

How to open a business in el salvador

[Business](#)



Opening a new business is never an easy task. Various factors count while starting a new venture and much is at stake. However the formalities and the difficulties also depend on the country one wants to do business in. Every country has certain rules and regulations as regards to doing businesses on its land. El Salvador is an open economy in Central America and attracts foreign investors. After Chile El Salvador has become the second most open economy in Latin America. Government is democratic and offers several promotional benefits for the investors. Several factors like “. . .

CAFTA (Central American Free Trade Agreement), low inflation, proximity to the US marketplace, competitive operational costs, and tax exemptions in free trade zones. . . ” make the country an attractive option for foreign investment (“ Doing Business in El Salvador”, 2007). Even though issues like unemployment and gang activities are bothersome but “. . . sustainability and sound CSR (corporate socialresponsibility) policies inagribusiness, manufacturing, apparel, electronics, and the development of bio-fuels place El Salvador at the forefront of Latin American trade development” (“ Doing Business in El Salvador”, 2007).

The country also gets assistance from the United States to tackle with the negative issues in the society (“ Doing Business in El Salvador”, 2007). Flexible policies of El Salvador make it much easier for the companies to do business in the country. State has free trade agreements with a number of countries like US, Guatemala, Honduras, Nicaragua, and Dominican Republic, Chile, Mexico, Dominican Republic, Panama, Taiwan, Colombia, and Central America and many other countries. It is an open market for US goods with very low tariffs and other trade restrictions.

USA is the biggest trade partner of the country followed by Central America and Mexico. The official currency is US dollar. El Salvador has very less corruption. On the other hand there are also some limitations for the foreign companies. Judicial system of the country is time-consuming, lethargic and is partial as far as foreign companies are concerned. Crime rate is high and literacy rate is low leading to unemployment and lack of English proficiency (“ Doing Business In El Salvador: A Country Commercial Guide for U. S.

Companies”, 2008). El Salvador offers significant growth in sectors like automotive parts and service equipment, dental equipment, printing and graphics and travel and tourism. Agents are the best way of entering the Salvadorian market and the concentration of trade in the capital city rules out the need for more than one agent. Companies or individuals must verify every agreement and bona fides of partners they are going to be associated with. There is no need of an exclusive territorial contract in the beginning with agents.

The Salvadoran Commercial Code is meant to protect both the agents and the companies in default situations. Companies must consult local lawyers to get a hold of the legal system of the country. Several protections, compensations and damages must be considered while entering into an agreement with an agent or a partner (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). The next step is getting a license to open an office in the country. Presence of a lawyer in every step is crucial for hassle free progress from one step to another.

“ One stop” window of El Salvador’s National Investment Office provides every assistance for getting a license to open an office, branch, or agency. “.

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. . it also provides assistance with labor related issues, immigration, and information about the Free Trade Zone Law regime” (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). Different licenses are needed that can be listed as follows: a) Society or Company Registration b) Initial Balance Registration c) 1 st time Establishment Registration d) Income Tax Identification Number (NIT) (Ministry of Finance) e) Value Added Tax Identification Number (IVA) (Ministry of Finance) f) Invoices Correlative Registration (Correlativo de Facturas) (Ministry of Finance) g) First time Employer’s Identification Number (NIP) (Salvadoran Social Security Institute) h) Work Place Registration (Ministry of Labor) (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). All these formalities can be submitted at the “ Integral Services Window” of the Registry of Commerce Office of the National Registry Center (“ Doing Business In El Salvador: A Country Commercial Guide for U.

S. Companies”, 2008). \$11, 428 is the minimum capital needed to start a business. The Commerce Registry also needs the names of the company's board of directors and administrative personnel. All the accounting records of the company must be in Spanish and approved by a certified public accountant. The Commerce Registry issues the license only when the company’s location details are cleared by the municipality and it is registered in the National Industrial and Commercial Establishments Directory at the General Director of Statistics and Census.

License is then printed in local newspaper. There is a need of further clearances from specific ministries for specific companies. For instance <https://assignbuster.com/how-to-open-a-business-in-el-salvador/>

pharmaceuticals companies must complete all the formalities with the Superior Council for Public Health and so on for other sectors (“Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). Franchise is another attractive option for starting a new business in El Salvador. US fast food joints are booming in the country. Others include: U. S. franchises operating in El Salvador include hotels and car rental, auditing/accountancy, credit reports, mobile advertising and media marketing, print shop/one hour photo labs, beauty/hair salons, fitness centers, computer learning, child care/learning centers, video rental, exterminator services, and dry cleaning (“Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). Direct marketing using telemarketing mediums like mobile and internet and cable services is another option for establishing a business.

A joint venture of US and Salvadorian company must be incorporated and duly registered in El Salvador (“Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). Next step is concerned with the distribution and selling of the product. Import of products is handled by the distributors who can launch and utilize the opportunity of their already existing wide networks to market any new product in El Salvador. Small retailers buy some products like used vehicles and auto parts, clothing, jewelry, cosmetics and household goods from US themselves.

Free trade zones form major distribution centers of the country. It is very important to market a product with as much efficiency and care as devoted in its production only then can the product reach its consumers. Using prominent newspapers, billboards and other media can be useful for <https://assignbuster.com/how-to-open-a-business-in-el-salvador/>

introducing a new product and communication your idea to the end user. Grand launch at premium hotels and among significant personalities of the region can bring a new product in instant limelight: As competition increases, creative sales promotions such as contests, drawings, raffles, etc.

, become more relevant. Samples of products are often handed out at supermarkets and department stores. Participation in local exhibits and sponsorship of local events and conferences is a common local practice for brand positioning. Shared budget for promotional campaigns and advertising is highly appreciated by local importer/distributor, and simple things such as the availability of brochures and other promotional materials in Spanish are very helpful for marketing products (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008).

Government of El Salvador regulates only the liquefied propane gas rates, public transport rates, and energy rates. Import duty and the 13-percent value-added tax (VAT) is added to the price of imported products. “ Import tariffs for capital goods are zero percent, raw materials range from zero to 5%, intermediate goods range from 5 to 10%, and finished goods are charged a maximum of 15%. Textiles, agricultural products, vehicles, and a few other non-essential products are charged higher tariffs that range from 15 to 30%” (“ Doing Business In El Salvador: A Country Commercial Guide for U.

S. Companies”, 2008). Free trade agreements between US and El Salvador reduce the amount of tariffs on the US products to a greater extent. No duty is imposed on 80 percent of the American products. Trade barriers are also minimal. However some services and professionals do face some barriers

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like architects and notaries must be local only. Rice and pork are the two products that buyers have to buy locally and their further demands follow an import quota system and 40 percent duties. Countries bound by CAFTA-DR do not question each others sanitary inspection methods.

In case of imports, there is no need of import licenses and a commercial invoice and bill of lading can only be sufficient to serve the purpose. The National Registry Center (CNR) has one-single-import shop where a company can get import licenses of the following institutions: Customs, Ministry of Finance, Ministry of Agriculture, Ministry of Health, Ministry of National Defense, Ministry of Economy (virtual), Ministry of the Environment, and the National Health of Public Council. Some products like arms and ammunition exported from US need an export license from the US government.

There are other products that need a license from the Bureau of Industry and Security (BIS). So the exporters must make sure that they have the required licenses and permissions to export their products to El Salvador. Some products like high-caliber firearms, machines and tools for making coins, counterfeited coins and bills, movies contrary to ethics and good behavior, abortives etc. are prohibited for import in the country (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). Some rules regarding the labeling of the products can be listed below:

- Retailers must have the price of the product either on the packaging or in a visible place.
- Products that are sold by weight or volume or any other measure must have the weight, volume, or an exact measure of the contents on the label.
- For pharmaceuticals, the list of ingredients, expiration date, dosage, contraindications, risks involved when used, residual toxic effects,

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etc. as established by the Ministry of Public Health must be printed on the label. • Labels on frozen and canned foods must include an expiration date.

- Labeling must be in Spanish language (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008). Customs procedures are relaxed and simple in the country. Use of modern technology, internet and “ Teledespacho” system in particular has reduced the time the formalities used to take. Teledespacho system rules out the need of a custom broker and provides a direct link between the importer/exporter and the Central Customs Service. Mandatory Salvadoran Standards (NSO) and Recommended Salvadoran Standards (NSR) are two types of standards used in the country:

NSOs include the standards regulating the International System of Units; standards relating to materials, procedures, products and services that may affect human life, safety and integrity and the safety and integrity of other live organisms; environmental protection standards; and standards considered by the government to be relevant to the economy or in the public interest. NSRs are concerned with materials; procedures, products and services not covered by an NSO (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008).

El Salvador is an attractive option for doing businesses and the regulations of the government are flexible enough for the companies to open up and explore new opportunities in the country. It is a mutually beneficial relationship. Both the foreign investors and the economy of El Salvador benefit from this flexible system. Growth and development of El Salvador depends largely on the foreign investment, in particular from US which is its

biggest trade partner (“ Doing Business In El Salvador: A Country Commercial Guide for U. S. Companies”, 2008).

There are several similarities and differences in regulations and conditions with regards to opening a business in the US and El Salvador. Like El Salvador USA has several free trade agreements with numerous nations around the globe making it an attractive option for foreign investment. US is also a free, democratic and open economy. El Salvador has most of its business concentrated in its capital city while it is not the case in US. Laws and regulations are same in the entire nation of Salvador while in US every state has its own business regulations.

Licenses and permits are required for doing only specific jobs in USA. Need of a license depends on the state and exact location of the business since every state has different local regulations. The owner also has to pay business taxes depending upon the location of business. Following business need licensing:

- for those businesses or professionals that go through extensive training before practicing, such as lawyers, physicians, nurses, accountants, dentists, teachers, or

- before carrying on a particular trade or business, in order to protect the environment and consumers from fraudulent activities and unsafe products or services. Real estate agents, restaurants, bars, insurance agents, pawnbrokers, peddlers, cosmologists, private investigators, and mechanics are representative of this group, to name a tiny fraction (“ State licenses”).

Like El Salvador every business needs an " EIN" (employer identification number). It is always a good step to hire a local lawyer and an accountant to aid in the initial legal proceedings of the country.

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Also since in US every state has different laws and statutes regarding a business so it is very important to seek local help. Major difference in doing business in US and in El Salvador is that

- US is a much bigger economy
- Offering much bigger opportunities
- There is no lack of help government offers to foreign companies and investors
- Laws are rigid to protect both domestic and foreign companies
- Literacy rate is much higher
- English proficiency is much higher among locals
- Multilingual and multicultural diversity of US allows everyone fulfill their dreams and reach their specific consumers.

Translators and interpreters are available everywhere for every kind of help and bridging gaps among people of different language backgrounds.

- Crime and unemployment rates are much lower
- Infrastructure is well developed
- Every tool for direct marketing like internet, telemarketing, cable services, postal delivery systems, courier systems are very well developed and provide expanded prospects for different businesses.
- There is no shortage of resources and financial aids from government institutions and private banks.
- With proper planning any dream can turn into a wealthy and booming business.

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