Investment Note HiH El Salvador

Organización de las Naciones Unidas para la Alimentación y la Agricultura

El Salvador
Context: The importance of coffee in El Salvador

- Water cycle and supply
- Protection, mobility and sustainability of biodiversity and its populations.
- Carbon sink
- Contribution to climate change adaptation
- Historical prestige and international recognition
- Cultural identity
Section 1: General overview

• In 2022 the Salvadoran economy grew by 2.6%.
• BCR projected growth between 2-3% for 2023.

Main crops in El Salvador

<table>
<thead>
<tr>
<th>Crop</th>
<th>Surface (hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>259,368</td>
</tr>
<tr>
<td>Coffee</td>
<td>138,320</td>
</tr>
<tr>
<td>Bean</td>
<td>118,891</td>
</tr>
<tr>
<td>Sugar cane</td>
<td>78,047</td>
</tr>
<tr>
<td>Sorghum</td>
<td>61,618</td>
</tr>
</tbody>
</table>

Source: Ministerio de agricultura ganadería (2022)

Coffee production

<table>
<thead>
<tr>
<th>Period</th>
<th>Production (qq)</th>
<th>Performance (qq/mz)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-2021</td>
<td>790,929</td>
<td>4% (Average)</td>
</tr>
<tr>
<td>2021-2022</td>
<td>922,040</td>
<td></td>
</tr>
</tbody>
</table>

Source: Consejo Salvadoreño de Café, 2023

Gross Domestic Product

GDP

US$ 32,488 Million

BCR, 2023

• Coffee accounts for 5% of agricultural GDP
• 25% of the area registered for coffee activity is without productive activity (CSC, 2023).

The average wage in the agricultural sector barely covers the basic food basket.

USD$ 229.08
(Average basic food basket)

USD$ 243.46
(Minimum Wage in the coffee sector)

27% percent of rural households live in multidimensional poverty.
Section 1: General overview

El Salvador: Percentage participation of Creditors of the Coffee sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector</th>
<th>Private sector</th>
<th>Cooperative</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>85.80%</td>
<td>13.90%</td>
<td>0.30%</td>
<td>100%</td>
</tr>
<tr>
<td>2019</td>
<td>84.50%</td>
<td>14.80%</td>
<td>0.70%</td>
<td>100%</td>
</tr>
<tr>
<td>2020</td>
<td>87.20%</td>
<td>12.50%</td>
<td>0.30%</td>
<td>100%</td>
</tr>
<tr>
<td>2021</td>
<td>83.70%</td>
<td>14.60%</td>
<td>1.70%</td>
<td>100%</td>
</tr>
<tr>
<td>2022</td>
<td>81.70%</td>
<td>17.90%</td>
<td>0.40%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Superintendencia del Sistema Financiero (2023)

Trade balance in relation to GDP:
Exports 31.2%.
Imports 55.6%.

Source: Banco Central de Reserva de El Salvador (2023)

EAP TOTAL: 2,932,373
• Rural EAP 35%
• Urban EAP 65%

Tertiarized economy: oriented to the service sector

Source: DIGESTYC (2023)

Agricultural Rescue Master Plan
Objective: to make the agricultural sector (including coffee) profitable through strategic support and investments.

Coffee transformation and sustainable take-off plan
Within the master plan, there is a specific plan to develop a profitable, innovative, competitive, inclusive and sustainable coffee sector.

Trade and Investment Policy 2020-2050
Objective: Attract FDI to increase the productive base and exports.

Strategic Plan of the Salvadoran Coffee Council
With special emphasis on:
- Production and technification
- Institutionality
- Economics and investments
- Promotion and commercialization
- Environmental management

Source: Banco Central de Reserva de El Salvador (2023)
Rating agencies' consensus on Country Risk emphasizes improvements in fiscal deficit reduction but warns of scarce financing alternatives.
What has happened in 2022: Important advances to consider in building an enabling environment?

The actions taken by President Bukele in terms of security, tourism and inflation were decisive for the 2.6% growth of the Salvadoran economy in 2022.

**Factores al alza de la proyección**

- Impacto positivo de seguridad pública
- Aumento del Turismo, eventos internacionales – cuenta de viajes
- Grandes proyectos de inversión pública en infraestructura y otras políticas en apoyo al desempeño económico
- Continuidad de la inversión privada y nuevos proyectos
- Aceleración del consumo de los hogares por más empleo e ingresos, y cambios de patrones de consumo

**Impulsos del Turismo**

- Aumento del empleo e ingresos
- Mayor crecimiento económico
- Auge de los servicios e inversión

**Medidas antiinflacionarias**

- Combate a las pandillas y mayor seguridad pública

**Facilitación del comercio exterior e inversión privada**

- Desarrollo de proyecto de infraestructura pública estratégica
Section 2: The investment climate

Why invest in El Salvador?

- First place in infrastructure in the Central American sub-region. (Global Competitiveness Report 2019)
- Rank number 3 in Central America and number 7 in Latin America with respect to ease of doing business. (Doing Business 2020)
- First place in freedom of investment in Central America. (Index of Economic Freedom 2019)

Logistic platform

- 2 airports and 28 origin and destination routes in 14 countries.
- 2 ports and road infrastructure developed

Strategic Location: (Between 2-5 hours flight time to access major markets)

Favorable business climate

- Productive workforce: 55% of the workforce under 40 years of age.
- Attractive tax incentives: exemptions on income tax and other customs duties.
- Trade agreements with 42 countries in the Americas, Europe and Asia: potential market of about 1.2 billion consumers

Legal framework and other incentives:

- Investment Law.
- Public-Private Partnerships Special Law.
- Law on Legal Stability for Investments.
- Organic Products Incentive Law.

Source: Organismo promotor de exportaciones e inversiones de El Salvador [https://proesa.gob.sv]
Section 2: The investment climate

### Where it comes from...

- **1740:** Coffee is introduced in El Salvador
- **1840:** El Salvador: 3rd largest coffee producer
- **1950:** Rust crisis and decline in international prices
- **1980:** 50% of Salvadoran exports was coffee
- **2010:** Fall in coffee prices

### Where it is going

- **2020:** Production recovery
- **Investment support**
- **Policy, plans and strategies**
- **Institutional strengthening of the Salvadoran coffee council**
- **Creation of the Salvadoran Coffee Institute**

### Coffee production and employment statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>Coffee production (qq)</th>
<th>Exports (qq)</th>
<th>Employments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest 92-93</td>
<td>4,306,200</td>
<td>3,925,721</td>
<td>215,310</td>
</tr>
<tr>
<td>Harvest 21-22</td>
<td>918,050</td>
<td>697,569</td>
<td>46,102</td>
</tr>
</tbody>
</table>

**Other Considerations**

In the last decade, the average growth rate of coffee imports has been 4.8%.
(Technoserve, 2021)

According to FAO estimates, there are at least 75,000 indirect jobs in the coffee sector.
(FAO, 2023)
Section 2: The demand perspective

World coffee demand on the rise

World coffee consumption is projected to grow by 3.3%.

Central American exports accounted for 11% of world coffee exports (WTO, 2021).

Good average export price but with significant price differences.

Good export price, but with heterogeneity

Producer prices do not reflect export prices.

Generated by: FAO, based on data from Trade Data Monitor, 2022.
Section 3: Investment Note - COFFEE

Starting Point:
- Map of Agricultural Typologies HiH
- Tecapa Chinameca/Cacachuatique Region: territory with High Priority of agricultural transformation and rural development with the coffee value chain

Opportunities in the coffee chain:
- Room for productivity gains
- Value addition
- Better positioning of coffee in international markets

Tecapa Chinameca: 3rd largest coffee producing region, with quality standards and Denomination of Origin.
Section 3: Investment note HiH coffee chain

Expected Results:

Profitable and sustainable coffee chain

✓ Increase local net income from coffee.
✓ Increase of employment generated by the sector.
✓ Increase the value of production and exports.
✓ Environmental benefits

Total investment: US$ 21.3 million

Strategic approach:

• Recover productivity prior to the rust crisis (2012 - 2013).
• Improve genetic material.
• Strengthening institutional services (technical assistance for production, post-harvest and quality).
• Improving prices paid to producers (improving efficiency, value added and marketing channels).
• Increasing export prices, both in conventional and niche markets.
## Component 1: Primary Production - Improving Productivity and Efficiency

<table>
<thead>
<tr>
<th>Description</th>
<th>Location</th>
<th>Potential Sources of Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rehabilitation of coffee plantations.</td>
<td><img src="image" alt="Location Map" /></td>
<td>• Government of El Salvador.</td>
</tr>
<tr>
<td>• Certification of nurseries.</td>
<td></td>
<td>• National banks and credit funds.</td>
</tr>
<tr>
<td>• Strengthening laboratory capacity (soil, pests).</td>
<td></td>
<td>• Multilateral development banks.</td>
</tr>
<tr>
<td>• Strengthening of pest and disease monitoring and management capabilities.</td>
<td></td>
<td>• External Cooperation.</td>
</tr>
<tr>
<td>• Technical assistance for producers.</td>
<td></td>
<td>• Private investors.</td>
</tr>
<tr>
<td>• 6,700 manzanas Tecapa-Chinameca with renewed and sustainably managed plantations</td>
<td></td>
<td>• Coffee producers.</td>
</tr>
<tr>
<td>• Productivity increase from 6 to 28 qq/mz</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 24,000 beneficiaries (38% women)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 75,000 indirect beneficiaries.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 50 certified plant nurseries</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Cost-benefit metrics

- **Total investment**: USD 11.8 million
- **NPV**: USD 33 million
- **IRR**: 20%

*excludes management costs*  
*(Total investment can be made by public entities, private entities, international cooperation or producers.)*

### Risk mitigation

- **R**: Small farm income not enough to sustain the production.  
  **M**: Start with farms between 5mz and 10mz and add value to production.

- **R**: Presence of pests that generate economic losses.  
  **M**: Technical assistance for nursery improvement, seedling and crop management, pest monitoring and integrated pest management.

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### Section 3: Coffee Chain Investment Opportunity

- Rehabilitation of coffee plantations.
- Certification of nurseries.
- Strengthening laboratory capacity (soil, pests).
- Strengthening of pest and disease monitoring and management capabilities.
- Technical assistance for producers.
**Section 3: Coffee Chain Investment Opportunity**

**Component 2: Improved post-harvest organization of small and medium-sized producers**

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>• Technical support to processing cooperatives for strategic management.</td>
</tr>
<tr>
<td>• Advice on processes and investments related to coffee processing and transformation.</td>
</tr>
<tr>
<td>• Financial resources for the expansion of commercialization and value-added activities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location</th>
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<tbody>
<tr>
<td><img src="image" alt="Map" /></td>
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<table>
<thead>
<tr>
<th>Potential Sources of Funding</th>
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<tbody>
<tr>
<td>• National banks and credit funds</td>
</tr>
<tr>
<td>• Multilateral development banks</td>
</tr>
<tr>
<td>• External cooperation</td>
</tr>
<tr>
<td>• Investors focused on strengthening cooperatives or companies that collect coffee</td>
</tr>
<tr>
<td>• Cooperatives and coffee producers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To increase from 38,000 to 168,000 qq benefited by producer organizations.</td>
</tr>
<tr>
<td>• Work on differentiated and specialty coffees.</td>
</tr>
<tr>
<td>• Generation of jobs in post-harvest processes.</td>
</tr>
<tr>
<td>• Technicians specialized in improved coffee practices.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost-benefit metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Total investment</strong>: USD 7.03 million</td>
</tr>
<tr>
<td>• <strong>NPV</strong>: USD 13 million</td>
</tr>
<tr>
<td>• <strong>IRR</strong>: 23%*</td>
</tr>
</tbody>
</table>

*R: Incipient business management skills in producers and their associations
M: Professionalization and strengthening of management capacities of producers and their organizations.

*R: Limited access to credit for the coffee sector.
M: Development of innovative financial mechanisms (financing + technical assistance + insurance) and public policies for financial inclusion.

R: Weak capacity in processes that add value to the coffee chain.
M: Development of private extension services.

*Result of opportunities 1 + 2 (excludes management costs)
Section 3: Coffee Chain Investment Opportunity

Component 3: Improved positioning of Salvadoran coffee in international markets

**Description**
- Creation of regional images and brands.
- Training operators in coffee differentiation.
- Improvement of quality analysis.
- Coaching operators in market positioning.
- Promotion of B2B meetings and negotiation with new markets.

**Location**

**Potential Sources of Funding**
- Multilateral Development Banks
- External Cooperation
- Investors interested in acquiring Salvadoran Coffee
- Salvadoran Coffee Council
- Salvadoran Coffee Chain Value Participants

**Scope**

<table>
<thead>
<tr>
<th>Total producers</th>
<th>2,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parchment producers (2022)</td>
<td>54</td>
</tr>
<tr>
<td>Coffee millers (2022)</td>
<td>66</td>
</tr>
<tr>
<td>Roasters (2022)</td>
<td>31</td>
</tr>
<tr>
<td>Cooperatives (BID café 2019)</td>
<td>88</td>
</tr>
<tr>
<td>Exporters (2022)</td>
<td>124</td>
</tr>
</tbody>
</table>

**Cost-benefit metrics**

- **Total investment**: USD 2.45 million
- **NPV**: USD 8 million
- **IRR**: 24%*

*Result of opportunities 1 + 2 + 3 (excludes management costs)

**Risk mitigation**

R: Strong competition or resistance to change from established players
M: Involve all stakeholders in coffee promotion actions from the beginning of the project.
R: Reduced capacity to implement this type of actions by public entities
M: Strengthen the institutional framework for coffee and the contracting of companies with proven success in other countries
## EL SALVADOR INVESTMENT NOTE

### SUMMARY

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost (US$)</th>
<th>IRR (%)</th>
<th>NPV (US$)</th>
<th>Sustainability Benefits</th>
</tr>
</thead>
</table>
| Component 1 | 11.8 M     | 20%     | 33M       | Average income increase per producer: USD 1,500/year  
|             |            |         |           | Emission reductions (balance): -4.5 tCO2-e/ha/year |
| Component 2 | 7.03 M     | 23%     | US$ 13.3M | Average income increase per producer: USD 700/year  
|             |            |         |           | Emission reductions (balance): -4.5 tCO2-e/ha/year |
| Component 3 | 2.45 M     | 24%     | US$ 8.0M  | Average income increase per producer: USD 1,200/year  
|             |            |         |           | Emission reductions (balance): -4.5 tCO2-e/ha/year |

**Total investment:** US$ 21.3 M  
**IRR weighted average of the 3 components:** 22%  
**Beneficiaries:** 99,000 (24,000 Direct Beneficiaries, 75,000 Indirect Beneficiaries)  
**Income increase per direct beneficiary (indicative figure):** US$1,439  
**Mitigation potential:** 318,493 tCO2-e