DECREE No. 732

THE LEGISLATIVE ASSEMBLY OF THE REPUBLIC OF EL SALVADOR,

WHEREAS:

I. The obligation of the State is to promote economic and social development by increasing production and productivity;

II. One of the ways to promote economic and social development is through the increase of national and foreign investments, with which resources are allocated to productive activities, which are necessary to generate jobs and maintain sustained economic growth, for the benefit of all the inhabitants of the country;

III. The promotion of investments, in general, plays a crucial role in attracting foreign capital to the country. This encourages the inflow of resources such as capital, technology, knowledge, and expertise, thereby enhancing the efficiency and competitiveness of the productive activities to which these contributions are directed. The level of foreign investment in the country can increase with the establishment of an appropriate legal framework. Such a framework should include clear and precise regulations aligned with best practices in this area, enabling the country to compete effectively on a global scale in attracting new investments.

IV. The creation of a governmental office dedicated to promoting investments and assisting investors in fulfilling the legal requirements and procedures is, for all of the above, deemed convenient.

THEREFORE,

in exercise of its constitutional powers and at the initiative of the President of the Republic, through the *Ministerio de Economía* and Congressmen Julio Antonio Gamero Quintanilla, Julio Eduardo Moreno Niños, Alejandro Dagoberto Marroquín, José Mauricio Quinteros, Jorge Alberto Villacorta Muñoz, Lorena Guadalupe Peña Mendoza, Alejandro Rivera, Gerson Martínez, Kirio Waldo Salgado Mina, René Aguiluz Carranza, Donald Ricardo Calderón Lam and Gerardo Antonio Suvillaga.

DECREES the following:

INVESTMENT LAW

CHAPTER I: PURPOSE AND SCOPE OF APPLICATION

Object of the Law

Art. 1.- The purpose of this law is to promote investments in general and foreign investments in particular, in order to contribute to the economic and social development of the country, increasing productivity, employment generation, export of goods and services and diversification of production.

Definitions

Art. 2.- For the purposes of this law, the following shall be understood:

a) Investments: Those assets or resources, whether in tangible and intangible goods, provision of services or financial resources in local or foreign currency of free convertibility, which are destined to the execution of activities of an economic nature or to the expansion or improvement of existing ones, for the production of goods or services and the generation of sources of employment;

b) Foreign Investments: Those investments made with assets or resources, whether in tangible and intangible goods, provision of services or financial resources in freely convertible currency, transferred from abroad by foreign investors, in accordance with this law;

Funds in freely convertible foreign currency sent by Salvadoran residents abroad as family assistance or for the acquisition of real estate for the housing of their family group are not included under the category of foreign investments;

c) Domestic Investments: Those investments made with assets or resources, whether in tangible and intangible goods, provision of services or financial investments in domestic currency by domestic investors;

d) Foreign Investor: Foreign natural and legal persons and Salvadorans residing abroad for more than one uninterrupted year, who make investments in the country;

e) National Investor: Salvadoran natural and legal persons, with permanent residence in El Salvador, who make investments in the country.

Type of investments

Art. 3.- The assets and resources regarded as investments under the provisions of Article 2, subsection (a) of this law, include, but are not limited to, the following:

a) Contributions of domestic or foreign capital for the incorporation of commercial companies or the acquisition, in whole or in part, of existing commercial companies;

b) Contributions of domestic or foreign capital destined to the acquisition of the right of ownership over real estate located in the country; as well as the constitution of all types of real rights;

c) Contributions of domesticl or foreign capital destined to the acquisition of the right of ownership of tangible personal property, especially industrial plants, new and reconditioned machinery, spare parts and accessories, raw materials and intermediate products, provided that such property is used in commercial enterprises, in any capacity.

Likewise, the direct contribution of such tangible personal property in new and existing commercial enterprises will be considered as an investment;

d) The subscription or acquisition of shares or participations in Salvadoran corporations, as well as those derived from capital increases resulting from the capitalization of profits, reserves, revaluation of assets or credits or from new contributions;

e) Capital contributions from profits derived from the original duly registered investment, which are destined to the subscription or acquisition of shares or participations in other commercial companies;

f) Loans contracted in foreign currency of free convertibility, destined to the realization of productive activities of individuals or legal persons;

g) Funds destined for the acquisition of bonds issued by legal persons domiciled in the country, in compliance with the requirements set forth in the regulations of this law;

h) Internationally accepted intangible assets, which include, among others: intellectual property rights and the provision of services, equipment leases, the provision of technical services and the provision of administrative know-how;

i) The resources destined to the development of participation contracts or joint investments under the modality of shared risk of contractual character, which grant the foreign investor a form of participation in the industrial, commercial or service activity of a Salvadoran company, in exchange for a participation in the global amount of its profits.

CHAPTER II: TREATMENT OF INVESTMENTS

Ease in procedures

Art. 4.- In order that domestic and foreign investments may be easily established and developed, the State recognizes brief and simple procedures for their formalization in accordance with the law; and furthermore, in the case of foreign investments, so that they may be repatriated by their owners

The procedures and requirements for the establishment and registration of investments will be the subject of the Regulations of this law.

Equality for all investors

Art. 5.- Foreign investors and the commercial companies in which they participate shall have the same rights and obligations as national investors and companies, with no exceptions other than those established by law, and no unjustified or discriminatory measures may be applied to them that hinder the establishment, administration, use, usufruct, extension, sale and liquidation of their investments.

Freedom to make investments

Art. 6.- Any natural or legal person, national or foreign, may make investments of any kind in El Salvador, except for those that are limited by law, without discrimination or differences for reasons of nationality, domicile, race, sex or religion.

Activities limited to investment

Art. 7.- In accordance with the provisions of the Constitution of the Republic and secondary laws, investments in the following activities and terms shall be limited:

a) Commerce, industry and the provision of small services, and specifically inshore fishing under the terms set forth in the law, are the exclusive patrimony of Salvadorans by birth and natural Central Americans;

b) The subsoil belongs to the State, which may grant concessions for its exploitation;

c) The ownership of rural real estate may not be acquired by foreigners in whose countries of origin Salvadorans do not have equal rights, except in the case of land for industrial establishments;

d) The maximum extension of rural land belonging to the same natural or legal person may not exceed two hundred and forty-five hectares. This limitation shall not be applicable to cooperative or communal peasant associations, which are subject to a special regime;

e) The State shall have the power to regulate and oversee the public services provided by private companies, as well as the approval of their tariffs, except for those established in accordance with international treaties or agreements;

f) A concession from the State shall be required for the exploitation of docks, railroads, canals and other material works for public use, in the manner and under the conditions established by law;

Investments made in shares of banks, finance companies and foreign currency exchange houses are subject to the limitations set forth in the laws governing such institutions.

Expropriation

Art. 8.- In accordance with the provisions of the Constitution of the Republic, expropriation shall proceed for reasons of public utility or social interest, legally proven, after fair compensation.

When the expropriation is motivated by causes arising from war, public calamity or when its purpose is the supply of water or electric power, or the construction of dwellings or of highways, roads or public ways of any kind, compensation may not be paid in advance.

When justified by the amount of indemnity, payment may be made in installments, in which case the corresponding bank interest shall be recognized. Such payment shall preferably be made in cash.

CHAPTER III
GUARANTEES AND RIGHTS TO FOREIGN INVESTMENT TRANSFER OF FUNDS ABROAD

Art. 9.- Foreign investors are guaranteed the transfer abroad of funds related to their investment, which shall be made without delay and its prior convertibility into foreign currency through the banking market.

Such transfers include, among others:

a) Net income and dividends generated by its investments;

b) The proceeds from the total or partial liquidation of such investments and those resulting from the withdrawal of such investments, due to their transfer to third parties;

c) Payments of principal and interest derived from loans or obligations issued by legal persons domiciled in the country, acquired by the foreign investor in accordance with the law;

d) Royalty payments arising from investments in intangible assets in accordance with the respective contract;

e) Resources that have been invested and registered, from participation contracts or joint investments under the shared risk modality, plus the profits obtained;

f) Payments derived from compensations resulting from expropriation;

g) Payments resulting from the application of the dispute resolution provisions contained in this law;

h) Any other payment from lawful activities related to the operation of the investment in the country.

Scope of the right of remission and free convertibility.

Art. 10.- The foreign investor may not allege the right of remission and free convertibility set forth in this law, in order to fail to comply with: (a) its tax, labor and social security obligations; b) its obligations to third parties, especially when there is a declaration of bankruptcy, suspension of payments or creditor fraud; and (c) other obligations established by law.

Residence for investors

Art. 11.- Foreign investors with an investment of more than four thousand minimum monthly salaries in force at the time of the investment, shall have the right to be granted the Investor Residence, to remain and work in the country. This residence will be granted upon their request, within thirty days of having registered their foreign investment, with no other requirements than the presentation: (a) of the registration of their investment, (b) of their passport issued by the authorities

of their country of origin, (c) of the required health examinations; and, (d) of the respective form, with the information required by the immigration authorities.

The investor's residence, if temporary, will be granted for one year, extendable for equal periods. Definitive residence may also be granted to the same investors, when they have complied with the other respective legal requirements. The residence may be cancelled for noncompliance by the foreign investor of the immigration legal provisions. Or for having been revoked its investment registration.

The Investor's Residence indicated in this article will be granted to the foreign investor and his family group accompanying him, when he is a natural person. It will also be granted to the foreigner and his family group, when he is the Legal Representative of the national company or foreign branch that has been constituted or established in the country.

Access to local financing

Art. 12.- The foreign investor may have access to the internal financing available in the financial institutions, in accordance with the terms established by them.

Property protection and security

Art. 13.- In accordance with the provisions of the Constitution of the Republic, national and foreign investors are recognized and guaranteed the protection of their property and the right to freely dispose of their assets.

CHAPTER IV
OBLIGATIONS

Obligations of investors

Art. 14.- Every national or foreign investor shall comply with the obligations established in the laws, especially those related to tax, labor and social security matters.

CHAPTER V
CONTROVERSIES

Dispute resolution

Art. 15.- If disputes or differences arise between national or foreign investors and the state concerning their investments made in El Salvador, the parties may appeal to the competent courts, in accordance with the current legislation and the corresponding legal procedures.

CHAPTER VI
CREATION OF THE NATIONAL INVESTMENT OFFICE

Registration of investments

Art. 16.- The *Oficina Nacional de Inversiones*, hereinafter referred to as ONI, for its Spanish name, is hereby created as a dependency of the *Ministerio de Economía*, in charge of facilitating, centralizing and coordinating the governmental procedures that, in accordance with the law, must be followed by national and foreign investors, for the execution of their different economic, mercantile, fiscal, migratory and any other type of obligations; as well as to generate statistics on said investments, this office and its records are public.

The ONI will establish a one-stop shop to facilitate the completion of all the procedures that are the responsibility of investors, for which it will receive the delegation or collaboration requested from other government agencies.

For the purpose of preparing statistics on domestic and foreign investments made in the country, the ONI will create the necessary mechanisms, being able to request information from the governmental institutions it considers, which will be obliged to provide such information in the time requested.

Registration of foreign investments

Art. 17.- Foreign investors shall register their investments with the ONI, which shall issue a Credential which shall grant its holder the status of foreign investor, stating the registered investment.

Performance requirements

Art. 18.- In no case may the ONI condition the registration of foreign investments to the fulfillment of the following performance requirements:

a. Export a certain type, level or percentage of goods;

b. Reach a certain degree or percentage of national content;

c. Acquire, use, or grant preference to goods produced in the territory, or acquire goods from domestic producers;

d. Relate in any way the volume or value of imports to the volume or value of exports, or to the amount of foreign exchange inflows associated with such investment;

e. Restrict sales in the territory of the goods or services that the investment produces or renders, relating in any way such sales to the volume or value of its production, its exports or the foreign exchange earnings it generates;

f. Transfer to a natural or legal person, in the territory, technology, productive process or other reserved knowledge, except when the requirement is imposed by a judicial or administrative court or competent authority to remedy an alleged violation of competition laws or to act in a manner that is not incompatible with national legislation;

a) g. To act as the exclusive supplier of the goods or services it produces or renders for a specific regional or international market.

The aforementioned subsections shall be understood without defect in the provisions contained in international treaties and in the laws that regulate environmental and public health matters.

Powers of the ONI

Art. 19.- The ONI shall have the following powers:

a) Register all domestic and foreign investments submitted for its consideration, provided they comply with the corresponding legal requirements;

b) Facilitate all investors and coordinate with other governmental agencies, compliance with the procedures required for the establishment of new companies and those that must subsequently be followed for the normal development of the same;

c) Assist all investors in the legal procedures related to obtaining permits, authorizations and concession of benefits for their companies and foreign personnel, in addition to any administrative procedures required by other laws;

d) Carry out all the procedures delegated to it by other governmental institutions, in order to facilitate compliance by investors, their companies and foreign personnel;

e) Establish statistics on domestic and foreign investments;

f) Any other duties prescribed by law.

Proof of foreign currency investment income

Art. 20.- Foreign investments that imply the transfer of freely convertible foreign currency shall enter through the national financial system, and for registration purposes shall be verified by means of the foreign currency entry certificate issued by the corresponding institution.

Proof of the existence of other foreign investments

Art. 21.-The existence of foreign investments that do not imply a transfer in freely convertible foreign currency shall be proved by means of the contracts and other documentation indicated in the regulations of the present law.

Application for registration of foreign investment

Art. 22.- To obtain the registration of their investment, the foreign investor, either personally or through a representative, shall request the ONI to register the investment, subject to compliance with the corresponding legal requirements. These procedures may also be carried out by the legal representative or attorney-in-fact of the Salvadoran company in which the foreign investment is made or has been made.

The ONI must register the investment within thirty business days following the date of filing of the request or compliance with the prevention, if any. After said term has elapsed, if the registration has not yet been made, it will be presumed that the ONI has authorized it and the ONI will be obliged to make the registration and issue the corresponding Resolution.

Appeals.

Art. 23.- Any resolution related to the Foreign Investment Registry issued by the ONI shall be subject to appeal before the *Ministerio de Economía*, which must be filed within three working days after the corresponding resolution has been notified; and who shall rule within the following eight working days.

Art. 24.- The foreign investor has the right to repatriate the foreign currency and to re-export of the tangible goods effectively entered, in the cases that the Resolutions on Registration of Foreign Investment issued by the *Ministerio de Relaciones Exteriores* and the Ministerio de Economia and Hacienda, as well as in the cases that the Resolutions on the Registration of Foreign Investment issued by the *Ministerio de Economía*, do not agree with the request of such investors and it is their desire to withdraw their investment from El Salvador.

CHAPTER VII
GENERAL PROVISIONS

Collaboration with other Government Agencies

Art. 25.- The other governmental and autonomous agencies, institutions and organisms, whose activities are related to investments, shall be obliged to collaborate with the *Ministerio de Economía* and the *Oficina Nacional de Inversiones*, in order to achieve compliance with this law and facilitate the exercise of the responsibilities conferred to the latter agency.

Previous foreign investment records

Art. 26.- The existence and validity of the existing foreign investment registries at the *Ministerio de Economía* is recognized, which remain in force, and therefore shall automatically enjoy the guarantees and rights set forth in this law, except in matters of disputes arising prior to the entry into force of this law.

Pending foreign investment registrations

Art. 27.- The applications for the Registration of Foreign Investment that are pending on the effective date of this law shall continue to be processed in accordance with the procedure established in this law.

Transitory

Art. 28.- Foreign investments that at the effective date of the present law are not registered with the Ministerio de Economia or, being registered, have not updated the records of their investments, have a term of 180 days to carry out the corresponding registrations.

Law repeal

Art. 29.- The following Legislative Decrees are hereby repealed as of the effective date of this law:

a) Legislative Decree No. 960 dated April 28, 1988; published in Official Gazette No. 85, Volume No. 299 of May 9 of the same year, which contains the Law for the Promotion and Guarantee of Foreign Investment, as well as its subsequent amendments;

b) Legislative Decree No. 279 dated March 4, 1969; published in the Official Gazette No. 60, Volume No. 222 of March 27 of the same year, which contains the Law Regulating the Practice of Commerce and Industry, as well as its subsequent amendments.

Validity of the law

Art. 30.-This Decree shall enter into force forty-five days after its publication in the Official Gazette.

GIVEN IN THE BLUE ROOM OF THE LEGISLATIVE PALACE: San Salvador, on the fourteenth day of October of the year nineteen ninety-nine.

JUAN DUCH MARTINEZ
PRESIDENT

GERSON MARTINEZ
FIRST VICE-PRESIDENT

CIRO CRUZ ZEPEDA PEÑA
SECOND VICE-PRESIDENT

RONAL UMAÑA
THIRD VICE PRESIDENT

NORMA FIDELIA GUEVARA DE RAMIRIOS
FOURTH VICE-PRESIDENT

JULIO ANTONIO GAMERO QUINTANILLA
FIRST SECRETARY

JOSE RAFAEL MACHUCA ZELAYA
SECOND SECRETARY

ALFONSO ARISTIDES ALVARENGA
THIRD SECRETARY

GERARDO ANTONIO SUVILLAGA GARCIA
FOURTH SECRETARY

ELVIA VIOLETA MENJIVAR
FIFTH SECRETARY

JORGE ALBERTO VILLACORTA MUÑOZ
SIXTH SECRETARY

PRESIDENTIAL HOUSE: San Salvador, on the fourteenth day of October of nineteen ninety-nine.

PUBLISH,

FRANCISCO GUILLERMO FLORES PEREZ,

President of the Republic.

Miguel Ernesto Lacayo Arguello
Ministerio de Economía

D. O. N° 210
Volume No. 345
Date: November 11, 1999

AMENDMENT

(1) LEGISLATIVE DECREE NO. 423, JULY 11, 2013;
D.O. NO. 137, T. 400, JULY 26, 2013.

EXTENSIONS OF THE TERM:

LEGISLATIVE DECREE NO. 807, DECEMBER 16, 1999;
D.O. NO. 240, T. 345, DECEMBER 23, 1999.

LEGISLATIVE DECREE NO. 853, FEBRUARY 23, 2000;
D.O. NO. 65, T. 346, MARCH 31, 2000.

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28/08/13

GLOSARY

1. **Ministerio de Economía**: Ministry of Economy
2. **Ministerio de Hacienda**: Ministry of Finance
3. **Ministerio de Relaciones Exteriores**: Ministry of Foreign Affairs
4. **Oficina Nacional de Inversiones**: National Investment Office