



Organización de las Naciones Unidas
para la Alimentación y la Agricultura

Investment Note HiH El Salvador



Iniciativa
Mano de la mano



El Salvador

Investment Forum | Rome, Italy | October 2023

Context: The importance of coffee in El Salvador



Servicios Ambientales



Soporte de la Economía



Desarrollo Social

- 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



27% percent of rural households live in multidimensional poverty.

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

USD\$ **243.46**
(Minimum Wage in the coffee sector)

USD\$ **229.08**
(Average basic food basket)

SOURCE: DIGESTYC (2023)

Main crops in El Salvador	
Crop	Surface (hectares)
Corn	259,368
Coffee	138,320
Bean	118,891
Sugar cane	78,047
Sorghum	61,618

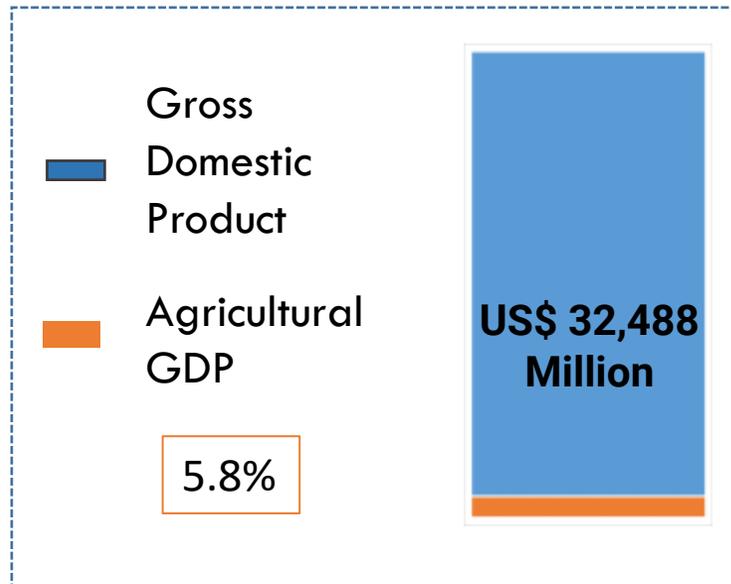
Source Ministerio de agricultura ganadería (2022)

Coffee production

Period	Production (qq)	Performance (qq/mz)
2020-2021	790,929	4% (Average)
2021-2022	922,040	

SOURCE: Consejo Salvadoreño de Café, 2023

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



BCR, 2023

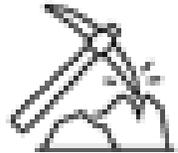
- Coffee accounts for 5% of agricultural GDP
- 25% of the area registered for coffee activity is without productive activity (CSC, 2023).

Section 1: General overview

El Salvador: Percentage participation of Creditors of the Coffee sector

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%**
- Tertiariized economy: oriented to the service sector

SOURCE: DIGESTYC (2023)

Year	Public Sector	Private sector	Cooperative	Total
2018	85.80%	13.90%	0.30%	100%
2019	84.50%	14.80%	0.70%	100%
2020	87.20%	12.50%	0.30%	100%
2021	83.70%	14.60%	1.70%	100%
2022	81.70%	17.90%	0.40%	100%

SOURCE: SUPERINTENDENCIA DEL SISTEMA FINANCIERO (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

Section 1: General Overview (Sovereign Risk)

El Salvador: Calificaciones de la Deuda Soberana de Largo Plazo en Moneda Extranjera

		2022T2	2022T3	2022T4	2023T1	2023T2
Fitch Ratings	Calificación	CCC	CC	CC	CC	CCC+
	Perspectiva	n.p.	n.p.	n.p.	n.p.	n.p.
Moody's Investor Service	Calificación	Caa3	Caa3	Caa3	Caa3	Caa3
	Perspectiva	Negativa	Negativa	Negativa	Estable	Estable
Standard and Poor's	Calificación	CCC+	CCC+	CCC+	CCC+	CCC+
	Perspectiva	Negativa	Negativa	Negativa	Negativa	Estable

Fuente: Fitch, Moody's y Standard & Poor's.

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 where 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

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)



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/>

Favorable business climate

Productive workforce : 55% of the workforce under 40 years of age.

Economic stability : elimination of exchange rate risk and low inflation since 2001.

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

Section 2: The investment climate



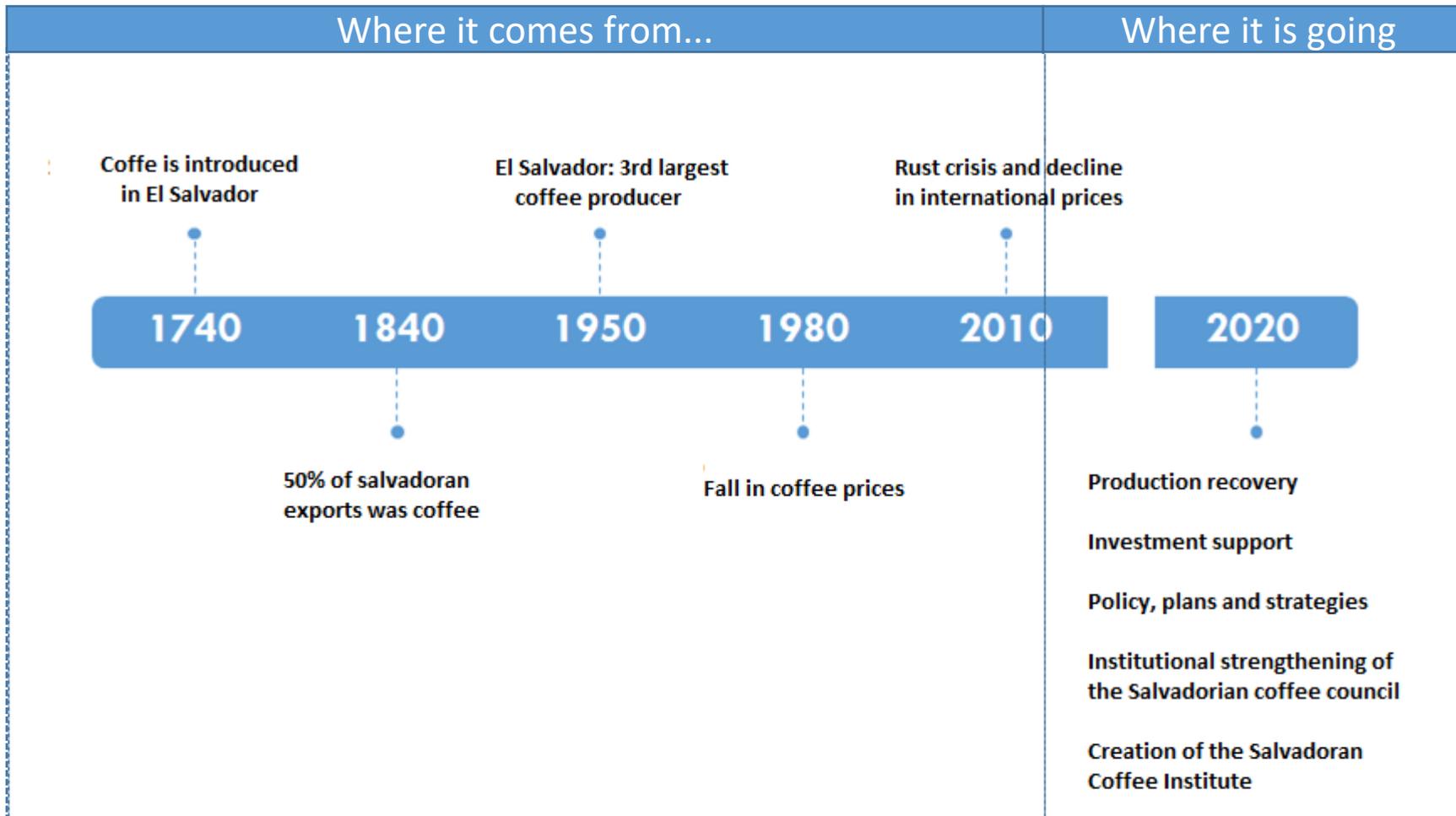
Other Considerations

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.

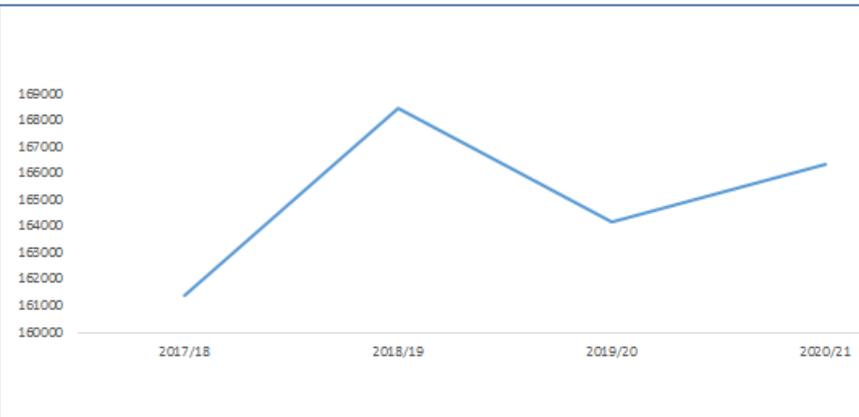
(FAO, 2023)



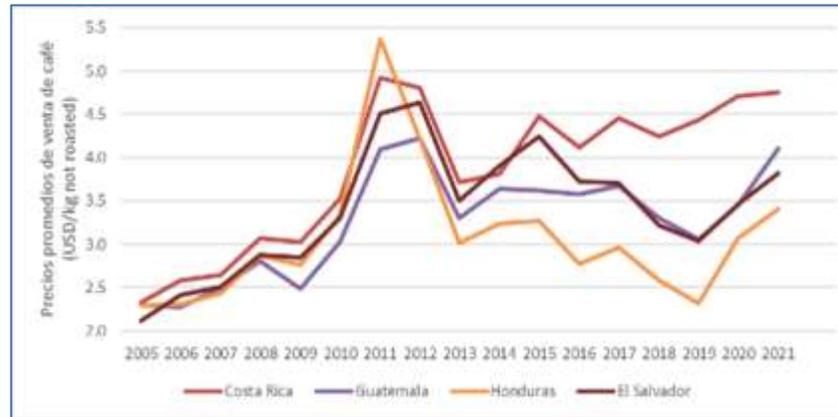
	Coffee production(qq)	Exports(qq)	Employments
Harvest 92-93	4,306,200	3,925,721	215,310
Harvest 21-22	918,050	697,569	46,102

Section 2: The demand perspective

World coffee demand on the rise



Differences in producer prices



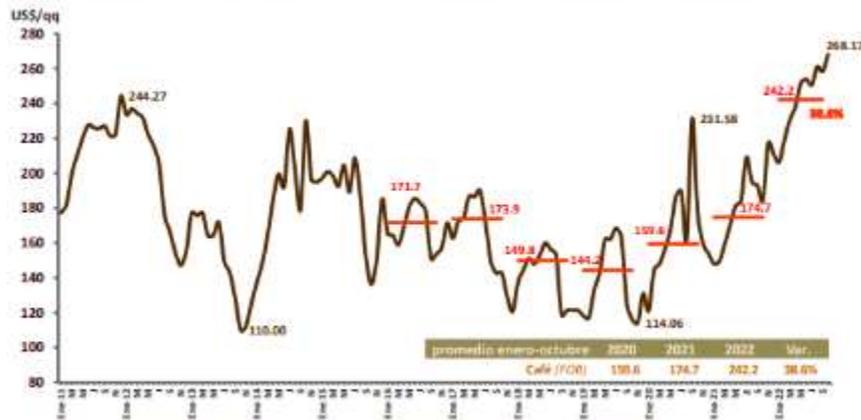
World coffee consumption is projected to grow by 3.3%.

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

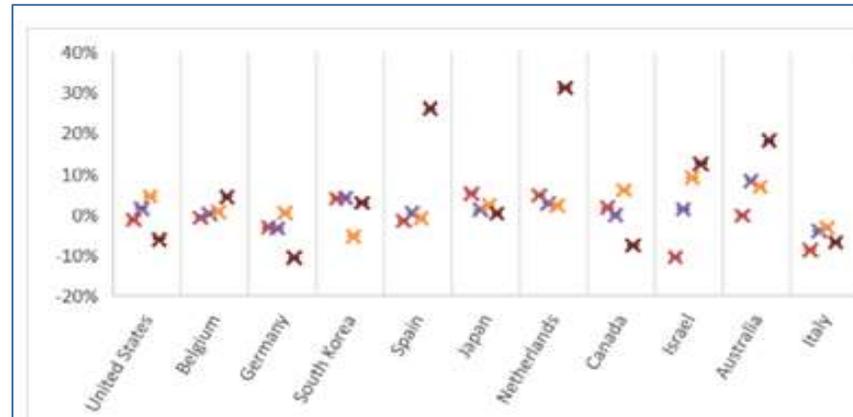
Good average export price but with significant price differences.

Good export price, but with heterogeneity

El Salvador: precios promedio de exportaciones de café (FOB), 2014-2021



Fuente: Elaboración propia con cifras del Informe Estadístico de Comercio Internacional de Mercancías de El Salvador, BCI.



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:

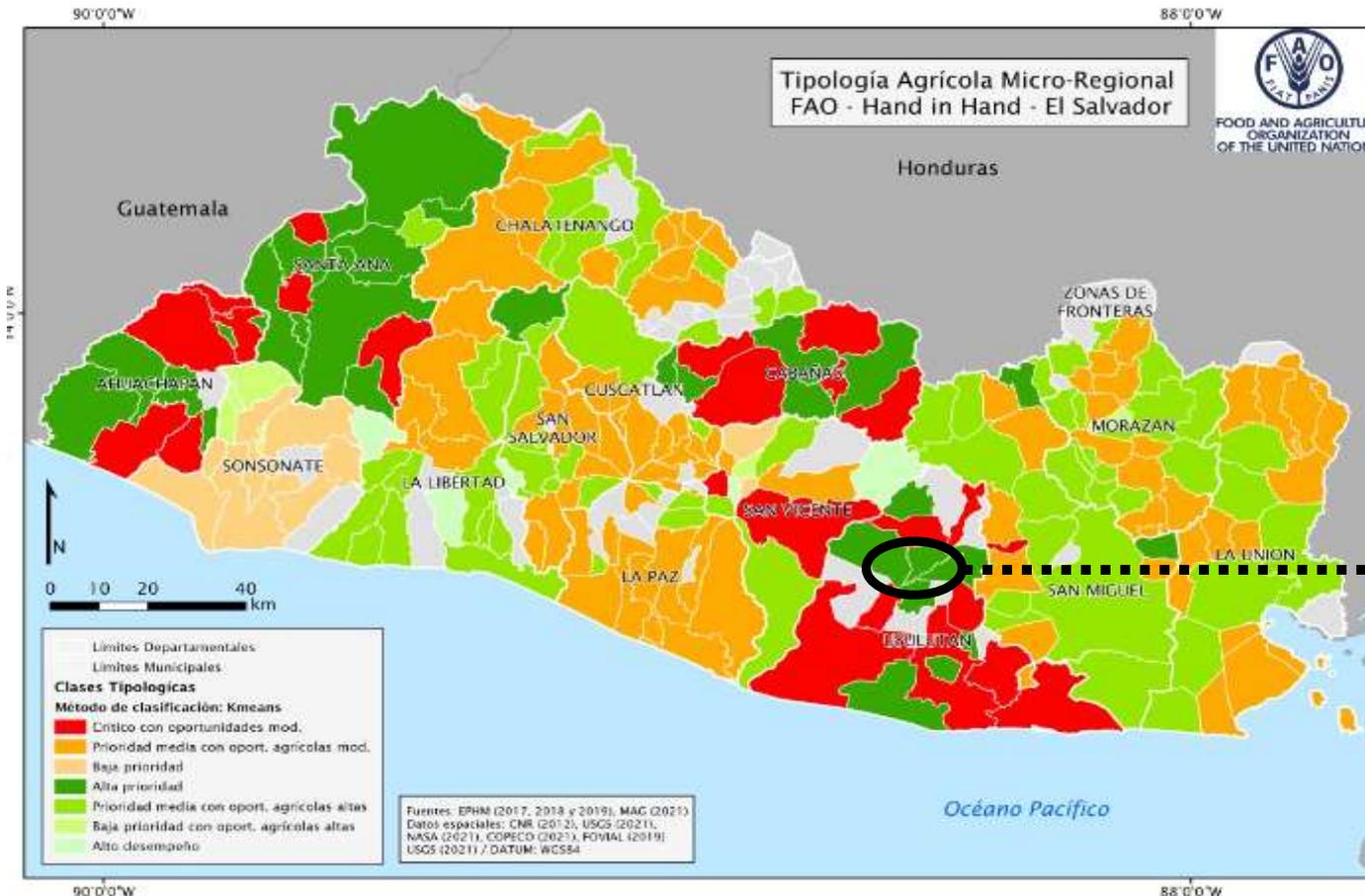
- Map of Agricultural Typologies HiH
- Tecapa Chinameca/Cacahuatique Region : territory with **High Priority** of agricultural transformation and rural development with the coffee value chain

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

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).

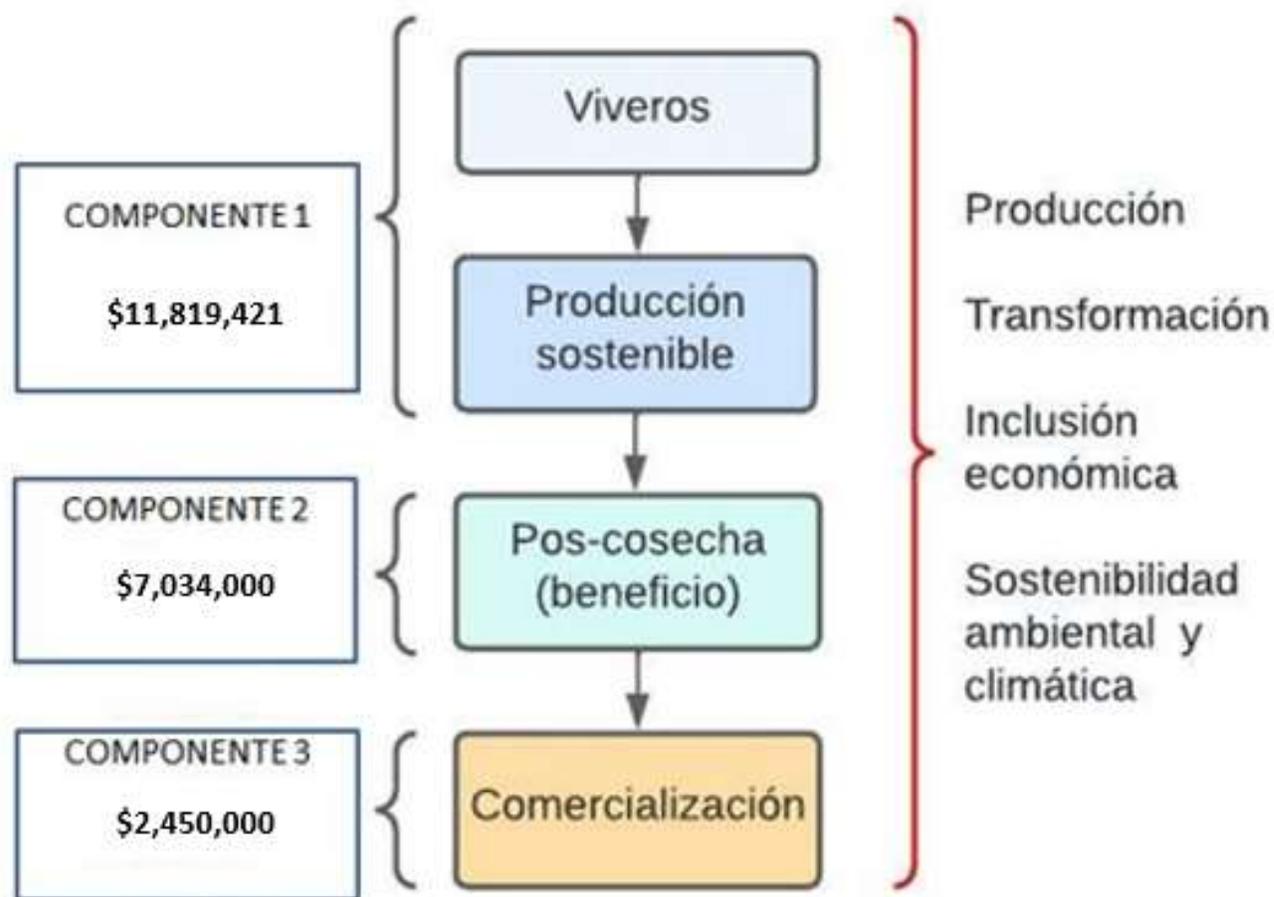
Improving prices paid to producers (improving efficiency, value added and marketing channels).

Increasing export prices, both in conventional and niche markets.

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

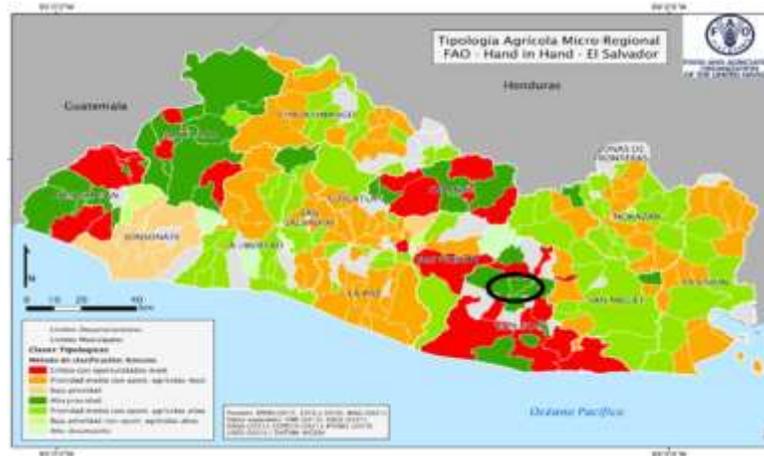
Section 3: Coffee Chain Investment Opportunity

Component 1: Primary Production - Improving Productivity and Efficiency

Description

- 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.

Location



Potential Sources of Funding

- Government of El Salvador.
- National banks and credit funds
- Multilateral development banks
- External Cooperation
- Private investors
- Coffee producers

Scope

- 6,700 manzanas Tecapa-Chinameca with renewed and sustainably managed plantations
- Productivity increase from 6 to 28 qq/mz
- 24,000 beneficiaries (38% women)
- 75,000 indirect beneficiaries.
- 50 certified plant nurseries

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.

Section 3: Coffee Chain Investment Opportunity

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

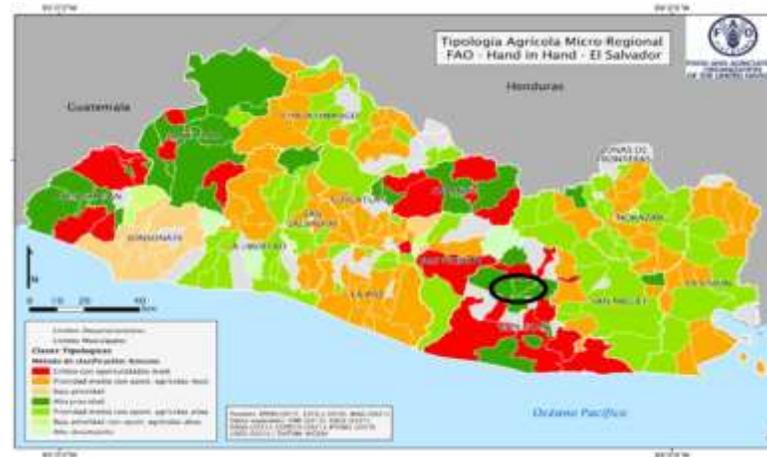
Description

- Technical support to processing cooperatives for strategic management.
- Advice on processes and investments related to coffee processing and transformation.
- Financial resources for the expansion of commercialization and value-added activities.

Scope

- To increase from 38,000 to 168,000 qq benefited by producer organizations.
- Work on differentiated and specialty coffees.
- Generation of jobs in post-harvest processes.
- Technicians specialized in improved coffee practices.

Location



Cost-benefit metrics

- **Total investment:** USD 7.03 million
- **NPV:** USD 13 million
- **IRR:** 23%*

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

Potential Sources of Funding

- National banks and credit funds
- Multilateral development banks
- External cooperation
- Investors focused on strengthening cooperatives or companies that collect coffee
- Cooperatives and coffee producers

Risk mitigation

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

Section 3: Coffee Chain Investment Opportunity

Component 3: Improved positioning of Salvadoran coffee in international markets

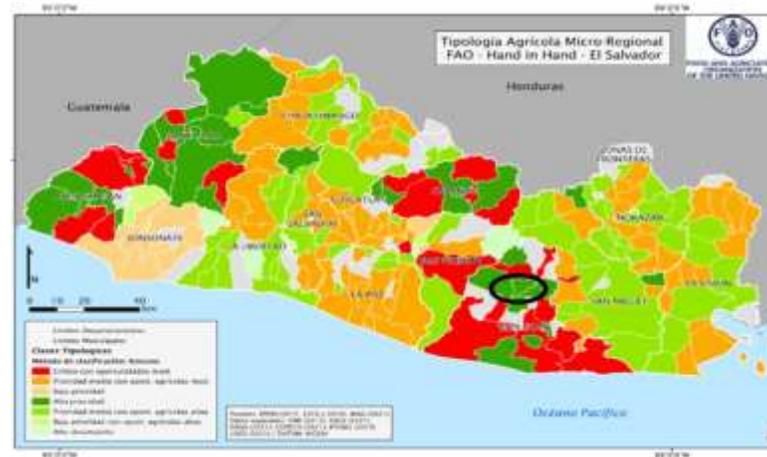
Description

- 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.

Scope

• Total producers	2,000
• Parchment producers (2022)	54
• Coffee millers (2022)	66
• Roasters (2022)	31
• Cooperatives (BID café 2019)	88
• Exporters (2022)	124

Location



Cost-benefit metrics

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

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

Potential Sources of Funding

- Multilateral Development Banks
- External Cooperation
- Investors interested in acquiring Salvadoran Coffee
- Salvadoran Coffee Council
- Salvadoran Coffee Chain Value Participants

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



Food and Agriculture Organization
of the United Nations

SUMMARY

KEY INVESTMENTS

US\$ 21.3
Total investment

22%
IRR weighted average
of the 3 components

99,000
Beneficiaries
(24,000 Direct Beneficiaries)
(75,000 Indirect Beneficiaries)

US\$1,439
Income increase per
direct beneficiary
(indicative figure)

318,493 tCO₂-e
**Mitigation
potential**

Component 1

1

Improved productivity and
efficiency

Cost (US\$) 11.8 M

IRR (%) 20%

NPV (US\$) 33M

Sustainability Benefits

- Average income increase per producer:
USD 1,500/year
- Emission reductions (balance): -4.5 tCO₂-
e/ha/year

Component 2

2

Better post-harvest organization

Cost (US\$) 7.03 M

IRR (%) 23%

NPV (US\$) US\$ 13.3M

Sustainability Benefits

- Average income increase per producer:
USD 700/year
- Emission reductions (balance): -4.5 tCO₂-
e/ha/year

Component 3

3

Better positioning of Salvadoran coffee

Cost (US\$) 2.45 M

IRR (%) 24%

NPV (US\$) US\$ 8.0M

Sustainability Benefits

- Average income increase per producer:
USD 1,200/year
- Emission reductions (balance): -4.5 tCO₂-
e/ha/year