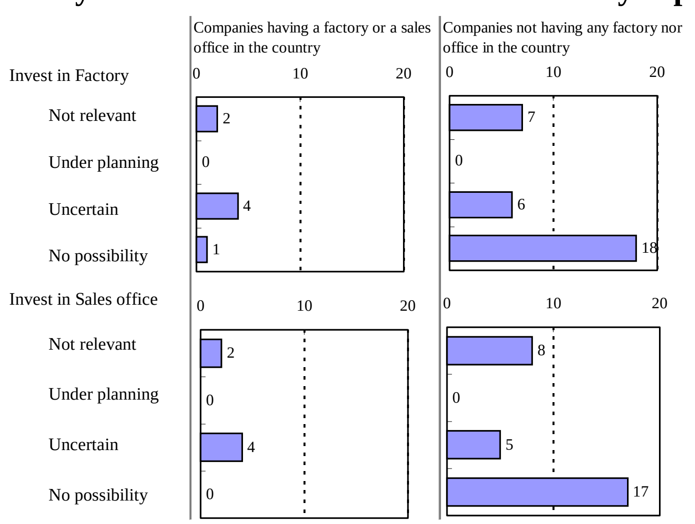
Figure 3.11. Possibility of Investment in El Salvador by Japanese Companies at Present



Number of response =40

The same trend is observed for the future as shown in Figure 3.12.

Figure 3.12. Possibility of Future Investment in El Salvador by Japanese Companies

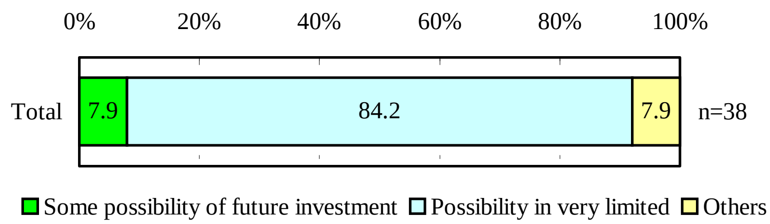


Number of response =40

3.9 Possibility of Investment in the Eastern Region

Figure 3.13 shows the possibility of Japanese companies making investment in the Eastern Region of El Salvador.

Figure 3.13. Possibility of Investment in the Eastern Region



Those companies foreseeing some possibility accounted for 7.9%. This proportion would increase as the Japanese economy improves, more focused promotion activities conducted and the Eastern Region begins to develop following the La Union Port operation initiation.

3.10 Information on El Salvador

Figures 3.14 and 3.15 show the proportions for frequency of seeking information on El salvador and the level of information availability. While the companies seeking informaytion, either often or someteimes, reached 30.8%, those companies considering the information was sufficiently availabe was only 13.5%, less than half. This indicates the need for investment information dissemination mechanism.

Figure 3.14. Frequency of Seeking Information on El Salvador

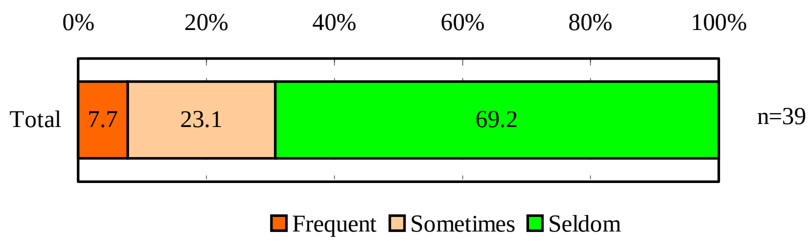
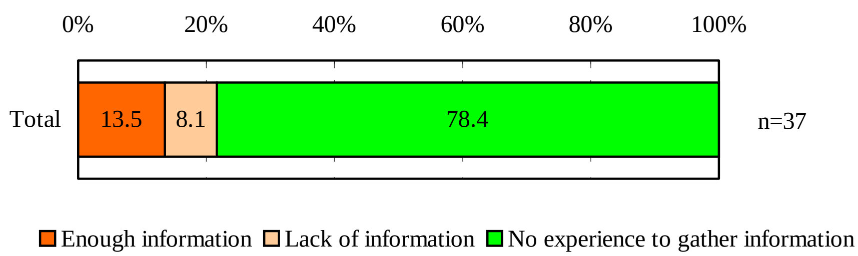


Figure 3.15. Problem in Gathering Investment Information



3.11 Business Prospect

Figures 3.16 through 3.18 present prospect of business for the companies as a whole, overseas business and business in Central America and Mexico. It is observed that overseas business is expected to grow more than companies' whole business. Business in Central America and Mexico, however, is, not expected to grow as other regions. Information obtained by telephone interview indicated a tendency to shift production base to the Asian region such as China.

Figure 3.16. Growth of Company in the Future (3 years later)

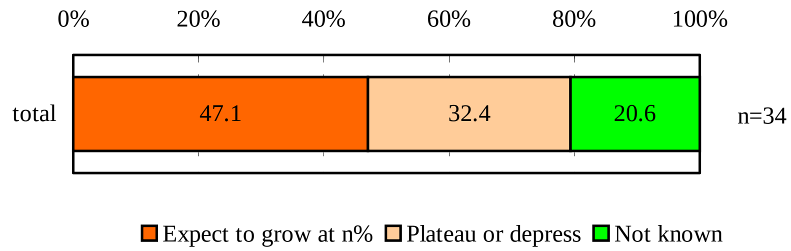


Figure 3.17. Expansion of Overseas Business (3 years later)

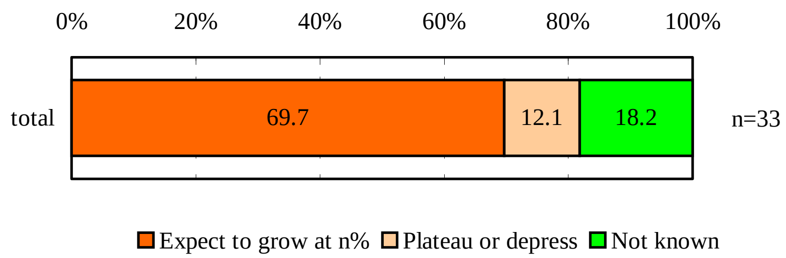


Figure 3.18. Investment growth in Mexico and Central America (3 years later)

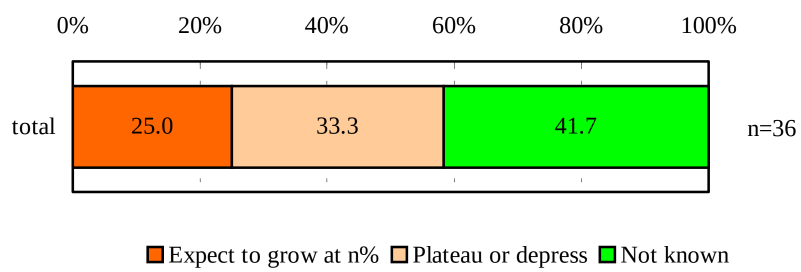
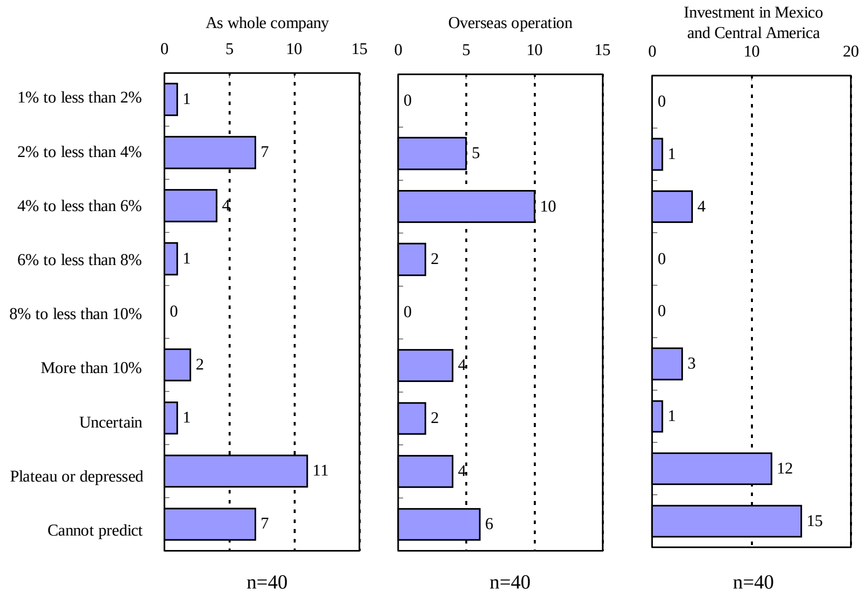


Figure 3.19 shows expected rate of growth for companies, overseas business and business in Central America and Mexico. The positive range most frequently answered are 2 to 4 % for company as a whole, 4 to 6 % for overseas business and 4 to 6 % for business in Central America and Mexico. In the cases of company as a whole and Central America/Mexico, prospect for stable or negative growth surpassed these positive ranges.

Figure 3.19. Prospect of Growth for Company as a Whole and in Overseas Business and Business in Central America/Mexico



4. Summary

(1) Experience in Mexico and Central America

1) The number of companies that have already invested in Central America/Mexico:

1st	Mexico	36
2nd	Panama	12
3rd	El Salvador	7
4th	Costa Rica	3
5th	Guatemala	3

2) The number of companies that have dispatched staff to collect information:

1st	Mexico	38
2nd	Panama	18
3rd	Costa Rica	16
4th	Guatemala	14
5th	El Salvador	13
6th	Honduras	13
7th	Nicaragua	13

El Salvador is ranked third in terms of investment although it is ranked fifth in terms of company involvement.

3) Level of attractiveness in comparison with the neighboring countries is shown as follows

(on 5-point scale).

1st	Mexico	4.03 points
2nd	Costa Rica	2.78 points
3rd	Panama	2.69 points
4th	El Salvador	2.64 points (2nd group)
5th	Other countries	(3rd group)

4) The important elements to invest in Mexico and Central America (on 5-point scale):

1st	Low country risk	4.42 points
2nd	Public safety	4.38 points
3rd	Quality of workers	4.18 points
4th	Good access to markets	4.00 points
5th	Good infrastructure	3.87 points

5) Actual condition of El Salvador as an investment destination

It was clarified that there is a wide gap between companies with experience in El Salvador and those without in terms of their perception on investment environment. "Good security", for example, rated 12th with 2.43 by all the companies, rises to 1st with 3.80. Another example would be "good infrastructure facilities" from 14th with 2.42 to 2nd with 3.60. It would be necessary to formulate a realistic investment promotion strategy targeted at Japanese companies with a good understanding of their requirements and actual conditions in El Salvador, taking advantage of already operating companies.

6) Business prospect

Although many companies predicted low business growth in the future, 3 companies answered more than 10% of growth in investment can be expected in Mexico and Central America.

Final Report
Volume 5
Survey Report

Survey 4

Survey on Salvadorans in the United States

The Study on Economic Development, Focusing on the Eastern Region, of the Republic of El Salvador

Final Report
Volume 5: Survey Report
Survey 4: Survey on Salvadorans in the United States

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SURVEY 4: SALVADORANS IN THE UNITED STATES

1. Survey Scope and Method

(1) Target areas of the survey

Three city areas in the U.S. were selected for the survey in view that each of the cities holds a large population of Salvadorans. The characteristics of these areas with respect to Salvadoran migrants are summarized.

1) Washington, D.C. area

There is an estimated population of 400,000 Salvadorans in the area, distributed in three states: 60% in Virginia, 30% in Maryland and 10% in Washington, D.C. Migrants from the departments in the Eastern Region have dominated shares. They engage mostly in services (restaurants, cleaning, child care, and maintenance works) and construction. It is estimated that there are some 2,000 entrepreneurs mainly in construction. There exist about 20 organizations of Salvadorans in the area.

2) San Francisco area

There are approximately 200,000 Salvadorans in the area, including neighboring cities such as San Jose and Oakland. In San Francisco, the Salvadoran community concentrates mainly along Mission Street. San Francisco is one of the cities where the first groups of Salvadorans migrated during the 1960's and 70's. More migrants are from the more advanced areas of San Salvador and La Libertad. They engage dominantly in services, but employment in the industrial sector is also significant. There exist about 20 organizations of Salvadorans, of which the Salvadoran Chamber of Commerce is most significant for its investment projects.

3) Los Angeles area

This is by far the area with the largest Salvadoran population in the U.S with the estimated 800,000 people. The area comprising four communities and more than 15 cities, generally referred to "Los Angeles", may have as much as 1.2 million Salvadoran population according to estimates by NGOs. The highest concentration is found the southern and central areas of Los Angeles City. Migrants to this area come from all the departments. They engage mostly in services, but participation in construction, and mechanical and motor vehicle body works is increasing. The largest migration to the area took place 20 years ago. There exist more than 90 active Salvadoran organizations and out of a total 160 registered with the Salvadoran consulate in the city.

(2) Sample size

The sample size was determined as below, based on the total population in each survey area and

95% reliability with 70% variance.

City	Total Salvadoran population	Sample
Los Angeles	800,000	1,500
San Francisco	200,000	750
Washington, D.C.	400,000	750
Total	1,400,000	3,000

Due to problems in the delivery and processing of the survey forms, the number of samples was modified slightly for each survey area. Consequently, a total of 2,956 survey forms were distributed comprising 705 (24%) in Washington, D.C., 1,500 (51%) in Los Angeles and 751 (25%) in San Francisco areas.

(3) Survey method

The survey questionnaire was prepared by the Salvadoran consultant nominated by CND and approved by PROESA and the JICA Study Team. A pilot test was conducted to check the appropriateness of the questionnaire with respect to its structure and contents.

The questionnaires were then distributed through the consulates in the surveyed cities to the subjects who were randomly selected from the resident Salvadorans registered at each consulate. Local consultants in each area helped each subject fill in the questionnaire through individual interviews.

The survey was carried out over a period of about 2.5 months starting at the beginning of June 2003. The survey questionnaire is given in Appendix 1, and the timetable of the survey is included in Appendix 2.

2. Socio-Demographic Characteristics

(1) Sex

The dominance of male migrants (56%) is observed for the three areas. Men are more dominant in Washington, D.C. with a 63% share.

Table 1. Sex Distribution of Salvadorans in the U.S.

City	Male	%	Female	%	No data	%	Total	%
Los Angeles	810	54.0	687	45.8	3	0.2	1,500	100.0
San Francisco	402	53.5	349	46.5	0	0.0	751	100.0
Washington, DC	444	63.0	221	31.3	40	5.6	705	100.0
Total	1,656	56.0	1,257	42.5	43	1.4	2,956	100.0

(2) Marital status

A majority (55%) of migrants have family commitment, whether married formally or effectively. Married people have a significantly larger share in San Francisco, reflecting more established families migrated and settled earlier.

Table 2. Marital Status of Salvadorans in the U.S.

City	Married		Single		Widow		Common law		Divorced		Separated		No data	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Los Angeles	459	30.6	722	48.1	36	2.4	232	15.5	47	3.1	0	0.0	4	0.2
San Francisco	429	57.1	215	28.6	12	1.6	81	10.8	11	1.5	1	0.1	0	0
Washington, DC	241	34.2	288	40.9	36	5.1	118	16.7	13	1.8	1	0.1	7	1
Total	1,129	38.2	1,225	41.4	84	2.8	431	14.6	71	2.4	2	0.1	11	0.4

(3) Age structure

The average age of surveyed migrants is 34.9 years, ranging 36.5 years in Los Angeles, 35.1 years in Washington, D.C. and 32.6 years in San Francisco.

(4) Family size

The average family size is 3.0 overall, ranging 4.0 in San Francisco, 2.63 in Los Angeles and 2.37 in Washington, D.C. Again, this reflects the dominance of more established families in San Francisco.

(5) Education level

Levels of education of migrants, regardless of their place of residence, are generally higher than those representing the national average (Monks, 1990; Garcia, 1994; CEPAL, 1992). The share of migrants in Los Angeles with high school background is particularly high at 46.5%. This implies that El Salvador has experienced a brain drain or loss of qualified human resources. Conversely, the U.S. can benefit from more qualified labor without investing in the generation of such human resources.

Table 3. Educational Level of Salvadorans in the U.S.

Education received	Los Angeles		San Francisco		Washington, D.C.		Total	
	N	%	N	%	N	%	N	%
None	76	5.1	28	3.7	7	1.0	111	3.8
Grade 1-3	90	6.0	111	14.8	81	11.5	282	9.5
Grade 4-6	216	14.4	230	30.6	237	33.6	683	23.1
Grade 7-9	358	23.9	193	25.7	204	28.9	755	25.5
High school	694	46.3	141	18.8	93	13.2	928	31.4
University	23	1.5	27	3.6	16	2.3	66	2.2
Technical school	2	0.1	12	1.6	4	0.6	18	0.6
Other	1	0.1	1	0.1	0	0.0	2	0.1
No data	40	2.7	8	1.1	63	8.9	111	3.8
Total	1,500	100.1	751	100.0	705	100.0	2,956	100.0

(6) Period of residence

More than two-thirds of the surveyed Salvadorans have lived in the U.S. for longer than six years, and one-fourth have lived there over 16 years. Those in San Francisco have longer periods of residence. The migratory flow to Washington, D.C. is more recent; only 15% of respondents have lived there over 16 years.

Table 4. Period of Residence in the U.S. (%)

Period (yr.)	Los Angeles	San Francisco	Washington, D.C.	Total
Less than 1	0.5	3.2	0.3	1.1
1-3	19.6	15.4	10.2	16.4
4-5	11.6	11.9	20.7	13.8
6-10	25.8	19.6	37.4	27.0
11-15	13.6	18.2	14.9	15.1
16 or more	28.6	31.2	15.4	25.8
No data	0.3	0.5	1.8	0.8

(7) Origin departments

The western department of Sonsonate and Ahuachapan have only 2.9% of immigrant families, while 16% live in San Salvador. The residents of the departments in the Eastern Region directed their migratory flow more towards Washington, D.C. to constitute 41% of the Salvadoran migrants there. Almost one-fourth of the residents in Washington, D.C. have relatives in La Union. Almost one-third of the migrants in San Francisco are from more urban departments of San Salvador and La Libertad. Overall, 88.5% of the surveyed migrants have relatives in El Salvador.

Table 5. Department of Residence of Migrant Relatives

	Los Angeles		San Francisco		Washington, D.C.		Total	
Department	N	%	N	%	N	%	N	%
San Salvador	239	15.9	161	21.4	82	11.6	482	16.3
San Miguel	103	6.9	87	11.6	135	19.1	325	11.0
La Unión	71	4.7	31	4.1	167	23.7	269	9.1
Santa Ana	108	7.2	73	9.7	18	2.6	199	6.7
Cabañas	139	9.3	42	5.6	18	2.6	199	6.7
La Libertad	90	6.0	81	10.8	20	2.8	191	6.5
Usulután	69	4.6	42	5.6	62	8.8	173	5.9
Chalatenango	89	5.9	44	5.9	24	3.4	157	5.3
Sonsonate	83	5.5	34	4.5	32	4.5	149	5.0
San Vicente	66	4.4	26	3.5	18	2.6	110	3.7
Morazán	46	3.1	15	2.0	43	6.1	104	3.5
La Paz	51	3.4	31	4.1	16	2.3	98	3.3
Ahuachapán	57	3.8	22	2.9	7	1.0	86	2.9
Cuscatlán	59	3.9	11	1.5	16	2.3	86	2.9
No data	230	15.3	51	6.8	47	6.7	328	11.1
Total	1,500	99.9	751	100.0	705	100.1	2,956	99.9

3. Employment and Income Statistics

(1) Employment situation

Of the migrant Salvadorans surveyed, 80% are presently working, 12% working and studying, 5% studying, and only 3% unemployed. That is, the unemployment is not a critical problem of the Salvadorans in the U.S. This situation is precisely a factor that attracts continuous migratory flow from the U.S.

(2) Employment by sector

Most migrant Salvadorans work in services such as restaurants, cleaning, child care, and gardening that demand relatively less skills. Including construction, almost two-thirds are employed in these activities. Of the surveyed migrants, 4.1% have their own business, all in services, restaurants and commercial activities. In Washington, D.C., 34% of migrants are engaged in construction and 19% in restaurants.

Table 6. Employment Situation by City

	Los Angeles		San Francisco		Washington, D.C.		Total	
Situation	N	%	N	%	N	%	N	%
Studies	1,095	73.0	654	87.1	624	88.5	2,373	80.3
Works	103	6.9	6	0.8	26	3.7	135	4.6
Both	240	16.0	66	8.8	41	5.8	347	11.7
None of the above	61	4.1	22	2.9	6	0.9	89	3.0
No data	1	0.1	3	0.4	8	1.1	12	0.4
Total	1,500	100.1	751	100.0	705	100.0	2,956	100.0

Table 7. Employment of Salvadorans in the U.S. by Sector

	Los Angeles		San Francisco		Washington, D.C.		Total	
Sector	N	%	N	%	N	%	N	%
Services	497	33.1	245	32.6	133	18.9	875	29.6
Construction	260	17.3	89	11.9	242	34.3	591	20.0
Restaurant	100	6.7	78	10.4	131	18.6	309	10.6
Technical	173	11.5	85	11.3	11	1.6	269	9.1
Commerce	69	4.6	57	7.6	22	3.1	148	5.0
Self-employed	58	3.9	32	4.3	31	4.4	121	4.1
Office services	46	3.1	42	5.6	27	3.8	115	3.9
Transportation	26	1.7	28	3.7	13	1.8	67	2.3
Professional	20	1.3	2	0.3	6	0.9	28	0.9
Financial services	7	0.5	6	0.8	1	0.1	14	0.5
Agricultural	0	0.0	3	0.4	0	0.0	3	0.1
Other	81	5.4	53	7.1	65	9.2	199	6.7
No data	163	10.9	31	4.1	23	3.3	217	7.3
Total	1,500	100.0	751	100.1	705	100.0	2,956	100.1

(3) Income levels

The average weekly income of the surveyed migrants is US$466 corresponding to US$1,865 per month, equivalent to 12 times the monthly minimum wage in El Salvador The majority (88%) make more than US$200 per week. The average income level of a Salvadoran employed in the U.S corresponds the upper middle-income class in El Salvador.

Table 8. Individual Weekly Income by City

	Los Angeles		San Francisco		Washington, D.C.		Total	
Weekly income	N	%	N	%	N	%	N	%
0-50	2	0.1	0	0.0	0	0.0	2	0.1
51-100	5	0.3	3	0.4	8	1.1	16	0.5
101-200	39	2.6	37	4.9	33	4.7	109	3.7
201-400	740	49.3	202	26.9	357	50.6	1,299	43.9
401-800	456	30.4	334	44.6	237	33.6	1,027	34.7
801-1,500	99	6.6	72	9.6	33	4.7	204	6.9
1,501-more	30	2.0	26	3.5	18	2.6	74	2.5
No data	129	8.6	77	10.2	19	2.7	225	7.6
Total	1,500	99.9	751	100.0	705	100.0	2,956	99.9

The weekly family income averages US$994. This is equivalent to the annual income of US$47,700, corresponding to the highest income class in El Salvador with a 12% share of population. Most families are above the poverty line in the U.S. set at US$ 13,000 per year.

Table 9. Weekly Family Income by City

	Los Angeles		San Francisco		Washington, D.C.		Total	
Weekly income	N	%	N	%	N	%	N	%
0-50	1	0.1	0	0.0	1	0.1	2	0.1
51-100	3	0.2	2	0.3	4	0.6	9	0.3
101-200	7	0.5	1	0.1	4	0.6	12	0.4
201-400	74	4.9	20	2.7	47	6.7	141	4.8
401-800	469	31.3	116	15.4	165	23.4	750	25.4
801-1,500	575	38.0	178	23.7	244	34.6	997	33.7
1,501-more	221	15.0	173	23.0	120	17.0	514	17.4
No data	150	10.0	261	34.8	120	17.0	531	18.0
Total	1,500	100.0	751	100.0	705	100.0	2,956	100.1

4. Remittance

(1) Amount of remittance

Of the surveyed migrants, 72.5% send remittances to their relatives on a regular basis. This proportion, however, is much smaller at 60% in Los Angeles. The average remittance of those who make remittance monthly is US$305 pre month, but this average varies widely among the areas. The average in San Francisco is US$512, while the average is much lower at $239 in Washington, D.C. and US$209 in Los Angeles. Based on the survey results, the total remittance of Salvadorans in these areas is estimated to be US$256,183,000 per month. The banks his amount is equivalent to US 3,074 million per year, corresponding to 21.5% of the GDP of El Salvador in 2002. This implies that the total actual remittance is 68% larger than the amount formally received. The latter represents the remittances sent through the banks of the formal financial system and courier.

(2) Use of remittance

Slightly over a half (52.7%) of the remittance is used for living and consumption expenses. This appears to be consistent with results of past studies that the remittance is mostly used for family consumption. The Multiple Household Survey by DIGESTYC is 1999 reported that 80% of the remittance was used for consumption purposes. The survey has clarified, however, that almost one-fourth of the remittance is used as investments in human capital, including 16.7% for health care and 7.5% for education. Additional percentages are directed to durable goods (housing and vehicles, mainly) and investment and saving.

Differences among the areas are significant. San Francisco has the lowest level of consumptive uses of remittance and the highest proportions for investment. Salvadorans in Los Angeles, on the other hand, spend the largest proportion for consumption expenses and the smallest for investments.

Table 10. Use of Remittance by Recipient Families of Salvadorans in the U.S.

	Country Total		Urban		Rural	
Destination	N°	%	N°	%	N°	%
Consumption	247,854	79.66	151,352	77.04	96,502	84.15
Educational expenses	28,184	9.06	19,407	9.88	8,777	7.65
Medical expenses	13,808	4.44	9,709	4.94	4,099	3.57
Housing	7,588	2.44	6,917	3.52	671	0.59
Savings	6,044	1.94	4,724	2.40	1,320	1.15
Commerce	2,321	0.75	1,672	0.85	649	0.57
Purchase of farming inputs	2,249	0.72	536	0.27	1,713	1.49
Others	3,106	1.00	2,154	1.10	952	0.83
Total	311,154	100.00	196,471	100.00	114,683	100.00

(3) Means of remittance

During early years, remittance transfers were made mainly through travelers, foreign exchange houses, couriers and personal channels. Since the decontrol of the foreign exchange market and the creation of money transfer units at main banks of the national financial system in cities with higher concentration of Salvadorans, the remittance transfer market changed drastically.

Of the surveyed migrants, 52.8% make remittance through banks and 14.7%utilize couriers. This means the remaining 32.5% are not subject to official control by the Central Reserve Bank. This appears to be consistent with the result reported earlier that the total actual remittance is significantly larger than the amount formally recorded.

Table 11. Means of Remittance by Salvadorans in the U.S. (%)

Means to receive remittance	City			
	Los Angeles	San Francisco	Washington, D.C.	Total
Bank	45.5	62.3	58.4	52.8
Courier	14.2	19.6	10.6	14.7
Traveler	0.5	5.6	12.9	4.7
Personal	0.1	0.1	0.3	0.2
Others	0.1	0.1	0.1	0.0
No data	39.6	12.3	17.7	27.6

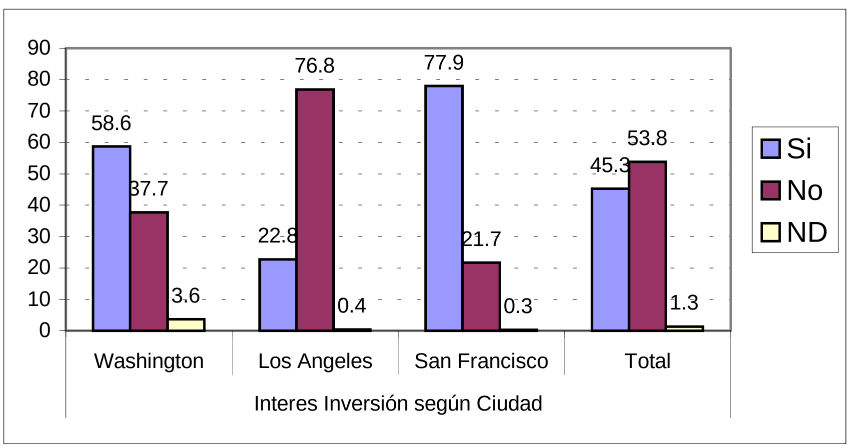
5. Investment Trends

(1) Willingness to invest

Nearly a half (45.3%) of the surveyed migrants are willing to invest in productive projects. This relatively high proportion contrasts with the low percentages of overseas Salvadorans willing to invest reported in previous studies conducted within the Country (CEPAL, 1990; Garcia 2002).

In San Francisco, 77.0% of the surveyed show willingness to invest, while in Los Angeles only 22.8% of the migrants express the willingness. The willingness is higher in Washington, D.C. with 58.6%. This result is consistent with the result reported earlier that the migrants in San Francisco have higher income and remittance delivery levels.

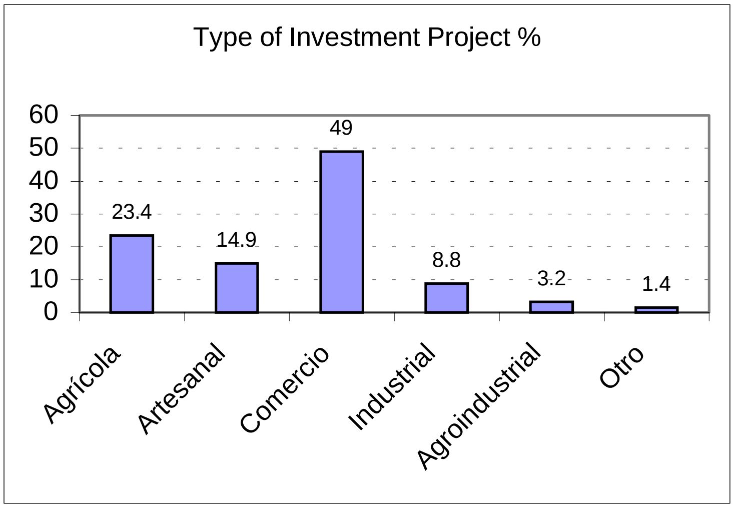
Figure 1. Willingness to Invest by Salvadorans in the U.S



(2) Investment preference

The commercial sector draws the largest percentage, 49% of interest for investments by the surveyed migrants. The agricultural sector has the second largest share, 23.4% reflecting probably the dominant rural origin of migrants. Including agro-industrial projects, agro-related sectors attract interests of more than one-fourth (26.8%). Artisanal projects 14.9%, and others 1.4%.

Figure 2. Investment Preference of Salvadorans in the U.S.



(3) Expected investment amounts

Expected investment amounts in the next five years are more than US$5,000 for 68% of the surveyed, of which 38% would invest more than US$10,000. Interestingly, more migrants in Washington, D.C. (54%) would like to invest more than US$10,000,while most Salvadorans in San Francisco (59%) would be willing to invest within a range of US$ 3,000 to 10,000. The average investment amount expressed by the surveyed is US$7,543.

Table 12. Amount of Investment Intended by Salvadorans in the U.S. for the Next Five Years

Amount (US$)	Los Angeles	San Francisco	Washington, D.C.	Total
1-1,000	0.6	4.1	4.1	8.8
1,001-2,000	1.1	7.8	2.3	3.7
2,001-3,000	1.1	13.2	2.7	5.7
3,001-5,000	13.0	27.2	11.2	17.1
5,001-10,000	38.0	31.5	21.2	30.1
10,001 or more	45.0	14.7	53.6	37.8
No data	1.4	1.5	4.8	2.6

(4) Supports necessary for investments

The survey indicates that almost a half of the Salvadorans in the U.S. have resources and willingness to invest, but there is lack of channels, incentives and technical assistance to realize investments. Necessary instruments to promote the investment of remittances are summarized in Table 13. The demand for technical assistance, particularly for entrepreneurial development, that would allow overseas Salvadorans to take advantage of business opportunities. This comprises demands ranging from the development of accounting and administrative skills to support services for entrepreneurial development that allow directing the investments towards profitable and cooperative areas and provide the necessary information to improve the decision making for investments. Credit demand is expressed by 11.4% to start a business, and 7.3% do not demand any type of assistance in making investments.

Table 13. Necessary Support Measures to Channel Investments by Salvadorans in the U.S.

Type of support	Los Angeles	San Francisco	Washington, D.C.	Total
Technical assistance	32.0	32.8	40.0	34.9
Credit	10.4	15.7	8.2	11.4
Machinery & equipment	2.7	0.7	4.1	2.5
Labor	1.5	1.2	4.1	2.3
Legal assistance	0.9	4.7	0.7	2.1
Government assistance	0.0	0.6	0.0	0.2
None	3.6	15.9	2.3	7.3
Other	42.7	13.5	31.1	29.1
No data	6.2	14.9	9.5	10.2
Total	100.0	100.0	100.0	100.0

(5) Reasons for not investing

Of the surveyed immigrants, 53% do not intend to invest. Main reasons are the lack of interest expressed by 28.5% of the surveyed, and weak tie with the Country (24.2%) as they have well settled in the U.S. The latter matches the proportion that does not make remittance.

(6) Willingness to support projects in the Eastern Region

Overall, 41.7% of the surveyed migrants are willing to participate in social and productive activities in the Eastern Region. Differences among the areas are striking. In Los Angeles, only 18.3% of the migrants are willing to support projects in the Eastern Region, while the percentages of those in Washington, D.C. and San Francisco are significantly higher at 62.3% and 69.2%, respectively.

Interests in the types of projects to be supported in the Eastern Region are summarized in Table 14. The majority (34%) are willing to participate in infrastructure improvement projects, and a significant percentages would like to support community events (22.8%) and social projects (27.52%).

Table 14. Activities of Interests in the Eastern Region

Activity of interest	N	%
Infrastructure improvement	771	34.0
Social projects	624	27.5
Community events	517	22.8
Purchase of rights of use	194	8.6
Business capital contribution	87	3.8
Others	9	0.4
No data	465	20.5
Total	2,667	100.0

6. Ethnic Markets

Demand for various nostalgic products expressed by the surveyed Salvadorans in the U.S. is summarized in Table 15. The migrants already consume a wide range of products. The highest existing demand is the cheese and dairy products. Demanded by 38.3% of the surveyed as the first choice and additional 17.6% as the second choice, followed by cereals with the combined proportion of 27.5%, and pastry and rolls with 18.0%. Fresh fruits and vegetables are demanded by 5.3%, and “pupusas” by 7.1%. No other products are demanded by even 5% of the migrants combining the first and the second choice.

New demand for cheese and dairy products is normally very low, demanded only by 0.8% of the surveyed, as the present demand is well satisfied. New demand is the highest for fresh fruits and vegetables with 14.9% of the migrants demanding, followed by medicines with 3.82%, handicrafts with 3.25, and processed products with 2.8%. Many other products have small but potential demands. A significant portion, 64.6$ of the surveyed provided no specific preference, implying the exclusion from the nostalgic products market. This portion, however, may represent a large latent market as formal marketing channels have not been established for practically all the nostalgic products. Another possibility for the lack of response to the potential nostalgic products market is that many Salvadorans overseas have changed their needs and consumption habits. To examine this possibility, the degree of ties that the migrants have with their country and culture is analyzed by the access to national newspapers. Results are summarized in Table 16. More than a half, 52.3% of the surveyed migrants read one or more of the major national newspapers (La Prensa Grafica and El Diario de Hoy). This proportion is much higher in Washington, D.C. at 77.0%, but lower in Los Angeles at 35.9%

Table 15. Demand for Nostalgic Products

	Demand for nostalgic products					
	1st choice		2nd choice		New demand	
Product	N	%	N	%	N	%
Cheese and diary products	1,137	38.3	519	17.6	24	0.8
Cereals	414	14.0	400	13.5	19	0.6
Pastry and rolls	106	12.3	168	5.7	28	0.9
“Pupusas”	105	3.6	103	3.5	8	0.3
Beets and liquors	59	2.0	41	1.4	8	0.3
Fresh fruit and vegetables	51	1.7	105	3.6	18	0.6
Soft drinks	47	1.6	64	2.2	439	14.9
Candies and snacks	40	1.4	38	1.3	42	1.4
Tortillas and corn flour	30	1.0	63	2.1	3	0.1
“Horchata” and other beverages	29	1.0	39	1.3	12	0.4
Sausages	26	0.9	31	1.0	96	3.2
Soups and instant products	24	0.2	55	1.9	4	0.1
Processed products	16	0.5	20	0.7	71	2.4
Perfumes and cosmetics	14	0.5	6	0.2	1	0.0
Fish and dry meat	12	0.4	19	0.6	23	0.8

	Demand for nostalgic products					
	1st choice		2nd choice		New demand	
Product	N	%	N	%	N	%
Tamales	10	0.3	21	0.7	0	0.0
“Atol” (hot maize drink) and corn by-products	8	0.3	10	0.3	9	0.3
Seafood	7	0.2	11	0.4	34	1.2
Medicines	6	0.2	3	0.1	113	3.8
Chocolate tablets	5	0.2	6	0.3	44	1.5
Pork Rinds	4	0.1	6	0.2	3	0.1
Clothes, shoes	4	0.1	4	0.1	6	0.2
Honey	4	0.1	1	0.0	3	0.1
“Empanadas”	2	0.1	3	0.1	25	0.8
Handicrafts	2	0.1	4	0.1	55	1.8
Pastas, oils, margarine	2	0.1	4	0.1	54	1.8
Spices	2	0.1	12	0.4	31	1.0
Others	0	0.1	5	0.4	9	0.3
None	99	3.3	54	1.8	53	1.8
No data	691	23.4	1,139	38.5	1,718	64.6
Total	2,956	100.0	2,956	100.0	1,956	100.0

Table 16. Frequently Read Newspapers by City (%)

Newspaper	Los Angeles	San Francisco	Washington, D.C.	Total
La Prensa Gráfica	9.4	24.6	54.0	23.9
El Diario de Hoy	4.8	23.8	18.3	12.9
Both	21.7	13.2	4.7	15.5
None	50.9	26.8	18.0	36.9
Other	0.1	0.7	2.1	0.7
No data	13.1	10.9	2.9	10.1

Appendix 1: Survey Questionnaire

COMISIÓN NACIONAL DE DESARROLLO CND	Ministerio de Relaciones Exteriores	JICA STUDY TEAM

ENCUESTA A SALVADOREÑOS RESIDENTES EN ESTADOS UNIDOS

La presente encuesta responde a preguntas importantes sobre la comunidad de salvadoreños que residen en Estados Unidos. Los datos que Ud. proporcione serán de mucha utilidad para que instituciones públicas, privadas y organismos de cooperación nacional e internacional puedan tomar decisiones adecuadas en torno a proyectos de desarrollo económico y social en nuestro país.

Por su colaboración y tiempo, muchas gracias

1. Cuadro de Identificación de Encuesta: ***(Datos Completados por el encuestador)***

Ciudad donde aplicó la encuesta:

Washington DC ☐ San Francisco ☐

Los Ángeles ☐

Espacio Reservado para Encuestador

Número de Encuesta ____________

Nombre de Encuestador:______________________

2. Información Socio-Demográfica

1. Edad ☐ Años 2. Sexo: ☐

3. Estado Civil

Casado ☐

Soltero ☐

Viudo ☐

Acompañado ☐

Otro ______________________

4. Número de miembros del grupo familiar (Que viven con Ud., aquí) ☐

5. Parentesco y edad de los miembros del grupo familiar que viven con Ud. aquí

Parentesco	Edad	Sexo

6. ¿Cuánto tiempo tiene de vivir en USA?

☐ Años

7. Antes de vivir en esta ciudad, ¿Ha vivido en otro Estado y ciudad de Estados Unidos?

Si ☐ No ☐

8. ¿En cuáles Estados y Ciudades ha vivido?

Estado	Ciudad

9. ¿Tiene familiares en El Salvador?

Si ☐ No ☐

(Si es afirmativo, pase al siguiente pregunta)

9.1. Enumere los familiares

Parentesco	Edad	Sexo

9.2. Lugar de residencia de sus familiares en El Salvador

Departamento:______________________

Ciudad:____________________________

10. ¿Hasta que grado o nivel estudió en El Salvador?

11. ¿Ha viajado a El Salvador?

Si ☐ No ☐

11.1.¿Con qué frecuencia?

11.2. ¿Cuáles han sido los propósitos de su viaje? (Puede anotar más de uno)

3. Empleo e Ingresos

1. Se encuentra actualmente:

Estudiando ☐

Trabajando ☐

Ambos ☐

Ninguno de los anteriores ☐

2. Si estudia, ¿Qué estudia?

2.1. Si trabaja, ¿En qué trabaja

3. Mencione al menos dos de sus trabajos anteriores:

E1.____

E2.____

4. ¿Cuántos miembros de su grupo familiar trabajan?

5. ¿A cuánto asciende el ingreso semanal de Ud?

US$

6. ¿A cuánto asciende el total del ingreso semanal de todos los miembros de su familia que trabajan, sumados?

7. ¿Ha recibido algún entrenamiento profesional para desempeñar el actual empleo?

Si ☐ No ☐

7.1. ¿Cuánto tiempo duró?

7.2. ¿Institución donde se realizó?

7.3. ¿Sobre qué fue?

8. ¿Tiene algún negocio propio aquí?

Sí ☐ No ☐

8.1. ¿De qué?

8.2. ¿Cuántos empleados utiliza?

4. Remesas

1. ¿Envía remesas a sus familiares en El Salvador? Si ☐ No ☐ 2. ¿Con qué frecuencia les envía? ☐ 3. ¿Cuánto envía en promedio? ☐ 4. ¿Cuáles son las cosas más importantes en qué usan ese dinero sus familiares en El Salvador? ☐ ☐ ☐	5. ¿Por qué medio envía el dinero a sus familiares? ____ ____ 6. ¿Ha tenido algunos problemas en sus envíos de remesas a El Salvador? Si ☐ No ☐ 6.1. Si la respuesta es sí, ¿Cuáles son los problemas?: ____ ____ ____

5. Intención de Inversión

1. ¿Estaría interesado en invertir en proyectos productivos en su comunidad en El Salvador? Si ☐ No ☐ 2. ¿En qué tipo de proyectos le interesaría invertir Agrícola ☐ Artesanal ☐ Comercio (Negocio) ☐ Industrial ☐ Agroindustrial: ☐ Otro (Especifique):________________________________	3. Monto de Capital dispuesto a invertir en los próximos cinco años:__________________________ ____ 4. Además de Capital de inversión ¿Qué necesitaría para realizar el proyecto de inversión:___________ ____ ____ ____ 5. Si no tiene interés de inversión, explique las razones: ____ ____

6. Interés en participar en actividades en la Zona Oriental y demandas al Consulado.

1. Estaría interesado en participar en actividades de desarrollo social y económico en la zona oriental de El Salvador? ☐ Si ☐ No 1.1. Si la respuesta es si, ¿En cuáles de las siguientes estaría interesado en participar? Eventos Comunales ☐ Mejoramiento de infraestructura ☐ Proyectos sociales (educación, etc.) ☐ Compra de derechos de uso (áreas boscosas, tierra, recursos naturales, etc.) ☐ Contribución de capital en empresas ☐ Otras (Especifique):_________________________ ____	2. ¿Qué actividades le interesaría que el Consulado de la ciudad organice para la comunidad salvadoreña? Actividades Culturales ☐ Orientación sobre asuntos migratorios ☐ Orientación sobre posibilidades de inversión en El Salvador. ☐ Canalización de inversión en proyectos sociales ☐ Información sobre ofertas laborales en esta ciudad ☐ Otros (Especifique):_________________________ ____

7. Compra de bienes salvadoreños

1. En orden de importancia, enumere los cinco productos de origen salvadoreño que Ud. usualmente compra: **Producto** **Precio US$** a)________________ ____________________ b)________________ ____________________ c)________________ ____________________ d)________________ ____________________ e)________________ ____________________ f) Ninguno ☐ 2. ¿Qué otros productos de origen salvadoreño le interesaría que hubiesen en el mercado local? a)___________________________________ b)___________________________________ c)___________________________________	3. ¿Qué periódicos lee con más frecuencia? a) La Prensa Gráfica ☐ b) El Diario de Hoy ☐ c) Otro (Especifique):_______________________ 4. ¿Qué secciones le interesan más? Noticias de El Salvador ☐ Noticias Internacionales ☐ Deportes: ☐ Secciones o noticias sobre comunidad salvadoreña en el exterior ☐ Otra:_________________________________ 5. ¿Cómo lo adquiere? Compra ☐ Internet ☐ Otro____________________________

Appendix 2: Timetable of Survey on Salvadorans in the U.S.

		SEMANAS										
	ACTIVIDADES	2-6 Junio	9-13 Junio	16-20 Junio	23-27 Junio	30 Jun.- 4 Jul.	8-12 Julio	15-19 Julio	22-26 Julio	29-Jul-1 Agosto	5-9 Agosto	12-16 Agosto
1	Revisión y análisis de fuentes secundarias sobre el tema	X										
2	Realización de entrevistas a funcionarios públicos y privados	X	X	X								
3	Diseño y análisis de la boleta de encuesta			X								
4	Cálculo de la muestra poblacional		X									
5	Realización de prueba piloto y capacitación en el manejo de la encuesta Viaje del Consultor a Estados Unidos)				X	X						
6	Monitoreo a la administración de la encuesta. Aplicación de la encuesta				X	X	X					
7	Elaboración de Informe de progreso de la Consultoría					X						
7	Procesamiento de la información colectada					X	X	X	X			
8	Elaboración y redacción de Informe de Investigación									X	X	X
9	Discusión y socialización del contenido del informe											X

Final Report
Volume 5
Survey Report

Survey 5

Port Utilization Survey

The Study on Economic Development, Focusing on the Eastern Region, of the Republic of El Salvador

Final Report
Volume 5: Survey Report
Survey 5: Port Utilization Survey

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SURVEY 5: PORT UTILIZATION SURVEY

1. Introduction

The port utilization survey was carried out between May 16 and July 27, 2003. The objective of the survey was to collect information, from Salvadoran and foreign potential users of the La Union port, on their interest and possibility of utilizing the La Union port and major factors they consider essential for the La Union port to become a real possibility for them. The survey was carried out by questionnaire surveys and interview surveys. Two seminars were organized in June 2003 in San Pedro Sula in Honduras and San Salvador in order to present major ideas of the La Union port development and the possibility of a dry canal between La Union and Cortes ports. These opportunities were used to request cooperation of potential port users for providing information for the survey. The number of companies contacted was 60, out of which 15 companies provided information. The outline of these companies and the survey results follow.

2. Outline of Interviewed Companies

2.1 Equity Composition

Out of all the 15 companies interviewed, including mainly maritime transport related companies, 80% or 12 were entirely owned by Salvadoran investors (Table 1). The remaining three can be classified into one 100% Japanese, one 100% Guatemalan and one 33% Panamanian.

Table 1. Equity Composition of .Interviewed Companies

% of natl. equity	Number	%
0-10%	2	13.3
31-40%	1	6.7
91-100%	12	80.0
Total	15	100.0

2.2 Number of Employees

Only nine companies provided information. They all have employees of less than 100 as shown in Table 2.

Table 2. Number of Employees

Number of employees	Number	%
0-50	5	33.3
50-100	4	26.7
Information not available	6	40.0
Total	15	60.0

2.3 Type of Services and Products

The companies interviewed can be classified as shown in Table 3 depending on the type of service they provide.

Table 3. Type of Services Provided

Product/service	Number	%
Shipping company	6	40.0
Freight Forwarders	1	6.7
Import/Export companies	2	13.3
Dock services	4	26.7
Associations	2	13.3
Total	15	100.0

2.4 Year of Establishment

The companies established before 1990 accounted for 53% while there are two that were recently funded (after 2001) as presented in Table 4.

Table 4. Year Established

Product/service	Number	%
Before 1980	6	46.2
1980-1985	2	15.4
1986-1990	0	0.0
1991-1995	3	23.1
1996-2000	0	0.0
2001-2003	2	15.4
Information not available	2	15.4
Total	13	100.0

2.5 Annual Sales

A majority (78%) of companies have annual sales less than US$10 million (Table 5).

Table 5. Annual sales

Annual sales ($$10^3$)	Number	%
-100	1	11.1
100-500	2	22.2
500-1,000	1	11.1
1,000-5,000	2	22.2
5,000-10,000	1	11.1
10,000-20,000	0	0.0
20,000-30,000	1	11.1
30,000-40,000	0	0.0
40,000-50,000	0	0.0
50,000-100,000	1	11.1
Information not available	6	66.7
Total	9	100.0

2.6 Business Situation

The percentage of the companies judging their recent business situation as “stable” accounted for 73% (Table 6).

Table 6. Business Situation

Business situation	Number	%
a. Growing	4	26.7
b. Stable	11	73.3
c. Shrinking	0	0.0
Total	15	100.0

3. Operations

3.1 Major Origins and Destinations

Table 7 shows the major origins and destinations of ships operated by the interviewed companies and the calling ports. Both Atlantic and Pacific routes are observed.

Table 7. Major Origin and Destinations of Ships Arriving at or Leaving El Salvador (Shipping Companies)

Origin	Destination	Ports called	Major commodities transported
USA West Coast	El Salvador	Los Angeles	Raw materials, containers, bulk (dry & liquid), steel products, fresh fruits, paper, powder milk, chemicals
Canada	El Salvador	n.a.	Fresh fruits, powder milk, paper, beans
Caribbean	El Salvador	n.a.	Rum, disposable kitchen items
Central America	El Salvador	Quetzal, Acajutla, Panama, Barrios, Santo Tomas, Puerto Cortes.	n.a.
Mexico	El Salvador	Manzanillo	Appliances, auto parts, candy
West Africa	El Salvador	n.a.	n.a.
South Africa	El Salvador	n.a.	n.a.
Australia & New Zealand	El Salvador	n.a.	Dairy products
Middle East	El Salvador	n.a.	n.a.
Malaysia	El Salvador	Balboa, Corinto	n.a.
El Salvador	USA East Coast	Corinto, Balboa	Molasses, alcohol
El Salvador	Europe	Corinto, Balboa	Molasses, alcohol
El Salvador	Caribbean	Corinto, Balboa	Molasses, alcohol

Table 8 presents the major origins and destinations of commodities handled by freight forwarders. A number of aspects such as follows are found.

a. Transaction between El Salvador and other part of Central America takes place both on land and through marine route.
b. Some commodities from USA are transported on land.
c. Vehicles from Korea are unloaded in El Salvador and transported on land to Honduras and Nicaragua.

Table 8. Major Origin and Destinations of Commodities Handled by Freight Forwarders

Origin	Destination	Route		Major commodities transported
		On-land	Marine	
El Salvador	Central America	*		Fertilizers, chemical products, finished products, groceries
El Salvador	Panama		*	General
US West Coast	El Salvador	*		Containers, bulk (dry & liquid), steel products
US Gulf	El Salvador	*		Containers, bulk (dry & liquid), steel products
Panama	El Salvador		*	Cereals, flour
Argentina	El Salvador		*	Cereals, flour
Korea	Honduras	*		Vehicles
Korea	Nicaragua	*		Vehicles

3.2 Number of Vehicles Operated

The number of vehicles operated by the interviewed companies is presented in Table 9. The most of the companies are operating vehicles of less than 300.

Table 9. Number of Vehicles Operated

No. of vehicles operated	Number	%
1-50	3	50.0
51-100	0	0.0
101-200	1	16.7
201-300	1	16.7
301-400	0	0.0
401-500	0	0.0
501+	1	16.7
Total	6	100.0

4. Evaluation

4.1 Evaluation of Central American Ports

Table 10 shows an evaluation of the pacific side ports in Central America, except the Cortes port on the Atlantic side included because of its likely close link with the La Union port in the future. The evaluation for the La Union port was made with provision of data on planned configuration of the port. The evaluation was made for five categories: “location”, “port facilities/capacity”, “port charges”, “operation efficiency” and “overall”.

Table 10. Evaluation of Central American Ports

Port	Location	Port facilities /capacity	Port charges	Operation efficiency	Overall
Minimum score					
Quetzal	40	65	45	45	60
Acajutla	45	55	45	45	55
San Lorenzo	0	0	0	0	0
Corinto	0	0	0	0	0
Balboa	0	0	0	0	0
Puerto Cortes	20	50	55	50	55
La Union	20	20	40	80	50

Port	Location	Port facilities /capacity	Port charges	Operation efficiency	Overall
Maximum score					
Quetzal	100	100	100	100	90
Acajutla	100	100	80	100	100
San Lorenzo	70	70	80	80	80
Corinto	100	80	80	90	90
Balboa	100	100	90	100	100
Puerto Cortes	100	90	80	90	80
La Union	100	90	100	100	100
Average score					
Quetzal	70	83	73	73	75
Acajutla	73	78	63	73	78
San Lorenzo	35	35	40	40	40
Corinto	50	40	40	45	45
Balboa	50	50	45	50	50
Puerto Cortes	60	70	68	70	68
La Union	60	55	70	90	75

** Under planned condition for La Union port*

Overall, the Acajutla port is ranked first at 78 (against 100 as the full mark), followed by Quetzal (75) and La Union (75). The La Union port is most highly evaluated for its operation efficiency, which would be the reflection of port related people's expectation. "Location" factor for La Union could be improved once it starts operation and begins to draw more cargoes from Nicaragua and Honduras, thus shifting the center of cargo transaction toward the east.

Quetzal and Acajtla are the two major competitors for La Union. With port facilities and capacity almost equivalent or superior to these two port, the La Union port should make its best effort to make "port charge" and "operation efficiency" factors most competitive.

4.2 Evaluation of La Union Port

Out of all the 32 answers, 29 or 91% judged as the La Union port Plan as "fine." A number of comments made are summarized in Table 11.

Table 11. Request for Improvement of La Union Port Plan

Need for improvement	Number		%	
	The plan is fine.	Improvement expected	The plan is fine.	Improvement expected
On-shore facilities	9	1	90	10
Terminal layout	10	0	100	0
Port operation by private concession	9	0	100	0
Other aspects	1	2	33	67
Total	29	3	91	9

<u>On-shore facilities</u>

- A sufficient number of loading and unloading equipment should be secured to provide good service.

- An operation process should be efficient.
- There needs to be a super highway to connect the port with the airport and San Salvador.

Terminal layout

- Sufficient volume of space with air conditioning should be provided.

Port operation by private concession

- Private concession ensures better operation than government operation.
- Maritime authorities should strictly supervise private concession.

Other aspect

- Railroad should be reconsidered as a means for transporting containers.
- All successful ports in the world have railroad system. It considerably reduces inland transportation cost.
- Each shipping company should be allowed to directly hire service companies.
- It is necessary to build two more moorings to avoid eventual traffic jam.

4.3 Possibility of Shifting Existing Operation to La Union Port

A question was asked about a possibility of shifting the existing operation activities to the La Union port. The largest portion was found in "partly shifting their activities to La Union port" accounting for 40% of all the answers (Table 12). Those expressing no intention of shift accounted for 27%. No explanations were obtained for "other".

Table 12. Possibility of Shifting to La Union Port

Item	Number	%
a. Yes, our company will totally shift the calling port/freight forwarding route to the La Union port.	0	0
b. Yes, our company will partly shift the calling port/freight forwarding route to the La Union port.	6	40
c. No, our company will not shift the calling port/freight forwarding route.	4	27
d. Other	4	27
e. n.a.	1	7
Total	15	100

4.4 Important Factors to Make La Union an Attractive Port

The interviewees were asked to choose three factors that they think would make La Union an attractive port. The two outstanding factors selected were, as shown in Table 13, "to ensure good access to other areas of El Salvador and neighboring countries" (22%) and "to provide distribution facilities with sufficient capacity" (18%). These were followed by "good telecommunications infrastructure" (11%), "accommodation facilities of all classes" (9%), and "medical facilities, sophisticated or basic" (11%).

Table 14 shows comments to each factor.

Table 13. Important Factors for La Union to Become an Attractive Port

Factor	Number	%
a. Commercial facilities in variety	1	2.2
b. Accommodation facilities of all classes	4	8.9
c. Medical facilities, sophisticated or basic?	4	8.9
d. Recreational and tourist facilities	2	4.4
e. Sufficient office space	2	4.4
f. Residential area of all classes		
g. Distribution facilities with sufficient capacity (warehouses, depots, truck terminal etc.)	8	17.8
h. Good access to other areas of El Salvador and neighboring countries	10	22.2
i. Good telecommunications infrastructure facilities (broad band circuits etc.)	5	11.1
j. Free trade zone	3	6.7
k. Good quality labor force in abundance	3	6.7
l. Government offices related to your company's operation	3	6.7
m. Other	0	0.0
Total	45	100.0

Table 14. Comments on Selected Factors

Factor	Major Explanations
a. Commercial facilities in variety	To be able to access different services
b. Accommodation facilities of all classes	More hotels at least 4 stars
c. Medical facilities, sophisticated or basic	At least basic medical facilities and the establishment of a hospital
d. Recreational and tourist facilities	El Salvador must develop its tourism and the Eastern region has an excellent opportunity.
g. Distribution facilities with sufficient capacity (warehouses, depots, truck terminal etc.)	To achieve more efficiency To improve efficiency in the operation Will support our regional logistics To secure benefits by making the operation easier.
h. Good access to other areas of El Salvador and neighboring countries	To have roads in good conditions is necessary for efficient transportation. A key factor is the interaction with other countries. Good access to other areas will improve import/export activities. Will support our regional logistics. Good roads infrastructure expedite operation and give better opportunity to services. Good highways are needed to reduce transportation time and costs.
i. Good telecommunications infrastructure facilities (broad band circuits etc.)	Will support our regional logistics. Essential for an excellent communication.
j. Free trade zone	The creation of a free trade zone is necessary to attract investors.
l. Government offices related to your company's operation	Give efficiency to logistic procedures. To minimize bureaucracy and documentation movements.

5. Panama Canal and Dry Canal

5.1 Panama Canal

As shown in Table 15, the companies using the Panama Canal and those not are in equal number, 6 or 40% each.

Table 15. Use of Panama Canal

Answer	Number	%
a. Yes	6	40.0
b. No	6	40.0
n.a.	3	20.0
Total	15	100.0

5.2 Problems and Inconveniences

The companies encountering problems or inconveniences in using the Panama Canal account for a half of those answering either "yes" or "no" (Table 16).

Table 16. Problems/Inconvenience Felt in Using Panama Canal

Answer	Number	%
a. Yes	6	40.0
b. No	6	40.0
n.a.	3	20.0
Total	15	100.0

"Distance" and "high costs" are cited as the major problems (Table 17).

Table 17. Major Problems Pointed Out

Major problems	Number	%
Political/Economical	1	12.5
Distance	3	37.5
High costs	3	37.5
Non-accomplishment of agreement	1	12.5
Total	8	100.0

5.3 Consideration on Taking Routes Other Than the Panama Canal

In response to the question concerning their consideration in the past to take any route other than the Panama Canal, 20% of definite answers responded "yes" (Table 18). This low rate compared with the proportion of those having had problems or inconveniences in using the Panama Canal would be due to the position of interviewees. Most interviewees are managing regional operation only without any authority to make a major decision such as changing their route.

Table 18. Consideration on Taking Another Route

Answer	Number	%
a. Yes, we considered taking another route.	3	20.0
b. No, we have not considered taking another route.	9	60.0
n.a.	3	20.0
Total	15	100.0

The names of the other routes mentioned are as follows.

- Limon (Costa Rica, Atlantic), Puntarenas (Cost Rica Pacific), Salina Cruz (Mexico, Pacific)= Central American inland corridor
- Acajutla (El Salvador, Pacific)- Santo Tomas (Guatemala, Atlantic), or Acajutla - Puerto Cortes (Honduras, Atlantic)

5.4 Possibility of Dry Canal

The possibility of a dry canal between La Union and Cortes ports was asked for two cases: one in which the existing road condition remains (Case I) and the other in which the road condition between La Union and Puerto Cortes will be improved (Case II). As indicated in Table 19, while nobody chose either “some possibility” or “high possibility” for Case I, those who selected “high possibility” and “some possibility” accounted for 60% and 20% respectively for Case II.

Table 19. Possibility of Dry Canal

Possibility of Dry Canal	Case I (Present condition)		Case II: Road/Puerto Cortes upgraded	
	Number	%	Number	%
High possibility	0	0.0	9	60.0
Some possibility	0	0.0	3	20.0
Low / no possibility	1	6.7	1	6.7
Other	0	0.0	0	0.0
n.a.	14	93.3	2	13.3
Total	15	100.0	15	100.0

5.5 Allowable Road Distance and Driving Time for Dry Canal

The answers to an allowable road distance for a dry canal are obtained as presented in Table 20. The road distance for La Union to Cortes ports is actually 371km. The answers that allow for “up to 400 km”(13.3%), “up to 500 km” (20.0%)” and “up to 700 km” (6.7%)” sum up to 40%. Those “up to 200 km”(6.7%) and “up to 300 km” (20.0%)” becomes 27%. So those people who consider the La Union-Puerto Cortes dry canal a possibility accounts for 40% of all or 60% of the interviewees who gave definite answers.

In terms of drive hours, those who consider drive hour on the La Union-Cortes Dry Canal route allowable accounts for 47% of all or 70% of those who gave definite answer, assuming “up to 8 hours” or more as regarding the drive hour on La Union-Cortes as allowable as shown in Table 21.

Table 20. Allowable Road Distance for Dry Canal

Road distance	Number	%
a. up to 100km	0	0.0
b. up to 200 km	1	6.7
c. up to 300 km	3	20.0
d. up to 400 km	2	13.3
e. up to 500 km	3	20.0
f. up to 600 km	0	0.0
g. up to 700 km	1	6.7
h. up to 800 km	0	0.0
i. More	0	0.0
j. n.a.	5	33.3
Total	15	100.0

Table 21. Allowable Driving Time on La Union-Cortes Dry Canal

Drive hour	Number	%
a. Up to 2 hours	0	0.0
b. Up to 4 hours	1	6.7
c. Up to 6 hours	2	13.3
d. Up to 8 hours	4	26.7
e. Up to 10 hours	0	0.0
f. Up to 12 hours	3	20.0
g. Up to 14 hours	0	0.0
h. Up to 16 hours	0	0.0
i. Up to 18 hours	0	0.0
j. Up to 20 hours	0	0.0
k. More	0	0.0
n.a.	5	33.3
Total	15	100.0

6. Comments from Interviewees

- Probably there exist economic feasibility studies that we entrepreneurs do not know; but at simple sight it seems that the investment at Cutuco is not necessary at this moment, as the majority of companies are located at the central and western regions. On the other side, investments can be made at Acajutla on the short term to improve its installations and equipment. Apparently, the human factor has improved. Cutuco cannot substitute the operation at Acajutla in the area of bulk cargo without affecting many entrepreneurs. Probably the loading and unloading of containers will be more feasible because of its location close to Honduras and Nicaragua.

- If a vessel comes from Europe via the Panama Canal with final destination at Acajutla, and if the cost of transporting the merchandise to Acajutla through the dry canal is low for the shipping company or the consignee, whatever the distance is, there is no doubt that the merchandise will be unloaded at Puerto Cortes in order to avoid transit through the Panama Canal. The decision is based on the lower cost, where the port charges of the alternate port are taken into consideration, as well as the cost of taking the goods to the final destination and the saving on navigation time. This way if the dry canal is more expensive although the distance between ports is shorter, the vessel will prefer transit through the Panama Canal. Moreover, the freight will be established once the transit route is known.

- Since many years ago, I have been convinced that there is an urgent need for an alternative route to the Panama Canal, because of political and economic reasons. These reasons provoke the emergence of an idea for the dry canal from Puerto Cortes to Cutuco, La Union and also Acajutla. Fifty percent of the dry canal already exists. The ferry and the inclusion of a landing strip for cargo planes at La Union would be a success now that we talk about globalization, FTA and ALCA (Zone of free trade for the Americas). I was born in La Union and congratulate the project and wish it a total success.
- There will be an improvement on the social and economic development not only for the Eastern Region but also for the neighboring countries and all the Central American Region.
- I think that the most important factor that should be taken into consideration and that I believe should always accompany every port facility, is the inclusion of a railroad because this reduces costs considerably. If there is no railroad, I consider it will be very difficult that Acajutla port users would shift to La Union, as the inland distance from La Union to San Salvador for example, is longer than the one from Acajutla to San Salvador.
- It is necessary to check the docking capacity for the container vessels because if there is not sufficient space to operate two vessels simultaneously, we have delays with other vessels that arrive at the same time. In reference to passenger ships, we would have small deficiency in offering our cultural patrimony as most of it is located in the western region.
- The dry canal should be focused as a substitute for the route Western Coast - Eastern Cost of USA where 9,000,000 containers are moved per year. We have answered this questionnaire, based on the fact that we handle bulk products.
- It is not only necessary to have good location, infrastructure and port services but also to establish an efficient communication amongst port authorities, governmental authorities and users, to have efficient processing, thus reducing import/export procedures, determining responsibilities and integrating services for users.
- I think that the La Union port location is adequate for the construction of a maritime terminal, but it is important to take into account the distance from all the production centers of the country, that to date, are located at the central and para-central regions.
- The new Cutuco port would increase commercial as well as industrial movements in the Eastern Region, which would result in general economic development and complement entrepreneur performance in the Eastern Region as well as in the Western Region and the

Acajutla port. In addition, the dry canal would increase the commercial and industrial standards and therefore the national economy, providing a better life level as the employment opportunities would increase.

Final Report
Volume 5
Survey Report

Survey 6

Public Safety Survey

The Study on Economic Development, Focusing on the Eastern Region, of the Republic of El Salvador

Final Report
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SURVEY 6: PUBLIC SAFETY SURVEY

1. Introduction

The results of the "Study of the Perceptions on the issue of public insecurity in the Eastern Region ("Security Survey" or "SS" hereafter), are presented in this report. In the methodological design of the study two tools were used: the organization of three focus groups with business people from the Eastern Region of the country on June 17th and 18th, 2003; and a public opinion survey which took place in the Eastern Region between June 13th and 22nd, 2003.

The Staff of FUNDAUNGO's Academic Program, integrated by Miss Leslie Quiñónez and Mr. Juan Alfaro -who respectively had the responsibility for the coordination and the development of the focus groups- , participated in the development of this study's activities; and the staff of the Public Opinion University Institute of the *Universidad Centroamericana "José Simeón Cañas"* participated in designing the sample frame, in carrying out the survey's fieldwork and the data processing. The survey questionnaire was jointly prepared by the staff from both institutions. The report has been drafted by Ricardo Córdova, the study's coordinator.

The report has been structured into four chapters. In the first one, the methodology used for collecting the information, on which the study is based upon, is explained. In the second one, an introductory framework on the crime and insecurity issues in El Salvador is presented. In the third one, the study's findings on the perceptions on public insecurity in the Eastern Region are presented. In the fourth one, the final comments are presented. The questionnaire used in the public opinion survey is included as an annex.

2. Methodology

This chapter explains the methodology used for collecting the information on which the study is based upon. As a quantitative technique, a public opinion survey designed for the Eastern Region of the country was used, and as a qualitative technique, three focus groups were carried out with the participation of business people from the Eastern Region.

2.1 Opinion Survey

The first criterion for designing the sample was that it should be representative of the country's Eastern Region, which comprises the departments of Usulutan, San Miguel, Morazan and La Unión. Likewise, the sample should include the different geographical areas of the Eastern Region, from the different neighborhoods, residential areas, blue-collar neighborhoods and marginal areas of the urban area, to the rural area sectors throughout the different departments. To comply with the latter criterion, the population has been divided into two great sectors: the urban and the rural sectors. The first one, in turn, has been divided into four social strata: middle high, middle low, blue-collar and marginal. One of the most important criteria used to classify the interviewed person within one of these categories is the visited house unit's surplus value, which - even though it may be influenced by several factors - will be assessed, for the purposes of this study, based upon three elements: the geographical location, the construction area and the materials used to build the housing unit. Therefore, even though the housing unit may be located within a sector or community that may be classified as belonging to a specific social stratum, the characteristics of the housing unit itself, provide other important indicators to classify it within one of the established socioeconomic strata.

"El Salvador's Population Projection 1995-2025", developed in 1996 by the Ministry of Economy, through the Census and Statistics Head Office (DIGESTYC for its acronym in Spanish), the United Nations Population Fund (UNFPA) and the Latino American Demographics Center (CELADE for its acronym in Spanish), was taken as a sample base.

A decision was taken beforehand to carry out 800 interviews in the Eastern Region, distributing them throughout the 4 departments it comprises. For this purpose, the universe to be considered was the total of Salvadoran individuals over 18 years of age, living in the urban and rural areas of these departments. Taking this as a basis, and given the fact that the universe of adults to be researched exceeds the 10,000 figure, this universe is considered to have an infinite trend; therefore, the sample error that the study is exposed to is given by the following statistical formula (Rojas Soriano, 1989[1]):

$$E = \sqrt{\frac{Z^2 pq}{n}}$$

Where:

Z = 1.96 (guarantees a 95% level of confidence in the study)

p = 0.5 (probability of success)

$q = 1 - p$: 0.5 (probability of failure)

n = 800 (sample size)

E = study's sample error

Thus, starting with a sample of 800 interviews, the sample error margin is estimated to be more or less 0.035 (+/- 3.5 per cent). The sample error provides an indicator of the fluctuating value of the sample with respect to the values of the population from which the sample has been taken, and to the extent that this sample error is less, the sample measurements provide more precise estimates of the larger group (population). This means, for our case, that the results of this study are representative of the Eastern Region, and that sampling elements may fluctuate, at most, three and a half points above or below the actual values of the population.

With regard to the sample distribution process, it was carried out in several phases. The first step was to determine the number of surveys to be applied in each of the departments, in

[1] Rojas Soriano, R. *Guía para realizar investigaciones sociales.* México, Plaza y Valdés Folios, 1989.

accordance with the size of the urban and rural population living in each of these departments. In that sense, the criterion to distribute the number of surveys was the proportional probability to size (PPS), so that the departments with the largest population grouped a larger number of surveys and vice versa. Thus, starting with a total of 800 surveys to be applied, with a total estimate of 1,312,110 inhabitants living in the Eastern Region and an estimate of the population size by department, the number of surveys to be applied in each department was calculated (for example, in the case of Usulutan, the number of inhabitants in that department (342,053) was divided by the total number of inhabitants in the Eastern Region and multiplied by the total sample –800 surveys—, obtaining a result of 208.55, that is, 209 surveys to be applied; and so on). Once the number of surveys to be applied by department was established, the number of surveys to be completed within the urban as well as within the rural area was calculated for each department, taking as a basis the urban and rural population ratios that were established in the 5th National Population Census and the 4th National Housing Census 1992 (DIGESTYC, 1995)[2], following the same procedure described above. Such distribution is displayed on Table 1.

Table 1. Sample Distribution by Department

Department	Urban population			Rural population			Total population		
	N	%	Sample	N	%	Sample	N	%	Sample
Usulután	182,417	53.33	**112**	159,636	46.6	**97**	342,053	26.1	**209**
San Miguel	383,414	76.67	**234**	116,670	23.3	**71**	500,084	38.1	**305**
Morazán	83,385	47.50	**51**	92,163	52.5	**56**	175,548	13.4	**107**
La Unión	157,017	53.33	**96**	137,408	46.6	**83**	294,425	22.4	**179**
Total			**493**			**307**	1,312,110	100.0	**800**

Source: A development of ours based upon data taken from Population Projection (DIGESTYC, 1996) and from the 5th Population Census and 4th Housing Census 1992 (DIGESTYC, 1995).

This distribution shows an overestimation of the urban areas over the rural areas. This is due to the fact that rural areas represent greater difficulty when selecting the sites to be visited and due to the fact that works in rural areas significantly increase survey completion costs and time invested in field work. However, once the data processing phase is completed, the total sample was weighed to assign it the weight corresponding to the rural area, in accordance with national distribution. The details of the weighting process will be later explained.

Once the number of surveys to be completed per department has been established, and based upon the previous formula, the sample error for each department may be calculated, that is, the variability margin exhibited by the results obtained as compared to the population values of each department. These sample errors are displayed on Table 2.

[2] Dirección General de Estadísticas y Censos. DIGESTYC. *Censos Nacionales V de Población y IV de Vivienda 1992. Tomo general. San Salvador,* Ministerio de Economía. 1995.

Table 2. Sample Error by Department

Department	Surveys	Sample error (%)
Usulután	209	6.8
San Miguel	305	5.6
Morazán	107	9.5
La Unión	179	7.3
Total	**800**	**3.5**

As second step, once the number of surveys to be completed in each department and in each of the areas (rural and urban) within each department was established, was to select the municipalities where these surveys would take place. To this purpose, it was decided to include the four department capitals, since it is there where the largest part of the population tends to concentrate, and due to the importance that each of these urban areas represents for this study, in terms of the opinion of their inhabitants. In addition to the department capital, additional municipalities were randomly selected to provide a greater sample dispersion, establishing as a criterion the fact that, in order for a municipality to be included, its population should be over 10,000 inhabitants. Thus, for each department, all municipalities complying with this requirement were listed and at least one additional municipality was randomly selected, in addition to the department capital. The number of municipalities chosen in each department was in direct proportion to the number of surveys to be completed and the number of inhabitants in each department.

Once the municipalities were chosen, the number of surveys to be carried out in each of them was determined, following a procedure similar to the one used to determine the number of surveys in the departments (proportional probability to size criterion - PPS). This distribution is displayed on Table 3.

Once the municipalities and the number of surveys corresponding to each municipality were selected, the number of survey questionnaires to be completed in urban and rural areas was distributed, in accordance to the rural-urban ratio existing in each department (these ratios are also specified in Table 1). Later, census maps of the selected municipalities' were used to distribute the urban sample. The maps were prepared by dividing them into blocks of approximately 100 house units each; these blocks are called segments. The map segments corresponding to each municipality were listed following a spiral trend, starting at the very center of each municipality. Once the list of segments was ready, a systematic selection of the segments that would be included in the sample was performed using a "*k"* interval, which was determined by dividing the total number of segments in each selected municipality, by the number of segments to be selected for each department. Once the "k" constant was chosen based upon the previous data, a number between 1 - first segment's label - and "k" interval's highest value was randomly chosen; this number represented the number of the segment that became the starting point and the first to be included in the sample (s_1). The second segment (s_2) was chosen by adding "k" value to the previous segment (s_1 + k) and so on. This process ensures that the sample exhibits maximum dispersion possible. The number of surveys to be completed per segment was set at 10, a pre-established figure which fits a time-cost effectiveness criterion, and which, as it was already mentioned, allows a greater sample dispersion.

Table 3. Sample Distribution by Municipality

Department	Municipality	Population	Percent	Total number of surveys
Usulutan	Usulután	69,929	65.8	138
	Berlín	19,576	18.4	38
	Puerto El Triunfo	16,775	15.8	33
	Total	**106,280**	**100.0**	**209**
San Miguel	San Miguel	252,150	77.2	235
	Ciudad Barrios	33,506	10.2	31
	Chinameca	22,840	7.0	21
	El Tránsito	18,211	5.6	18
	Total	**326,707**	**100.0**	**305**
Morazan	San Fco. Gotera	21,621	65.2	70
	Sociedad	11,555	34.8	37
	Total	**33,176**	**100.0**	**107**
La Unión	La Unión	40,770	43.7	78
	San Alejo	24,706	26.5	48
	Santa Rosa de Lima	27,728	29.8	53
	Total	**93,204**	**100.0**	**179**

Since there is no information on the number of houses existing in each canton, and in order to select the rural sample, each canton was assumed to have the same number of houses, and each one was considered as a sampling unit, thus the selection probability was kept constant. At least one canton was selected per municipality and the selection of two or more cantons depended on the number of surveys to be completed in each municipality. Cantons included in the sample, as well as the number of surveys that were foreseen to be completed in each of them, are displayed on Table 4.

However, once the fieldwork phase was started, several additional surveys were completed per each municipality or canton that was visited, as a backup, which altered, to some degree, the number of interviews assigned to each of the sites. On the other side, one of the foreseen cantons (San Jose cantón, Berlin municipality) was substituted by another one (Apastepeque, Alegría Municipality), due to the difficulty in having access to this canton, as a result of the climatic conditions existing during the fieldwork completion. Thus, the final figure for the sample is 835 valid interviews, which implies an error margin of more or less 0.0339 (+/- 3.39 percent). The number of surveys completed per department, municipality and canton are displayed in Table 5.

Table 4. Distribution of Urban Sample by Municipality and Rural Sample by Canton

Department	Municipality	Urban sample	Cantón	Rural sample
Usulután	Usulután	74	El Talpetate	16
			La Presa	16
			La Peña	16
			El Trillo	16
	Berlín	20	San José	9
			San Lorenzo	9
	Puerto El Triunfo	18	Sitio de Santa Lucía	15
	Total	**112**		**97**
San Miguel	San Miguel	180	El Tecomatal	18
			El Havillal	18
			El Progreso	19
	Ciudad Barrios	24	Torrecilla	7
	Chinameca	16	Boquerón	5
	El Tránsito	14	Primavera	4
	Total	**234**		**71**
Morazán	San Fco. Gotera	33	Cacahuatalejo	13
			San José	13
			El Triunfo	11
	Sociedad	18	El Tablón	10
			Labranza	9
	Total	**51**		**56**
La Unión	La Unión	42	Amapalita	12
			Agua Escondida	12
			Sirama	12
	San Alejo	26	Mogotillo	11
			Pavana	11
	Santa Rosa de Lima	28	San Sebastián	13
			El Portillo	12
	Total	**96**		**83**

Table 5. Final Distribution of Urban and Rural Samples by Municipality and Canton

Department	Municipality	Urban sample	Cantón	Rural sample
Usulután	Usulután	77	El Talpetate	17
			La Presa	17
			La Peña	17
			El Trillo	17
	Berlín	20	San Lorenzo	11
	Puerto El Triunfo	19	Sitio de Santa Lucía	15
	Alegría	---	Apastepeque	11
	Total	**116**		**105**
San Miguel	San Miguel	183	El Tecomatal	22
			El Havillal	18
			El Progreso	17
	Ciudad Barrios	26	Torrecilla	8
	Chinameca	18	Boquerón	6
	El Tránsito	17	Primavera	4
	Total	**244**		**75**
Morazán	San Fco. Gotera	33	Cacahuatalejo	13
			San José	13
			El Triunfo	12
	Sociedad	18	El Tablón	12
			Labranza	9
	Total	**51**		**59**
La Unión	La Unión	42	Amapalita	12
			Agua Escondida	12
			Sirama	12
	San Alejo	29	Mogotillo	11
			Pavana	12
	Santa Rosa de Lima	30	San Sebastián	13
			El Portillo	12
	Total	**101**		**84**
Total		**512**		**323**

As it was mentioned before, the final sample was subjected to a weighting process, the weighting variable being the area to which the survey (rural or urban) belongs. This weighting process is performed with the intention of having the sample come closer to the country's population real percentages. This process was carried out as follows: It is known from "El Salvador's Population Projection 1995-2025", of the Ministry of Economy and DIGESTYC, that the country's urban area represents 58.4 percent, while the rural area represents the remaining 41.6 percent. Based upon this, the sample that should have been produced in each of the areas was estimated, which is known as the weighted sample (ws). To calculate the weighting factor (F) of each sector, the ratio between the weighted sample (ws) and the real sample (rs) for each area: F = ws/rs was calculated.

In order to calculate the weighting factor for the urban area, the number of surveys corresponding to the 58.4 percent of the total sample was calculated (equivalent to the real proportion of urban area in the country). The resulting value was 487.64, and it represents the weighted sample; this value was in turn divided by 512 (the total number of surveys completed in the urban area), which produced a weighting factor for the urban area of Fu = 0.952421875.

To calculate the weighting factor for the rural area, the number of surveys corresponding to the 41.6 percent of the total sample was calculated; thus obtaining the weighted sample (ws), which resulted in 347.36, which, when divided by 323 (the total number of surveys completed in the rural area) produced a weighting factor for the rural area of Fr = 1.0754179566563467.

These weighting factors indicate the value that each completed survey has within the sample; therefore, each survey in the database was multiplied by the value corresponding to the area where it was carried out, starting with a variable created in the database for such purpose. Even though at the moment of performing this weighted calculation some values in the database may be somewhat modified (for the numerous decimal digits cause the statistical program to round up the figures), the calculation of the weighting factors is useful in obtaining a sample proportional to the real number of inhabitants per area.

Finally, it must added that in order to select the housing units for this sample, a systematic selection procedure was applied within each segment, with the purpose of scattering housing units within the group. Thus, houses were selected starting at a previously specified point within the segment, and the segment was covered advancing clockwise around each block. In the case of the rural areas, just as in the case of the urban areas, a specific starting point was established within the canton and the canton was then covered skipping one housing unit out of two. One person per selected household was interviewed in the urban area as well as in the rural area.

Each survey questionnaire was stamped with a seal indicating the gender and age range of the person interviewed. Such characteristics correspond to the proportion of inhabitants indicated by the population projections for 2003, thus ensuring that the sample included individuals with different social and demographic characteristics.

A preliminary version of the questionnaire was ready at the beginning of the month of June, and a pilot test was performed to validate the instrument, on June 6th, 2003. Fieldwork was carried out between June 13th and June 22nd of this year.

In summary, the weighted database is composed of 835 interviews for all the Eastern Region, distributed per departments as follows: 223 for Usulutan, 313 for San Miguel, 112 for Morazan and 187 for La Unión. The sample has an error margin of +/- 3.39% for the Eastern Region, with a 95% level of confidence. However, it should be taken into consideration that, within the departments, error margins increase as follows: San Miguel (5.6%) Usulutan (6.8%), La Unión (7.3%) and Morazan (9.5%).

2.2 Focus Groups

With the purpose of exploring the perceptions of business people in the Eastern Region, regarding the issue of public insecurity and its repercussions on the economic development of the region, three focus groups were carried out in June 2003: one was carried out on June 17th, in the morning, in the city of San Miguel (12 participants), another one was carried out that same day in the afternoon in Santa Rosa de Lima (12 participants) and the last one on June 18th in the morning, in the city of La Unión (10 participants).

The focus group is a qualitative technique intended to analyze the perceptions of a select group of participants that are called together, based upon a previously established profile, and who participate around a set of generated questions, which serve as the guiding script for the group's facilitator. In this case, the participants' profile of the three focus groups corresponds to small and middle-sized business people in the Eastern Region.

The process to select the participants and to convoke them was done in conjunction with the work team of the National Commission on Development (Comisión Nacional de Desarrollo) in the Eastern Region. The participants profile was determined taking into consideration their different economical activities, as well as their geographical locations. In terms of structure, the groups of Santa Rosa de Lima and La Union were more homogeneous; these groups were composed of middle-sized businesspeople who live and have their businesses in their respective cities. In San Miguel, a group with heterogeneous characteristics was formed: business people coming from San Miguel, Usulutan and Morazan departments participated in this group, added to the fact that their businesses varied greatly in size and type.

3. Problem of Crime and Insecurity in El Salvador

In a recent study on violence in El Salvador, it was pointed out that violence "has changed in nature but not in intensity. At the beginning its nature was mainly of a political type. Foul war and assassination of political adversaries gave way to a bloody civil war, and violence took on a markedly belligerent nature. Then the peace process appeared and warlike violence was replaced by criminal violence of exorbitant proportions".[3] This briefly summarizes the transformation of the violence phenomenon in the case of El Salvador, where the problem of crime has presently become a priority problem, daily experienced in its effects and expressions, but which is paradoxically something that "we academically know very little about"[4].

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3 José Miguel Cruz, Luis Armando González, Luis Ernesto Romano y Elvio Sisti. "De la guerra al delito: evolución de la violencia en El Salvador". En: Juan Luis Londoño, Alejandro Gaviria y Rodrigo Guerrero (editores). Asalto al desarrollo. Violencia en América Latina. Washington DC, Banco Interamericano de Desarrollo, 2000. Pág. 173.

4 Carlos Guillermo Ramos. "Marginación, exclusión social y violencia". En: Violencia en una sociedad en transición: Ensayos. San Salvador, PNUD, 2000. Pág. 44.

Due to the lack of reliable figures, it is difficult to obtain data that serve as a basis to understand the magnitude of the problem, and specially to create comparable data series that make it possible to analyze the evolution of the crime phenomenon in El Salvador.[5]

After the signing of the Peace Accords, the crime problem started calling the attention of journalists and researchers, but not much attention was paid to this problem, for some people said that "there had always been crime in the country and that the growing concern on this issue was due to the fact that with the end of the war, Salvadorans had then more opportunity to pay attention to the crime problem", and others argued "that after an armed conflict it was normal to see crime problems appear, and that after some time and as society adjusted to the new peace conditions, the problem would subside".[6] Several years after signing the Peace Accords, these attitudes led "the phenomenon to continue being present in Salvadorans' daily lives and the concept of crime as a serious problem in the country, has definitely become enrooted in the public opinion".[7]

According to data provided by the Public Opinion University Institute (IUDOP), "the main concerns of Salvadorans during the '80's focused on the economic situation of the country and the armed conflict; during those years, warlike violence and the economic crisis were unanimously the main problems of the country. However, with the peace accords signed in 1992, which decisively bring the armed conflict to an end, Salvadorans' opinions begin to change: war practically ceases being a national problem and at the same time the opinion that crime is one of the main problems of the country suddenly appears".[8] The problem of crime is such, "that Salvadorans have become more alarmed by crime violence now than they were by war during the second half of the 80's."[9]

At present, criminal activity represents a particularly relevant and serious problem in El Salvador, a problem that poses a deep impact on national life, especially now that a feeling of insecurity is gradually being generalized within society. To such extent, that a recent study estimates that "every year, thirteen out of one thousand Salvadorians will be attacked or injured, as a result of deliberate violence"; "one out of three Salvadorans is victim of some type of robbery or theft in a one year period. The great majority of these crimes is not denounced and a greater number have not yet been investigated". It has been estimated that for the year 1995, El Salvador spent over $700 million dollars as a result of violence, a figure that "represents more

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5 "At present, there is practically no Salvadorian who has not been victim of violence. But, paradoxically, little is known about the true dimensions of violence. Official records on violence show high levels of subrecords, cover few years and are not reliable". En: José Miguel Cruz, Luis Armando González, Luis Ernesto Romano y Elvio Sisti. "De la guerra al delito: evolución de la violencia en El Salvador". En: Juan Luis Londoño, Alejandro Gaviria y Rodrigo Guerrero (editores). Asalto al desarrollo. Violencia en América Latina. Washington DC, Banco Interamericano de Desarrollo, 2000. Pág. 173.

6 IUDOP: "Delincuencia y opinión pública". Revista Estudios Centro Americanos, San Salvador, No. 599, septiembre de 1998. Pp 785-786.

7 IUDOP: "Delincuencia y opinión pública". Revista Estudios Centro Americanos, San Salvador, No. 599, septiembre de 1998, Pág. 786.

8 José Miguel Cruz y Luis Armando González. "Magnitud de la violencia en El Salvador". Revista Estudios Centro Americanos, San Salvador, No. 588, octubre de 1997. Pág. 954.

9 Ídem.

than 13% of the GDP and more than twice the economic growth experienced for that same year".[10]

El Salvador has become one of the most violent countries of the continent. A recent study pointed out that "The Salvadoran homicide rate far exceeds the average homicide rate for all of Latin America (7-12 per 100,000) for the entire time period, a region we remind the reader, that has the highest levels of homicide worldwide. (…) the Salvadoran murder rate has been far higher, indeed at least four times higher, than that of the average for Latin America".[11]

With the purpose of linking this problematic to the reality present in the Eastern Region of the Country, this chapter has been structured into three sections. The first one serves as an introduction framework, where statistics on the country's criminal activity are presented. The second one focuses on two relevant indicators of criminal activity: homicides and crimes with violence exertion. The third one deals with the perceptions of the Eastern Region's business sector on the issue of public insecurity.

3.1 Criminal Activities

Table 6 displays the information that was provided by the National Civil Police to the National Commission on Development[12] on criminal activity registered at a national level, for the period comprised between January 2000 and May 2003. It must be pointed out that there are problems with the lack of precision on how information has been reported, for there are years where some crime category has been added or omitted. In addition, deficiencies have been pointed out in regard to the reliability of police statistics collection process[13]. In any case, this is the information that has been officially provided by the National Civil Police (PNC), and therefore, it is going to be used as an introductory framework for the problematic posed by criminal activity in the country.

From the information contained in Table 6, the wide number and variety of reported crimes should be highlighted. An average of 168.6 crimes were committed daily, in the year 2000, for the year 2001 the number was 145.5, for the year 2002 the number was 122.2, and for the period comprised between January and May 2003 an average of 103.8 crimes were committed daily. For the year 2000, 61,546 crimes were reported, for the year 2001, the total number of reported crimes was 53,110, for the year 2002 the total number was 44,595, and for the period comprised between January and May, 2003 the total number was 15,669. These data, reported by the PNC, show that criminal activity has tended to decline during the last few years.

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[10] José Miguel Cruz, Luis Armando González, Luis Ernesto Romano y Elvio Sisti. "De la guerra al delito: evolución de la violencia en El Salvador". En: Juan Luis Londoño, Alejandro Gaviria y Rodrigo Guerrero (editores). Asalto al desarrollo. Violencia en América Latina. Washington DC, Banco Interamericano de Desarrollo, 2000. Pág. 199.
[11] Vincent McElhinny and Mitchell. A. Seligson. "From civil war to civil violence: the impact of agrarian inequality in El Salvador". Paper presented at the Latin American Studies Association meeting, September 6-8, 2001.
[12] Information provided by the Unit of Operations and Statistics of the PNC, July 8th, 2003.
[13] FESPAD. Estado de la seguridad pública y de la justicia penal en El Salvador 2001. San Salvador, FESPAD, mayo de 2002.

Between 2000 and 2001, data show a decline of a 13.71%, and a decline of a 16.03% for the period between 2001 and 2002.

Table 6. Criminal Activities Registered at National Level:
Years 2000, 2001, 2002 and January to May 2003

Crimes	2000	2001	2002	2003 (January-May)
Homicides	2341	2207	2024	955
Negligent Homicide	832	993	982	451
Rapes	778	818	842	361
Kidnappings	114	49	19	5
Injuries	5583	5746	4538	1876
Unintentional Injuries	1643	2818	0	0
Extortions	508	318	374	117
Menaces	6278	6278	5523	1999
Intrafamily Violence	0	1521	599	175
Homicide Atempts	0	0	5	0
Damages	1895	1841	1532	600
Robberies	10599	7740	5304	1689
Thefts	16565	14166	11225	3775
Vehicles robbed	1701	1602	1864	573
Vehicles stolen	4564	3464	3064	804
Robbery and theft of merchandise-loaded vehicles	795	656	262	112
Misappropriations	23	29	0	0
Other crimes	7327	2864	6438	2177
Total	**61546**	**53110**	**44595**	**15669**

Source: A development of ours based upon the information provided by the National Civil Police.

Based upon the information provided by the PNC for this period, Table 7 has been developed, where information per crime is presented for each of the four departments in the Eastern Region, for the years 2000, 2001, 2002 and January through May 2003. Three columns have been added to the extreme right of the table, where the first one includes the total crimes for the Eastern Region, the second one includes the total crimes for the country, and the last one includes the percentage that the Eastern Region represents compared to the total number of crimes committed in the country as a whole.

The Eastern Region is not the area with the greatest criminal activity in the country; criminal activity is mainly concentrated in the central and western areas of the country. Of the total crimes committed in the country for the 2000-2003 period (174,920) the department of San Salvador represents 36.79%, the department of La Libertad 10.49% and the department of Santa Ana represents 7.65%. In other words, only these three departments of the central and western regions of the country represent 54.93% of the total crimes in the whole country. The Eastern Region represents 18.27% of the total crimes committed at a national level.

Table 7. Registered Criminal Activities in the Eastern Region: Years 2000, 2001, 2002 and January to May 2003

Crime	Usulután				San Miguel				Morazán				La Unión				Total Eastern Region	Total country	Percentage that the Eastern Region represents compared to the total number of crimes committed in the country as a whole
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003			
Homicides	123	91	94	30	151	212	132	49	43	37	20	11	112	121	103	33	1362	7527	18.09%
Negligent Homicide	69	61	53	48	60	101	118	49	20	23	26	9	23	33	33	14	740	3258	22.71%
Rapes	82	55	48	10	82	64	38	32	29	18	19	13	29	41	34	12	606	2799	21.65%
Kidnappings	5	2	6	2	4	4	1	1	1	0	0	0	0	1	0	0	27	187	14.44%
Injuries	538	430	290	49	572	321	195	78	288	252	197	78	235	277	178	0	3978	17743	22.42%
Unintentional Injuries	169	141	0	0	85	40	0	0	113	70	0	0	20	45	0	0	683	4461	15.31%
Extortions	15	5	34	3	64	44	50	13	9	11	11	6	8	10	8	5	296	1317	22.47%
Menaces	625	585	382	44	809	570	304	77	207	251	246	97	250	319	320	164	5250	20078	26.15%
Intrafamily Violence	0	248	88	8	0	22	7	0	0	11	29	10	0	26	9	3	461	2295	20.09%
Homicide Attempts	0	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	5	5	100.00%
Damages	177	153	75	20	205	122	86	71	90	103	66	28	87	105	91	35	1514	5868	25.80%
Robberies	327	210	159	38	654	442	252	95	142	95	98	27	192	218	140	52	3141	25332	12.40%
Thefts	778	663	587	121	1197	1089	854	249	384	337	341	125	478	500	467	174	8344	45731	18.25%
Vehicles robbed	7	15	7	2	36	35	46	16	1	1	2	2	3	5	9	1	188	5740	3.27%
Vehicles stolen	27	19	19	1	204	251	233	16	0	0	1	0	7	8	3	3	792	11896	6.66%
Robbery and theft of merchandise-loaded vehicles	5	7	3	1	7	9	2	5	0	0	1	0	0	1	0	0	41	1825	2.25%
Misappropriations	0	0	0	0	2	3	0	0	0	0	0	0	0	0	0	0	5	52	9.61%
Other crimes	846	234	307	42	711	324	270	99	290	166	230	73	296	242	212	182	4524	18806	24.06%
Total	**3793**	**2919**	**2157**	**419**	**4843**	**3653**	**2588**	**850**	**1617**	**1375**	**1287**	**479**	**1740**	**1952**	**1607**	**678**	**31957**	**174920**	**18.27%**

Source: a development of ours based upon the information provided by the National Civil Police.

The department that concentrates the most criminal activity is San Salvador (36.79%), with no great differences in the previous years: 39.30% in 2000, 35.33% in 2001, 35.16% in 2002 and 36.47% in 2003.

The Eastern Region represents, on average, 18.27% of the total number of crimes committed in the whole country, for the entire mentioned period. Naturally, this figure varies depending on the type of crime, for example, the Eastern Region represents a very low percentage of the total number of vehicles robbed (3.27%) or stolen (6.66%); but the percentage is higher than the average, in the case of intrafamily violence (20.09%), rapes (21.65%), injuries (22.42%), extortions (22.47%), negligent homicide (22.71%), in other crimes (24.06%), in damages (25.80%), in menaces (26.15%), and homicide attempts (100%).

With regard to departments' performance, San Miguel has the highest level of criminal activity in the Eastern Region (37.34%), followed by Usulutan (29.06%), La Unión (18.70%) and Morazan (14.89%). In the case of San Miguel, the 11,934 crimes committed during the period 2000-2003 represent 6.82% of the total crimes committed during the same period in the whole country, while the crimes committed in Usulutan represent 5.31% of the crimes committed in the whole country in that same period. The importance of differentiating between two different expressions of the violence phenomenon: the social and the criminal, has recently been noted. Social violence can be understood as “violence that is not used as an instrument to obtain something, but as a way of doing things. This type of violence is originated at homes –intrafamily violence- where women and underage people are most vulnerable. (…) It is dangerous because it becomes a way of life, a social pattern from which the rules of coexistence are established. However, most of its manifestations are confined in the private life.”[14]

Criminal violence, on the other hand, “is that in which violence is used specifically to commit a crime, in other words, it becomes an instrument to obtain a wanted good”.[15] It is motivated by a lucrative purpose.

At the moment of analyzing the data for the crimes committed in the country under this distinction between social violence and criminal violence, some important findings have to be taken into consideration. For example, from the homicides committed in 2000, 77% of them were product of social violence; and for the year 2001, 86% of them were product of social violence.[16] Although there is a decline in homicides trend, in absolute terms (from 2,341 in 2000 to 2,177 in 2001), an increase in homicides related to social violence can be observed.

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[14] Policía Nacional Civil. Fenómeno de violencia social en El Salvador. San Salvador, mimeo, noviembre de 2001.
[15] Ídem.
[16] Policía Nacional Civil. Violencia social y delincuencial en El Salvador. Resultados del año 2001. San Salvador, mimeo, s/f.

3.2 Focusing on the Subject

The United Nations Development Program in El Salvador, through its program “Towards the Construction of a non-Violent Society", developed a document proposing an indicators system "to monitor the violence activity in the country”[17]. The issue of crime is structured around nine indicators: homicides, violent crimes, kidnappings, sexual violence, intrafamily violence, juvenile delinquency, organized crime, violent deaths and police deaths.

Having the entire criminal activity for the period comprised between January 2000 and May 2003, which was presented in the previous section, as a frame of reference, and given the wide variety of crimes, a focus is placed in this section, on the evolution shown by two relevant crimes - out of the nine crimes pointed out in the UNDP's report: homicides and crimes with violence exertion.

3.2.1 Homicides

Homicide is defined in general terms, as the act that results in the death of another person, committed willingly and with malice[18]. In the Salvadorian Penal Code there are nine types of homicide: (1) simple homicide, (2) attempted simple homicide, (3) attempted simple homicide with accomplices, (4) aggravated homicide, (5) aggravated attempted homicide, (6) aggravated attempted homicide in complicity, (7) euthanasia, (8) aiding or abetting a suicide and (9) manslaughter.

The most relevant international indicator on the issue of violence is the homicide rate calculated per 100,000 inhabitants. However, in the case of El Salvador, there are two basic problems. First, there is a problem with the inclusion of some types of homicide records “that have brought imprecision or over report as a consequence”.[19] Second, there are four basic primary sources that differ in their results, due to the fact that they use different methodologies to collect the information: the National Civil Police, Attorney General's Office, the Institute of Legal Medicine and the Census and Statistics Head Office.

Table 8 presents data on homicide rates for the period 1999-2000, reported by these four sources of information. It is important to point out the outstanding differences between the two main sources of information: the Attorney General's Office, which reported rates of 62.5 for

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[17] PNUD. Indicadores sobre violencia en El Salvador. San Salvador, PNUD, 2002.

[18] See: PNUD. Indicadores sobre violencia en El Salvador. San Salvador, PNUD, 2002.

[19] “One of the problems lies in having included manslaughter within this homicide rate; given its large volume in El Salvador this caused the rate to be over reported. Later efforts were done to exclude manslaughter, however, other types of homicides, not usually included in international definitions, such as attempted homicides (simple and aggravated homicides), involuntary homicide (accidental), justifiable homicide, euthanasia, and aiding or abetting a suicide, continued to be included”. PNUD. Indicadores sobre violencia en El Salvador. San Salvador, PNUD, 2002. Pág. 29.

1999 and 56.6 for 2000, and the National Civil Police, which reported rates of 36.9 for 1999 and 37.3 for 2000.

Table 8. Homicide Rates per 100,000 Inhabitants According to Different Sources, 1999-2000*

Organization	Homicide		Homicide rate	
	1999	2000	1999	2000
Attorney General's Office, FGR**	3,845	3,551	62.5	56.6
National Civil Police, PNC	2,270	2,341	36.9	37.3
Institute of Legal Medicine, IML***	2,544	n.a	41.3	n.a
Census and statistics Head Office, DIGESTYC****	2,299	n.a	37.4	n.a

Source: Census and Statistics Head Office, Institute of Legal Medicine, National Civil Police and Attorney General's Office.
Notes: n.a = not available.
* Population for 1999 is composed of 6,154,311 individuals and for 2000 it is composed of 6,276,037.
** The Attorney General's Office (FGR for its acronym in Spanish) includes only simple and aggravated homicide cases. Manslaughter and euthanasia homicides are excluded, as well attempted homicides and suicide abetment. The National Civil Police does not establish any specifications with regard to this classification.
*** IML: The last available data correspond to the year 1999.
**** DIGESTYC: Homicides refer to those deaths caused by external causes, specified under the classification of attacks. Deaths, caused by any type of accident, by intentional self-inflicted injuries (suicide), and by other external causes, are excluded. The Source for DIGESTYC are the death records kept by each municipality in the country.
Taken from: Indicadores sobre violencia en El Salvador. San Salvador, PNUD, junio de 2002.

In spite that the data provided by the Attorney General's Office presents the higher rates, the decision has been to use them, due to the fact that they do specify the types of homicides included: simple and aggravated, in addition, data is available for all departments. Table 9 shows the homicide rates for each of the 14 departments for 1999-2000.

At a national level, the department with the higher homicide rate for the year 1999 was Santa Ana (117.5) and for the year 2000 was San Vicente (86.3). From the departments of the Eastern Region for the period 1999-2000, the department with the higher homicide rate was Usulutan (83.2 and 65.6), followed by La Unión (64 and 62.6), San Miguel (41.8 and 53.5) and Morazan (34.2 and 31.1).

Table 10 presents homicide rates for the period 1998-2002, calculated based upon the information provided by the Attorney General's Office[20]. It may be observed that the year 1999 was the period with the higher homicide rate in El Salvador (62.5), followed by a declining trend: 56.6 in 2000, 56.1 en 2001 and 49.5 en 2002.

[20] Given the fact that the information provided by the General Attorney's Office classifies homicide data according to the types defined by the penal legislation, we have been able to use only simple and aggravated homicide data to prepare this table.

Table 9. Homicide Rates by Department, 1999-2000

Department	Population		Homicide		Homicide Rate	
	1999	2000	1999	2000	1999	2000
Ahuachapán	313,327	319,780	246	195	78.5	61.0
Cabañas	151,968	152,842	45	124	29.6	81.1
Chalatenango	195,245	196,583	94	73	48.1	37.1
Cuscatlán	200,844	202,951	100	136	49.8	67.0
La Libertad	662,096	682,092	404	335	61.0	49.1
La Paz	288,022	292,887	226	241	78.5	82.3
La Unión	286,173	289,021	183	181	64.0	62.6
Morazán	172,569	173,499	59	54	34.2	31.1
San Miguel	471,341	480,276	197	257	41.8	53.5
San Salvador	1,936,290	1,985,294	1,107	976	57.2	49.2
San Vicente	159,165	161,105	48	139	30.2	86.3
Santa Ana	541,197	551,259	636	394	117.5	71.5
Sonsonate	439,533	450,116	220	224	50.1	49.8
Usulután	336,541	338,332	280	222	83.2	65.6
Total	**6,154,311**	**6,276,037**	**3,845**	**3,551**	**62.5**	**56.6**

Source: Attorney General's Office.
Note: The rate has been calculated based per 100,000 inhabitants and homicides include only simple and aggravated homicides.
Taken from: Indicadores sobre violencia en El Salvador. San Salvador, PNUD, junio de 2002.

Table 10. Homicide Rates, 1998-2002

Year	Population	Total Homicides	Homicide rate
1998	6,031,326	3,173	52.6
1999	6,154,311	3,845	62.5
2000	6,276,037	3,551	56.6
2001	6,396,890	3,590	56.1
2002	6,517,798	3,226	49.5

Source: Dirección General de Estadísticas y Censos, Ministerio de Economía. Proyección de la Población de El Salvador. 1995-2025. San Salvador, diciembre de 1996.
Notes: A development of ours based upon the information provided by the DIGESTYC and the Attorney General's Office.
Data provided by the Attorney General's Office only include simple homicide and aggravated homicide.
Rates are calculated per 100,000 inhabitants.

3.2.2 Violent crimes

The rate of violent crimes "is a global indicator that monitors the main violent crimes in El Salvador, as an expression of crime violence. This includes simple and aggravated homicide, all types of thefts and robberies, serious, grievously and aggravated bodily harms. This is calculated upon the basis of 10,000 inhabitants (of all ages)."[21]

Table 11 presents the rate of crimes with violence exertion, per source of information and per department, for the period 1999-2000. Once again, important differences are observed

[21] PNUD. Indicadores sobre violencia en El Salvador. San Salvador, PNUD, 2002. Pág. 32.

depending on the source of information. Thus, according to data provided by the Attorney General's Office, for the country, the rate of crimes with violence exertion for the year 2000, is 49.9 for every 10,000 inhabitants, while according to data provided by the National Civil Police, the rate of these crimes is 33.5 for every 10,000 inhabitants.

Table 11. Violent Crime Rates per 10,000 Inhabitants by Source of Information and Department, 1999-2000

Department	DIGESTYC		FGR				PNC			
	Population		Crimes		Rate		Crimes		Rate	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
Ahuachapán	313,327	319,780	1,217	1,410	38.8	44.1	667	597	21.3	18.7
Cabañas	151,968	152,842	575	716	37.8	46.8	428	494	28.2	32.3
Chalatenango	195,245	196,583	616	618	31.6	31.4	399	451	20.4	22.9
Cuscatlán	200,844	202,951	1,021	921	50.8	45.5	582	600	29.0	29.6
La Libertad	662,096	682,092	3,588	3,441	54.2	50.4	1,887	2,286	28.5	33.5
La Paz	288,022	292,887	1,178	1,210	40.9	41.3	721	890	25.0	30.4
La Unión	286,173	289,021	861	923	30.1	31.9	487	542	17.0	18.8
Morazán	172,569	173,499	708	590	41.0	34.0	303	474	17.6	27.3
San Miguel	471,341	480,276	1,884	1,952	40.0	40.6	1,278	1,420	27.1	29.6
San Salvador	1,936,290	1,985,294	12,906	13,020	66.7	65.6	6,515	9,053	33.7	45.6
San Vicente	159,165	161,105	593	796	37.3	49.4	341	649	21.4	40.3
Santa Ana	541,197	551,259	3,019	2,667	55.8	48.4	1,195	1,515	22.1	27.5
Sonsonate	439,533	450,116	2,067	1,939	47.0	43.1	935	1,048	21.3	23.3
Usulután	336,541	338,332	1,051	1,132	31.2	33.5	629	1,000	18.7	29.6
Total	**6,154,311**	**6,276,037**	**31,284**	**31,335**	**50.8**	**49.9**	**16,367**	**21,019**	**26.6**	**33.5**

Source: Fiscalía General de la República, Policía Nacional Civil y Dirección General de Estadísticas y Censos de El Salvador.
Note: Delitos incluye lesiones, robo y homicidios.
Taken from: Indicadores sobre violencia en El Salvador. San Salvador, PNUD, junio de 2002.

According to both sources of information, San Salvador was the department with the highest rate of crimes with violence exertion, at a national level during the year 2000 (65.6 according to FGR and 45.6 according to the PNC). In the Eastern Region, for the period 1999-2000, the department with the highest rate of crimes with violence exertion, according to the FGR was San Miguel (40.0 and 40.6, respectively), followed by Morazan (41.0 and 34.0), Usulutan (31.2 and 33.5), and La Unión (30.1 and 31.9). It should be noted that none of the departments in the Eastern Region is above the country's average.

3.3 Perceptions of Public Safety by the Business Sector in the Eastern Region

In this section the main findings, derived from the three focus groups carried out in the Eastern Region of the country, are presented with the purpose of learning what are the perceptions of business people in the Eastern Region in relation to the issue of public security and its repercussions on the economic development of the Eastern Region. This section has been divided into three subsections: (1) main obstacles for the economic development of the Eastern Region; (2) perceptions on the issue of public insecurity; and (3) appraisal on the public security and justice sectors.

3.3.1 Main obstacles for the economic development of the Eastern Region

- Participants consider that the Eastern Region has always been ignored and abandoned by the central government, stating that "beyond the Lempa River, it would seem as if we did not exist". Therefore, the abandonment that the Eastern Region has been subject to since the 80’s is one of the main problems that they have been facing for the economic development of the region.

- Criminal activity is reported as one of the main problems faced by the businesspeople in the Eastern Region. Participants in the focus groups say "the main problem I see is crime", "crime situation in the rural area is serious, livestock is being stolen", or "this crime problem is huge".

- Another problem pointed out is the systematic migration of qualified labor force prevailing in the area that has produced a non-qualified and expensive labor force. Due to the remittances they receive, people are not willing to work for the minimum wage.

- Another obstacle for the economic development of the region, is business people awareness of their low level of competitiveness when compared to larger-sized national and foreign firms with certified quality standards, a situation which places them at disadvantage. They consider opportunities to compete in equal conditions are lacking, and claim support from the State.

3.3.2 Perceptions of public insecurity

- One of the impacts of criminal activity is that it generates a feeling of insecurity within society, but for businesspeople it poses another devastating effect: “criminal activity destroys enterprising attitudes". One of the participants points out that “one thing is for real here, and that is crime, which is killing us; someone starts an entrepreneurial activity and criminal action wipes it out". Another participant expresses that "the situation here is quite sensitive and it is extinguishing enterprising spirit".

- Even though criminal activity is seen as a core problem, several of the participants pointed out that “different sectors are affected differently”, depending on their economic activity and geographical location. Businesspeople participating in the focus groups state that the situation is more difficult in Usulutan, but less extreme in San Miguel, better in La Unión and less serious in Morazan. They highlight that there is greater insecurity in rural areas than in the cities, though there are no major differences in Usulutan.

- One of the impacts crime wave has had over businesses is that their costs have increased with the need to hire private security agents or their own watchmen. One of the participants states that his operational costs have gone up: “I pay 8 thousand pesos for monthly security, in addition to benefits, Christmas bonus, vacations, social security, AFP (retirement plan), plus weapon acquisition". Another participant states that: “The problem is serious, a small company such as ours, with no large assets and a small work capital, at having its payroll cost increase by 8 thousand pesos plus benefits ... it means that the situation is exasperating".

- Businesspeople in this area, however, have somehow learned to live with insecurity. They think that the current situation is worse than the time during the war, due to the level of insecurity and fear that it represents, because at that time, insecurity generator factors were identified.

3.3.3 Appraisal on the justice and public security sectors

- Participants in the focus groups express little trust on the work carried out by the National Civil Police in the Eastern Region. One of the participants pointed out: “the truth is that police's work is not efficient”, while another one stated: “they have corruption problems, therefore they do not offer guarantees to trust their members”. Another participant stated: “There are good and bad police officers, that is, sometimes people say ‘what for?, if they won't do anything after all’”.

- In this atmosphere of insecurity and little trust in the PNC's work, attention should be paid to the opinions on the fear to report crimes must: "there are many people who do not trust them; who knows what problem I am going to get into if I speak”, they comment.

- Likewise, the Judicial System is valued as being little efficient. People comment that the police takes longer to arrest suspects, than suspects to be left free a few hours or days later. No sign of positive change is granted to the judicial system, but it is rather discredited as linked to corruption, influence trafficking, partnership in crime, lack of capacity, ethics, and proper professional training.

- This perception of inefficiency in the justice sector reinforces people's fear to report criminal acts. One of the participants pointed out: "The justice system is not functional... people who steal or rob are already identified, they apprehend them, a month later they are set free, why would anyone want to complicate their live gaining enemies?".
- A recent development is the perception that “laws mainly favor the criminal, in other words, that is the reason why criminal activity has increased".

- Regarding the crime problem, there are some instances of coordination between the private enterprise and the National Civil Police in the cities of San Miguel and La Unión.

- As a final comment, the businesspeople who participated in the focus groups formulated the following solution to the problems of the Eastern Region: a) at a macro level, improving the quality of the education and guaranteeing that every children and young people may have access to education, specially the ones facing greater economic difficulties; b) employment generation as an alternative to unemployment and to counteract social exclusion which propitiates criminal activity; c) propitiating management and technical training processes that may allow them to become competitive; and d) proceeding to a purge and better training of the National Civil Police personnel; and promoting a revision of the laws and the justice operators.

4. Perceptions of Public Safety in the Eastern Region

This chapter has been divided into three sections. The first section presents the perceptions on public insecurity; the second one addresses the victimization and crime issue; and the third one presents an evaluation on the institutions of the justice and public security sectors.

4.1 Perceptions of Public Insecurity

This section deals with the perceptions on public insecurity in the Eastern Region, in relation to three aspects: (a) the current vision on the main problems faced by the country, (b) the use of a perceptions-on-insecurity scale and, (c) changes in behavior as a consequence of insecurity perceptions.

4.1.1 Main problems

With the purpose of learning what people's opinions on the national problems are, the following question was asked to interviewees: What is the main problem currently faced by El Salvador?[22] In Table 12, it may be observed that inhabitants in the Eastern Region identify criminal/felony activity as the main problem (27%). However, in general terms, these data coincide with other recent national surveys, in that they classify economy-related problems as

[22] Question 15 in the questionnaire.

priority number one[23] (51.7%), and crime-related and insecurity-related problems as priority number two[24] (32.7%).

Table 12. Views of People in the Eastern Region on Main National Problems

Problem	Frequency	Percent
Delinquency/crime	225	27.0%
Unemployment	175	21.0%
Poverty	101	12.1%
Economic problems	85	10.2%
Dollarization	47	5.6%
Gangs/drugs	28	3.4%
Inflation/high prices	23	2.8%
Bad government	23	2.8%
Problems in the health sector	16	1.9%
Violence	14	1.7%
Corruption	13	1.6%
Privatization	11	1.3%
Kidnappings	5	0.6%
Other problems	32	3.8%
Do not know/do not respond	31	3.7%
None	5	0.6%
Total	**834**	**100.00%**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

In Table 13, people's opinions about the country's main problem may be observed, according to the emphasis placed by each department. Thus, for example, the criminal/felony activity problem is pointed out by 30% of the interviewees in the department of Usulutan, 27.7% in Morazan, 25.6% in San Miguel and 25.3% in La Unión.

Table 13. People's Views on Main National Problems by Department in the Eastern Region

Problem	Department				Eastern Region
	Usulután	San Miguel	Morazán	La Unión	
Delinquency/crime	67 (30.0%)	80 (25.6%)	31 (27.7%)	47 (25.3%)	225 (27.0%)
Unemployment	51 (22.9%)	57 (18.2%)	31 (27.7%)	36 (19.4%)	175 (21.0%)
Poverty	34 (15.2%)	39 (12.5%)	13 (11.6%)	15 (8.1%)	101 (12.1%)
Economic problems	14 (6.3%)	48 (15.3%)	4 (3.6%)	19 (10.2%)	85 (10.2%)
Dollarization	6 (2.7%)	17 (5.4%)	5 (4.5%)	19 (10.2%)	47 (5.6%)
Gangs/drugs	5 (2.2%)	15 (4.8%)	2 (1.8%)	6 (3.2%)	28 (3.4%)

[23] The following answers options have been added: unemployment, poverty, economic problems, dollarization and inflation / high prices.
[24] The following answers have been added: criminal / felony activity, gangs/drugs, violence and kidnappings.

Problem	Department				Eastern Region
	Usulután	San Miguel	Morazán	La Unión	
Inflation/high prices	11 (4.9%)	6 (1.9%)	3 (2.7%)	3 (1.6%)	23 (2.8%)
Bad government	6 (2.7%)	9 (2.9%)	4 (3.6%)	4 (2.2%)	23 (2.8%)
Problems in the health sector	5 (2.2%)	7 (2.2%)	1 (0.9%)	3 (1.6%)	16 (1.9%)
Violence	5 2.2%	3 (1.0%)	2 (1.8%)	4 (2.2%)	14 (1.7%)
Corruption	---	7 (2.2%)	2 (1.8%)	4 (2.2%)	13 (1.6%)
Privatization	4 (1.8%)	2 (0.6%)	1 (0.9%)	4 (2.2%)	11 (1.3%)
Kidnappings	1 (0.4%)	1 (0.3%)	1 (0.9%)	2 (1.1%)	5 (0.6%)
Other problems	10 (4.5%)	12 (3.8%)	3 (2.7%)	7 (3.8%)	32 (3.8%)
Do not know/do not respond	4 (1.8%)	8 (2.6%)	8 (7.1%)	11 (5.9%)	31 (3.7%)
None	---	2 (0.6%)	1 (0.9%)	2 (1.1%)	5 (0.6%)
Total	**223 (100.0%)**	**313 (100.0%)**	**112 (100.0%)**	**186 (100.0%)**	**834 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

4.1.2 Insecurity scale

Interviewees were asked: "Thinking of the country's situation, in a scale from 1 to 10, where 1 is totally insecure and 10 is totally secure, could you tell me how do you feel on a daily basis?".[25] Answers show a perception of relative insecurity, with 56.6% of the interviewees distributed along the range of an insecurity perception (answer options from 1 to 5). A datum that must be taken into consideration is that practically two out of ten interviewed individuals in the Eastern Region feel totally insecure (answer option number 1, in a scale from 1 to 10). Table 14 presents interviewee distribution along the insecurity scale.

Even though a feeling of relatively insecurity is generalized, it does not equally affect everybody. Table 15 reviews the perceptions on insecurity, in relation to several social, demographic and political variables. This perception of relative insecurity is expressed in the 1 - 10 scale, with a 5.10 average for the Eastern Region. Department averages are distributed as follows: the lowest percentage is exhibited by Usulutan (4.64), which must be understood as a perception of greater insecurity; while slightly above the average are Morazan (5.19) and San Miguel (5.19), and with a higher average is La Unión (5.45). With regards to the gender variable, women feel more insecure than men. Mean for a woman was 5.02, while it was higher for men: 5.19.

[25] Question 46 of the questionnaire.

Table 14. Scale of Insecurity Perceptions by People in the Eastern Region

Level of insecurity	Frequency	Percent	Valid Percent	Cumulative Percent
1(totally insecure)	150	18.0	18.3	18.3
2	44	5.2	5.3	23.6
3	85	10.2	10.4	34.1
4	83	10.0	10.2	44.2
5	102	12.2	12.4	56.6
6	87	10.5	10.6	67.3
7	64	7.6	7.8	75.0
8	65	7.8	8.0	83.0
9	35	4.2	4.3	87.3
10 (totally secure)	104	12.4	12.7	100.0
Total	820	98.2	100.0	
Missing	15	1.8		
Total	**835**	**100.0**		

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Table 15. Averages of Insecurity Perceptions Scale by Department in the Eastern Region

	Mean	N	Std Deviation
Department	5.1041	820	2.9863
Usulután	4.6373	218	2.6824
San Miguel	5.1944	309	2.9907
Morazán	5.1922	108	3.0617
La Unión	5.4533	185	3.2238
Gender	5.1041	820	2.9863
Men	5.1919	405	2.9371
Woman	5.0185	415	3.0347
Age	5.1041	820	2.9863
18 a 25 years old	5.2172	241	2.9393
26 a 40 years old	5.0236	314	2.8372
41 a 55 years old	5.0612	141	3.1060
56 and more years old	5.1374	124	3.3181
Educational level	5.1041	820	2.9863
No studies	5.1052	119	3.4934
Elementary education (1st to 6th grade)	5.2349	246	3.1137
Junior High School (7th a 9th grade)	5.2071	151	3.2525
High School	5.0280	164	2.6007
Higher education	4.8526	140	2.3802
Exposed to news [26]	5.1041	820	2.9863
Never	5.2676	24	3.8606
Rarely	5.5402	170	3.0388
1 o 2 per week	5.0632	154	3.1375
Daily	4.9522	472	2.8593
Family income	5.1041	820	2.9863
No income	3.5101	6	2.2766
Up to 1,260 colones	5.1561	323	3.1875
Between 1,261 and 2,520 colones	5.2724	153	3.0256
Between 2,521 and 3,780 colones	4.9540	98	2.9085
Between 3,781 and 5,040 colones	5.1308	74	2.5777
Between 5,041 and 6,300 colones	4.2003	25	2.2375
Between 6,301 and 10,000 colones	4.8186	35	2.4028

[26] It was asked: What is the frequency with which you read, watch or listen to the news? Question 6 in the questionnaire.

	Mean	N	Std Deviation
Over 10,000 colones	5.0746	14	2.8585
Do not respond	5.2458	91	3.0368
Socio-economic stratum	5.1041	820	2.9863
Middle-high strata	5.0000	5	2.5656
Middle-low strata	4.6962	150	2.6659
Blue-collar	5.0970	285	2.9981
Marginal	5.1628	41	3.3324
Rural	5.2857	339	3.0701
Political preference[27]	5.0762	384	3.0738
ARENA	5.5747	130	3.1384
FMLN	4.5444	139	2.9026
Other parties	5.1556	115	3.1245

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

For the purpose of analyzing the age variable, the interviewed individuals have been grouped into four age ranges. The mean for youngest people (18 to 25 years old) is 5.22, the highest value, which indicates that young people expressed less insecurity than the other age ranges; the mean for the 56+ years old range was 5.14, for the 41 to 55 age range was 5.06, and for the 26 to 40 range was 5.02. This last group is the one that exhibits a perception of greater insecurity.

Interviewees have also been grouped by educational level. The mean for those with higher education is 4.85, the lowest value, thus indicating a perception of greater insecurity, followed by a mean of 5.03 for those with a High School education, a mean of 5.11 for those with no studies, a mean of 5.21 for those with a Junior High School, and a mean of 5.24 for those with an elementary education.

Those individuals who listen to, read or watch the news in the media have a perception of greater insecurity. Those who are daily exposed to news through the media exhibit a mean of 4.95, those who do it once or twice a week exhibit a mean of 5.06, those who never do exhibit a mean of 5.27 and those who rarely do exhibit a mean of 5.54.

In relation to the family income variable, interviewees were grouped into 8 groups. Those with no income exhibit the highest perception of insecurity with a mean of 3.51, the group with an income of up to 1,260 colones exhibit a mean of 5.16, the group with an income between 1,261 and 2,520 colones exhibit a mean of 5.27, those with an income between 2,521 and 3,780 colones exhibit a mean of 4.95, the group with an income between 3,781 and 5,040 colones exhibit a mean of 5.13, those with an income between 5,041 and 6,300 colones exhibit a mean of 4.20, the group with an income between 6,301 and 10,000 exhibit a mean of 4.82, the group with an income over 10,000 colones exhibit a mean of 5.08, while the group that did not answer the question about their family income level exhibit a mean of 5.25.

[27] It was asked: What party or coalition did you vote for during congressmen election? Only answer options showing a preference for ARENA and FMLN are presented, and other parties answers were grouped. Question 17 in the questionnaire.

Regarding the socio economic stratum of the houses surveyed, the lowest average corresponds to the middle-low strata (4.70), followed by the middle-high strata (5.0), blue-collar (5.10), marginal (5.16) and rural (5.29).

With regard to the political preference variable, a question was included asking what party they had voted for during the congressional election in March 2003. Those who voted for the opposition party (FMLN) expressed greater insecurity with a mean of 4.54, those who sympathize with other parties exhibit a mean of 5.16, and those who voted for the ruling party (ARENA) exhibit a mean of 5.58.

4.1.3 Changes in behavior as a consequence of insecurity perceptions

Taking these insecurity perceptions as a starting point, a set of six questions was included seeking to measure changes in some interviewees' behaviors during the last year, resulting from their fear to be crime victims. In Table 16, it may be observed that the insecurity feeling affects, to a great extent, the behavior of the Eastern Region residents, especially in regards to the places where they purchase (57.4%) and recreational sites (46.9%). Practically, half of the residents of the Eastern Region that were interviewed have admitted that they have had to modify their regular behavior as a result of a feeling of insecurity. In the case of business owners within the sample universe, 8% had to close their businesses last year, due to their fear of being crime victims. The impact of the insecurity feeling is also expressed in answers that seek to avoid the possibility of being affected by crime. This is the reason they expresses their desire to move to closed residential areas (42.6%), the fact that they are considering the option of acquiring fire arms (16.4%) and the need to move out of their neighborhood (26.8%).

Table 16. Changes in Behavior Due to Perceived Insecurity[28] by Department in the Eastern Region

	Department				Eastern Region
	Usulutan	San Miguel	Morazan	La Unión	
The individual has limited the places where he/she buys	53.4%	57.8%	53.6%	64%	57.4%
The individual has closed down his/her business	7.1%	8.7%	7.1%	8.6%	8%
The individual would like to move to closed residential areas (safer)	41.9%	47.3%	34%	40.5%	42.6%
The individual has considered the option of acquiring fire arms	17.9%	17.6%	10.7%	16.2%	16.4%
The individual has felt the need to move out of his/her neighborhood or community	26.5%	28.4%	25.9%	25.1%	26.8%
The individual has avoided going to or visiting recreational sites (cinemas, sport, courts, etc.)	46.2%	51.8%	36.6%	45.9%	46.9%

As a result of the existing insecurity perception, approximately half of the interviewees in the four departments have modified some of their basic behaviors: 57.4% of the individuals

[28] It was asked: Out of fear to be a crime victim during the last yeas, did you...? Questions 47, 48, 49, 50, 51 and 52 in the questionnaire. **Source:** Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

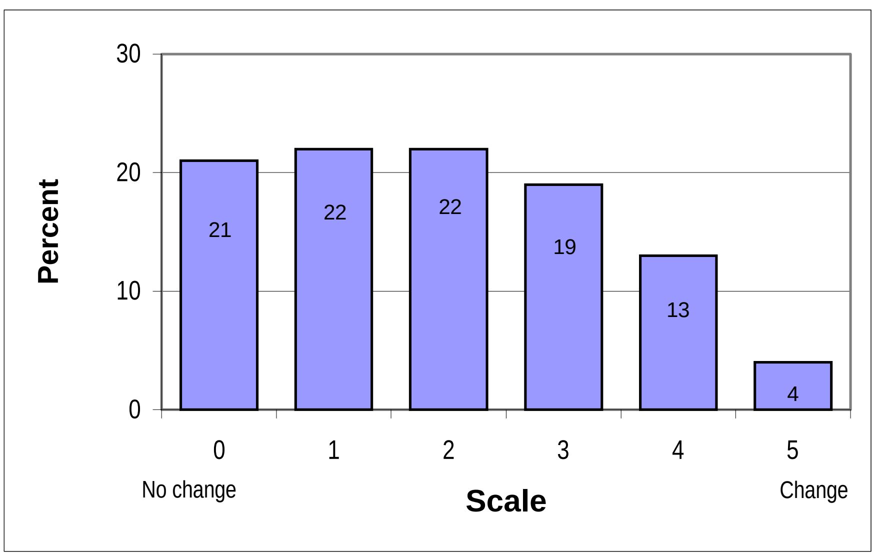
interviewed in the Eastern Region have limited the places where they purchase, being distributed per department in the following way: 64% for La Unión, 57.8% for San Miguel, 53.6% for Morazan and 53.4% for Usulutan.

46.9% of the individuals interviewed in the Eastern Region have avoided going to or visiting recreational sites (cinemas, sport courts, etc.), with the following distribution per department: 51.8% for San Miguel, 46.2% for Usulutan, 45.9% for La Unión, and 36.6% for Morazan.

42.6% of the respondents in the Eastern Region would like to move to closed residential areas (safer), with the following distribution per department: 47.3% for San Miguel, 41.9% for Usulutan, 40.5% for La Unión and 34% for Morazan.

Five questions related to changes in behavior as a consequence of existing insecurity perceptions, have been used to create a scale that integrates the answers[29]. Figure 1 shows how 21% has not implemented any type of change, 22% have made changes in at least one of the five analyzed dimensions, 22% have made changes in two dimensions, 19% in three dimensions, 13% in four dimensions and only 4% in the five dimensions.

Figure 1. Scale of Changes in Behavior Derived from Insecurity Perceptions in the Eastern Region



Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Table 17 shows the distribution of interviewed individuals within each department according to the scale of changes in behavior derived from the insecurity perceptions. The department of Morazan exhibits the lowest levels of changes in behavior, followed by the department of

[29] Questions 47, 49, 50, 51 and 52 have been used to create the scale. The answer options have been 0 = no and 1 = yes, which has produced a scale that ranges from zero to five. The five dimensions analyzed are: have limited purchasing site, desire to move to a closed residential area, desire to acquire fire arms, need to move out of their neighborhood and have modified recreational sites.

Usulutan and La Unión in an intermediate position, and the department of San Miguel exhibits the highest levels of changes in behavior.

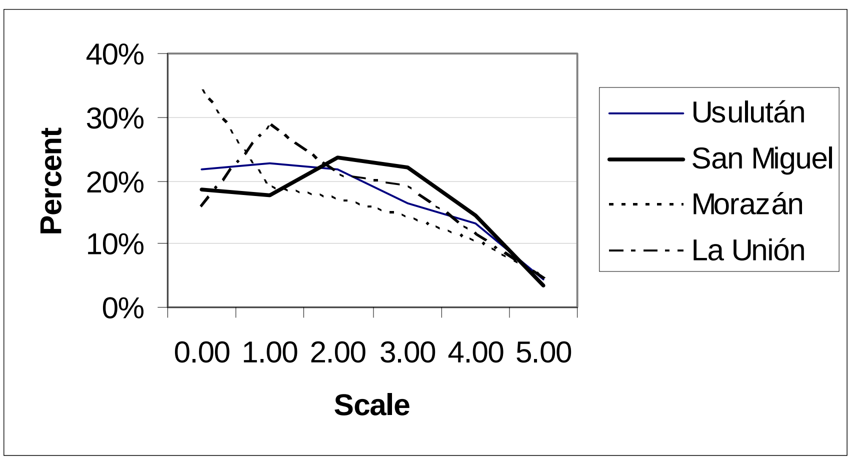
Table 17. Scale of Changes in Behavior Derived from Insecurity Perceptions, by Department in the Eastern Region

Scale	Department				Eastern Region
	Usulutan	San Miguel	Morazan	La Unión	
.00	48 (21.7%)	58 (18.6%)	36 (34.3%)	29 (15.8%)	171 (20.8%)
1.00	50 (22.6%)	55 (17.6%)	20 (19.0%)	53 (28.8%)	178 (21.7%)
2.00	48 (21.7%)	74 (23.7%)	18 (17.1%)	38 (20.7%)	178 (21.7%)
3.00	36 (16.3%)	69 (22.1%)	15 (14.3%)	35 (19.0%)	155 (18.9%)
4.00	29 (13.1%)	45 (14.4%)	11 (10.5%)	21 (11.4%)	106 (12.9%)
5.00	10 (4.5%)	11 (3.5%)	5 (4.8%)	8 (4.3%)	34 (4.1%)
Total	**221 (100.0%)**	**312 (100.0%)**	**105 (100.0%)**	**184 (100.0%)**	**822 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Figure 2 shows a more synthetic and graphic distribution of departments may be observed, according to the scale of changes in behavior derived from insecurity perceptions.

Figure 2. Scale of Changes in Behavior Derived from Insecurity Perceptions by Department in the Eastern Region



Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

The scale of changes in behavior derived from the insecurity perceptions ranges from zero to five. Table 18 showed a mean of 1.94 for all the Eastern Region: Morazan with the lowest level (1.63), followed by Usulutan (1.91), La Unión (1.95) and San Miguel (2.06) with the highest level.

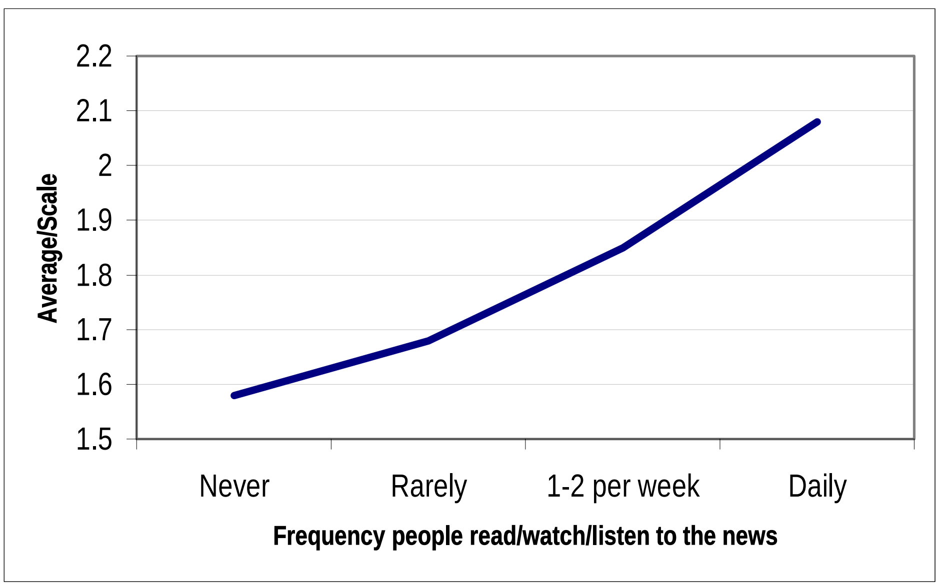
Table 18. Scale of Changes in Behavior Derived from Insecurity Perceptions by Department in the Eastern Region (Averages)

Department	Mean	N	Std Deviation
Usulután	1.9056	222	1.4847
San Miguel	2.0642	313	1.4238
Morazán	1.6293	106	1.5550
La Unión	1.9505	183	1.3963
Total	**1.9402**	**825**	**1.4560**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

An important element to be highlighted is the relationship that has been found for the Eastern Region, between the changes in behavior derived from the insecurity perceptions and the exposition to news in the media. In figure 3, it may clearly be observed that as the frequency in which people read/watch/listen to the news increases, the points in the scale of changes in behavior derived from the insecurity perceptions also increases.

Figure 3. Scale of Changes in Behaviors Derived from Insecurity Perception in the Eastern Region According to How Often People Read/Watch/Listen to News by Mass Media



Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

4.2 Victimization and Criminal Activities

At the moment of analyzing the public insecurity issue, consideration was given to the victimization suffered by citizens, because it is a relevant dimension for exploring the objective factors that have an impact on this phenomenon's social subjectivity. Therefore, it was decided to include in the questionnaire, a set of questions on the victimization and crime issue oriented to tap three aspects: (a) victimization, (b) reports on victimization acts, and (c) types of victimization.

4.2.1 Victimization

As it can be seen in Table 19, 16% of the households in the Eastern Region have been victims of some crimes in the last four months. This finding is consistent with the datum reported (15.7%) in another study carried out at a national level in 2001.[30]

Table 19. Victimization Reported[31] by Department in the Eastern Region

	Department				Eastern Region
	Usulutan	San Miguel	Morazan	La Unión	
Yes	35 (15.6%)	56 (17.9%)	14 (12.5%)	29 (15.5%)	134 (16.0%)
No	189 (84.4%)	257 (82.1%)	98 (87.5%)	158 (84.5%)	702 (84.0%)
Total	**224 (100.0%)**	**313 (100.0%)**	**112 (100.0%)**	**187 (100.0%)**	**836 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

According to the Eastern Region survey data, the highest rate of victimization is reported in the Department of San Miguel (17.9%), followed at an intermediate level by Usulutan (15.6%) and La Unión (15.5%), and Morazan (12.5%) with the lowest rate.

Another study carried out at a national level in 2001, points out that victimization due to criminal acts has tended to decline, going down from about 30% in 1993 to 15.7% in 2001.[32] In addition, this study indicates that criminal activity has tended to decline during the last years (decreasing of 13.71% between 2000 and 2001, and of 16.03% between 2001 and 2002), and at a more specific level, a declining trend in homicide rates has been identified (going from 62.5 in 1999, to 56.6 in 2000, to 56.1 in 2001 and to 49.5 in 2002). However, a relatively generalized perception of insecurity prevails. “The paradox we face is a generalized perception of insecurity, which apparently does not correspond to a low victimization rate".[33]

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30 FUDAUNGO e IUDOP. Encuesta sobre la percepción de la seguridad ciudadana a nivel nacional, municipal y zonal. Informe presentado al Ministerio de Gobernación y al Consejo Nacional de Seguridad Pública. San Salvador, Imprenta Nacional, agosto de 2002. Pág. 29.

31 It was asked: Have you or anyone living with you suffered or have been a victim of an attack or a crime during the last four months?

32 FUDAUNGO e IUDOP. Encuesta sobre la percepción de la seguridad ciudadana a nivel nacional, municipal y zonal. Informe presentado al Ministerio de Gobernación y al Consejo Nacional de Seguridad Pública. San Salvador, Imprenta Nacional, agosto de 2002. Pág. 29.

33 Ricardo Córdova Macías. “Percepción de inseguridad ciudadana”. La Prensa Gráfica, San Salvador, 12 de octubre de 2002.

Table 20 shows that in 40.3% of the criminal cases the victims have been the interviewed individuals themselves, while in 59% of the cases the victim was a family member. However, there are important differences at departmental level. In terms that it was the interviewees themselves who were the victims, Morazan exhibits the highest rate (50%), while San Miguel (44.6%) and La Unión (41.4%) occupy an intermediate position, and Usulutan exhibits the lowest rate (28.6%).

Table 20. Crime Victims[34] by Department in the Eastern Region

	Department				Eastern Region
	Usulutan	San Miguel	Morazan	La Unión	
Interviewed	10 (28.6%)	25 (44.6%)	7 (50.0%)	12 (41.4%)	54 (40.3%)
Family member	25 (71.4%)	30 (53.6%)	7 (50.0%)	17 (58.6%)	79 (59.0%)
All family	---	1 (1.8%)	---	---	1 (0.7%)
Total	**35 (100.0%)**	**56 (100.0%)**	**14 (100.0%)**	**29 (100.0%)**	**134 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

In relation to the place where the criminal act took place, Table 21 displays the main reported sites for the Eastern Region: city's downtown (23.9%), neighborhood (19.4%), household (17.2%), urban bus (14.9%), close to work (6%), close to school (3.7%) and on the road/street (3%). Other answers add up to 11.9%.

There are important differences among the different departments. San Miguel, in general terms shows the same trend as the region: city's downtown (23.2%), neighborhood (17.9%), household (19.6%), with an increase in the urban bus option (19.6%). The department of Usulutan shows a significant increase both in the city's downtown (31.4%) as well as in the neighborhood (22.9%); and a decrease in house unit (11.4%) and urban bus (8.6%). The department of La Unión shows an increase in road/street (6.9%) and close to work (10.3%), and a decrease in house unit (13.8%) and urban bus (6.9%). The department of Morazan shows an increase in street/road (7.1%), household (28.6%) and urban bus (28.6%), and a decrease in the city's downtown (7.1%) and neighborhood (14.3%).

[34] It was asked: Who was the attack or crime victim? Question 59 in the questionnaire.

Table 21. Crime Sites[35] by Department in the Eastern Region

	Department				Eastern Region
	Usulutan	San Miguel	Morazan	La Unión	
On the road/street	---	1 (1.8%)	1 (7.1%)	2 (6.9%)	4 (3.0%)
Household	4 (11.4%)	11 (19.6%)	4 (28.6%)	4 (13.8%)	23 (17.2%)
Neighborhood	8 (22.9%)	10 (17.9%)	2 (14.3%)	6 (20.7%)	26 (19.4%)
Close to work	---	5 (8.9%)	---	3 (10.3%)	8 (6.0%)
Close to school	1 (2.9%)	2 (3.6%)	1 (7.1%)	1 (3.4%)	5 (3.7%)
Urban bus	3 (8.6%)	11 (19.6%)	4 (28.6%)	2 (6.9%)	20 (14.9%)
City's downtown	11 (31.4%)	13 (23.2%)	1 (7.1%)	7 (24.1%)	32 (23.9%)
Other answers	3 (8.6%)	3 (5.4%)	---	2 (6.9%)	8 (6.0%)
In other cities of the country	5 (14.3%)	---	1 (7.1%)	2 (6.9%)	8 (6.0%)
Total	**35 (100.0%)**	**56 (100.0%)**	**14 (100.0%)**	**29 (100.0%)**	**134 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

4.2.2 Reports on victimization acts

It may be noted in table 22 that most of the victimization acts identified in the survey for the Eastern Region were not reported by the affected individuals, for only 34.8% were reported. The departments of La Unión, Usulutan and San Miguel basically follow this same behavior, while in the case of Morazan the rate of reports is much higher (64.3%).

Table 22. Criminal Act Report[36] by Department in the Eastern Region

		Department				Eastern Region
		Usulutan	San Miguel	Morazan	La Unión	
Did you or a family member report the facts?	No	24 (68.6%)	40 (70.2%)	5 (35.7%)	19 (65.5%)	88 (65.2%)
	Yes	11 (31.4%)	17 (29.8%)	9 (64.3%)	10 (34.5%)	47 (34.8%)
Total		**35 (100.0%)**	**57 (100.0%)**	**14 (100.0%)**	**29 (100.0%)**	**135 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

[35] It was asked: Where did it happen? Question 61 in the questionnaire.
[36] It was asked: Did you or a family member report the facts? Question 62 in the questionnaire.

Table 23 shows that most reports were submitted to the National Civil Police (89.2%), followed in a distant second place by the reports submitted to the Attorney General's Office (8.8%) and in third place the reports submitted to the courts (2.1%).

Table 23. Institutions to Which Criminal Acts Are Reported[37] by Department in the Eastern Region

Institution	Frequency	Percent	Valid percent	Cumulative percent
National Civil Police	41	4.9	89.2	89.2
Courts	1	0.1	2.1	91.2
Attorney General's Office	4	0.5	8.8	100.0
Total	46	5.5	100.0	
Missing	789	94.5		
Total	**835**	**100.0**		

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

A clear indicator of how little trust people have on the efficiency of the institutions in the public security and justice sectors is provided by the answers to the question on why criminal acts were not reported. In Table 24, it may be observed that from the inhabitants of the Eastern Region, 38.2% do not report crimes because they think that it is useless/worthless, 27% express that it is dangerous/out of fear/were menaced, 15.7% do not report crimes because they do not have evidence, 7.9% because the criminal act was not serious, 2.2% because they do not know how to make the report, 2.2% because there was not any authority officer nearby, 5.6% give other answers and 1.1% do not know/do not respond. There are differences among departments, out of two are highlighted. The answer that says that it is useless / worthless to report the facts represents a lower percentage for La Union (26.3%), and then an incremental trend is observed for San Miguel (36.6%), Usulutan (45.8%) and Morazan (60%). In the case of the answer that says that it is dangerous / out of fear that they do not report facts, departments follow this incremental trend: Morazan (20%), San Miguel (22%), Usulutan (29.2%) and La Unión (36.8%).

Table 24. Reasons Why Criminal Acts Are Not Reported[38] by Department in the Eastern Region

Reasons	Department				Eastern Region
	Usulután	San Miguel	Morazán	La Unión	
Useless/worthless	11 (45.8%	15 (36.6%)	3 (60.0%)	5 (26.3%)	34 (38.2%)
Dangerous/out of fear/were menaced	7 (29.2%)	9 (22.0%)	1 (20.0%)	7 (36.8%)	24 (27.0%)
Do not have evidence	2 (8.3%)	8 (19.5%)	---	4 (21.1%)	14 (15.7%)

[37] It was asked: To whom or what institution did you or a family member submit the report on the case? Question 63 in the questionnaire.
[38] It was asked: Why you did not report the case? Question 65 in the questionnaire.

Reasons	Department				Eastern Region
	Usulután	San Miguel	Morazán	La Unión	
Was not serious	1 (4.2%)	5 (12.2%)	---	1 (5.3%)	7 (7.9%)
Do not know how to make the report	---	1 (2.4%)	---	1 (5.3%)	2 (2.2%)
There was not any authority officer nearby	1 (4.2%)	1 (2.4%)	---	---	2 (2.2%)
Other answers	2 (8.3%)	2 (4.9%)	---	1 (5.3%)	5 (5.6%)
Do not know/do not respond	---	---	1 (20.0%)	---	1 (1.1%)
Total	**24 (100.0%)**	**41 (100.0%)**	**5 (100.0%)**	**19 (100.0%)**	**89 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

4.2.3 Types of victimization

A set of questions was included in the questionnaire to determine whether during the last twelve months, the respondent had been victim of specific crimes. The results are displayed in Table 25. In the Eastern Region of the country, 9.12% has had a vehicle robbed, 8.9% has been armed robbed, 8.8% has had their house robbed, 8.2% has been menaced with death, 3.8% has had a family member or a person living in the household murdered, 1.2% has been kidnapped (on a relative) and 0.5% has been injured with a fire arm.

Table 25. Types of Victimization[39] in the Eastern Region

Vehicle robbed	9.12%
Armed robbed	8.9%
House robbed	8.8%
Menace with death	8.2%
A family member or a person living in the household murdered	3.8%
Kidnapped (on a relative)	1.2%
Injured with a fire arm	0.5%

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

4.3 Evaluation of the Justice Institutions and Public Security Sectors

A set of questions directed to measure three aspects was included: (a) equality before the law, (b) trust in the institutions of the public security and justice sectors, and (c) an evaluation on the work carried out by the National Civil Police.

[39] It was asked: Please, think in what happened during the last twelve months to answer the following questions. Questions 66, 67, 68, 69, 70, 71 and 72 in the questionnaire.

4.3.1 Equality before the law

Interviewees were asked: Do you believe that in practice all citizens are equal before the law?[40] Answers collected in Table 26 show that, in general terms there is little trust in citizens' equality before the law. 67.1% of the inhabitants of the Eastern Region think that there is no equality before the law. These opinions vary by department: 55.1% of individuals interviewed in La Unión think that there is no equality, 62.5% in Morazan, 69.5% in Usulutan and 74.1% in San Miguel.

Table 26. Equality before the Law, by Department of the Eastern Region

	Department				Eastern Region
	Usulután	San Miguel	Morazán	La Unión	
Yes	65 (29.1%)	81 (25.9%)	37 (33.0%)	82 (43.9%)	265 (31.7%)
No	155 (69.5%)	232 (74.1%)	70 (62.5%)	103 (55.1%)	560 (67.1%)
Do not know/do not respond	3 (1.3%)	---	5 (4.5%)	2 (1.1%)	10 (1.2%)
Total	**223 (100.0%)**	**313 (100.0%)**	**112 (100.0%)**	**187 (100.0%)**	**835 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

4.3.2 Trust in the justice institutions and public security sectors

Figure 4 shows how much trust the inhabitants of the Eastern Region have in the institutions of the public security and justice sectors.

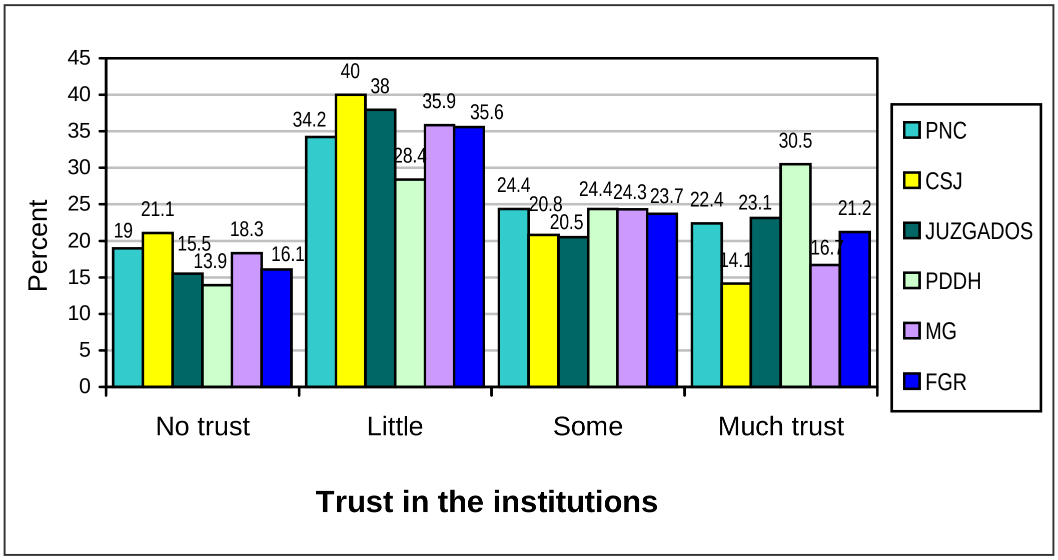
Questions were asked[41] based upon a scale that starts with no trust (1), little trust (2), some trust (3) and much trust (4), which means that answers range between 1 (nothing) and 4 (much). Table 27 shows averages in each of the departments in the Eastern Region for the six analyzed institutions, which basically range between little and some trust.

Trust in the National Civil Police (PNC) in the Eastern Region exhibits an average of 2.50, and the departments are distributed as follows: La Unión (2.46), San Miguel (2.48), Usulutan (2.54) and Morazan (2.56).

The Supreme Court of Justice (CSJ in Spanish) exhibits an average of 2.57 for the Eastern Region, and the departments are distributed as follows: San Miguel (2.32), Usulutan (2.57), La Unión (2.71) and Morazan (3.01).

[40] Question 54 in the questionnaire.
[41] Questions 31, 34, 35, 37, 38 and 40 in the questionnaire.

Figure 4. Trust in Justice Institutions and Public Security Sector in the Eastern Region



Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Table 27. Scale Averages of Trust in Justice Institutions and Public Security Sector by Department in the Eastern Region

Institution	Department												Eastern Region		
	Usulutan			San Miguel			Morazan			La Unión					
	Mean	N	Std. D.	Mean	N	Std. D.	Mean	N	Std. D.	Mean	N	Std. D.	Mean	N	Std. D.
National Civil Police	2.54	223	1.03	2.48	312	1.04	2.56	109	0.93	2.46	185	1.11	2.50	830	1.04
Supreme Court of Justice	2.57	223	1.65	2.32	313	1.32	3.01	112	2.09	2.71	187	1.75	2.57	835	1.64
Ombudsman (PDDH)	2.91	223	1.46	2.73	313	1.26	3.21	112	1.69	3.04	187	1.61	2.91	835	1.47
Ministry of the Interior	2.67	223	1.75	2.56	313	1.39	2.93	112	1.97	2.99	187	1.97	2.74	835	1.72
Attorney General's Office	2.72	223	1.64	2.48	313	1.16	3.02	112	1.65	3.06	187	1.89	2.75	835	1.56
Courts	2.59	223	1.37	2.56	313	1.23	2.94	112	1.69	3.01	187	1.82	2.72	835	1.49

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Ombudsman (Procuraduría para la Defensa de los Derechos Humanos PDDH in Spanish) exhibits an average of 2.91 for the Eastern Region, and the departments are distributed as follows: San Miguel (2.73), Usulutan (2.91), La Unión (3.04) and Morazan (3.21).

The Ministry of the Interior (MG in Spanish) exhibits an average of 2.74 for the Eastern Region, and the departments are distributed as follows: San Miguel (2.56), Usulutan (2.67), Morazan (2.93) and La Unión (2.99).

The Attorney General's Office (FGR in Spanish) exhibits an average of 2.75 for the Eastern Region, and the departments are distributed as follows: San Miguel (2.48), Usulutan (2.72), Morazan (3.02) and La Unión (3.06).

Trust in courts exhibits an average of 2.72 for the Eastern Region, and the departments are distributed as follows: San Miguel (2.56), Usulutan (2.59), Morazan (2.94) and La Unión (3.01).

In reviewing each department's opinions with regard to the six institutions, the information can be organized from less to greater level of trust. In Usulutan: PNC (2.54), CSJ (2.57), Courts (2.59), MG (2.67), FGR (2.72) and PDDH (2.91). In San Miguel: CSJ (2.32), FGR (2.48), PNC (2.48), MG (2.56), Courts (2.56) and PDDH (2.73). In Morazan: PNC (2.56), MG (2.93), courts (2.94), CSJ (3.01), FGR (3.02) and PDDH (3.21). In La Unión: PNC (2.46), CSJ (2.71), MG (2.99), courts (3.01), PDDH (3.04) and FGR (3.06).

In organizing the six institutions according to the average for the Eastern Region, from lower to higher level of trust, the following order is derived: the PNC with the lowest level (2.50), CSJ (2.57), courts (2.72), MG (2.74), FGR (2.75) and PDDH (2.91).

Using two questions focused to measuring the efficacy of the public security and justice sectors, Figure 5[42] for the Eastern Region has been developed, where a better assessment of police efficacy is observed for to apprehending offenders and criminals, compared to justice system's capacity to judge and punish offenders and criminals.

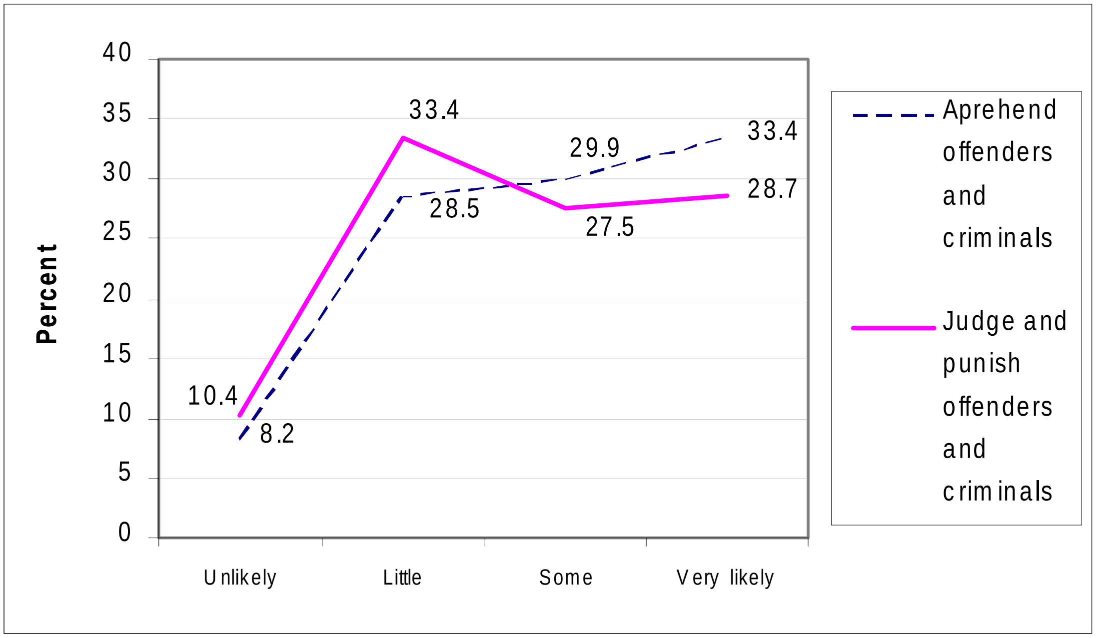
4.3.3 Evaluation of PNC performance

Questions directed to evaluating the National Civil Police's performance in the country's Eastern Region were included in the survey, focusing on three basic public security's aspects: protecting citizens, apprehending offenders and criminals and arriving to the site whenever called.[43]

Survey results in relation to these three PNC's areas of performance in the Eastern Region, exhibit a positive evaluation, as shown in Table 28. In relation to citizen protection, 12.7% evaluated PNC's performance as regular, 54.9% as good and 15.1% as very good; while in relation to offenders apprehension, 10.3% evaluated them as regular, 52.3% as good and 11.7% as very good; and in relation to when-they-are-called answer, the answers selecting regular was 8%, as good at 42.6% and as very good at 13.7%. Comparatively, it may be pointed out that PNC's performance for citizen protection is the best evaluated, followed by offenders and criminals apprehension and the answer when the PNC is called is worst evaluated.

[42] It was asked: In your opinion, how likely is it that an offender or criminal be apprehended by the police in this country? And how likely is it that an offender or criminal be judged and punished by the justice system in this country? Questions 53 and 55 in the questionnaire.

Figure 5. Efficacy of Justice and Public Security Sectors in the Eastern Region



Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Table 28. Evaluation of PNC's Performance in the Eastern Region

	Protecting citizens	Apprehending offenders and criminals	Arriving to the site whenever called
Very bad	34 (4.1%)	29 (3.5%)	72 (8.6%)
Bad	109 (13.1%)	172 (20.6%)	208 (25%)
Regular	106 (12.7%)	86 (10.3%)	67 (8%)
Good	457 (54.9%)	437 (52.3%)	355 (42.6%)
Very good	126 (15.1%)	98 (11.7%)	114 (13.7%)
Do not know/do not respond	---	13 (1.6%)	17 (2%)
Total	**832 (100.0%)**	**835 (100.0%)**	**833 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

Lastly, a question regarding the existence of a PNC's police post in the interviewees' neighborhood was included.[44] Table 29 shows that only 28.9% of the neighborhoods inhabited

[43] Questions 73, 74 and 75 in the questionnaire.
[44] Question 76 in the questionnaire.

by the Eastern Region interviewees have a police post. Presence is lower in the department of Usulutan (18.8%), followed by Morazan (29.5%), San Miguel (30.7%) and La Unión (37.6%).

Table 29. Number of PNC Police Posts by Department of the Eastern Region

	Department				Eastern Region
	Usulutan	San Miguel	Morazan	La Unión	
No	181 (80.8%)	215 (68.7%)	77 (68.8%)	113 (60.8%)	586 (70.2%)
Yes	42 (18.8%)	96 (30.7%)	33 (29.5%)	70 (37.6%)	241 (28.9%)
Do not know/do not respond	1 (0.4%)	2 (0.6%)	2 (1.8%)	3 (1.6%)	8 (1.0%)
Total	**224 (100.0%)**	**313 (100.0%)**	**112 (100.0%)**	**186 (100.0%)**	**835 (100.0%)**

Source: Encuesta sobre la seguridad ciudadana en la Región Oriental del país, 2003.

5. Final Comments

This last chapter presents a summary of the main aspects described in this report organized into three sections: (a) general aspects, (b) perceptions of the business sector in the Eastern Region on the issue of public insecurity, and (c) perceptions on public insecurity in the Eastern Region.

5.1 General Comments

1. During the last decades an important transformation of the violence phenomenon in El Salvador has been produced, warlike violence having been replaced by criminal violence.

2. The lack of reliable figures has made it difficult to obtain data that serve as a basis to understand the magnitude of the problem, and specially to create comparable data series that make it possible to analyze the evolution of the crime phenomenon in El Salvador.

3. Curiously, during the post-war period, El Salvador has placed itself as one of the most violent countries in the continent.

4. At present, criminal activity represents a problem of particular relevance and seriousness in our country, which poses a deep impact on national life. It has been estimated that, for the year 1995, El Salvador spent over $700 million dollars as a result of violence, a figure that

"represents more than 13% of the GDP and more than twice the economic growth experienced for that same year.[45]

5. The criminal activity problem has become enrooted in the public's subjective perceptions as one of the main problems in the country, such as exhibited by public opinion surveys.

6. As a result of the criminal activity boom in the country and the justice system's inefficiency, a feeling of insecurity has gradually become generalized within society.

7. Table 6 demonstrates the wide amount and variety of crimes reported by the PNC for the period 2000-2003. In the year 2000 an average of 168.6 crimes were committed on a daily basis, for the year 2001 the average was 145.5, for the year 2002 the average was 122.2 and for the period comprised between January and May 2003 an average of 103.8 crimes were committed daily.
   The data reported by the PNC for the period 2000-2003 reveal a recent declining trend in criminal activity. Between 2000 and 2001, there is a decline of 13.71% and a decline of 16.03% for the period 2001-2002.

8. The Eastern Region is not the area with the greatest criminal activity in the country; criminal activity is rather concentrated in the central and western areas of the country. The Eastern Region represents an average of 18.27% of the total number of crimes committed in the whole country, for the entire mentioned period. Naturally, this figure varies depending on the type of crime, for example, the Eastern Region represents a very low percentage of the total number of vehicles robbed (3.27%) or stolen (6.66%); but the percentage is higher than the average, in the case of intrafamily violence (20.09%), rapes (21.65%), injuries (22.42%), extortions (22.47%), negligent homicide (22.71%), in other crimes (24.06%), in damages (25.80%), in menaces (26.15%), and homicide attempts (100%).
   With regard to departments' performance, San Miguel occupies the place with the highest level of criminal activity in the Eastern Region (37.34%), followed by Usulutan (29.06%), La Unión (18.70%) and Morazan (14.89%). In the case of San Miguel, the 11,934 crimes committed during the period 2000-2003 represent 6.82% of the total crimes committed during the same period in the whole country.

9. The study focuses its attention on the evolution observed in two relevant crimes: homicides and crimes with violence exertion.

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[45] José Miguel Cruz, Luis Armando González, Luis Ernesto Romano y Elvio Sisti. "De la guerra al delito: evolución de la violencia en El Salvador". En: Juan Luis Londoño, Alejandro Gaviria y Rodrigo Guerrero (editores). Asalto al desarrollo. Violencia en América Latina. Washington DC, Banco Interamericano de Desarrollo, 2000. Pág. 199.

With regard to homicides, there are four basic primary sources that differ in their results due to the fact that they use different methodologies to collect information: the National Civil Police, the General Attorney's Office, the Institute of Legal Medicine and the Census and Statistics Head Office. Differences among the two main sources of information are pointed out: the FGR reported rates of 62.5 for 1999 and 56.6 for 2000, and the PNC reported rates of 36.9 for 1999 and 37.3 for 2000, per each 100,000 inhabitants.

At a national level, the average homicide rate for 1999 was 62.5 and for 2000 it was 56.6. The department with the highest homicide rate for the year 1999 was Santa Ana (117.5) and for the year 2000 was San Vicente (86.3). For the period 1999-2000, the department with the highest rate of homicides, out of the departments in the Eastern Region, was Usulutan (83.2 and 65.6), followed by La Unión (64 and 62.6), San Miguel (41.8 and 53.5) and Morazan (34.2 and 31.1).

10. Based upon the information provided by the General Attorney's Office, homicide rates for the period 1998-2002 have been calculated in the study. It may be observed that the year 1999 was the period with the highest homicide rate of 62.5, with a declining trend: 56.6 in 2000, 56.1 in 2001 and 49.5 in 2002.

11. At a national level, according to the FGR, crime rates with violence exertion in 1999 exhibited an average of 50.8 and 49.9 for 2000. The department with the highest rate of crimes with violence exertion was San Salvador (66.7 in 1999 and 65.6 in 2000). The department with the highest rate of crimes with violence exertion in the Eastern Region, for the period 1999-2000, was San Miguel (40 and 40.6), followed by Morazan (41 and 34), Usulutan (31.2 and 33.5), and La Unión (30.1 and 31.9).

5.2 Perceptions of Public Safety by the Business Sector in the Eastern Region

1. Criminal activity is reported as one of the main problems faced by the businesspeople in the Eastern Region. Participants in the focus groups say "the main problem I see is crime", "crime situation in the rural area is serious, livestock is being stolen", or "this crime problem is huge".

2. One of the impacts of criminal activity is that it generates a feeling of insecurity within society, but for businesspeople it poses another devastating effect: “criminal activity destroys enterprising attitudes". One of the participants points out that “one thing is for real here, and that is crime, which is killing us; someone starts an entrepreneurial activity and criminal action wipes it out". Another participant expresses that "the situation here is quite sensitive and it is extinguishing enterprising spirit".

3. Even though criminal activity is seen as a core problem, several of the participants pointed out that “different sectors are affected differently”, depending on their economic activity and geographical location. Businesspeople participating in the focus groups state that the situation is more difficult in Usulutan, but less extreme in San Miguel, better in La Unión and less serious in Morazan. They highlight that there is greater insecurity in rural areas than in the cities, though there are no major differences in Usulutan.

4. One of the impacts crime wave has had over businesses is that their costs have increased with the need to hire private security agents or their own watchmen.

5. Businesspeople in this area have somehow learned to live with insecurity. They, however, think that the current situation is worse than the time during the war, due to the level of insecurity and fear that it represents, because at that time, insecurity generator factors were identified.

6. Participants in the focus groups express little trust on the work carried out by the National Civil Police in the Eastern Region. One of the participants pointed out: “the truth is that police's work is not efficient”, while another one stated: “they have corruption problems, therefore they do not offer guarantees to trust their members”.

7. In this atmosphere of insecurity and little trust in the PNC's work, the opinions on the fear to report crimes should be highlighted: "there are many people who do not trust them; who knows what problem I am going to get into if I speak”, they comment.

8. Likewise, the Judicial System is valued as being little efficient. People comment that the police takes longer to arrest suspects, than suspects to be left free a few hours or days later. No sign of positive change is granted to the judicial system, but it is rather discredited as linked to corruption, influencing trafficking, partnership in crime, lack of capacity, ethics, and proper professional training.

9. This perception of inefficiency in the justice sector reinforces people's fear to report criminal acts. One of the participants pointed out: "The justice system is not functional... people who steal or rob are already identified, they apprehend them, a month later they are set free, why would anyone want to complicate their live gaining enemies?".

5.3 Perceptions of Insecurity in the Eastern Region

1. Inhabitants in the Eastern Region identify criminal/felony activity as the main problem of the country (27%). This problem is indicated by 30% of the interviewed individuals in

Usulutan, 27.7% in Morazan, 25.6% in San Miguel and 25.3% in La Unión.

2. These data coincide, in general terms, with other recent national surveys, in that they classify economy-related problems as priority number one (51.8%), and crime-related and insecurity-related problems as priority number two (32.6%).

3. According to the insecurity scale used (in a 1 to 10 format), there is a perception of relative insecurity with an average of 5.10 for the Eastern Region. A datum that must be taken into consideration is that practically two out of ten people feel totally insecure.

4. Practically, half of the residents of the Eastern Region that were interviewed have admitted that they have had to modify their regular behavior as a result of a feeling of insecurity: 57.4% have limited the places where they purchase, 46.9% have avoided going to or visiting recreational sites, 42.6% would like to move to closed residential areas, 26.8% have felt the need to move out of their neighborhood or community and 16.4% have considered the possibility of acquiring fire arms.
   Even though 57.4% of individuals interviewed in the Eastern Region have limited the places where they purchase, behaviors vary at departmental level: 64% in La Unión, 57.8% in San Miguel, 53.6% in Morazan and 53.4% in Usulutan.

5. According to the scale of changes in behavior derived from the insecurity perceptions in the country's Eastern Region, 21% has not implemented any type of change, 22% have made changes in, at least, one of the five analyzed dimensions, 22% have made changes in two dimensions, 19% in three dimensions, 13% in four dimensions and only 4% in the five dimensions.
   The scale of changes in behavior derived from the insecurity perceptions ranges from zero to five, with mean of 1.94, for all the Eastern Region. The Department of Morazán exhibits the lowest levels of changes in behavior (1.63), followed by Usulután (1.91), La Unión (1.95) in an intermediate position, and the department of San Miguel (2.06) exhibits the highest levels of changes in behavior.

6. 16% of the households in the Eastern Region have been victims of some crime in the last four months. This finding is consistent with the datum reported (15.7%) in another study carried out at a national level in 2001.

7. Another study carried out at a national level in 2001, points out that victimization due to criminal acts has tended to decline, going down from about 30% in 1993 to 15.7% in 2001. In addition, this study indicates that criminal activity has tended to decline during the last years (decreasing of 13.71% between 2000 and 2001, and of 16.03% between 2001 and 2002), and at a more specific level, a declining trend in homicide rates has been identified

(going from 62.5 in 1999, to 56.6 in 2000, to 56.1 in 2001 and to 49.5 in 2002). However, a relatively generalized perception of insecurity prevails, which, in general, apparently does not correspond to a low victimization rate or to a declining trend of criminal activity.

8. 40.3% of crime victims have been the interviewed individuals themselves, while in 59% of the cases the victim was a family member.

9. The main reported sites where crimes take place in the Eastern Region are: city's downtown (23.9%), neighborhood (19.4%), household (17.2%), urban bus (14.9%), close to work (6%), close to school (3.7%) and on the road/street (3%).

10. Most of the victimization acts identified in the survey for the Eastern Region were not reported by the affected individuals, for only 34.8% were reported. An indicator of how little trust people have on the efficiency of the institutions of public security and justice sectors, is provided by the answers to the question on why criminal acts were not reported in the Eastern Region: 38.2% think that it is useless/worthless to report crimes, 27% express that it is dangerous/out of fear/were menaced, 15.7% because they do not have evidence, 7.9% because the criminal act was not serious, 2.2% because they do not know how to make the report, 2.2% because there was not any authority officer nearby, 5.6% give other answers and 1.1% do not know/do not respond.

11. With respect to the type of victimization, 9.12% of Eastern Region inhabitants has had a vehicle robbed, 8.9% has been armed robbed, 8.8% has had their house robbed, 8.2% has been menaced with death, 3.8% has had a family member or a person living in the household murdered, 1.2% has been kidnapped (or a relative) and 0.5% has been injured with a fire arm.

12. There is little trust in citizens' equality before the law. 67.1% of the inhabitants of the Eastern Region thinks that there is no equality before the law. These opinions vary per department: this is how 55.1% of individuals think in La Unión, 62.5% in Morazán, 69.5% in Usulután and 74.1% in San Miguel.

13. With regard to the trust that the Eastern Region inhabitants have in the institutions of the public security and justice sectors, the PNC exhibits the lowest level, followed by the Supreme Court of Justice, the courts, the Ministry of the Interior, the Attorney's General Office, while the Ombudsman (PDDH) exhibits the highest level of trust.

14. There is a better assessment in favor of police efficacy to apprehend offenders and criminals, compared to the trust that the respondents have in the justice system's capacity to judge and punish offenders and criminals.

15. PNC's performance for citizen protection is the best evaluated, followed by offenders and criminals apprehension, and the answer when the PNC is called is worst evaluated.

16. Only 28.9% of the neighborhoods inhabited by the Eastern Region interviewees have a police post. Presence is lower in the department of Usulutan (18.8%), followed by Morazán (29.5%), San Miguel (30.7%) and La Unión (37.6%).

Final Report
Volume 5
Survey Report

Survey 7

Survey on Existing Enterprises in El Salvador

The Study on Economic Development, Focusing on the Eastern Region, of the Republic of El Salvador

Final Report
Volume 5: Survey Report
Survey 7: Survey on Existing Enterprises in El Salvador

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SURVEY 7: SURVEY ON EXISTING ENTERPRISES IN EL SALVADOR

1. Characteristics of the Enterprises Surveyed

1.1 Locations and Sizes of Enterprises

The questionnaire included a total of 203 enterprises selected from company registrations in the headquarters of the Statistics and Census (DIGESTYC). The sizes and locations of the enterprises are shown in Table 1.1.

The enterprises are distributed in the territory of El Salvador, with 14% in the Western Region, 49% in the Central Region, and 37% in the Eastern region. Among the enterprises, 8.9% are large-scale enterprises, 7.9% are medium, 19.3% are small, and 63.9% are micro-scale. These scales are defined as "large" for employees of more than 100, "medium" between 51 and 100, "small" between 11 and 50 and "micro" between 1 and 10.

The enterprises are categorized into four sub-sectors. The survey includes 56 enterprises (27.5%) selected from the food processing industry including beverages and oil, 49 enterprises (24.1%) from the textile and leather industry, 22 enterprises (10.9%) from the wood and palm products industry, 49 enterprises (24.2%) from jewelry, paper, and chemical industries 27 enterprises (13.3%) 27 enterprises (13.3%) from the machinery and equipment industry, and 49 enterprises (24.2%) from other industries.

Table 1.1. Composition of Number of Enterprises Surveyed

Industrial category		Region Western	 Central	 Eastern	Total	
Food processing	Large/Medium		11	6	17	(8.3%)
	Small/Micro	4	18	17	39	(19.2%)
Textile & leather	Large/Medium	1	2	1	4	(2.0%)
	Small/Micro	6	26	13	45	(22.1%)
Wood products	Large/Medium	0	4	0	4	(2.0%)
	Small/Micro	4	6	8	18	(8.9%)
Machinery & Equipment	Large/Medium	1	4	0	5	(2.5%)
	Small/Micro	6	10	6	22	(10.8%)
Others	Large/Medium	1	4	0	5	(2.5%)
	Small/Micro	5	14	25	44	(21.7%)
Total		28 (14%)	99 (49%)	76 (37%)	203	(100.0%)

1.2 Years in Business

The majority of the enterprises (54%) have been in business for at least 13 years, and 35% of the enterprises were founded in the 1990's. The remaining 11% of the enterprises were founded in the past 3 years (2000's). It is remarkable that 14.7% of the micro-scale enterprises were founded in the 2000's. These new establishments cover all the sub-sectors.

1.3 Capital and Share Holders

Although capital is one of the most basic factors for corporate management, half of the enterprises (47%) decline to report their capital, and some of the enterprises surveyed seem to have reported amounts that do not reflect the exact investment.

The survey results indicate that about 60% of the enterprises replied have capital of US$ 4,000 or less, and these enterprises may be classified as micro-enterprises. The percentage of micro- enterprises in the Western and Eastern Regions is high compared with the Central Region. Large-scale enterprises with capital of more than US$ 500,000 are mainly located in the Central Region and are not included in the Eastern Region. The business activities in the Western and Eastern Regions largely rely on the micro and small enterprises.

The enterprises in the food industry cover all the scales from micro to large. The majority of enterprises in other sub-sectors are micro and small-scale.

Table 1.2.a Number of Enterprises by Capital and Region

Capital (US$)	Region: Western		Central		Eastern		Total	
Sample size	28	(100.0%)	99	(100.0%)	76	(100.0%)	203	(100.0%)
499 or less	6	(21.4%)	9	(9.1%)	12	(15.8%)	27	(13.3%)
500-4,999	7	(25.0%)	16	(16.2%)	16	(21.1%)	39	(19.1%)
5,000-49,999	1	(3.6%)	10	(10.1%)	6	(7.9%)	17	(8.4%)
50,000-499,999	0	-	10	(10.1%)	2	(2.6%)	12	(5.9%)
500,000-999,999	1	(3.6%)	5	(5.1%)	0	-	6	(3.0%)
1,000,000 or more	2	(7.1%)	4	(4.0%)	0	-	6	(3.0%)
Missing Value	11	(39.3%)	45	(45.5%)	40	(52.6%)	96	(47.3%)

Table 1.2.b Percentage of Enterprises by Capital and Sub-sector

Capital (US$)	Food	Textile	Wood	Machine	Others	Total
Sample size	54	49	22	24	54	203
499 or less	9.3%	18.4%	13.6%	12.5%	13.0%	13.3%
500-4,999	9.3%	22.4%	9.1%	20.8%	29.6%	19.1%
5,000-49,999	11.1%	8.2%	9.1%	4.2%	7.4%	8.4%
50,000-499,999	9.3%	2.0%	9.1%	8.3%	3.7%	5.9%
500,000-999,999	1.9%	2.0%	4.5%	0.0%	5.6%	3.0%
1,000,000 or more	3.7%	0.0%	0.0%	8.3%	3.7%	3.0%
Missing Value	55.4%	47.0%	54.6%	45.9%	37.0%	47.3%

The majority of the enterprises surveyed have 100% local shareholders. There are three enterprises that are 100% owned by foreign investments, two food-processing companies and one machinery company. Two are located in the Central Region and the third is in the Eastern Region. Three companies that are 51% foreign owned or greater are located in the Central Region.

Table 1.3.a Number of Enterprises by Share Holder and Region

Share holder	Region Western	Central	Eastern	Total
Sample size	28	97	75	200
100% foreign	0	2	1	3
Foreign majority	0	3	0	3
Local majority	1	0	0	1
100% local	27	92	74	193

Table 1.3.b Number of Enterprises by Share Holder and Scale

Share holder	Scale Micro	Small	Medium	Large	Total
Sample size	127	39	16	18	200
100% foreign	1	1	1	0	3
Foreign majority	0	1	0	2	3
Local majority	0	0	0	1	1
100% local	126	37	15	15	193

Table 1.3.c Capital of Enterprises Surveyed by Sub-sector

Share holder	Production Category Food	Textile	Wood	Machine	Others	Total
Sample size	53	48	21	24	54	200
100% foreign	2	0	0	1	0	3
Foreign majority	0	1	0	1	1	3
Local majority	0	0	0	1	0	1
100% local	51	47	21	21	53	193

1.4 Employment

Table 1.4.a shows the average number of employees. The average numbers of employees are 51.1 persons in the Western Region, 57.8 persons in the Central Region and 14.9 persons in the Eastern Region. As the enterprises were selected at random, these figures do not reflect the exact situation. It shows that the majority of economy in the Eastern Region is based on small business.

According to the survey, the average numbers of employees are 4.3 for micro-scale business, 24.2 for small, 64.4 for medium, and 316.9 for large-scale.

On average, management staff accounts for 15% of the total number of employees in small companies, 13% in medium companies, and 17% in large companies. For the micro-scale companies, the average number of management staff is 0.9, demonstrating that some micro-scale companies do not have staff solely working in management.

The 196 enterprises reported on the educational background of their employees. On average, 5.2% of the employees are university or college graduates and 8.3% have had vocational education. About 80% of the employees are primary and junior high school graduates. The enterprises in the Central Region have higher educational standards than other regions. In the Central Region, 6% of the employees are university graduates and 3.3% and 3.7% in the Western and Eastern Regions. Seventy-nine percent (79%) of the university graduates and 63% of the vocational institution graduates work in the Central Region, because more job opportunities are available there.

There is not a major difference found in percentages of university graduates between companies according to their sizes, which was, for instance, 4.5% for micro-scale and 5.0% for large-scale. This may show that university graduates have opportunities to establish small business in El Salvador.

Of the 196 enterprises, 18 large-scale enterprises employ 69% of the total labor force, 66% of university graduates, 79% of vocational institution and high school graduates, and 59% of those with primary school education. It is necessary to revitalize the small and micro-enterprises in order to create more job opportunities, especially in the Eastern and Western regions.

Table 1.4.a Average Numbers of Employee

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
Company Number	28	98	76	129	39	16	18	202
Management stuff	13.8	8.8	1.6	0.9	3.7	8.3	54.6	6.8
Technical stuff	37.3	49.0	13.3	3.4	20.5	56.1	262.3	33.9
Total employees	51.1	57.8	14.9	4.3	24.2	64.4	316.9	40.7

Table 1.4.b Percentage of Employees by Educational Background (Unit:%)

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
Company Number	28	97	71	124	38	16	18	196
University	3.3	6.0	3.7	4.5	5.8	6.4	5.0	5.2
Vocational institute	8.6	7.6	11.4	3.4	7.4	5.4	9.5	8.3
High school	17.3	45.9	32.7	27.2	22.0	32.1	44.3	39.1
Primary school	52.6	34.8	36.9	56.2	48.4	50.4	32.5	38.2
Others	18.2	5.7	15.3	8.7	16.4	5.7	8.7	9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The employees continue to work at one company for 6.7 year on average, 7.4 years in the Central Region and 5.9 years in other regions. Employees work longer for large-scale companies. The average years of service for the micro companies is 5.9 years. This means that employees of the micro enterprises have difficulty accumulating production technology.

Table 1.5. Average Years of Service (Unit: years)

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
Total	5.9	7.4	5.9	5.9	7.4	7.1	8.9	6.7

Table 1.6 shows the average wages paid to employees. Employees receive the highest wages in the Central Region and the lowest in the Western Region except for management staff. According to the company scale, the best wages are paid in the large-scale enterprises and the lowest in the small-scale enterprises. It is important to note that wages in micro-scale enterprises such as household industries may reflect mostly the owner's income and are not paid to family employees.

Table 1.7 shows the lowest salaries in selected countries in 2001 for reference.

Table 1.6. Averaged Monthly Wages (Unit: US$)

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
Company Number	28	97	71	124	38	16	18	196
Management	371	535	414	350	343	757	906	474
Technician	294	348	253	242	294	348	465	319
Operator	185	191	158	173	166	194	218	179

Table 1.7. Lowest Salaries in surrounding countries in 2001 (Unit: US$ per month)

Costa Rica	318	Honduras	94
Rep. Dominica	154	Guatemala	92
El Salvador	144	Nicaragua	47
South Mexico	109-116		

1.5 Conditions of Major Equipment and Machinery

Table 1.8 shows the origins of major equipment and machinery owned by enterprises, 65% is reported as imported, and the remaining 35% is reported as local origin. Some equipment with high technology levels was imported from around the world. Low-level technological machinery was mainly imported from Latin American countries or is of local origin.

The major equipment and machineries have been used for 8.6 years on average. Judging from the interviews, they are maintained comparatively well.

Table 1.8. Origin of Major Equipment (Unit:%)

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
No. of Equipment	26	127	35	10	88	39	51	188
Local	23.1	29.9	62.9	40.0	53.4	30.8	5.9	35.1
Imported	76.9	70.1	37.1	60.0	46.6	69.2	94.1	64.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 1.9. Averaged Years of Major Equipment since Purchased

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
No. of Equipment	24	107	33	10	80	30	44	164
Year of Service	6.6	9.5	7.3	5.9	9.5	10.1	6.6	8.6

2. Sales and Procurement

2.1 Annual Sales and Profit

The average annual sales amounts by region and company scale show an overall decline in 1999 (Table 2.1). Coffee and sugar prices started to decline greatly in the world market during that period. In addition, privatization has finished and hurricane Mitch hit El Salvador in 1998. The rural areas were hard hit by the recession with the average sales reduced to 40% of the previous year in the Western Region and 25% in the Eastern Region. For reference, Table 2.1 shows the profitability in 2001, in terms of the percentage of profit against average sales.

Figure 2.1. Percentage of Averaged Annual Sales by Region (Previous year=100%)

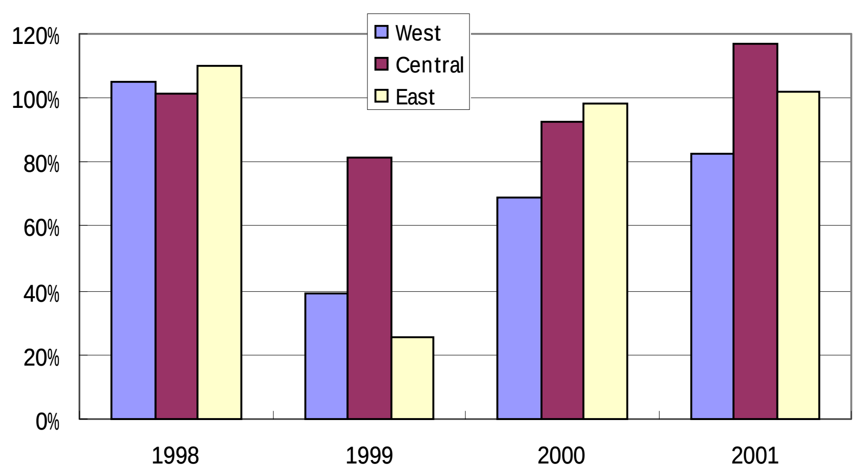


Table 2.1. Percentages of Profit against Sales in 2001 (Unit:%)

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
Profitability (%)	10.1	8.9	11.5	27.4	4.4	7.4	9.3	9.1
	Sub-sector							
	Food	Textile	Wood	Machine	Others			
Profitability (%)	9.4	3.2	8.8	9.7	15.1			

According the report on SMEs (“small” and “micro” enterprises) conducted by FUNDES International, the enterprises reported the decrease in their sales was attributed to the reduction of purchasing capacity of the population (64%), increasing competition with large companies (39%), supply of goods and services from the informal sectors (19%), increase in supply of goods and services from other SMEs (14%), increase in the supply of imported products (12%), and unfair competition (6%). These factors are grouped into two types, which are changes of government policy on industry such as liberalization and import tax reduction, and unfair competition such as businesses in the informal sector and smuggled goods from surrounding countries that lead enterprises into severe competition in the domestic market.

2.2 Major Products and Markets

Appendixes 1 show major products by sales zones and export products by destination. The major products and their markets are mentioned below.

(a) Food processing industry

The food processing industry is mainly composed of micro-scale enterprises whose products include bread, pastry, cheese, and seafood. Medium-scale salt manufacturers and sugar manufacturers are located in the Eastern Region. Processed foods such as sausage and cheese, as well as bread, are sold mainly in the production areas. Local markets for snacks and pastry cover other regions.

Major exports are coffee, wheat, corn, and snacks. One company exports coffee to the USA (50%) and Europe (50%). Small portions of rice and beans are exported to the USA. Other foods are exported to the Central American countries.

(b) Textile industry

The textile industry is located mainly in the Central Region. As the companies surveyed are micro and small, their main markets are domestic. The oversea markets are the USA and Central America.

(c) Wood industry

The major products are furniture. The enterprises are micro and small-scale enterprises. The survey indicates that furniture industry is flourishing and is one of the major industries in Eastern and Western Region. Very small quantities of furniture are exported to Central America.

(d) Machinery and equipment including metal works

The surveyed enterprises in this sub-sector are located all over El Salvador. They are micro-enterprises and produce car repair parts, construction materials, milling machines and other such products. The major market is domestic.

One zipper manufacturer is a joint venture with a Japanese firm, exporting 60% of its products to the USA. Other products such as industrial machines, milling machine, car bumpers, and water pumps are exported to Central American countries.

(e) Others

There are four large-scale enterprises in other industries, which are a paper sheet manufacturer, printing companies, and a publishing firm in the Central Region. There are also three small-scale manufacturers of construction materials, clay roofing, floor tiles, and bricks in the Eastern Region. The remaining enterprises are micro-scale and produce shoes, jewelry and ornaments, hammocks, dental materials, and other products. Jewelry and ornaments are well-known industries in the Eastern Region.

Major foreign markets for farming appliances, shoes, and paper bag are in Central America and few small items are exported to Europe.

2.3 Procurement of Major Materials and Parts

It should be noted that this information does not reflect the exact original sources of materials and parts because small and micro-enterprises do not import them, purchasing them through local agents.

Most materials and parts (82.5%) are locally supplied. Out of local materials and parts (52.7%) came from the Central and Western Regions and 29.8% came from the Eastern Region.

Enterprises in the Central and West Regions purchase few materials and parts from the Eastern region. In the Eastern Region, 76% of materials and parts were procured within the region. This shows a lack of business connection between the Eastern Region and other regions.

Table 2.2. Origin of Materials and Parts Procured (Unit:%)

	Region			Company Scale				
	West	Central	East	Micro	Small	Medium	Large	Average
Sample Number	93	316	249	435	115	46	58	658
Eastern Region	0.0	2.2	75.9	37.0	20.9	21.7	1.7	29.8
Other Region	86.0	70.6	17.7	58.9	53.9	23.9	27.6	52.7
Import	11.8	23.4	2.8	3.0	23.5	43.5	51.7	14.0
Eastern & Import	0.0	0.0	1.2	0.7	0.0	0.0	0.0	0.5
Other area & Import	2.2	2.5	0.4	0.2	1.7	6.5	8.6	1.7
Missing Value	0.0	1.3	1.0	0.2	0.0	4.4	10.4	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

3. Existing Condition on Corporate Management

3.1 Summary of Constraints on Corporate Management

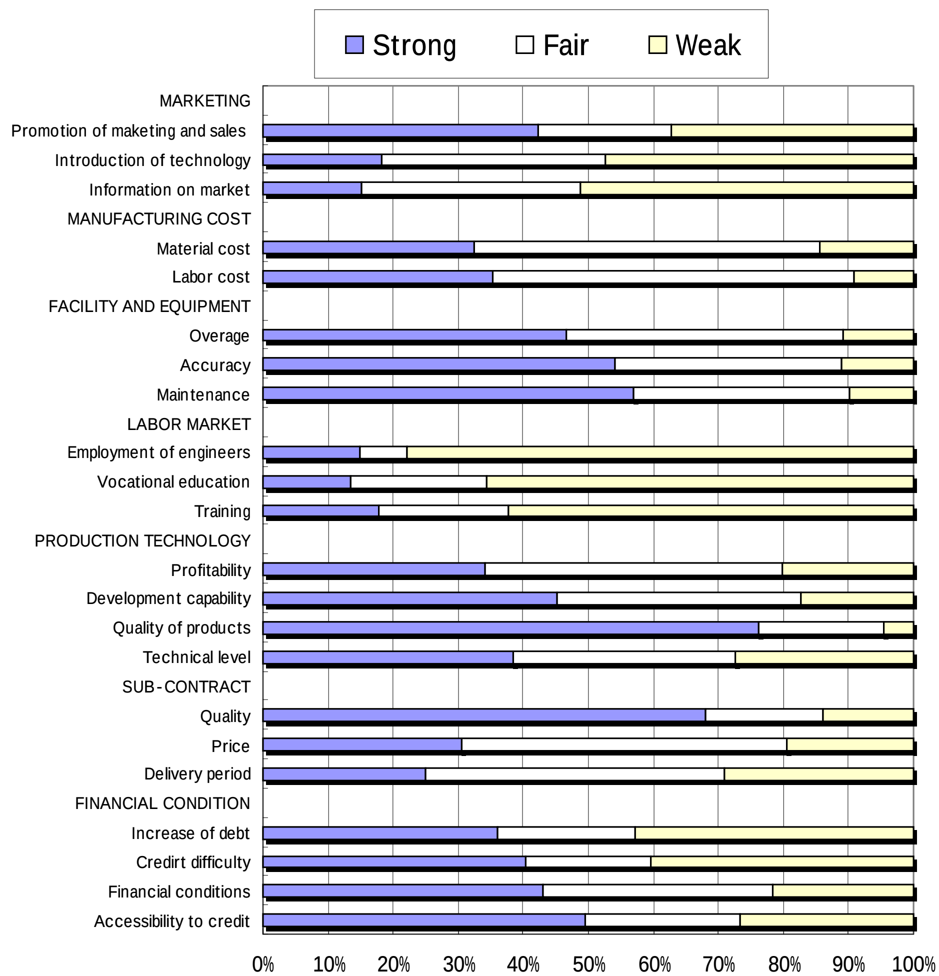
Figure 3.1 summarizes self-evaluations for the factors concerning the corporate management of the enterprises surveyed. Judging from the self-evaluation, the area with the most constraints is the labor market concerning employing engineers, vocational education, and training. Marketing related to the promotion of marketing and sales, introducing technology, and market information rank next. Financial problems related to debt increase, credit difficulties, financial conditions and accessibility to credit follow. There are minimum constraints regarding facilities and equipment, production technology and sub-contracting.

The subsequent sub-sectors present detailed information and the results of the analyses. The following correspondence in evaluation indicators should be borne in mind.

Figure 3		Figure 3.2 – Figure 4.7
“Strong”	==	”Very strong” and “Rather strong”
“Fair”	==	”Fair”
“Weak”	==	”Rather weak” and “Weak”

Remarks are made in the subsequent sub-sections referring to Figure 3.1 or respective figure in each subsection.

Figure 3.1. Self-Evaluation on Existing Corporate Management



3.2 Sales and Marketing

(1) Promotion of Sales and Marketing

With regard to questions on promoting sales and marketing, more entrepreneurs in the Eastern Region selected "Strong (Very strong or Rather strong)" than those in the other regions. It seems, however, that most enterprises in the Eastern Region do not have sufficient capability in sales and market promotion. These results display the lack of knowledge for collecting and analyzing methods for market information.

The enterprises replied they have stronger promotion capability as their business scale becomes large. Regarding production categories, food and wood (furniture) companies evaluate themselves as having strong capability. The promotion capability of machinery and textile companies are weak, because they have to compete with imported products.

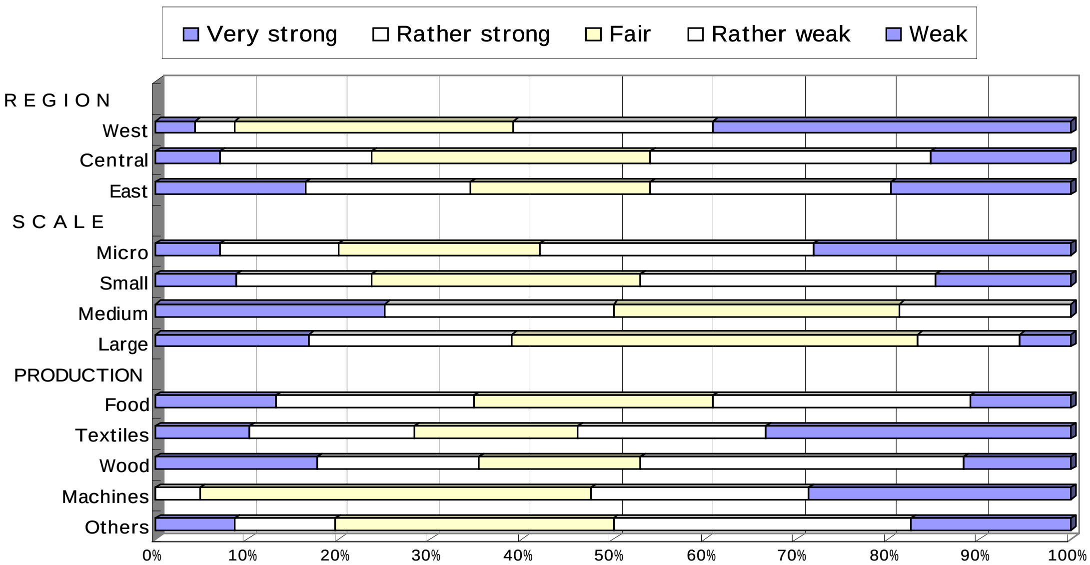


Figure 3.2. Market and Sales Promotion

(2) Introducing New Technology

This question is related to the next section about market information. Regarding introducing new technology, the percentage of entrepreneurs in the Eastern Region who selected "Strong" is the lowest (14%). The same percentages are shown from entrepreneurs who selected "Weak" including "Rather weak" in the Eastern and Western regions at slightly over 50%. In addition, it is necessary for micro enterprises to introduce new technology under the present economy, and information about new technologies is insufficient. The highest percentage for "Strong" is shown in the wood industry, because it is a mature industry. There is not any difference among industries for selecting weak.

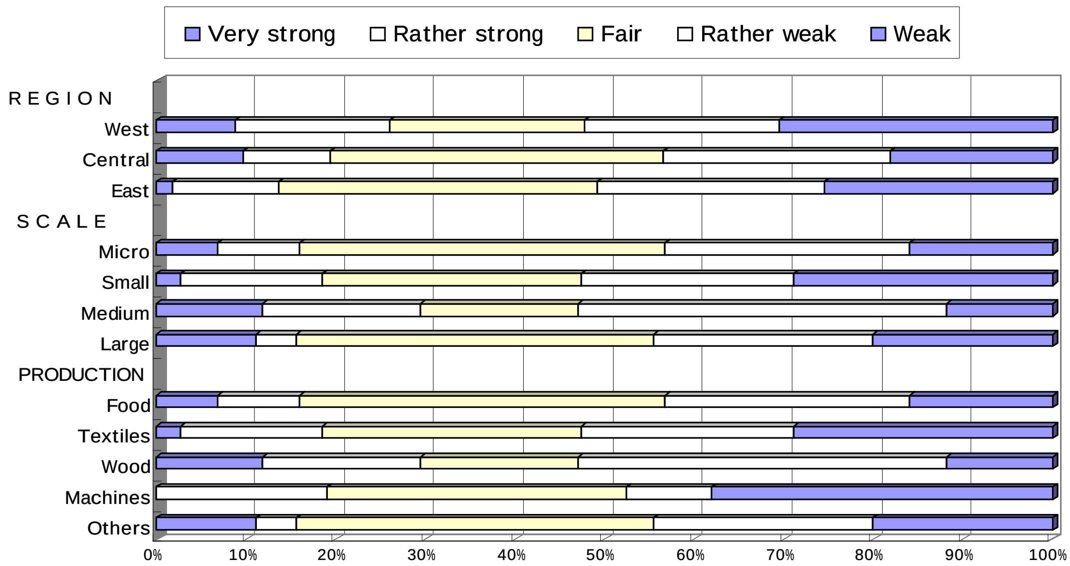


Figure 3.3. Introduction of New Technology

(3) Market Information

Regarding the question concerning market information, the same percentages (56%) are shown in the Eastern and Western Regions for respondents who selected weak. On the whole, entrepreneurs in the Eastern and Western Regions evaluate themselves negatively concerning their circumstances for sales and marketing information compared with entrepreneurs in the Central Region. Still, some entrepreneurs in the Eastern Region are confident of sales and market promotion. There were no replies of “Very strong” in the machinery industry. The textile and food industries have low percentages, 17% and 18% for responding with strong. The highest percentage of responding with “Weak” is shown in the textiles industry.

(4) Information Sources

Table 3.1 shows the marketing and technology sources that the surveyed enterprises responded about. CONAMYPE (National Commission for Small and Micro Company) has been performing an important role of providing information for marketing and technology, especially for small and micro companies. Other major sources are Chamber of Commerce for SMEs and collecting information through seminars and merchandizing supervisors for large enterprises. The result demonstrates that SMEs usually do not conduct research, which means that specialized research institutions are not available.

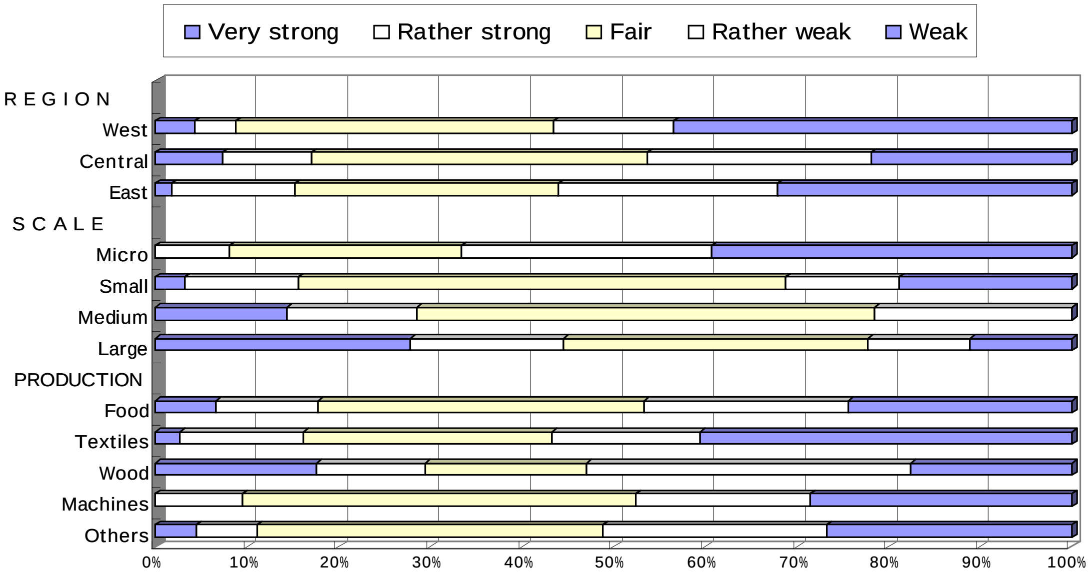


Figure 3.4. Information on Market

Table 3.1. Sources of Marketing and Technology Information (Unit:%)

Capital (US$)	Region West	Region Central	Region East	Scale Micro	Scale Small	Scale Medium	Scale Large	Total
(No information)	0	2	0	0	0	0	0	1
Internet	0	2	0	0	3	0	0	1
Customer's information	0	0	3	0	3	0	0	1
Suppliers	8	0	0	0	3	0	0	1
Magazines	0	2	3	4	0	0	0	2
Research	0	3	0	0	0	8	6	2
Experiments	17	2	0	4	3	0	12	3
Seminars	8	5	0	0	0	0	23	4
Stores/shops	0	6	3	0	7	8	0	5
Merchandize supervisors	0	6	3	0	0	8	23	5
Catalogue	0	6	6	4	7	8	6	6
Chamber of Commerce	0	6	9	11	7	0	0	7
Spain cooperation	17	10	3	4	10	15	12	8
Through meeting	17	11	6	9	10	23	6	10
CONAMYPE	33	39	64	64	47	30	12	44
Total	100	100	100	100	100	100	100	100

3.3 Manufacturing Costs

(1) Material Costs

Material costs account for a large portion of variable costs. According to the interviewed companies, material costs are fair in all the regions. Larger companies state "Very strong" for their material costs, mainly because they can use their power for purchasing negotiations. It is also important that 83% of micro enterprises replied "Strong or Fair", because their products do not require high technology process and the majority of raw materials are from local markets or sold by local distributors. Although material costs is one of the most important factors for production costs, it seems that they do not pay sufficient attention to their material costs.

The material costs are “Strong” (from 30% to 40%) and “Weak” (from 14% to 19%) in all industries. Food, wood and others sectors seem to consider “Fair” for material costs, as their materials are mainly domestic or from the Central American market. Machinery industry presents a high indicator of “Rather strong” (40%) due to the high prices of materials and parts.

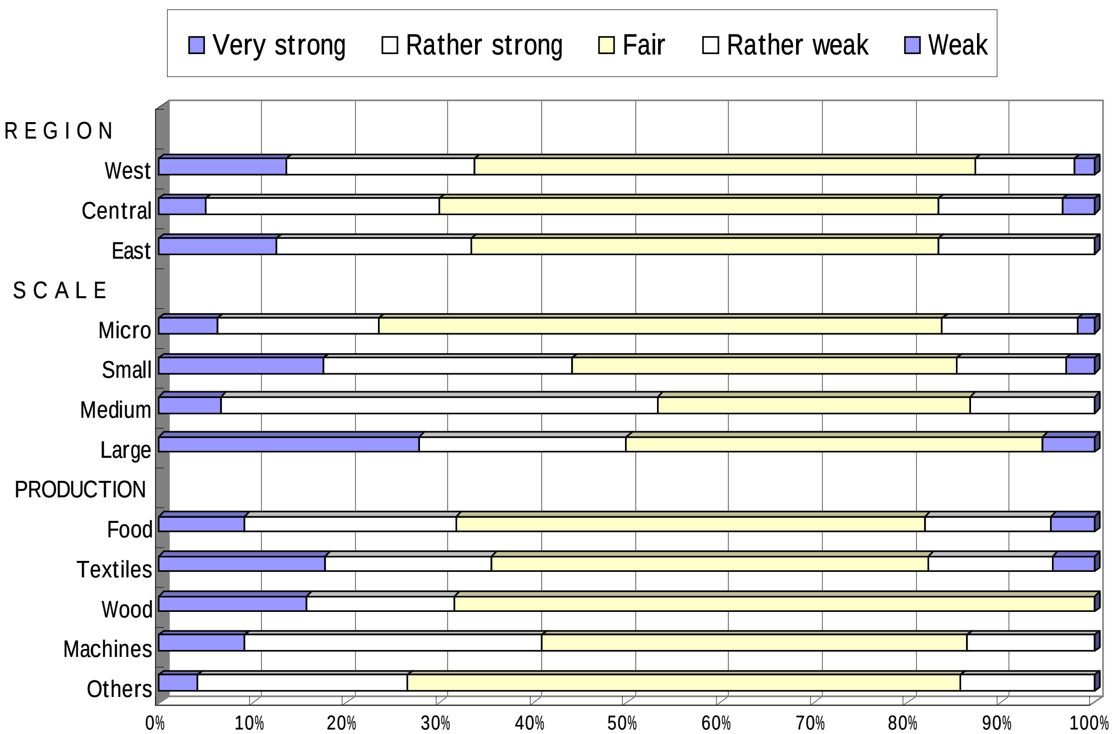


Figure 3.5. Material Costs

(2) Manpower Costs

Although manpower costs account for the major portion of the fix costs, it does not seem to be regarded as a serious issue on the whole. Over half (55%) of the enterprises selected “Fair”. The Western Region is characterized by good manpower costs, and it is the only region that does not show any weak indicator.

As for the manpower costs in business scale, they seem to be “Fair” in micro, small and large enterprises. The micro enterprises show a very low percentage of “Very strong” reflecting the fact that they do not employ qualified labors or most often their companies are run by family members, or only one or two persons from the same family.

As the scale becomes larger, the percentage of “Very strong” rises because their labors are more qualified, with professional knowledge and skills. It is important to note that medium enterprises have a large percentage of “Rather strong” for problems concerning manpower costs. In most cases, micro enterprises do not fulfill all the requirements for establishing their business, such as paying social security and fair wages, registering at the National Registration Center, and paying municipal taxes.

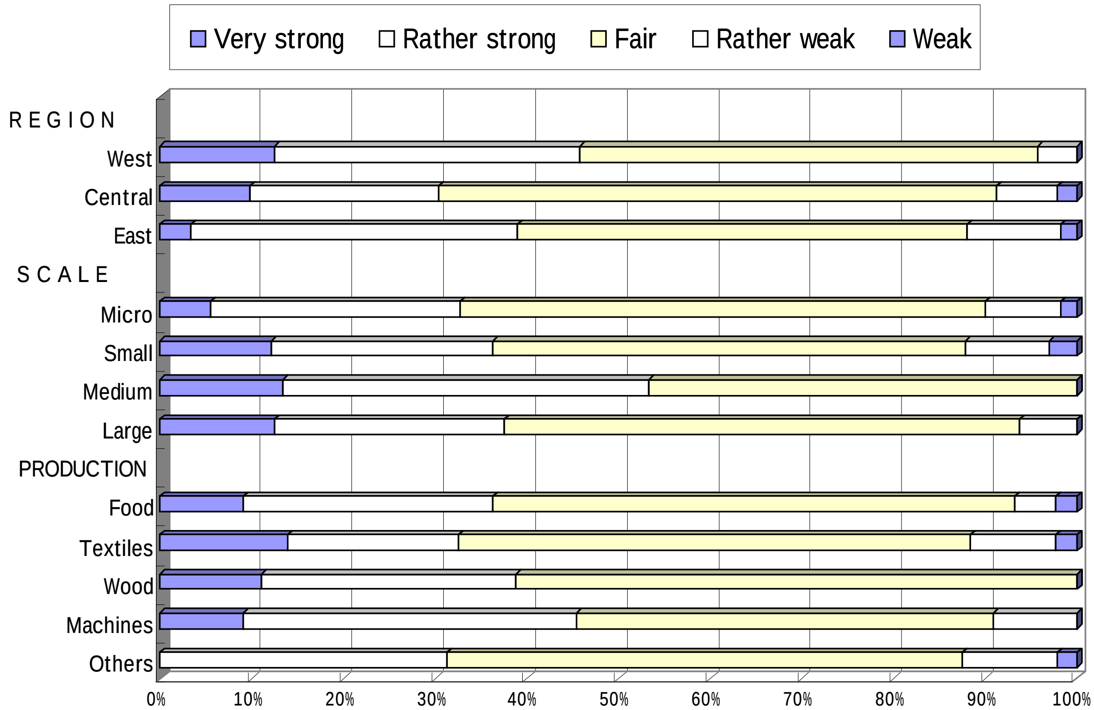


Figure 3.6. Manpower Costs

3.4 Facilities and Equipment

(1) Old Machinery and Equipment Problem

Almost all the enterprises interviewed have old machineries and equipment. The Western Region faces a problem with old machinery and equipment (55% or “Strong) followed by the Eastern Region (50%). The Central Region has percentages of “Fair” (47%) and “Strong” (43%).

All scales of enterprises present a high percentage of old machinery and equipment. The large enterprises report higher percentages of overage of the machines and equipment item (almost 55%). The medium scale enterprises remain in the fair percentage (almost 55%). Some “Very weak” and “Rather weak” percentage are presented by micro and small enterprises. The machines and equipment of micro enterprises are not so old (4-5 years) and specialized. They can be repaired easily and new machinery is affordable at low costs.

While the averaged percentage of “Fair” is 43%, food and other sector have higher older percentages (50% and 52%), followed by wood (45%), textiles (42%) and machinery (39%).

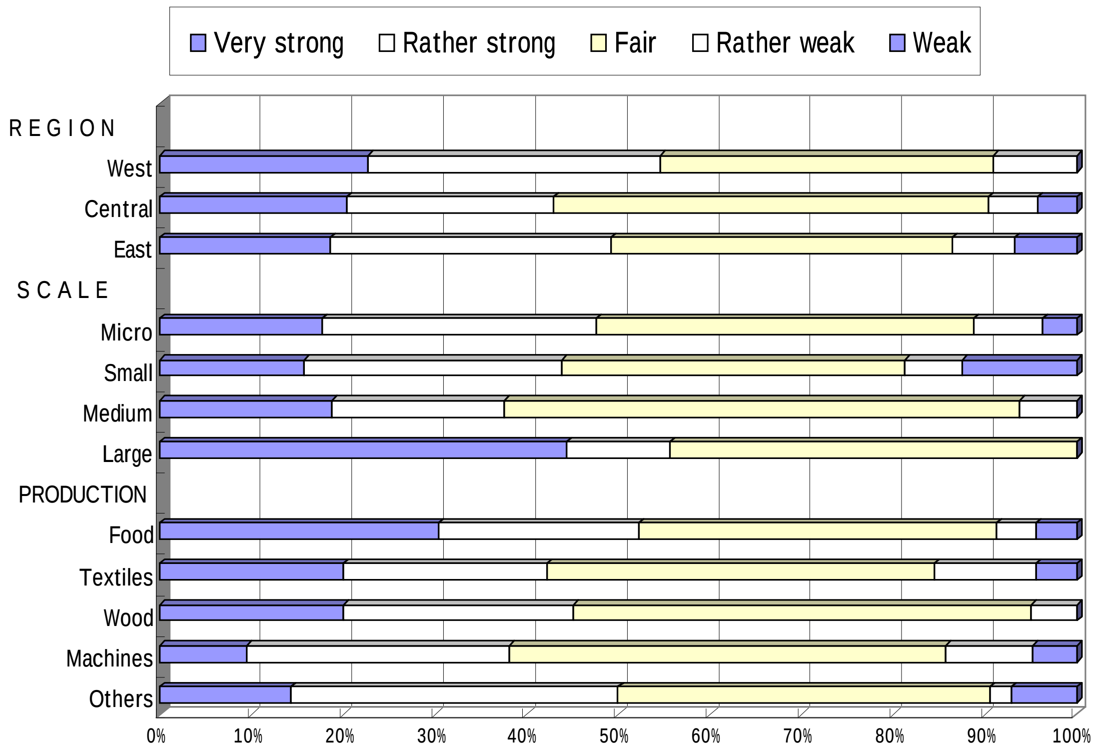


Figure 3.7. Overage of Machinery and Equipment

(2) Accuracy Problem

The Eastern Region is where the highest percentages of “Strong” (67%) for facility and equipment accuracy appear, followed by the Central Region (49%) and the Western Region (41%).

On the scale level, almost all the enterprises agreed that accuracy has a high percentage level of between 52% and 61%. As mentioned above, their machineries are old but comparatively well maintained. Production technology for industries such as food processing and furniture production does not require precise machinery, although accuracy becomes an important factor for the development of new products and promotion of new technology as well as production of high quality products.

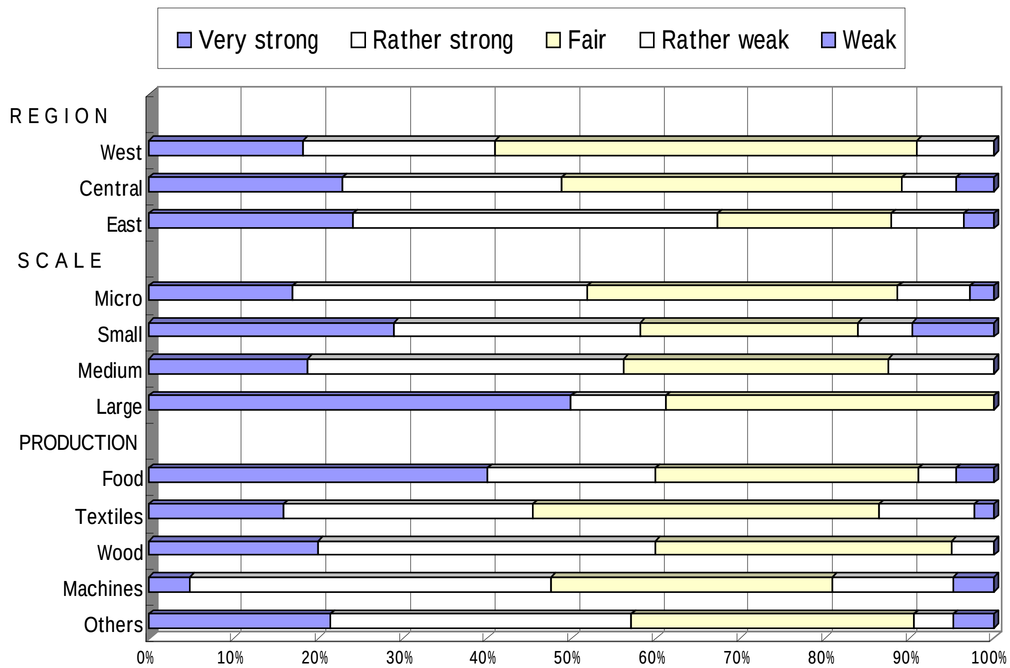


Figure 3.8. Accuracy of Machinery and Equipment

(3) Maintenance

All scales of business present a high percentage of "Very strong" and "Rather strong" in facility and equipment maintenance. Most of their facilities and equipment are old but in good conditions. The micro and small enterprises have more difficulty in maintaining their facilities and equipment than medium and large enterprises.

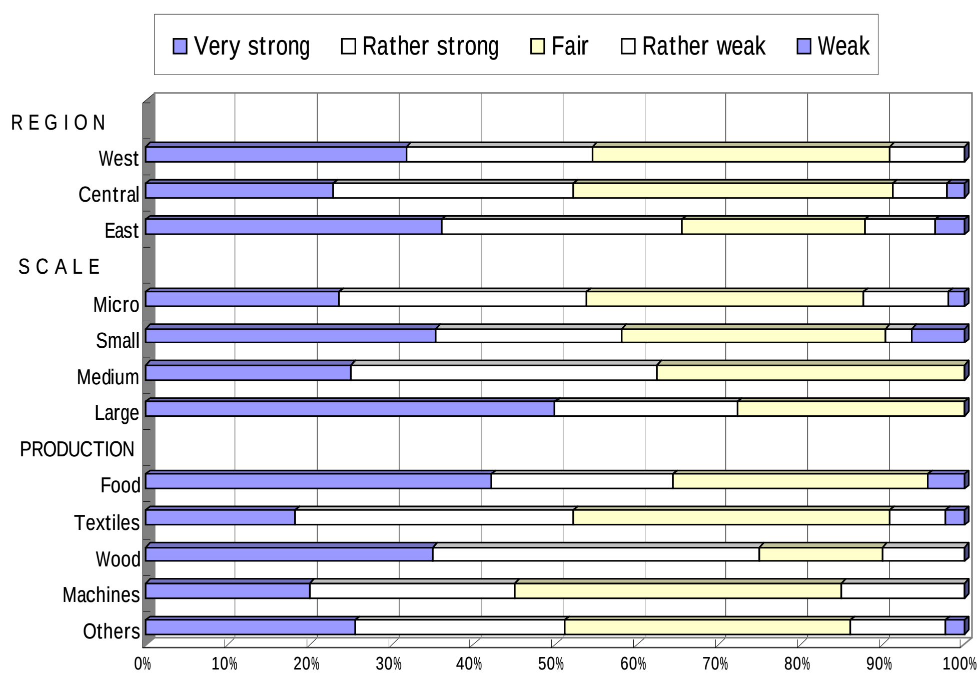


Figure 3.9. Maintenance of Machinery and Equipment

3.5 Labor Force

(1) Employment of Engineers

The Eastern and Western regions show high percentage of “Weak” (83%) or “Rather Weak” (92%) for employing engineers because job seekers tend to look for jobs in the central area due to higher availability of job opportunities and high earnings. This explains the result that the Central Region indicates “Very strong” and “Rather strong” for hiring engineers.

The large enterprises show high percentage of “Strong” (53%), while for the small and micro enterprises, the employment of engineers is the problem. Especially for the micro enterprises it is obvious that most employers are not highly educated and do not hire qualified labor such as professionals and technicians.

For production category, employing engineers is weak in every sector, but in textiles the indicator is the weakest (90%). Although the textile sector in the country is one of the major sectors creating employment, they employ few engineers because their major objective is hiring female labor, especially for maquilas. It is an urgent issue to establish a vocational training course for engineers and technicians for promoting SMEs.

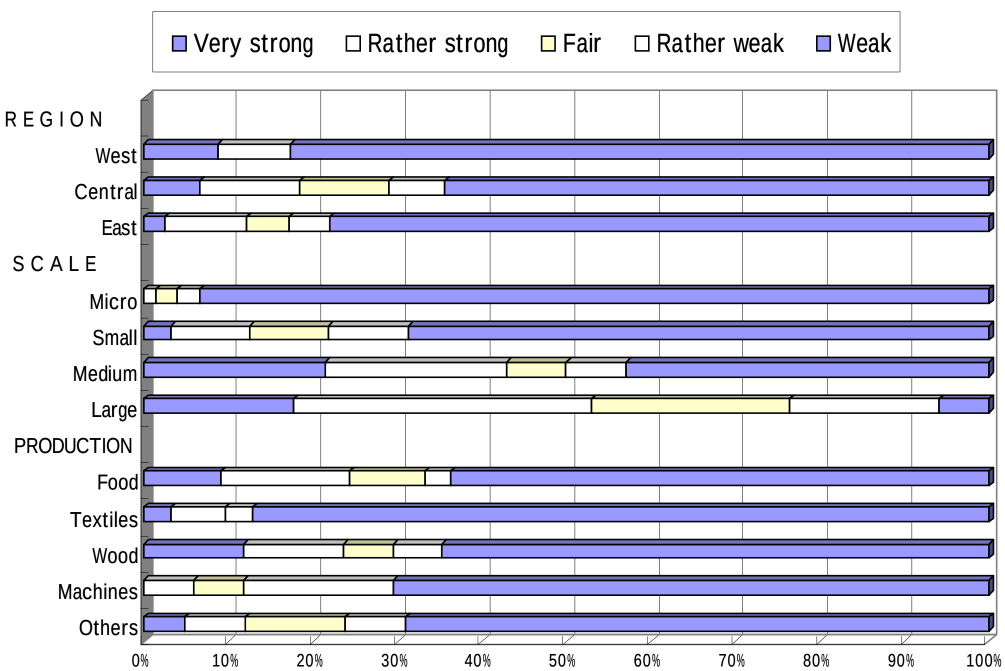


Figure 3.10. Employment of Engineers

(2) Vocational Training

The East and West Regions are “Weak” or “Rather weak” in vocational education as well as vocational training. The Central Region always has an advantage because most vocational institutes are located in the Central Region with all the qualified teachers. There are 7 governmental vocational institutes in the country and 2 of them are in the Eastern Region, Usulutan and San Miguel. They, however, do not have qualified teachers, resulting in many students having to go to San Salvador and the surroundings areas to study in vocational institutes.

While vocational training is weak in all over the country, the Eastern region is the weakest of all.

On the business scale, small and micro enterprises also have the weakness. Micro enterprises are much weaker in training, almost 83% with “Weak” and “Rather weak” combined. Despite this situation, training employees is not regarded as an important issue by micro-enterprises as compared with other scales of enterprises, for example medium and large enterprises which have fairly good training system.

In relation to production it can be seen that in every sector the indicator is “Weak (52%)” and “Rather weak (14%)”, especially in textiles (81%) and machinery (83%).

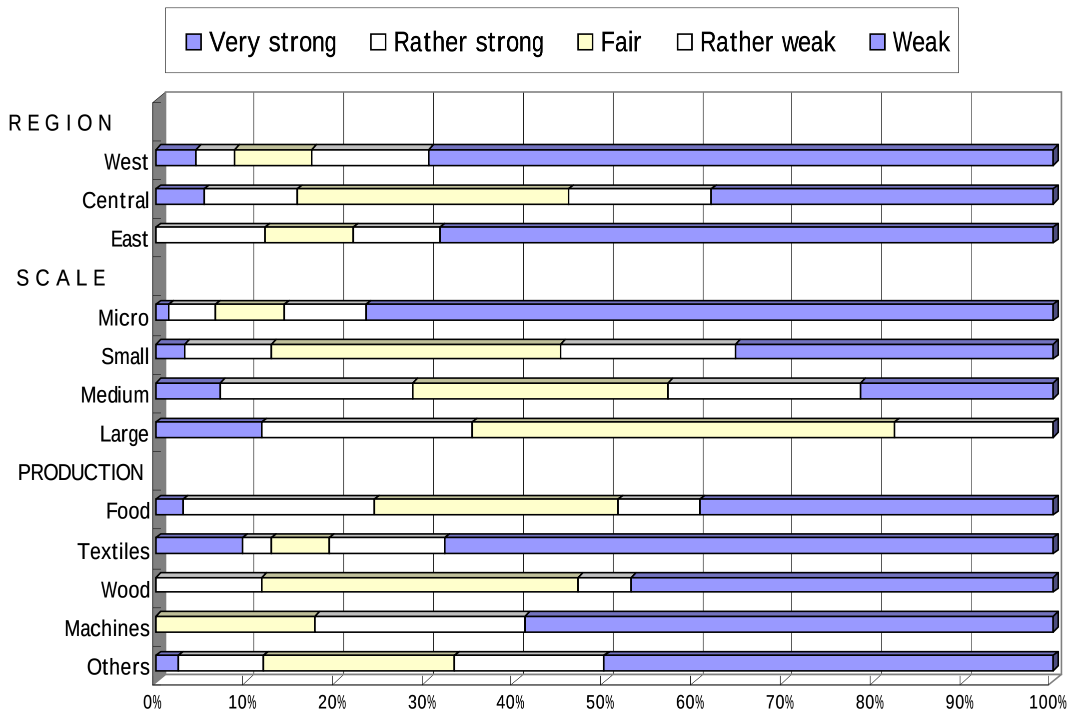


Figure 3.11. Vocational Training

3.6 Production Control

(1) Profitability

There is no big difference among regions on profitability. About 34% of enterprises have a “Very strong (12%)” and “Rater strong (22%)”. The Central Region has some low percentage of “Weak (16%)” and the Eastern and Western Regions have 25% of “Weak”. Profits in the small enterprise are “Very weak (23%)”. As the business scale grows larger the weakness is reduced.

About 35% of the enterprises except for textile select “Very strong and Rather strong” for profitability. As the company scale becomes smaller their profitability becomes lower. No large enterprise selected “Weak”.

(2) Development Capability

It indicates that 56% of the enterprises in the Western Region answered “Strong”, comprising “Very strong (16%) and “Rather strong (40%)”, and 46% in the Central Region with “Very strong (15%) and Rather strong (31%) and 39% in the Eastern Region with “Very strong (10%)” and “Rather strong (29%) for the capability developing new products. The Eastern Region, however, has almost 25% for weakness.

All of scales of enterprises present a very high percentage of the strong capability (including “Very strong” and “Rather strong”) and the percentages grow, as the scale becomes larger. Small and micro companies face weakness for new products development.

The food sector has the strongest capability followed by machines and other sectors, while the wood and textile sectors have the lowest percentage for strong capability.

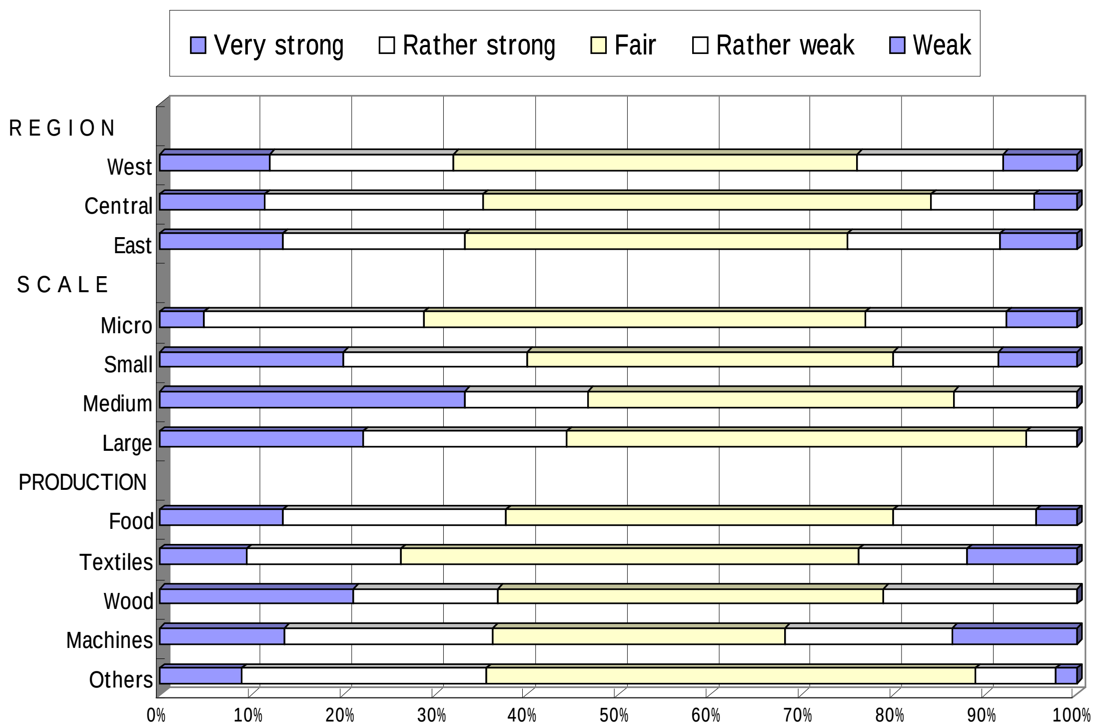


Figure 3.12. Profitability

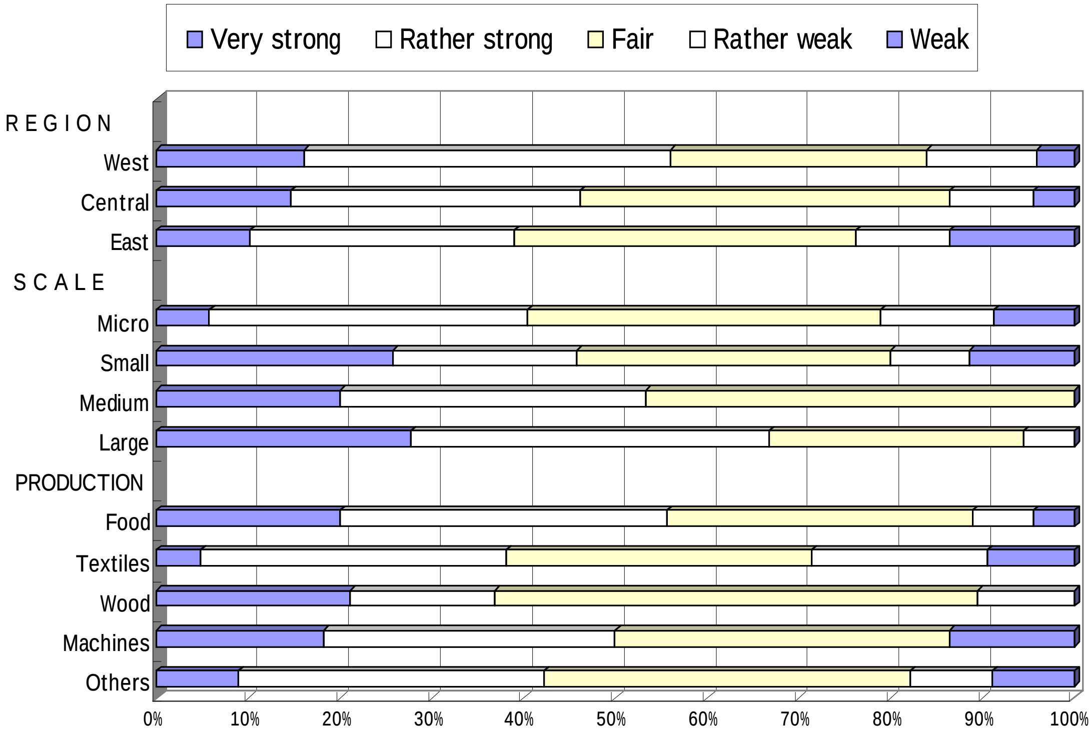


Figure 3.13. Capability of Development

(3) Quality of Products

Quality of products shows "Very strong" and "Rather strong" indicators. Most enterprises (76% on average) in all regions evaluate their products as good quality. Micro and small enterprises also have high indicators (73% for "Very strong" and "Rather strong") on the quality of their products. Medium and large enterprises show 94% and 84% respectively. This indicates they regard their products as having sufficient quality for the current markets. In the interview, most entrepreneurs indicated their intentions to expand their markets, but very few entrepreneurs evaluate the quality of their products by comparing them with their competitive goods.

Strong product quality (including the very strong and rather strong indicator) is especially shown in the machinery and food processing, while textiles and other industry are rather weak.

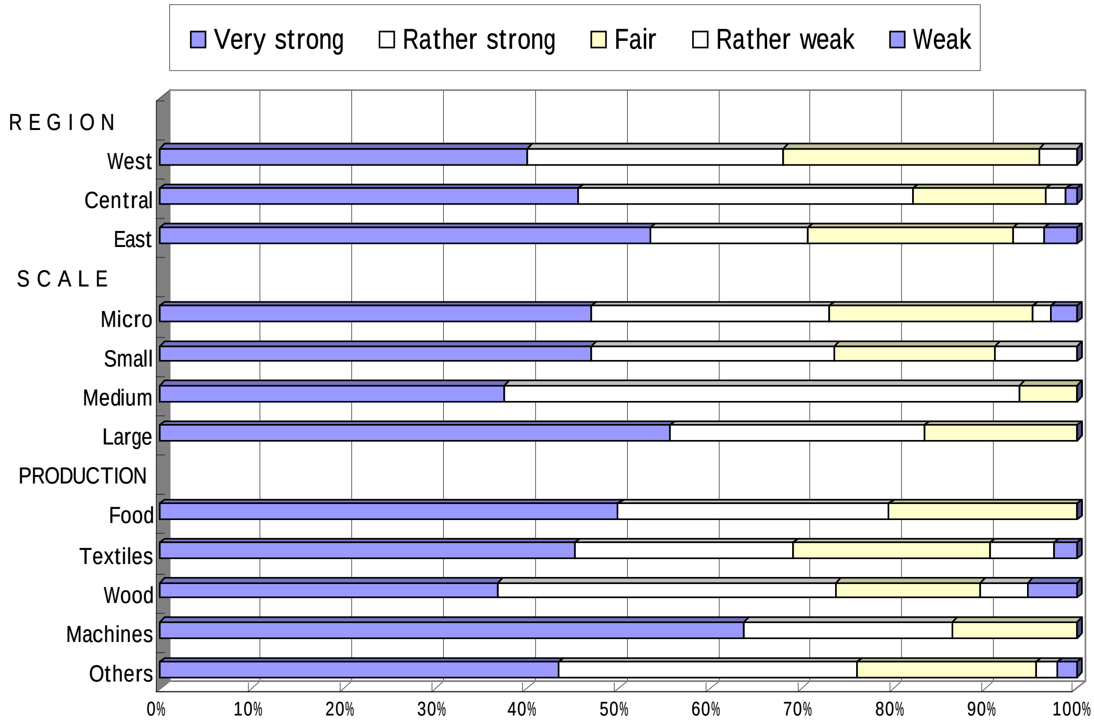


Figure 3.14. Quality of Products

(4) Technical Level of Production

The result indicated that 42% of the enterprises in the Central Region selected “Very strong (20%) or Rather strong (22%)”, while the percentages in the other regions for “Strong” are rather low. They are 32% in the Western Region, consisting of “Very strong (8%) and Rather strong (24%), and 36% in the Eastern Region, consisting of “Very strong (24%) and Rather strong (12%). The Eastern region shows almost 41% for weakness (“Rather weak” and “Weak” indicators) on their technical level of production. About 25% micro enterprises and half of the small and medium enterprises selected “Strong” (including “Very strong” and “Rather strong”). It is also indicated that 65% of the large enterprises selected “Strong” and the remaining 35% are “Fair”.

The food sector seems to have a strong capability followed by others, and then wood sector, with the machine and textile sectors having the lowest percentage of strong capability. According to the survey result, most entrepreneurs in the country evaluate their production technology and products quality as strong. It seems that their main competitors are local or from surrounding countries. They must renovate production technology and products quality in order to address changes in business circumstances in the future.

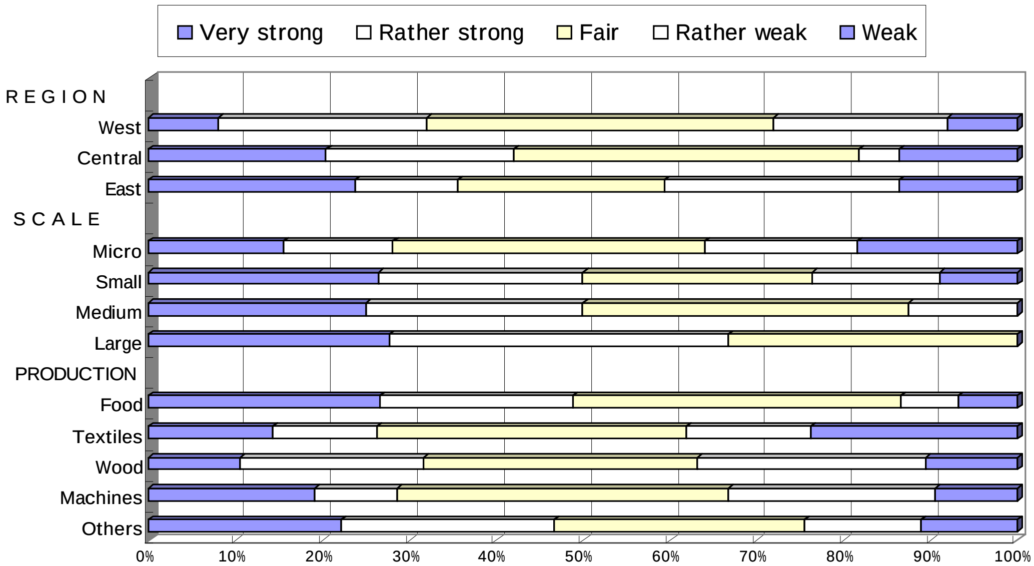


Figure 3.15. Technical Level of Production

3.7 Finance

It is reported that 84% of the granted credit was used for working capital, 15% for investment and 1% for personal expenses. The major finance resources are commercial banks including foreign banks that are allowed to offer a wide range of financial services in the country. Other resources are non-bank financial institutions, governmental offices, and relatives and friends. Foreign banks have been able to operate on the same basis as domestic banks since 1999. There are 16 banks and one non-bank financial institution, 11 of which are foreign-owned. Two banks are government-owned and account for 4.2 percent of the total banking assets.

In the interviews with enterprises, most SMEs explained the difficulties concerning credit. The main reasons are high interest rates, the lack of guarantees, and difficult documentation. Table 3.2 shows the obstacles facing the SMEs for accessing to finance.

Table 3.2. Hierarchy of Specific Obstacles Related to the Access to Finance

Interest rates	26%
Demanded guarantees	24%
Excess of requirements	20%
System of evaluation of credit risk	7%
Terms granted to credit payments	4%
No answer	19%
Total	100%

Source: Challenges and Opportunities of the Salvadorian SME, FUNDES International

(1) Increase of Debt

Debt increases are stronger in the Central Region where 39% selected “Strong”, followed by the Eastern Region (35%), and the Western Region (25%). Large enterprises present the highest percentage of “Very strong (41%)” and “Rather strong (6%)” for problems of increasing debts. Medium enterprises show 28%, and SMEs show 39% and 36% for “Strong”. In most cases, problem is caused by the lack of working capital under the present economic situation. In the interviews, few SMEs expressed the difficulty of new investment due to financial problems.

Large and medium enterprises show a lower percentage of “Weak” problems (30% and 36%) concerning debt increases than small and medium enterprises (48% and 44%). The food industry is the sector facing a high percentage of increasing debts (49%). The percentages for the textile and wood industries are 32% and 37% respectively.

(2) Credit Difficulties

Credit difficulties prevail in every region. Approximately 40% of the enterprises face the strong problems with difficulties, and the same percentages are shown for “Weak”. On the business scale, almost 50% of large enterprises express that credit difficulties are “Very strong” or “Rather strong,” followed by small enterprises (45%). Approximately about 30% of enterprises mentioned that the problems are “Very weak” or “Rather weak” and approximately 20% that the credit difficulties are fair. According to the sector, food processing is the worst (56% selected “Strong”). The textile, machines, wood and others sectors appear to have percentages of weakness between 40% and 50%.

(3) Accessibility to Credit

“Strong” for ”accessibility to credit” accounts for the majority in the Central and eastern regions. In terms of scale, higher proportions of the large and small companies indicate “strong” for their accessibility to credits. The large enterprises, especially, indicate 71% for “Very strong” and 8% for “Rather strong”. The micro enterprises show the lowest percentage (38%) for “Strong” and the highest percentage (33%) for “Weak”. While the small enterprises may have support programs to assist them, it is very difficult for the micro-enterprises to seek support. In addition, some of the micro-enterprises are not able to obtain finance because they operate in the informal sector. Credits for the food processing industry are strong, while the textile industry has difficulty in obtaining credits.

(4) Financial Condition

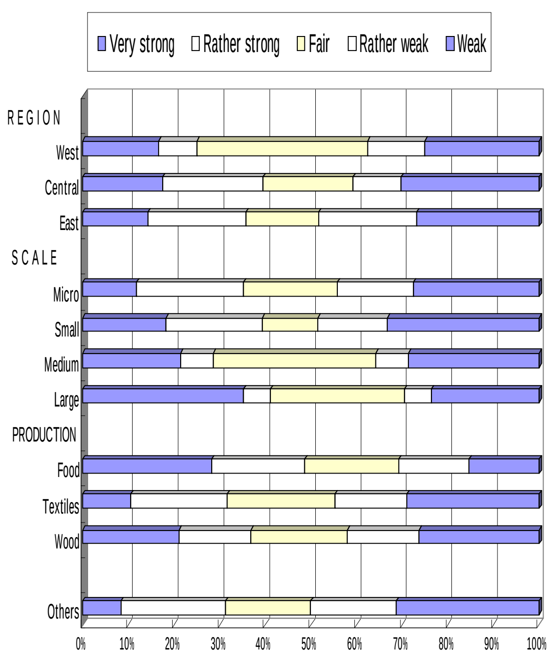
About 40% of enterprises think their financial conditions are “Strong” and 20% think they are “Weak” in all El Salvador. Regarding the business scale, however, only large enterprises have strong positions, and other smaller scale enterprises do not seem to be enjoying the present condition. Financial condition seems to be better for large companies because of their sales volume, profits, and merchandising, etc., Micro, small and medium companies present less than 30% for weak financial conditions. Micro companies present almost 40% for "fair" financial condition. In fact their profits are sufficient only for surviving.

In terms of sector, the food sector has strong financial condition because of a high percentage of large companies in the sector. "Fair" financial condition accounts for the largest proportion for machines, wood, textile and other industries.

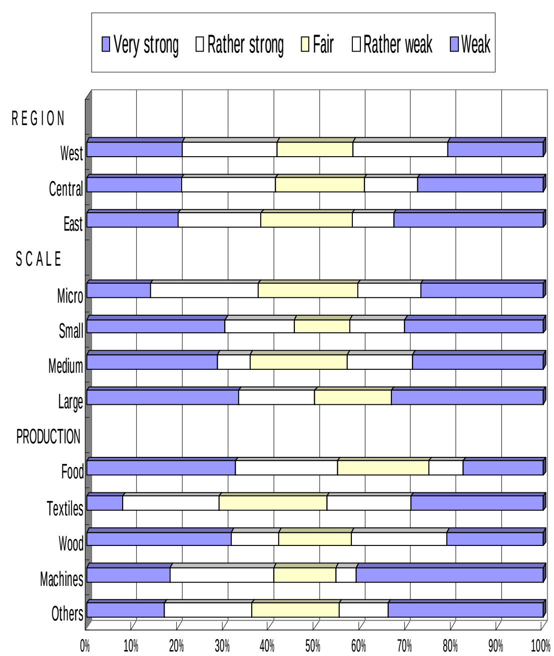
One of the main reasons for difficulty in accessing to credit is the tendency of banks or other finance systems to require mortgages. In addition, financing institutions tend to overprotect themselves in order to avoid risk. They do not have sufficient capability for evaluating the guarantees submitted by borrowers. It is more difficult to get a long term-loan for investments such as promoting new business and innovating production technology than it is to get short-term loans for working capital.

Although interest rates are decreased after the dollarization process, they are still high, especially for small and medium enterprises. The small and micro-enterprises have limited opportunities for negotiating with banks. This problem results in all the high costs for production and competitiveness. These financial problems, such as limited access to credit, guarantees, and high interest rates, obstruct the growth of the industrial sector.

Figure3.16. Credit and Debt



Increase of Debt



Credit Difficulty

4. Export Activities

4.1 Overview

A set of questions were asked on exports. The number of samples collected was 24 from enterprises, consisting of 13 large, 5 medium and 6 small enterprises. In the Eastern Region, only one enterprise replied the questionnaire concerning exports.

As a whole, manufacturing facilities show the highest percentage of "Strong and Rather strong " (68%), followed by financial capability (56%). Labor costs and material costs showed approximately 50% for "Strong". Marketing capability and Research and Development show the lowest percentage of 38%, with research and development especially having 35% as "Weak".

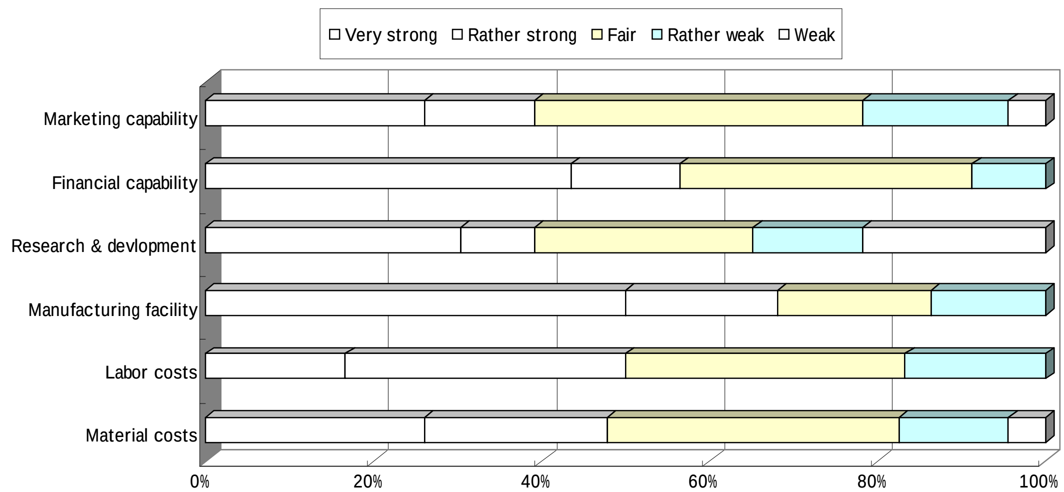


Figure 4.1. Export Activities

4.2 Corporate Management

In relation to corporate management, three questions were provided about marketing capability, financial capability and research and development. For the marketing capability, approximately 25% of the enterprises in the Western and Central Regions selected "Very strong". In the Eastern Region, only one enterprise selected "Rather strong". Marketing capability shows a tendency to have a greater percentage of "Strong" as the business scale becomes larger. Food processing, textile and wood sectors have 50% for "Strong" and machinery has 25% for "Rather strong".

Except for the large enterprises, there is no sufficient information for marketing promotion as well as research and development for promoting external markets. The enterprises that are not large obtain information mainly through the Internet or magazines. The El Salvador government supports mainly non-traditional exports. The government practically supports exports for large-scale businesses. There are less opportunities for smaller businesses to access to information on external markets.

Approximately half the enterprises selected strong ("Rather strong" or "Very strong") for financial capability. No enterprises selected "Weak". Two small scale enterprises (25%), in textile and machinery areas, answered "Rather weak". The financial capability shows a tendency for a declining percentage for "Strong" as the business scale becomes larger. This means large enterprises face severe competition in the external markets.

On the business scale, about 40% selected "Strong" and the same percentage selected "Weak" for research and development. One large-scale enterprise in the food processing area, selected "Very weak" for marketing, while 4 large scale and 1 medium scale companies selected "Weak".

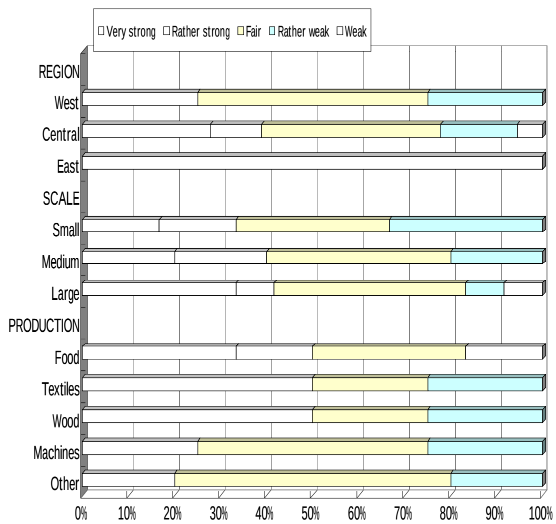


Figure 4.2. Marketing Capability

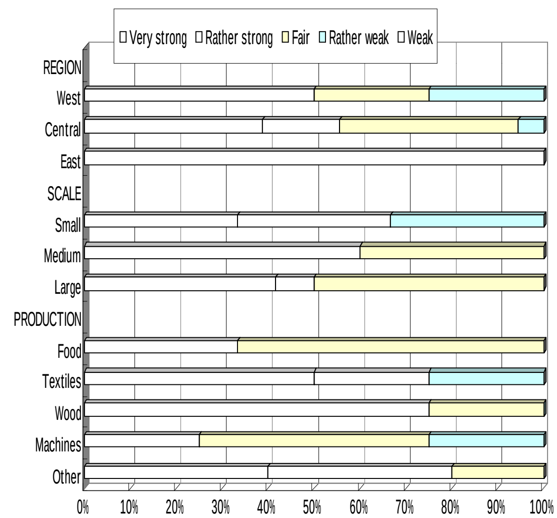


Figure 4.3. Financial Capability

5. Business Environment

5.1 Business License and Other Corporate Laws

The major constraint in this area is the bureaucratic barriers to carry out or create business. Half of the enterprises complain the administrative or bureaucratic barriers including the difficult process, too many requirements and slow process. Especially, 70% of the small enterprises and 45% of the micro-enterprises show business barriers because capable personnel are not available in the SMEs, which is the common case for the enterprises in El Salvador. This is one reason why 9% of micro and 5% of small enterprises have not registered. In addition, an excessive requirement and procedure is pointed out for registered enterprises to periodically comply with especially severe burden imposed on small and medium enterprises. The government offices carry out inspection related to labor verification, environmental, sanitary and tributary norms. These administrative procedures impose additional costs on the enterprises from micro to medium scale, hindering them in the process into the formal sector. Over 60% of the large and medium enterprises answered that there was no problem of this kind. Their particular constraints are difficult process, excessive requirement and slow process.

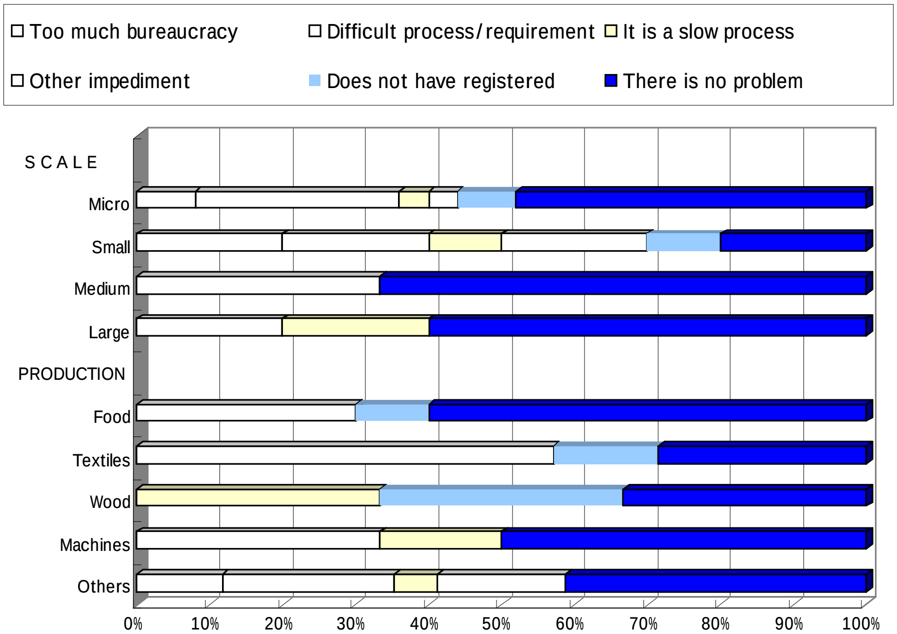


Figure 5.1. Business License

5.2 Taxation System

Taxation system in El Salvador seems to be regarded within an acceptable level for the large and medium enterprises. 10% of micro enterprises and 30% of small enterprises, however, explained about high tax rate, which is 25% for corporate income tax and 13% for IVA.

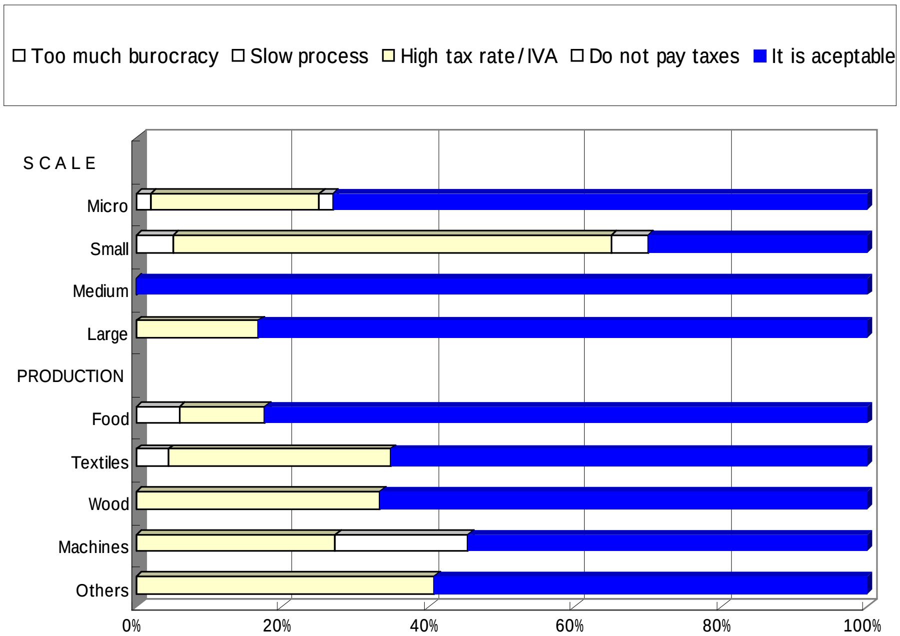


Figure 5.2. Taxation

5.3 Customs Clearance

According to the World Bank, El Salvador's weighted average tariff rate in 2000 was 6.5 percent. The government encourages imports of capital goods and intermediate products by charging a lower tariff on these products than on final goods. Only 3% of the enterprises expressed custom duties are high. Other constraints are bureaucracy, excessive requirement and slow process.

In the interview, it was found that there is not a proper system for official inspection and issue of authorized certification for exporting agro-processing products. The U.S. Department of State reports that "when the imported goods are vegetables or animals, a license from the Ministry of Agriculture is needed to certify that the goods meet local health and sanitary regulations. " An effort on the Salvadoran side is needed to meet this kind of requirements by major export markets.

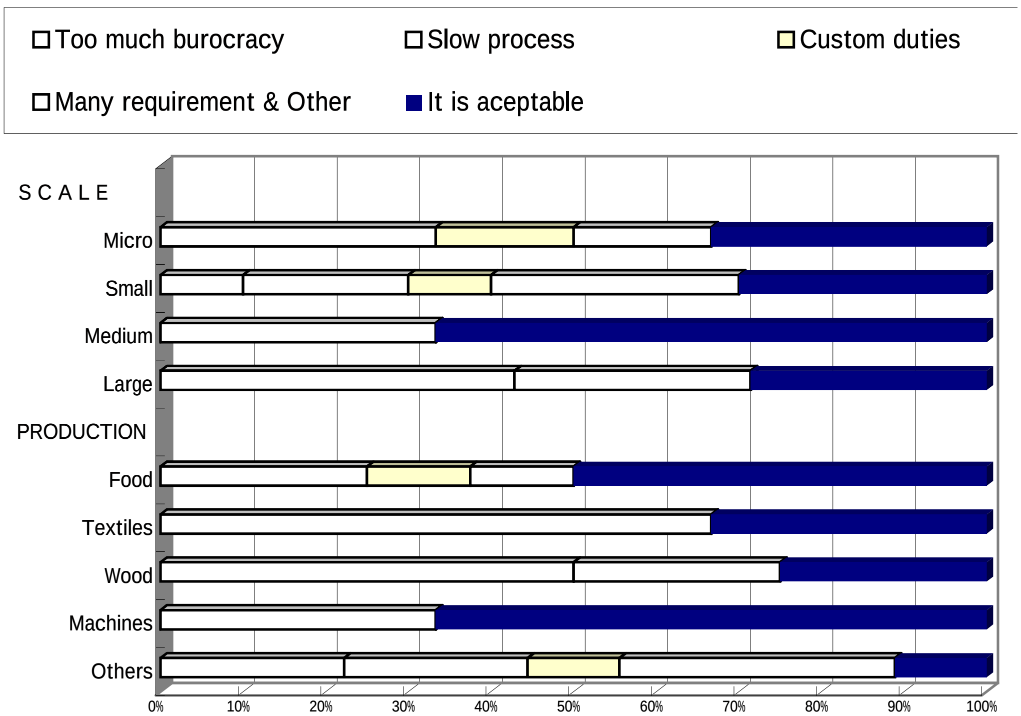


Figure 5.3. Customs Clearance

5.4 Infrastructure

The economic infrastructure affects costs and products quality. The survey shows most enterprises are satisfied with the infrastructure. The infrastructure in El Salvador is good compared with the surrounding countries. One foreign entrepreneur explains that one of the reasons why they selected El Salvador for investment is the country's infrastructure. The government continues to pursue privatization and economic liberalization. Since 1999, it has privatized the state telephone company, the electrical distribution system and thermal power plants. Some entrepreneurs interviewed indicate the electricity and telephone tariffs as well as damaged roads lead to high production costs. For the electric supply, voltage instability is cited as one of the quality problems. At present, manufactures use old machines. The voltage stability would become a major problem when they introduce precise machineries for new technology. In addition to the road problems, those with the port facilities and customs process in Acajutla port are also mentioned.

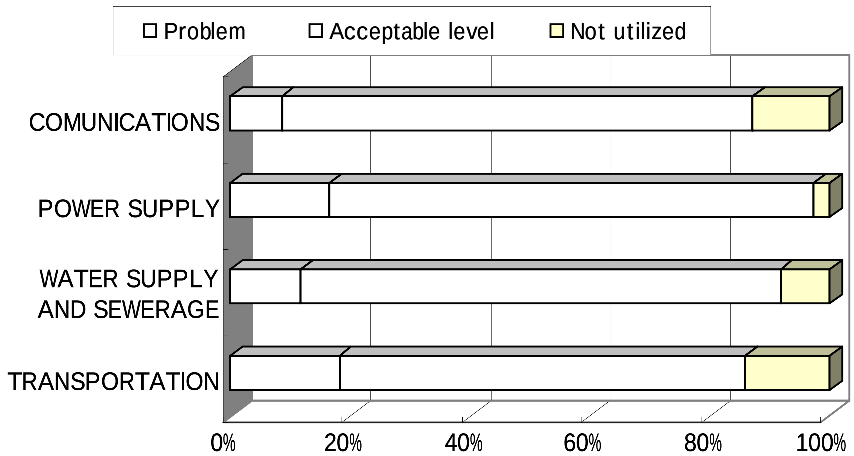


Figure 5.4. Infrastructure

6. Requests and Comments

Given the opportunity to express requests or comments for the government or other public agencies, following are listed.

- Government should act on identified needs.
- Request for lower interest rate
- Providing training courses
- Support for promotion associations
- Lower tax
- Elimination of smuggling
- Supporting enterprises with new laws
- Providing water supply
- Government should start listening to the private sector.

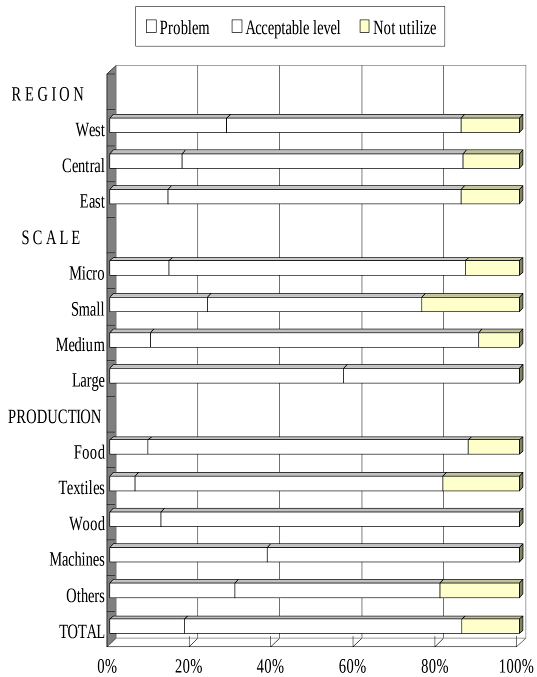


Figure 6.1. Transportation

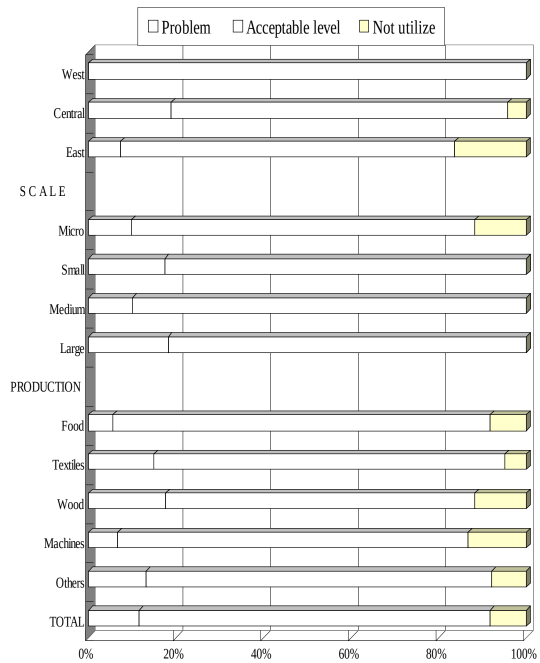


Figure 6.2. Water Supply & Sewerage

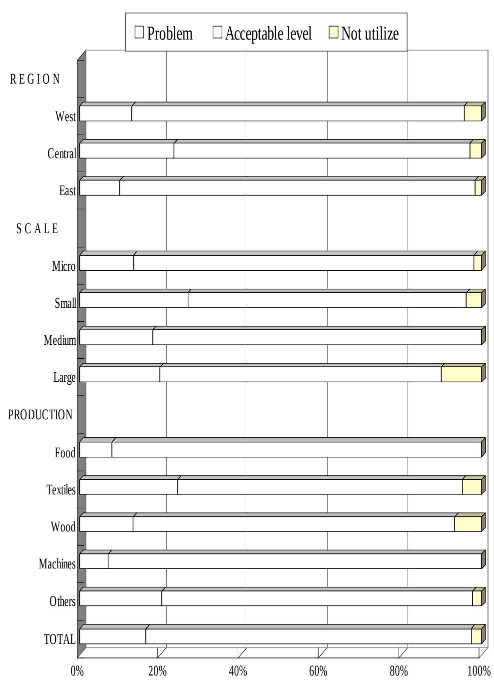


Figure 6.3. Power Supply

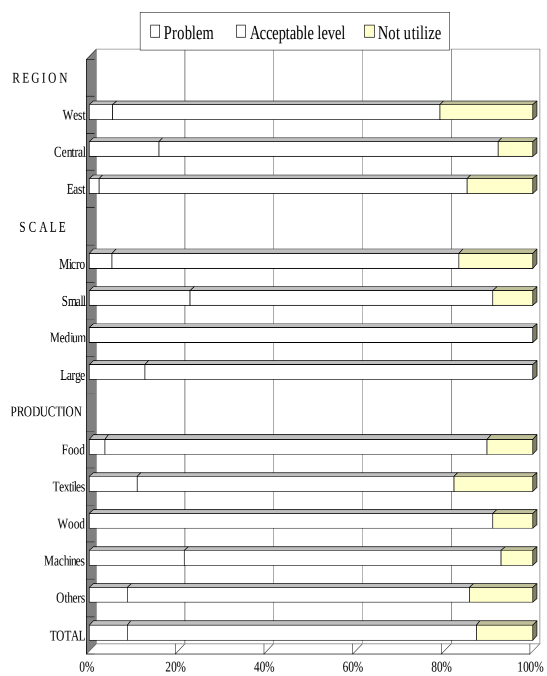


Figure 6.4. Communications

7. Conclusion

Business

- The business of the surveyed enterprises has suffered over the past three years with diminishing sales and profits due to the nation's economic slow down. The data collected shows that this shrinkage is reported mainly in small enterprises.
- Most entrepreneurs commented that the monetary change from the colón to the dollar has brought about security for local business investments. Export competitiveness, however, has been negatively effected, given that other countries have devaluated their currency and offer lower prices.
- Many enterprises declined to provide accurate financial information on their business. As this information is indispensable for improving and reforming corporate management, especially for SMEs, it is necessary to educate entrepreneurs so that they would more willingly cooperate with the survey of this kind by providing accurate information.

Employment

- The labor market is formed mainly of workers with primary and high school educations (77.3%), and this percentage does not change significantly regardless of the size of the enterprise. The survey indicates that the educational level of labors in the Central Region is higher than the other regions.
- The wages are mostly basic salary for operators ($179 per month on average), and the salary increases as the size of the enterprise increases, reaching $218 for large enterprises. The salaries for technicians and operators in the Western region is lowest.

Procurement

- The information related to procuring major materials and parts indicates that most of them are processed through third party enterprises. Large enterprises tend to import directly judging from the information that 51.7% of them procure materials and parts through imports. It would be important to renovate transportation system and logistics in order to reduce their production costs for promotion of SMEs.

Custom procedure

- For customs clearance, although some enterprises report agile and faster processing, others indicate that the process has always been very troublesome and slow. It is necessary to modernize custom procedures.

Accessibility of credit

- One important problem for many enterprises, especially from micro and small companies, is the difficulties they confront for obtaining necessary credit. They do not obtain any credit, not only long-term loan for investment, but also for short-term loan for operation. They have to meet troublesome criteria to end up paying interest rates that are still too high to be competitive. They are, thus, unable to pay for needed equipment, technology, advertising, promotion, market research or qualified labor due to limited credit accessibility.

Production costs

- Another important problem for many enterprises is the rising cost of power supply. They refer to it as too high, to the point where it increases their production costs so much that it is lowers their sales substantially.
- Some entrepreneurs indicate that their sales and profits have deteriorated in recent years due mainly to government measures such as: imposing new taxes on sales and income; raising the cost of energy, communications and labor. On the other hand, government has lowered the purchasing power of the labor force imposing higher taxes and increasing retirement funds, cost of energy, drinking water and communications.

Labor force

- For corporate management, the largest constraint is with regard to the labor market, that is employment of engineers, vocational education and training. All this lead them to expressing the need for government support in order to provide sufficient training courses and improved supervision of the educational institutions responsible for training professionals.

Market information

- Market information was rated rather weak, in part due to lack of fund to invest on information gathering effort. The government and public organizations are requested to obtain and provide basic and needed information such as updated and reliable social and economic indicators.

Business linkage

- Most enterprises do not belong to associations. This is true especially among micro-enterprises. Large enterprises have the highest incidence of association membership. As reported, this low association membership amongst most enterprises is derived from their perception that associations tend to work only on behalf of some members or associations tend to be rather inefficient.

Government support

- Regarding government support, most enterprises indicate that they are not obtaining any support from the government. Only a small percentage indicates that government support is acceptable. Needed support identified include subsidies for production, provision of reliable information on social and marketing variables, ensuring accessibility to credit and lower interest rates, providing strategic information and promotions for exports, providing better vocational and technical training, and providing better tax exemption.

Appendix 1. Major Products by Sales Zone

Major product	Zone			Major product	Zone		
Food Processing	Eastern %	Other %	Export %	***Food Processing***	Eastern %	Other %	Export %
Bread	0	100	0	Candy	100	0	0
Anguila	100	0	0	Sharks	70	30	0
Rice	67	30	3	Wheat	0	60	40
Snacks	30	50	20	Sausage	0	100	0
Sausage	15	85	0	Tortillas	33	33	0
Coffee	93	8	0	***Textiles***			
Coffee Gold	0	3	98	Bloomer	56	39	5
Cafe Soluble	15	85	0	Blouses	0	100	0
Toasted Coffee	15	85	0	Vests	100	0	0
Cakes	50	50	0	Shirts	47	53	0
Shrimp	47	53	13	T Shirts	0	90	10
Caramel Candy	60	36	4	Cushions	100	0	0
Sausage	15	85	0	Bedspread	0	100	0
Coconut	0	100	0	Cloth Remains	0	30	70
Food	100	0	0	Skirts	30	70	0
Cream	33	37	0	Women’s Underwear	60	30	10
Candy	62	34	4	Shirts	5	95	0
Sausage	0	100	0	Shirts	100	0	0
Beans	0	90	10	Hammocks	10	90	0
Cookies	30	70	0	Thread	0	50	50
Ice	57	43	0	Panties	28	65	7
Lobster	0	100	0	Pants	32	67	0
Sausage	15	85	0	Business Uniforms	18	83	0
Bakery	0	100	0	School Uniforms	0	100	0
Cheese	0	100	0	Secretarial Uniforms	5	95	0
Cheese	0	100	0	Dresses	16	64	20
Cheese	60	40	0	Labels	0	100	0
Hard Cheese	100	0	0	Clothing	0	0	100
Fresh Cheese	60	40	0	Clothing	40	60	0
Cheese	0	10	0	Suits	100	0	0
Flour	100	0	0	Clothing	0	100	0
Corn	0	60	40	Men’s´ Suits	0	100	0
Bread	10	90	0	***Furniture***			
Whole Wheat Bread	0	100	0	Chineros	67	33	0
Bread	25	75	0	Closets	75	25	0
Sweet Bread	50	50	0	Desks	50	50	0
Sour Bread	67	33	0	Shelves	38	60	3
Hamburger Bread	5	95	0	Restored Furniture	0	100	0
Hot Dog Bread	25	75	0	Furniture	19	76	6
Cakes	33	67	0	Dining Furniture	50	0	0
Fish	47	53	0	Living Room Furniture	50	50	0
Chicken	100	0	0	Pantries	100	0	0
Pretzels	100	0	0	Doors	24	65	2
Processed Food	100	0	0	Desks	35	65	0
Salt	60	40	0	Closets	67	33	0

Major product	Zone			Major product	Zone		
Machinery& Equipment	Eastern %	Other %	Export %	***Machinery & Equipment***	Eastern %	Other %	Export %
Alarms	15	85	0	Roofing	100	0	0
Metal Structures	8	92	0	Moldings	0	100	0
Timers	15	85	0	***Other***			
Pails	80	20	0	Posters	0	59	42
Gutters	0	100	0	Rugs	40	60	0
Rain Gutters	50	50	0	Horse Feedings	0	100	0
TV Closed Circuits	5	95	0	Bird Feedings	0	100	0
Chrome Pipes	35	65	2	Pork Feedings	0	100	0
Pails	80	20	0	Rings	47	53	0
Chrome Bumpers	85	0	15				
Front Bumpers	80	0	20				

Other				***Other***			
Major product	Eastern %	Other %	Export %	Major product	Eastern %	Other %	Export %
Black Bumpers	90	0	10	File Cabinets	50	50	0
Corn Grainer	100	0	0	Ear Rings	100	0	0
Air Conditioning Ducts	0	100	0	Argollas	100	0	0
Mills	100	0	0	Wedding Rings	30	70	0
Roof Structures	0	100	0	Flower Decorations	100	0	0
Window Protectors	0	100	0	Car Seats	100	0	0
Axes	2	3	95	Shopping Bags	0	100	0
Metal Decorations	0	100	0	Black Bumpers	100	0	0
Aluminum Windows	10	90	0	Benches	0	100	0
Metal Fences	50	50	0	Piñatas	50	50	0
Grain Silos	0	100	0	Car Batteries	0	100	0
Corn Mills	40	55	5	Trunks	0	75	25
Cloth Sink	50	50	0	Wallets	100	0	0
Press Tongues	30	70	0	Blocks	100	0	0
Sewing Machines	0	80	20	Men’s Boots	75	25	0
Industrial Machines	0	67	33	Bracelets	0	100	0
Shovels	2	3	81	Brochoures	0	17	83
Letter Holders	0	100	0	Chains	50	50	0
Pencil Holders	0	0	100	Folding Boxes	0	100	0
Door Gates	0	100	0	Bearings	30	30	40
Fence Posts	0	100	0	Swimming Trunks	40	55	5
Bakery Molds	100	0	0	Beds	33	27	7
Piochas	2	3	76	Pick Up Bed	0	100	0
Polines	18	58	25	Beds And Mattresses	3	63	32
Shower Heads	0	100	0	Rain Coats	10	80	10
Rules	0	0	100	Titles	100	0	0
Clocks	0	100	0	Brushes	7	32	61
Shower Repairs	0	100	0	Jackets	0	100	0
Moldings	0	100	0	Chifoneer	0	100	0
Rain Gutters	0	100	0	Candles	80	20	0
Mortar Tubes	0	100	0	Carts	35	45	20
Well Tubbing	100	0	0	Purses	0	0	100

Other				***Other***			
Major product	Eastern %	Other %	Export %	Major product	Eastern %	Other %	Export %
Mufflers	35	65	2	Drobe	60	30	10
Kitchen Air Extractor	0	100	0	Toilets	0	100	0
Ceilings	20	80	0	Text Books	0	100	0
Zippers	3	17	80	Door Frames	2	3	95
Belts	33	67	0	Suitcases	20	68	13
Trunks	0	0	100	General Stationery	0	100	0
Fireworks	0	100	0	Sheet Profiles	0	100	0
Women Shoes	39	60	1	Pots	0	100	0
Football Shoes	93	7	0	Piñatas	75	25	0
Men’s Shoes	67	33	0	Pins	40	55	5
Shoes	77	13	10	Stationery	100	0	0
Blankets	0	100	0	Decorated Desserts	10	90	0
Mattresses	15	85	0	Dental Prostheses	75	25	0
Cows Feedings	100	100	0	Whole Dental Prostheses	50	50	0
Access Controls	3	97	0	Dentures	50	50	0
Dental Crowns	0	100	0	Bracelets	75	25	0
Dental Crowns	100	0	0	Back Packs	10	35	55
Dental Ceramic Crowns	100	0	0	Modules	0	100	0
Steel Curtains	25	70	5	Saddles	33	67	0
Metal Curtains	10	80	10	Pots	0	100	0
Industrial Cream	0	100	0	Orthopedic Shoes	100	0	0
Crosses	67	0	33	Gifts	100	0	0
Finish Leather	0	100	0	Roofs	0	100	0
Decorations	100	0	0	Magazines	0	25	75
Graphic Design	0	100	0	Roll Bars	100	0	0
Brooms	15	24	61	Advertising Signs	100	0	0
Billing Stationary	50	50	0	Fire Works	0	100	0
Foot Steps	100	0	0	Sheets	0	100	0
Foam	0	90	10				

Others				***Others***			
Major product	Eastern %	Other %	Export %	Major product	Eastern %	Other %	Export %
Business Stationery	50	50	0	Printed Paper Bags	0	99	1
Photocopies	0	100	0	Sandals	8	92	0
Plastic Bags	0	100	0	Sofas	50	50	0
File Cabinet	0	100	0	Wledings	0	100	0
Head Caps	50	50	0	Hats	18	32	50
Business Stationery	0	100	0	Sorpresa	57	43	0
Pamphlets	50	31	19	Supra Mas	0	100	0
Imagens	100	0	0	Containers	0	100	0
Printings	20	80	0	Decorative Sun Protectors	100	0	0
Jewelry	0	100	0	Upholstery	0	100	0
Toys	100	0	0	Car Upholstery	80	20	0
Bricks	100	0	0	Furniture Upholstery	75	25	0
Floor Title	50	50	0	Barrels	0	100	0
Grave Lapid	100	0	0	Cards	50	50	0
Letters	0	100	0				

Appendix 2. Summary of Interviews

List of Interviewed Companies

- AGAVE INDUSTRIES
- ARROCERA SAN FRANCISCO S.A. DE C.V.
- BENEFICIO DE ARROZ EL PUEBLO
- BREAD & CAKES YOLY
- CAPCYSA DE R. L.
- CAPRI INDUSTRIES
- CHAPARRASTIQUE SUGAR MILL
- CONCORDIA FREE ZONE
- EMBUTIDOS DE EL SALVADOR
- EXMODICA S.A. DE C.V.
- FABRICA DE ZIPPERS YKK
- GRAFICOS E IMPRESOS
- HANDALL Y SOBRINOS (SALINERA EL ACEITUNO)
- IMPLEMENTOS AGRÍCOLAS CENTROAMERICANOS (IMACASA)
- INDUSTRIAS BRITÁNICAS SALVADOREÑAS (INBRISA)
- INDUSTRIAS QUÍMICAS S.A. (IQSA)
- LABORATORIOS ARGÜELLO
- LORENA GROUP
- LYA INDUSTRIES
- MECAFE S.A.
- MOBILIA S.A. DE C.V.-MOBLEX S.A. DE C.V.
- PLANTA DE TORREFACCIÓN DE CAFÉ (PLANTOSA)
- PRIETO S.A.
- PRODUCTOS ALIMENTICIOS SELLO DE ORO
- SALVAMEX INDUSTRIES
- SARTI WORKSHOP S.A. DE C.V.
- SERVIFOODS S.A. DE C.V. (KISS CAKES)
- SMALL LABORATORIES AT AMPES

AGAVE INDUSTRIES

Establishment: 1960-65
Principal Market: El Salvador (Fertilizers Companies and Coffee Mills), Guatemala, Honduras, South of Mexico
Number of Employees: 200- (30 permanent)
Principal Raw Materials: Sisal, Kenaf, Lubricants for the fiber, Synthetic thread, Water dyes
Main Products: Sisal and Kenaf bags

Founded in between 1960-65. AGAVE is one of the most important sisal industries in the Eastern Region. The company is working in a very difficult period because the demand of sisal and kenaf bags has been decreasing. This problem is caused because of the arise of the plastic bags market.

The production of kenaf bags represents the 66% of the factory production; and the sisal bags represent only the 33% of the factory production.

Competitiveness among similar companies in the Eastern region is not very big. But the main problem is the polyethylene factories that produced plastic bags for the fertilizer companies.

P.D. Their sister company is the plastic bag company owned by the Borgonovo.

The company gets the information by two sources:

1. By their own sources
2. By HENSALVA (Salvadoran Sisal Association)

They do not have any governmental support. And with the abolition of the Law that protect the sisal companies is worst because that means plastic bags are not going to pay the tax for artificial bags that they used to pay.

Problems:

- Disloyal competitiveness among plastic bags companies
- Not any government support; on the contrary the Government prefers to help the fertilizers company than to support the sisal and kenaf companies.
- No subsidies from the Government to local producers (On the contrary, the Indian and Colombian Government for example subsidies or forgives the credits to the local producers)
- Sisal and kenaf Producers are not investing in new plantations and they are looking for an alternative crop.
- We need protective laws from the Government.

ARROCERA SAN FRANCISCO S.A. de C.V.

Arrocera San Francisco is a corporation, with 5 divisions. Only the rice company has 1,200 employees. They also have other 17 companies; one of them is García Flamenco School. One of keys to success has been diversification.

El Salvador needs to become an industrial park: manufacturing, agro-industry, etc. They should let Nicaragua, Honduras and Guatemala produce agriculture and process the products here. Agriculture should not be promoted, because the farms are very small and the production is not enough.

Problems:

1. Infrastructure: Utilities, Service of the port. Electricity is very expensive.
   Acajutla Port: managed by CEPA, terrible service, terrible cost. It's the most expensive in Latin American South Pacific.
2. Import Tariffs: Extremely elevated in the rice sector (40%)
3. Custom Duty.
4. Rules are not clear (they tell you one way, but they took it another way) There are 3rd rule country arbitrary decisions. (Foreign interests)
5. The Government is losing institutionality

BENEFICIO DE ARROZ EL PUEBLO.

Establishment:
Main business: Rice process mill
Major market: Domestic
Employees: 15 (temporally 30-40)

This company is currently one of the only two rice processing mills located in the area of San Miguel; thanks to the current administration, it has 10 years of having presence in the Salvadoran market; they import rice and process it, due that the local market is not processing enough amounts, necessary to the operation of the mill.

The way this mill operates is the following: contacts are made through different transnational companies that carry out businesses with unpeeled rice; then a research to measure convenience, price and quality of product is carried out; finally it is purchased and then processed and traded in the local market.

Another way of doing business is purchasing the small amount of local rice that is produced and then processing it exactly as they do with the imported one.

This company is a tool processing industry, due that <u>the local production of rice in the country is almost nothing</u>, being forced <u>to import it from the United States and then process it in El Salvador.</u>

Problems:
Besides the above-mentioned problem, this company has to fight with payment of utilities (energy and water) that adding to the fact that these are deficient, the tariffs are too high, making the productivity to go down in order to reduce costs.

In relation to productivity development plan for the Easter region through the Cutuco Port located in La Union, this company firmly believes that this will beneficiate not only this region but the whole country, in a way that markets could diversify and sale probabilities will increase for everybody.

BREAD & CAKES YOLY

Establishment: 1994
Principal Market: Eastern Region
Annual sales: ¢9,000.000
Number of Employees: 55
Social Capital: ¢6,000.000
Principal Raw Materials: Flour, Sugar, Eggs, Jelly, Marmalade, Fruits, Yeast, Cardboard for packaging
Main Products: Cakes, Sweet Bread, Bread, Pizza

Founded in 1994. Bread & Cakes YOLY begun as a micro company with only two employees. Now it has transformed in one of the biggest cake shop of the Eastern Region. This company is located specifically in Santa Rosa de Lima, department of Morazán. Nowadays it has 6 branches (san Miguel, Anamoros, Santa Rosa de Lima, La Unión, etc.), 8 delivery trucks.

They get their information by their own sources and by AMPES and AECOSARLI (Association of Commercial Enterprises from Santa Rosa de Lima)

Problems:

- Disloyal competitiveness among non registered companies which give low prices and do not pay Social Insurance, AFP, IVA, Accounting system, etc.
- The transnational that are arriving and that will arrive, because they are not ready to compete with very big and powerful companies.
- Lack of Qualified Labor (They incurred in costs to train and qualified labor)
- People do not will to change or to learn, also because of the US remittances people have become accustomed to receive them every month

The company sees La Union Port in two angles.

1. Positive: Because it will be a window to the world and the Eastern Region will achieve development.
2. Negative: Because not all the companies are ready to compete, and it could happen that other big companies take advantage of all the benefits that the port will generate.

CAPCYSA DE R.L.

Establishment: 1972
Principal Market: Eastern Region
Annual Production: 50,000 bags of concentrate
Annual sales: ¢12,000.000
Number of Employees: 15
Social Capital: ¢2,800.000

Main Products:

- Livestock concentrate elaboration
- Raw Materials selling
- Veterinarian Medicine
- Fertilizers
- Herbicides
- Mill Service
- Mix and nibble services

CAPCYSA stands for Cooperative Association of Savings, Production, Credit and Agricultural services. This company is located in the Eastern Region, specifically in Jocoro, department of Morazan. It has 78 associates from the eastern region. Most of their raw materials are imported.

Their product is preferred because of the high quality of the raw materials and because their prices, which are of three kinds:
1. price to distributors,
2. price to associates,
3. price for the consumers.

The company has also been recognized by the cattle breeder for its brand: JOCOREÑO and their good attention to the clients and also because of their permanency in the eastern market.

Problems:

- Livestock Industry is not profitable anymore because of the milk and cheese prices, which tend to vary in winter (low prices) and in summer (high prices) and competitiveness.
- Milk and Cheese Smuggling mainly from Nicaragua.
- People are so accustomed to the livestock activity that they do not want to diversify their activities and some others prefer to produce only for their own consumption.

Eastern region is mainly agricultural and commercial. La Union Port has created a lot of expectation in the Eastern Region. We would like your support or your advice to know more about agro industry.

CAPRI INDUSTRIES

Establishment: 1953
Main business: Beads, Mattress and Furniture
Major market: Domestic (80%) and Central America
Sales: $10,000,000
Employees: 270-300
Materials: Steel Wire #9,13.5 and 17, Wood, Fabrics and Chemicals for foam
Association: Chamber of Commerce, ASI and National Council for Publications

CAPRI Industries was founded in 1933. Mattresses are its main product (made of spring and foam). They also produce a small amount of furniture.

They export to all Central American countries and Belize. About 80% of these sales are in the domestic market. It has a market share of 62% in El Salvador.

Problems
- High prices of the utilities (water, electricity) and services such as insurance.
- No access to the Atlantic Ocean. This means higher costs in the area of importing materials because we have to use ports of Guatemala (Puerto Barrios) and Honduras (Puerto Cortez), and then pay for extra freight for the inland transit. The dry channel could be an interesting alternative. But the future source of materials could be Asia (let's say 10 years from now) because they are cheaper than Europe. In this case, Cutuco Port becomes very important, as could be the gateway to Central American countries.
- Customs: there are delays and too complicated procedures. The average time to clear goods from customs is 15 days. If you have a 40" container from one country with just one product, you probably won't have problems, but if you import small amounts of materials, you have to consolidate goods and your materials could stay in Guatemala almost 2 months, waiting to be cleared.

Here the small companies does not have support, they do not have easy access to the markets. Only 70 companies do 80 % of exports the country makes.

What the manufacturing industry urgently needs: An Export / Import Bank, Enough guarantees, Infrastructure, E-Market information, Training support, Lower prices on utilities.

In the last 4 years we have reached an accrued inflation of 18%. Government has not moved the minimum salary; they have locked it because of the maquilas, as they always want to have cheap labour. But this situation is gradually making people to have less purchasing power.

CHAPARRASTIQUE MILL.

Establishment: In 1982 it was created by INZUCAR as a result of the agricultural reform; but in 1995 it was privatized and it was created as an anonymous society in that year. (private capital)
Principal Market:

There are sell two kinds of sugar:

1) White sugar, which is mainly sell in El Salvador
2) Raw sugar, whose principal markets are: 1) US Market (Specific Sugar Quota); 3) World Market.

For Molasses: 1)Brokers; 2) El Salvador; 3) Central America (especially Nicaragua and Guatemala)

Annual sales: $21,000.000
Number of Employees: 500 during Zafra
Social Capital: $16,230.000
Principal Raw Materials: Sugarcane

Main Products: Sugar and Molasses

CHAPARRASTIQUE MILL is the strongest mill in the Eastern Region. They have 16,000 manzanas of sugarcane plantations divided in 5 zones.
All the Eastern Sugarcane Region is formed by:
15 Cooperatives
180 Farmers
230 Producers

Chaparrastique has the highest cargo cost of transportation of the finished product to the port in comparison to the other sugar mills of El Salvador because is too far away from the port (Acajutla). On the contrary, Chaparrastique has the lowest cargo cost of raw materials (sugarcane) in comparison with the other sugar mills. Chaparrastique has a very privileged geographical position because most of the sugarcane plantations of El Salvador are located in the Eastern region; because of that we can say that that is a competitive advantage.
There are special tariffs (like the 40%) that protect the sugar industry from foreign sugar industries.

Problems:
- High debts
- Many communities are surrounding the sugar mill that is why it is now considered as a semi urban zone. The problem is the environment.
- Transformation costs
- Importation of new and high technology, work means, etc
- New technology will arise the sugar price, so it will be difficult to sell it
- Smuggling from Guatemala (the first sugar producer of Central America)

CONCORDIA FREE ZONE.

Establishment: 2001 (permit to work as a Free Zone)
Principal Market: Industrial Space for Free Zone Industries. (Maquila, textiles, consolidators, distribution centers, etc.)
Number of Employees: 12

Concordia Industrial Park was founded in November 2001, and is promoted, developed and operated by COSTA INVERSIONES S.A. de C.V.

The project consists of a development pole for a strategically located 39 hectare free zone, in its first phase.

It was built to become a major development center. It is strategically located near major cities in the Eastern region of El Salvador, an area known by its vast labor force.

The short-term project includes a hotel, a gas station, residential areas and a shopping mall. Warehousing facilities will be leased or sold. Plots or lots will also be sold or leased.
They have also an abundant source of clear water with two wells with capacity over 1,800

gallons per minute.

Problems:

- Lack of support from entities like PROESA that do not take the invest men to the Industrial Park because of commodity.
- Lack of Governmental support to develop the regions located outside the capital and its surroundings. (Mexico, Costa Rica, Dominican Republic are countries that promote development outside its capital city)

The Region has the necessity of developing in order to search working alternatives.

EMBUTIDOS DE EL SALVADOR

Establishment: 1980
Main products: Processing of meat to produce hams and a variety of cold meat as sausages (delicatessen), bakery (new)
Major market: Domestic market; direct sales to supermarkets, hotels and restaurants and two own stores.
Sales: average annual sales are of $2.6 million.
Employees: 70 employees (including the two stores)
Social capital: $700,000
Materials: Import meat from the states (material) and cheeses from Europe (products) 70 – 80% of their purchases are from local farms (only 5 farms).
Association: ASPORC (25 –30 members).

The company has a well-known and positioned brand (Kreef). The products are not for popular sector but for the high-class sector; the products are considered within the line of "delicatessen"

USA offers good prices on pork meat mainly because farmers there have subsidies from the government (20%). Costs here are almost the same as in USA but the subsidy makes the difference in prices therefore making USA products more attractive.

Pork meat could be purchased in Nicaragua but there are sanitary restrictions in Central America. The only country that has not restrictions is Costa Rica, but prices are not competitive. Nicaragua is a good supplier of beef, but Nicaragua already has a local market (supermarkets and restaurants).

Government should have to subsidy farmers so they could be competitive and expand their businesses. Also government has established a quota of meat to be imported (200,000 lb per month) in order to help local farmers to keep in business. This quota could be negotiated for the trade agreement.

Farmers need technical and economical support; also a campaign is necessary to promote the consumption of local products.

Government should provide animal diseases control. In the country we do not have too many diseases that affect livestock, but there are no guarantees/ certifications from government that meat is free of them. If you buy meat in USA, it always has a seal of the USDA, a governmental agency that controls the fulfilment of sanitary measures for this kind of products.

EXMODICA S.A de C.V

Establishment: 1992
Main business: Textile
Major market: United States
Employees: 806

Its starting in the Salvadoran Market is in 1992, and it is located in the expanding Free Zone of Santa Ana, on the road to Metapan. Its main activity is related to textiles in the confection of apparel.

It has a labor force of 806 permanent employees, becoming one of the solid companies in this business. Amongst its personnel there are 52 technicians that supervise the quality of its products.

Since the beginning, EXMODICA is dedicated to export its products and nothing of its production is leave in the country. Right now its biggest customer is the United States.
Raw material is 100% imported from the United States.

EXMODICA financial situation is stable, because it has direct dealing with customers outside the country and therefore has liquidity with no debt at all.

The benefit that the monetary integration has brought to this company is to maintain immutable the dollar exchange what favors negotiations in the States.

Business conditions EXPODICA has to deal with are the following:
- Custom processes
- Lack of a dynamic port

The particular plans this company has in order to open new businesses is to open a plant to crop and process the loroco, and to create an own brand in the international market, etc.

FABRICA DE ZIPPER YKK

Establishment: 1968

It is founded in 1968 with the idea of create an industrial factory of zippers with same quality of YKK Japan.

Right now it is a very respected solid company at the Salvadoran industrial environment; its imports are 80% from Japan, making clear that its distributor is YKK Japan; 10% are from

Guatemala and Mexico and the rest come from the local market. Most products coming from outside are received at Santo Tomas de Castilla Port in Guatemala and some others in Acajutla.

In reference to the quality of these products, YKK carries out quality tests before placing orders to the suppliers.

The charge for the energy network are high but acceptable to this company, as they received good service 85% of the time; in case of water, the company has its own well.

The problems this company used to have in the commercial sector were robberies; this was resolved when private security was installed on their delivery trucks.

Although is worth to mention that the biggest problem at this moment is the existing burocracy for the import permits issued by the Superior Council of Public Health and the Surveillance Committee for the chemical products, as they take more than a week, delaying the production in which they need to use these products.

With the implementation of the port at La Union, this company thinks that it could bring certain indirect benefits such as to increase sales in that area and to generate new investments to other industries.

GRAFICOS E IMPRESOS

Establishment: 1970
Main business: Printing
Major market: Domestic
Employees: 70

Gráficos e Impresos is a company has 32 years in the Salvadoran market, and is located in the always-expanding industrial area of Ciudad Merliot.

The main economical activity is the printing business and its main production is focused to folding carton boxes. Its labor force is of 70 permanent employees.

In reference to the accessibility to credits, this company works with rotating credits, giving as a guarantee its production machinery. Current interest rate are better thanks to solvency given by dolarization in the country, as they have decrease from <u>15% to 11% with a year term</u> to pay them.

Due to the stability that dolarization gives to currency, this company is planning to retake the exportation of its products, including the benefit the <u>government grants by returning the export taxes</u>.

All raw materials are imported from countries such as Belgium and the United States

For the implementation of new technology, this company has the necessary equipment in order to have an adequate production.

The construction of the port at La Union and the opening of new markets at the Eastern region, Gráficos e Impresos has the intention to get to the market in this region and take advantage of the resources this could offer, in order to avoid using Puerto Cortes and Puerto Barrios to import their goods.

HANDALL Y SOBRINOS (SALINERA EL ACEITUNO)

Establishment: 1919
Main business: Salt industry
Major market: Domestic
Employees: 50-110

Its organization was in 1919; to date it's administrative offices are located downtown Usulutan, but the production plant is at Puerto Barrera, Usulutan.
Currently, Handall y Sobrinos counts with specialized labor for the collection and processing of SALT; its labor force is of 50 people during winter season, increasing up to 110 during summer.

In reference to raw material, this company counts with a benefit in production costs, as it doesn't need anything else to process its products but the seawater, although amongst the raw material it uses wood as a substitute of what could be a conventional rake to wash the salt.

For the distribution of the products produced from the salt, Handall y Sobrinos uses a number of "re-structured" trucks; this qualification has been given to them as they are tractors with a loading zone on behind; this kind of "re-structured trucks permits that the transportation of a product be faster, effective and economic.

Amongst the obstacles the company has to solve every day, is the decrease of salt prices at local and international markets, besides that the land where exploitation is being made during 80 years, does not belong to the company but to the government.

For 2003 Handall y Sobrinos has planned to start trying to diversify its markets, being the case that pretends to enter to the fishing business by establishing a shrimp processing plant at the Eastern region, specifically in Usulutan; also plans to modernize the collection and processing of salt for its sale and distribution.

Another goal this company has for this year is to start again with export of its products, as it has not been done since few years ago.

This company firmly believes that the establishment of the port at La Union will be very important to the Eastern region, and particularly for this company, because the opportunity to supply new markets will be opened, being the most real the opening of a salmon processing plant in El Salvador thus this company will have the opportunity to provide its salt products to the mentioned processing plant and to any other that surely will come.

IMPLEMENTOS AGRICOLAS CENTROAMERICANOS
IMACASA

Establishment: 1964
Main business: Agricultural tools
Major market: Domestic and foreign
Employees: 365

Established in Santa Ana in 1964, with the purpose of being essential part of the industrial zone of the Western region.

IMACASA is exporting its products to all countries in the region, Panama, Dominican Republic, Puerto Rico, Mexico and Paraguay.

For the quality of the products IMACASA has been certified with international quality norms ISO 9000 version 2000.

This company operates with certain kind of credits at <u>an interest rate of 4.89%, 180 days term</u>. This rate is due to the stability given by the monetary integration to the financing system, although as a counterpart, in reference to its foreign investments is not so beneficial as the rest of countries have a non-stable value for the dollar in respect to their currencies, so this is what creates instability at the moment of determine prices at the international market in comparison to domestic prices.

Energy supply in the Western region is more expensive than in the rest of the country.

At this moment for the Eastern region the company only has a group of salesmen that take care of making contact with different distributors.

Among the benefits that port at La Union could bring are: import costs will be reduced for our country and possibly for the rest of the region. Also it will help to the free trade agreements with other American countries and possibly Europe and Oceania.

INDUSTRIAS BRITANICAS SALVADOREÑAS (INBRISA)

Establishment: Middle of 80's
Shareholder: Foreign (British) 50%/Local 50%
Main business: Shoemaker
Major market: Domestic, Central America
Employees: 52

Industrias Británicas Salvadoreñas is a company with 50% foreign investment (British), the rest of the shareholders are local.

Its main economical activity is the shoe production; it also distributes sport bags that are commercialized at the domestic market as well as in the rest of countries of the Central American region; amongst its best customers is Costa Rica, where the products are web positioned with good probabilities of growing.

In relation to custom process, sometimes there are delays due to a burocratic process; saying it clearly, there is delay because custom employees want the delays; what this situation makes to the company is that it does not invest in foreign raw material and also reduces the exportation of its products.

In relation to what the Port at La Union will be, INBRISA just can see it as a big opportunity, but will be responsibility of the ones in charge of the project, to give same opportunity to everybody and not give benefit just to a minority.

INDUSTRIAS QUIMICAS, S.A. (IQSA)

Establishment: 1956
Main products: Intravenous solutions (i.e. saline solutions), pharmaceuticals, refreshments, purified water, food supplements, oral dehydration products
Major market: El Salvador, Nicaragua, Panama, Guatemala, Honduras, Dominican Republic
Sales: 3,899.1 Million dollars in 2002
Employees: 225
Social capital: $5,657,142.86

This business (production of intravenous drip) started few years ago with a group of local partners and has expanded to start the production of pharmaceuticals (oral and injected). Since seven months ago they have diversified for different niches market. They produce refreshments, vitamins, shampoos and purified water, in order to take advantage of company's main asset: water.

New business units:

1. Refreshments (isotonic beverages)
2. Oral dehydration
3. Purified water
4. Food supplements
5. Pharmaceuticals

The Minister of Economy grants a benefit to exporters and it's called fiscal bonus or fiscal incentive, that consists in returning to the exporters 6% of the total value of goods sent outside the region.

Raw materials are purchased from USA and Germany, and are right now testing flavors from the Japanese company Takasago. They do not purchase local material, as quality is not reliable. All materials should pass the QC tests before it is received at the warehouse.

They subcontract small companies to produce packing material such as boxes, labels and small bottles for pharmaceutical products. There is no technology transfer from IQSA to these small companies, as they are reluctant to accept advise and prefer to continue making things as they have always done

The Eastern part of the country should be promoted with agricultural and agro-industrial projects, along with an education program, as the illiteracy is very high in this sector.

Cutuco will be an advantage because raw materials can be brought from Japan at more competitive prices than those from USA or Europe.

LABORATORIOS ARGUELLO

Establishment: 1910
Main products: Pharmaceuticals
Major market: El Salvador, Honduras, Nicaragua
Annual sales: $ 191,876.26 (up to Sept. 2002)
Employees: 20-25
Social capital: ¢100,000
Materials: Pharmaceutical raw materials
Association: ASI, Chanber of Commerce, Colegio de Químicos y Farmacéuticos

The laboratory used to employ 60 people but now with the globalization, the company has been forced to cut down to 20 – 25 employees. The main problem has been that they have never had any support from government or any other organization. President Duarte forced all laboratories in the country to make a list of imported products (medicines) that could be substituted by local products.

Raw materials are imported from Guatemala, USA and Europe but they do not purchase directly but through distributors here; they also purchase some materials from local laboratories but in small amounts, just for the day-to-day operation.

Right now the company does not have any credit with the banking system, the interest rate is too high. What they need here is the establishment of international banks that could offer better alternatives to the industry, as this sector is not eligible for grace periods.

The company has not made any investments in the last 10 years, as it cannot afford them. How the industry here is going to compete with Mexican or Canadian laboratories, as they are going to be sending their surplus of medicines.

Another problem the business faces is economical. All available economical efforts are aim for production, although he believes that some investment in advertising should be made (posters) to have presence in popular clinics or popular markets.

The industry pays income tax (25%) and VAT. Last year, from a starting point of earning 75,000 colones, you could deduct 8,000 colones. Now you apply same amount but the starting point is zero.

People here in El Salvador and most of all in the Eastern region, are very warmth; it has a lot of commercial activity due to the closeness to Honduras and Nicaragua. There is also a lot of smuggling. All the agricultural activity in the area is very poor comparing with how it used to be before the war. The opening of Cutuco port will be very good for the area, if the right people are chosen to manage it.

LORENA GROUP

LORENA Bakery starts approximately 21 years ago in San Miguel. Formed by a restaurant, bakery, paper company, construction, real estate and little bit of agriculture and live stock, conforming a solid association at the local market.
Currently, the LORENA has an estimated of 230 employees (distributed in all companies), with the possibility of contracting 50 more what will allow the opening of 3 more shops for the bakery.

Regarding exports, the LORENA group is waiting for the FDA certification in the United States, what will allow them to start commercialization of three different kind of products in that market.

Low material is purchased locally as they have not been able to import materials due that the amounts that suppliers require to place an order are too big for the company needs.

LORENA works with the Salvadoran banking system trying to keep its financial stability the best they can. Institutions such as INSAFORP and FUSADES give support to achieve company improvement.
After dollarization, LORENA GROUP has been benefit with the credit factor as interest rates have decreased and the investment is wider.

For LORENA GROUP, the development of the Eastern Region will be of benefit to them as due that improving infrastructure, the flow of people to the Region will increase (from other parts of the country or from neighbor countries) creating investments in the three departments that conform the Eastern Region.

LYA INDUSTRIES

Establishment: 1968
Main business: Food products (powder refreshments, chao mein noodles, sauces, dried fruits, beans, etc.)
Major market: Foreign market (USA, Canada)
Sales: ¢2,000.000
Employees: 14
Social capital: ¢6,000.000-¢8,000.000
Materials: Fruit, Soybeans, beans

Founded 35 years ago. This factory has the capacity of processing any kind of food product. They work according to purchasing orders thus the industry does not have focused in a determined product, but they produce refreshments in powder form, chao mien noodles, coffee, sauces, etc. They have been exporting since the beginning of operations, and have customers in Canada, USA, Germany and Taiwan. They also supply the domestic market (supermarkets and small stores). The exports are made through distributors in the above-mentioned countries.

All raw materials are local. Suppliers are from San Miguel, San Vicente and Cabañas. They are associated to an agro industrial cluster supported by the Ministry of Agriculture.

Problems:

- No guarantees
- Economical structure is the most closed
- If some aid comes through the government it got lost and if it comes through the banking system, the aid is for their associates.
- The president of the small and medium companies association in Taiwan visited our country, and he got surprised when he knew about the interests of our banking system. Taiwan interest rate is 0.5%; here they are from 20% to 60%.

The small and medium enterprises do not fit within the regulations of the banking system. There are embassies and NGO's that give some support, but this is focused just for the micro enterprises.

MECAFE, S.A.

Establishment: 1980-81
Main products: Coffee
Major market: El Salvador, USA
Annual sales: $12,000,000
Employees: 300
Social capital: -
Materials: Coffee, sisal bags, water, gas
Association: Chamber of Commerce, ABECAFE (Association of Coffee Mills Exporters)

Company Profile:

1. A small company for imports of parts and engines from Japan in San Miguel.
2. Mendis, S.A. de C.V.: assembler of the Kawaki fans registered at the Minister of Economy. 80% of components are produced here. They also have a variety of molds to make drawers, shoe holders, baskets for vegetables, etc. Their raw material is imported from Houston, USA via Acajutla.
3. Cosase: a security agency, giving special emphasis to the electronic security; equipments are imported from India, Korea and Japan.
4. MECAFE: the first company to be founded and is currently trying to cope with the worldwide crisis of coffee, as international prices have dropped to the lowest levels in more than 30 years. Now these prices scarcely cover crop expenses.

MECAFE has presence in all departments that produce coffee; they have what is called “coffee collection agencies”; the eastern area just represents 20% of the total coffee production, and due to actual crisis, producers are looking for diversification. They also operate as a small financing agency, as with own funds they make loans to small producers, cooperatives and coffee associations. The coffee harvest is once a year and the provision credits help the producers with all expenses during the cropping period.

Coffee prices are established by the stock market at New York and London. When a producer wants to sell, the company first checks for the price of the day and then proceeds to clear the account.

Here in El Salvador, until 1994 there was a governmental agency who was the one in charge of all coffee exports, then after the sector was released, the producers had to face many difficulties being the more serious the agreements that the countries that are the biggest purchasers have with countries such as Costa Rica, Colombia, Jamaica and now Vietnam. In the case of Japan, a very small quota is established for El Salvador (3%). Right now the producers are going through the worst coffee crisis in 30 years. They used to be 63 coffee mills in the country, now there are only 7.

Besides producing coffee in grain (that is sold in bulk), they also produced toasted coffee, but one of the constraints to export to Japan, is that a shipment takes too long to arrive there, reducing coffee shelf life as it takes 1 month for processing, packing and shipping and then another month in transit, plus say 15 days for custom clearance. Processed coffee shelf life is 6 months; after that period coffee has lost his properties of odor and taste.

MOBILIA S.A de C.V – MOBLEX S.A de C.V

Establishment: 70’s and 1980
Main business: Furniture
Employees: 300

These organizations are dedicated to different products. In case of Mobilia, S.A. de C.V., it has been operating since the 70’s, but Moblex, S.A. de C.V. was started in 1980
The businesses of these companies are the following: Mobilia makes beds and Moblex designs and makes living room furniture.

At this moment, both companies have a labor force of 300 permanent employees; the machinery comes from Switzerland and the United States, in order to have the expected production with the best quality standards.
The import of this machinery has been done through shipments coming to the Acajutla Port.

Raw materials are imported from different countries such as United States, Mexico, Guatemala and Honduras. The countries of the Central American region provide the wood and other wood parts for the beds; countries in north America provide textiles and wire for the assembly of the beds, just to mention a few.

These products are exported to Guatemala, Costa Rica, Nicaragua and Honduras, and for the near future are planning to start exporting to the southern part of Mexico, probably by the third quarter of this year.

Dollarization factor has been very important to the companies, as they have reduced the interests charged by the banking system, being to date 7.5%

La Unión Port
In the specific case of the port at La Union, these companies have great expectations on the development of the eastern region because of three reasons:

- Transportation costs in that area will be reduced.
- Goods will be provided faster
- There are more possibilities of entering that market or have a permanent position on it.

PLANTA DE TORREFACCION DE CAFE
PLANTOSA S.A de C.V

Establishment: 1994
Main business: production of roasted coffee (70%) and instant coffee (30%)
Major market: El Salvador
Employees: 300 employees, where approximately 94 are dedicated to the marketing area, including in this number the sales force.
Raw Materials: Raw material is basically coffee grain, which is purchased all over the country and transported by trucks

This company is currently located in the growing city of Soyapango; its main business is the production of roasted coffee (70%) and instant coffee (30%), to be distributed at country level.

PLANTOSA S.A de C.V has planned to purchase new packing equipment to make this process more effective and therefore the company will become more profitable.

The road system that government offers affects its sales volumes, production and development due to the delays it provokes in the delivery of raw materials to process the products, besides that the bad road condition does not allow the company to make its deliveries in short period of time.

Expectations with the upcoming opening of the port at La Union, is that the existing road system will be improved and therefore this will help to maintain the company at the domestic market, being more efficient in the delivery of the products.

PRIETO, S.A.

Establishment: 1962
Main business: Coffee
Major market: Foreign market

Founded almost 40 years ago and its main business is the process and commercialization of coffee. The company is dedicated to the agricultural business, where 70-80% of this is located in San Miguel.

Prieto, S.A. has coverage all over the country; 15% of the processed coffee is own and the rest is of third parties; the company owns 3 coffee mills, one in Moncagua (San Miguel), one in Atiquizaya (Ahuachapan) and other one in La Libertad.

Due to the crisis, they are considering diversification and are now making few small tree plantations to see if they can go into the wood industry, they are also trying with papaya; they will focus on US and Canadian markets. The American Embassy here has a supporting program called FINTRAC, which is giving them all technical support on the papaya crop. What they consider that is not exportable, they will look for a dehydration plant to sell it as a dehydrated fruit. Japan purchases fruit in this form. Mitsubishi is operating a plant in Guatemala and all its production is exported to Japan.

Main coffee markets are United States and Europe.

According to Mr. García Prieto it is necessary that Salvadoran government promotes an image for coffee but as a country; Guatemala and Colombia do this with very good results.

With Cutuco, the eastern region will have a boom as many big companies are right now planning to move there (Coca Cola and Agua Cristal). But what the eastern region really needs is to promote the agro industry and then think in something else; because what people of the eastern region do the most is agriculture. He thinks that farming all kind of cereals could be a good start. Another thing that Japan purchases through Mitsubishi is sesame seed, which could also be produced at the eastern region.

PRODUCTOS ALIMENTICIOS SELLO DE ORO
(SAN MIGUEL)

Establishment: 1970's
Main business: Chicken and its process products
Major market: Domestic and surrounding countries
Employees: 55

This company has more than 30 years of presence in the local market; has different distribution sites in the country, being the main ones: San Salvador and San Miguel, which commercialize the brand "Sello de Oro" all over the country.

San Miguel is a particular case; this company has an average of 55 permanent employees that dedicate to the commercialization of Sello de Oro products in that region.

Raw material is poultry, specifically chicken. This comes from the United States, because if this industry should have to depend on local supply, it will exhaust it. From this product comes the commercialization of chicken cold meat, whole chicken and bread chicken pieces.

Due that the infrastructure has to be constantly reformulated, at this moment Sello de Oro can't cover all product requirements at the Eastern region. Nevertheless, are now working in the solution of this problem.

About marketing, Sello de Oro has a group of experts that are constantly making quality research to solve any inconvenience arouse from the customers.

This year the company pretends to export to the neighbor countries Honduras, Nicaragua, and Costa Rica.

Sello de Oro foresees the opening of the port at La Union as an opportunity to generate more jobs and make a bigger caption of foreign exchange in imports of products as well as exports, but for this, it is necessary to provide education to traders, producers and suppliers in the area, to obtain the best from this plan, but as far as this is managed with integrity and clear to favor and benefit the Salvadoran people.

SALVAMEX INDUSTRIES.

Establishment: 1976
Principal Market: Fertilizer Companies (FERTICA & UNIFERSA) (95%) and some coffee mills (5%).
Annual sales: $1,500.000
Number of Employees: 90
Social Capital: ¢ 424,000
Principal Raw Materials: Sisal, Lubricants for the fiber, Synthetic thread, Water dyes
Main Products: Sisal bags

Founded in 1976. SALVAMEX Industries begun with Mexican and Salvadoran capital, but because of the war in the eighties, they sold their actions and go back to Mexico. While the Salvadoran partners decide to risk and stay in San Miguel.

The company is working in a very difficult period because plastic bags made from polyethylene are replacing sisal bags because of its price.
Another problem is that with the diminishing of agriculture the sisal bags that were used for coffee are no longer necessary due to the low coffee prices and actual abandon of the coffee fields.
Most of their raw material is 75% national and 25% imported.

They do not any governmental support. And with the abolition of the Law that protect the sisal

companies is worst because that means plastic bags are not going to pay the tax for artificial bags that they used to pay.
The Government is a strong allied for the fertilizers companies which in order to reduce their production costs, they rather prefer a plastic bag than a sisal bag.

Problems:
- Disloyal competitiveness among plastic bags companies
- Not any government support; on the contrary the Government is helping the fertilizers company to destroy us.
- No subsidies from the Government (On the contrary, the Mexican Government for example subsidies the Sisal Companies)
- Sisal Producers are not investing in new sisal plantations and they are looking for an alternative crop.

SARTI WORKSHOP S.A de C.V

Establishment: 1929
Main business: metal structures for the industry
Major market: SARTI is exporting its services to the Central American area and Dominican Republic, giving support of metallurgic type to their industries.
Employees: 225 permanent employees form labor force of this company; only during the sugar cane processing season, they increase the number up to 350 employees

SARTI is currently a company dedicated to metal works and to metal industry with the only purpose of giving support to industrial entrepreneurs, nationals or foreign.

At this moment, production is carried out adequate as dimension of each one of the "wings" allows the mobility of personnel as well as materials without overcrowding the plants.

About the energy supplied by a private enterprise, right now SARTI has to pay 3 different types of tariffs; sometimes the tariffs increase and although reduction measures are taken, the increase in some months does not allow the reduction on costs.

A petition for the government is to create an agency that regulates quality as other companies give the customer cheaper products but with a low quality, creating a disloyal competition. That has affected this company more than once.

Starting this year, SARTI has re-designed its operating method in the financial area. Has performed a re-engineering with the purpose of canceling all existing credits and maintain itself in the market by its own.

In reference to the road system the government offers, SARTI believes that the inconvenient has been reflected on its metal doors section, as deliveries have to be made at rural areas and there are still no sustainable roads at the sectors where this company delivers.

Expectations company has with the upcoming operation of the port at La Union, is that the building operations that will be carried out in the area, will help to the progress of the Eastern region; also companies located there, will require SARTI services for the construction of certain projects.

SERVI FOOD, S.A. DE C.V. (KISS CAKES)

Establishment: 1987
Main products: pastry and sweet bread
Major market: San Salvador and its surroundings
Annual sales: $400,000
Employees: 35
Social capital: ¢20,000 (but in April 2003 its going to be ¢100,000)
Materials: Flour, vegetal butter, eggs
Association: CONSALPAN, ASI

The country is facing a recession that produces low sales volumes, as people do not have purchasing power. There is also a lot of disloyal competence. Direct competition is 15 companies, but the strongest competition comes from the small companies (thousands).

The company is joined to a consortium of bakeries CONSALPAN (Consorcio Salvadoreño de la Industria Panificadora – Salvadoran Consortium of the Bakery Industry) and all together are preparing an export project to the US.
The creation of the association was supported by FUSADES and SWISSCONTACT.

Procurement of raw material is combined; some are locals and others, imported.
Flour has high price due that in the country exists a monopoly; there are only 2 mills and they have governmental protection. But few months ago, this protection was taken away and now there is flour coming from Guatemala and Nicaragua at lower prices. Sugar is also cheaper in Guatemala, but in El Salvador is forbidden to import sugar due to governmental policies.

The industry finds its greater support on Swisscontact through the training of personnel, and on FUSADES because of the guidance given in the creation of the association. The industry no longer will be able to access to the Swisscontact bonus system, as it already exhausted the quota for the next year. These bonuses are very helpful because Swisscontact covers 80% of their value and the enterprises the rest. In 2003 Swisscontact will use its bonuses in helping 20 companies on their certification to the ISO 9000 quality program. Swisscontact hires consultants to train the personnel. It has appointed several Swiss experts.

SMALL LABORATORIES AT AMPES

Mr. & Mrs. Mauricio Lara Ortiz (Laboratorios Tecnoquímicos)
José Elias Alas (Laboratorios Capitol)
Mrs. De Flamenco (Laboratorios Farma)
Dra. Lilian de Navarrete (Laboratorios Multiquimica)

All are small companies that produce medicine for human consumption, except one of them that produces disinfectants and chemical reagents. Most of the raw materials are imported. In El Salvador they only can find, sugar, alcohol and water.

Major customers: Smaller industry, some hospitals and pharmacies.

Business Climate: Two years ago, laboratory business was stable, but since 15 months ago, sales have decreased and the collection of credits takes longer periods; this is crucial to them because their working capital is limited. They have a lot of competition coming from big companies and foreign companies.

Lately what had affected them the most is the medical strike, customers are purchasing less. Another constraint for the industry is that lots of companies don't have enough capital to invest in improving their plants and to comply with the conditions of the trade agreements and good manufacturing practices.

Problems:

- -High interest rates (18% to 22%).
- -Collection of credits
- -Foreign suppliers do not grant credits.
- -Access to high tech is too expensive
- -There is no money for new projects
- -High costs on utilities (water and energy) and insurances

They survive competition of big companies by having a big variety of products and look for opportunities at the different market niches.

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