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FINAL REPORT: E-COMMERCE ACTIVITY WITH CENPROMYPE

PHASE I SAF-DE TRADE LOGISTICS DIAGNOSTIC IN
EL SALVADOR, GUATEMALA, AND HONDURAS

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FOREWARD

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ACRONYMS

Acronym	English	Spanish
3PL	Third-party Logistics Providers	Proveedores de Logística por Contrato
AEO	Authorized Economic Operators	Operador Económico Autorizado
AGEXPORT	Guatemalan Exporters Association	Asociación Guatemalteca de Exportadores
ARSA	Honduras Sanitary Regulatory Agency	Agencia Reguladora Sanitaria de Honduras
BAC	Central American Bank	Banco de América Central
CAFTA-DR	United States Central America and Dominican Republic Free Trade Agreement	Tratado de Libre Comercio de Estados Unidos entre Centroamérica y República Dominicana
CAUCA	Central America Unified Customs Code	Código Aduanero Unificado de Centroamérica
CBPR	Asia-Pacific Economic Cooperation's Cross-Border Privacy Rules	Normas de privacidad transfronteriza de la Cooperación Económica Asia-Pacífico
CENOMYPRE	Central America Digital Entrepreneurship and Innovation	Centro Regional de la Promoción del Emprendimiento e Innovación Digital en Centroamérica
CENTREX	Center for Exports	Centro de Exportaciones
CCIT	Chamber of Commerce and Industry of Tegucigalpa	Cámara de Comercio e Industria de Tegucigalpa
COHEP	Honduran Council of Private Enterprise	Consejo Hondureño de la Empresa Privada
COMIECO	Regional Economic Integration Council	Consejo Regional de Integración Económica

Acronym	English	Spanish
COMBEX-IM	Customs-controlled Facility Located in the International Airport	Instalación Controlada por Aduanas Ubicada en el Aeropuerto Internacional
CONAP	National Council for Protected Areas	Consejo Nacional de Áreas Protegidas
CONAMYPE	National Confederation of the Micro and Small Enterprises	Confederación Nacional de la Micro y Pequeña Empresa
CONFACO	Trade Facilitation Council	Consejo de Facilitación del Comercio
CP-GAE	Commission for Open and Electronic Government	Comisión de Gobierno Abierto y Electrónico
DGA	Directorate of El Salvador	Dirección General de Servicios Aduaneros
DEPAS	Digital Economy Partnership Agreements	Acuerdos de Asociación para la Economía Digital
DIPAFRONT	The National Police Division for Ports, Airports, and Borders	La División de Puertos, Aeropuertos y Fronteras de la Policía Nacional
DUCA-F	Central American Goods Customs Declarations	Declaraciones Aduaneras de Mercancías Centroamericanas
DUCA-T	Central American Goods in Transit	Mercancías Centro Americanas en Tránsito
EMS/UPU	Express Mail Service of the Universal Postal Union	Servicio de Correo Urgente de la Unión Postal Universal
GDPR	European Union General Data Protection Regulations	Reglamento General de Protección de Datos de la Unión Europea
HONDUCOR	Honduran Postal Services	Servicios Postales Hondureños
ICT	Information Communication Technologies	Tecnologías de la Información y la Comunicación

Acronym	English	Spanish
IGSS	Guatemalan Social Security Institute	Instituto Guatemalteco de Seguridad Social
IICA	Inter-American Institute for Cooperation on Agriculture	Instituto Interamericano de Cooperación para la Agricultura
INAB	National Forests Institute	Instituto Nacional de Bosques
MAGA	Ministry of Agriculture, Livestock and Food	Ministerio de Agricultura, Ganadería y Alimentación
MARN	Ministry of the Environment and Natural Resources	Ministerio de Medio Ambiente y Recursos Naturales
MINCUDE	Ministry of Culture and Sports	Ministerio de Cultura y Deporte
MINECO	Ministry of the Economy	Ministerio de Economía
MSPAS	Ministry of Public Health and Social Welfare	Ministerio de Salud Pública y Bienestar Social
NTFC	National Trade Facilitation Committee	Comité Nacional de Facilitación del Comercio
OCED	Organization for Economic Co-operation and Development	Organización de Cooperación y Desarrollo Económicos
PDCC	The Central American Digital Trade Platform	La Plataforma Centroamericana de Comercio Digital
Portal SAT	Superintendency of Revenue Administration Electronic Portal	Portal Electrónico de la Superintendencia de Administración Tributaria
PGICE	Foreign Trade Integrated Management Portal	Portal de Gestión Integrada de Comercio Exterior
RECAUCA	Regulations to the Central American Unified Customs Code	Reglamento al Código Aduanero Unificado Centroamericano
RKC	Revised Kyoto Convention	Convenio de Kyoto Revisado
RTCAS	Regional Technical Regulations	Reglamentos Técnicos Regionales

Acronym	English	Spanish
SAT	Superintendency of Revenue Administration	Superintendencia de Administración tributaria
SAR	Revenue Management Service	Servicio de Revenue Management
SDE	Secretariat of Economic Development	Secretaría de Desarrollo Económico
SENASA	National Sanitary and Phytosanitary Health Service	Servicio Nacional de Sanidad Sanitaria y Fitosanitaria
SENPRENDE	National Service for Entrepreneurs and Small Businesses	Servicio Nacional para Emprendedores y Pequeñas Empresas
SGAIA	The General Sub-Directorate of Antinarcotics Analysis Intelligence	La Subdirección General de Inteligencia de Análisis Antinarcóticos
SIECA	Central America Economic Integration Secretariat	Secretaría de Integración Económica de Centroamérica
UNCTAD	United Nations Conference for Trade and Development	Conferencia de las Naciones Unidas sobre Comercio y Desarrollo
UPU	Universal Postal Union	Unión Postal Universal
USAID	United States Agency for International Development	Agencia de los Estados Unidos para el Desarrollo Internacional
USMCA	The United States-Mexico-Canada Agreement	El Acuerdo Estados Unidos-México-Canadá
VAT	Value-Added Tax	Impuesto sobre el Valor Añadido
VUPE	Single Window for Exports	Ventanilla Única de Exportaciones
TFA	Trade Facilitation Agreement	Acuerdo sobre Facilitación del Comercio

Acronym	English	Spanish
TRS	Time Release Study	Estudio de Liberación de Tiempo
TTC	Truth Trading Company	Compañía de Comercio de la Verdad
WCO	World Customs Organization	Organización Mundial de Aduanas
WTO	World Trade Organization	Organización Mundial del Comercio

EXECUTIVE SUMMARY

BACKGROUND

Recognizing the importance of promoting e-commerce and digital trade in El Salvador, Guatemala, and Honduras (“the three countries”), the United States Agency for International Development (USAID) approved an e-commerce initiative for its Regional Trade Facilitation and Border Management Project (TFB), implemented by Nathan Associates, Inc. TFB is working closely with the Regional Center for the Promotion of Micro, Small-, and Medium-sized Enterprises (CENPROMYPE) on a technical assistance program in three phases. The overall objective is to promote the use of e-commerce as a tool for trade facilitation and to support the design of public policies that promote the development of an enabling environment for e-commerce.

METHODOLOGY

This diagnostic report constitutes Phase I of the e-commerce initiative. It follows the Systems Analytic Framework for the Digital Economy (SAF-DE), a tool developed by Nathan Associates, Inc. to assess the enabling environment for the digital economy in nine key technical areas, including trade logistics. For the region as a whole and each of the three countries, it examines policy considerations, legal foundations, core institutions, key stakeholders, and quantitative indicators in the trade logistics environment. The scope of trade logistics for e-commerce is defined to include the various phases of cross-border delivery of goods purchased through digital transactions: transport and shipping; crossing the border/clearing Customs; delivery to the end-user; and facilitating product returns.

In-country data collection was approached on a “360 degree” basis to seek as many relevant perspectives as possible, including from logistics service providers, couriers, MSMEs, export and trade associations, Customs, and other border agencies in the three countries. Field work spanned October through December 2021. Where possible, the team sought to collect quantitative data to further enrich the findings, including through a survey of 400 businesses in the three countries to better understand their experiences with e-commerce sales and exports. The report also analyzes data from Customs Administrations in the three countries on expedited shipments (through couriers), consolidated shipments, and postal parcels. While data specific to e-commerce transactions are difficult to identify, these are the most prevalent sources for cross-border e-commerce trade in the region.

A series of validation workshops were held in the three countries in January 2022 to review preliminary findings with stakeholders. These workshops also served to raise awareness among participants of the need for continued collaboration and engagement to address challenges to cross-border e-commerce. The feedback from stakeholders at the workshops is reflected in the findings and recommendations presented in this report.

FINDINGS AND RECOMMENDATIONS

Facilitating e-commerce and digital trade has become an increasingly important part of the growth strategy for Central American economies in recent years. However, the region lags behind in adoption of information and communications technologies (ICTs) to enable firms – including MSMEs—to access new markets, both domestically and internationally. With the onset of the global pandemic and the resulting economic setbacks, digital trade and the ecosystems that support e-commerce are even more relevant especially as firms, governments, and consumers look to institutionalize safer ways of conducting business. While progress towards identifying and strengthening these ecosystems in Central

America has been achieved at the regional level by national governments and by private sector actors and other stakeholders within these countries, much work remains to be done.

The following section presents a high-level view of recommendations for the region and for each country to continue to develop its capacity to facilitate cross-border e-commerce. These recommendations can inform USAID strategies that support good regulatory practices and streamlined trade processes as part of the national action plans and regional strategy for e-commerce. In parallel, USAID through its regional and country programs can support national institutions and private sector initiatives to increase the capacities of MSMEs to develop and adopt business models for international digital markets, promote initiatives with private logistics and transport firms to aggregate volumes and develop efficient transportation and logistics models, and seek partnerships with international logistics providers and marketplaces in destination markets.

REGIONAL ECONOMIC INTEGRATION AND TRADE AGREEMENTS:

The Regional Central American Economic Integration System can be a useful platform to help members harness the benefits of e-commerce for sustainable economic growth. The digital divide is still significant, and countries are yet to develop national policy frameworks to support the development of the digital economy. Through collaboration, they can adopt simplified Customs procedures, digitized and harmonized processes, and regulations to create opportunities for businesses – particularly MSMEs – to benefit from digital cross-border trade.

Key recommendations include:

- CAUCA and RECAUCA should be reviewed to simplify procedures and address the needs of MSMEs, particularly with regard to expedited export procedures, expansion of Authorized Economic Operator (AEO) programs to include couriers and logistics firms, and measures to improve coordination with border control agencies.
- Develop a simplified and preferential regime for trade of small packages within the Customs Union Deeper Integration procedures, allowing for a common *de minimis* value¹ and fewer requirements for imports and exports of low-value packages shipped by air and land.
- Implement a regional Central American procedure for expedited shipments, taking into account the trade facilitation provisions of the World Trade Organization's Trade Facilitation Agreement (TFA) and other modern trade agreements, such as the United States-Mexico-Canada Agreement. This should include a procedure to facilitate expedited exports to and from Central America.

TRADE FACILITATION AND CUSTOMS:

Central American countries must continue with the digital transformation process for regulatory improvement to achieve paperless environments for cross-border trade, including in Customs and other border entities. This means increasing digitization of procedures, promoting acceptance of electronic documents, and proceeding with legal reforms to eliminate requirements for hard copies, and developing a consolidated Single Window for imports and exports that is interoperable among all border agencies.

Key recommendations include:

¹ Shipments valued at or below the *de minimis* threshold avoid payment of taxes and duties. <https://www.trade.gov/de-minimis-value>

- Strengthen collaboration and joint actions at borders between Customs and other border control agencies to reduce the time of crossing at land borders. This includes coordinated hours of operation, joint inspections, interoperability of IT systems, unified forms, advanced declarations, among others.
- At a national level, continue the process of digitization of procedures and acceptance of digital documents, including the full implementation of the Central America Digital Trade Platform and the full roll-out of the electronic invoice in El Salvador and Honduras. Strengthen the implementation of anti-red tape laws (*Leyes de Simplificación de Procedimientos Administrativos*) that reduce unnecessary requirements and promote the use of digital tools and electronic documents for cross-border trade, mainly for health, food safety, environment, and other non-Customs procedures.
- Replace the Customs officials' discretionary powers with efficient use of risk management and non-intrusive inspection systems: the standards should be clear and should leave no room for Customs officials to exercise discretion.
- Revise the regulations and procedures for imports through family support packages (*encomiendas*). The value of current shipments indicate that this trade has reached commercially significant values, almost equivalent to air cargo expedited shipments. The impact of this informal channel should be assessed in the light of economic objectives, with revisions as needed to avoid potential consumer fraud, unfair competition, tax evasion, and risks to security and safety.
- Now that Guatemala has acceded to the Revised Kyoto Protocol, it should act quickly to implement best practices for Customs procedures and promote digitization and streamlining of trade-related procedures.
- For El Salvador, review and monitor the impact of the recently implemented Online Purchases Law for consumer imports of certain goods, as part of the ex-post analysis under the Regulatory Improvement System. The evaluation should use a holistic approach to determine the net benefits or effects of the law across different sectors of the economy.

LEGAL AND REGULATORY FRAMEWORK FOR THE DIGITAL ECONOMY:

In parallel with cross-border trade and logistics, the regulatory framework needs to adapt to the nature of modern trade, including digitally-enabled trade and risk management systems for digital technologies to foster digital development among Central American countries and with key trading partners.

Key recommendations include:

- Central American countries need to develop a legal framework that establishes the standards to securely transfer electronic records and enables paperless trade at scale; makes commitments for consumer protection in a data protection framework that embodies minimum best practice standards; and capacity building programs to expand connectivity, bridge the digital divide, and assist MSMEs looking to grow through e-commerce.
- At the regional level, accelerate the harmonization of digital economy regulations to foster a larger regional digital market that spurs growth, investment, and employment. The Regional Economic Integration Council and the Central American Customs Committee need to review the status of the

Regional Economic Integration Framework vis-à-vis other regional economic groupings with respect to digital trade.

MSME CAPACITY BUILDING TO PARTICIPATE IN CROSS-BORDER E-COMMERCE:

Across the region, MSMEs lack access to market intelligence for potential export destinations, lack experience with and access to e-commerce tools, and are unfamiliar with trade-related processes and requirements. Although firms use digital tools for marketing domestically, this study did not identify firms that export using e-commerce tools.

Key recommendations include:

- Across all three countries, implement programs to increase the knowledge of e-commerce opportunities for importers, exporters, and local businesses, both in B2B and B2C markets. Continue strengthening the capacities of enterprise development programs, including export promotion agencies, to deliver knowledge and resources for MSMEs' digital transformation, mainly on market intelligence, digital export markets, digital cross-border trade and logistics business models.
- As a way to support MSME exporters, strengthen the operational capacities and service offerings of national postal services to handle international parcels and serve customers in rural areas.
- For El Salvador, ensure that the rollout of the e-invoice program is accompanied by simplified reporting procedures for MSMEs.
- For Honduras, strengthen export capacities of MSME firms, especially in the agriculture and food sector, to comply with product and quality requirements. Expand and scale up such initiatives, including the programs for entrepreneurs through the Sanitary Regulatory Agency (ARSA).
- For Guatemala, include representatives of the MSME sector on the National Trade Facilitation Committee. Businesses need to advocate for increased participation of MSMEs in trade policy discussions.

In collaboration with CENPROMYPE and Central American counterparts, TFB expects to use the findings and recommendations in this diagnostic report to guide the development of national action plans for trade logistics related to e-commerce in the three countries, which are currently in the early stages of development.

INTRODUCTION

The Regional Trade Facilitation and Border Management Project (TFB), funded by the United States Agency for International Development (USAID) and implemented by Nathan Associates Inc., seeks to strengthen the capacity and commercial competitiveness of countries in Central America. In this effort, TFB works with government agencies and the private sector, along with regional organizations, to support the implementation of key elements of the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA), the Process of Deep Integration towards the Free Transit of Goods and Natural Persons between the Republics of El Salvador, Guatemala, and Honduras, and the Central American Strategy for Trade Facilitation and Competitiveness.

BACKGROUND

Facilitating e-commerce and digital trade has become an increasingly important part of the growth strategy for Central American economies in recent years. With the onset of the global pandemic and the resulting economic setbacks, digital trade and the ecosystems that support e-commerce are even more relevant especially as firms, governments, and consumers look to institutionalize safer ways of conducting business. While progress towards identifying and strengthening these ecosystems in Central America has been achieved at the regional level by national governments and by private sector actors and other stakeholders within these countries, much work remains to be done.

CENPROMYPE, the Regional Center for the Promotion of Micro, Small-, and Medium-sized Enterprises (MSMEs), is in the process of developing a regional digital strategy (covering Costa Rica, El Salvador, Guatemala, Honduras, and Panama) to promote e-commerce development, particularly for MSMEs. Central to CENPROMYPE's approach is working with national governments to develop country-level strategies aimed at improving the public policy framework and strengthening institutional capacities while fostering skills development in MSMEs.

In late 2020, TFB developed a concept note that laid out a proposal to collaborate with CENPROMYPE to undertake detailed stakeholder analyses on e-commerce and trade logistics. The overall objective of the e-commerce activity is to facilitate the growth of intra-regional trade in Central America, particularly in El Salvador, Guatemala, and Honduras, promoting the use of e-commerce as a tool for trade facilitation and generating the necessary knowledge for the design of public policies that promote the development of an enabling environment for e-commerce. TFB is working closely with CENPROMYPE throughout the implementation of the technical assistance, which is being carried out in three phases: i) a diagnostic assessment focusing on trade logistics-related aspects of e-commerce development; ii) support for the development of national e-commerce action plans on trade logistics in the three countries and a regional strategy; and iii) support for implementation of the priority action plans on trade logistics and e-commerce. The completion of this diagnostic assessment concludes the first phase of TFB's collaboration with CENPROMYPE on the e-commerce technical assistance activity.

OVERALL CONTEXT

It is well-established that inefficiencies in transport and logistics have a disproportionate impact on micro-, small-, and medium-sized enterprises (MSMEs). MSMEs are the engine of growth for developing economies, including in El Salvador, Guatemala, and Honduras. In El Salvador, they comprise nearly all businesses, employ two-thirds of the population, and generate 35 percent of Gross Domestic Product (GDP). MSMEs generate 40 percent of GDP and employ 75 percent of workers in Guatemala and account for 70 percent of jobs in Honduras.² Facilitating cross-border trade through more streamlined

² Data from the Superintendency of Competition (El Salvador); the Vice Ministry for SMEs (Guatemala); and the National Investment Council of Honduras.

processes, greater accountability, and more regular public-private feedback channels is critical to link these growing businesses to consumers in international markets.

Since the global pandemic hit in 2020, the region has seen significant increases in online sales. But that has created new challenges: increased delivery times; lack of reliable suppliers; and difficulties in using e-commerce marketplaces. These logistical issues also affect buyers. According to a survey of 1,000 Latin American consumers, challenges to e-commerce include long delivery times (more than two weeks) and dramatic differences in delivery costs from domestic vs. international suppliers.

SMEs in the Central America region have identified Customs and border procedures as a general barrier to doing business. A 2019 survey of 2,000 firms in five countries in Latin America found that Customs and international delivery costs were the top challenges for companies of all sizes engaging in e-commerce, especially SMEs. The survey was developed into a report for CENPROMYPE highlighting key bottlenecks and challenges to regional cross-border trade. In particular, the report found that SMEs face significant barriers to moving packages into and out of countries. Complex customs requirements, convoluted import and export procedures, and changing government rules have led to cross-border e-commerce shipments that are costly, time-consuming, and poorly integrated into the domestic shipping market. In turn, frictions associated with logistics are critical factors for trade of small packages, as they lack the size, resources, and administrative capacity to navigate legal and regulatory issues in multiple jurisdictions. However, the report was less specific about the root causes of these barriers or how best to address them. This diagnostic builds on the gaps in existing evidence to provide a set of targeted recommendations to regional and national stakeholders that will advance cross-border e-commerce.

ASSESSMENT METHODOLOGY

Nathan developed the Systems Analytic Framework for the Digital Economy (SAF-DE) as a diagnostic tool to assess the enabling environment for the digital economy in nine key subject areas, including trade logistics. The SAF-DE sets forth a systematic approach to collect qualitative and quantitative data concerning policies, laws, regulations, institutions and political considerations essential to the efficient, agile, and secure workings of a digital economy, and report on the significance of this data. The analysis is intended to provide insights to help individual countries or regional networks to create and execute an agenda for capturing opportunities and addressing constraints. Throughout the body of this report, the scope of trade logistics for e-commerce is defined to include the various phases of cross-border delivery of goods purchased through digital transactions: transport and shipping; crossing the border/clearing Customs; delivery to the end-user; and facilitating product returns.

The primary aim of this exercise was to explore barriers and opportunities for cross-border e-commerce from the perspective of a wide range of stakeholders in El Salvador, Guatemala, and Honduras. The team was comprised of a regional expert on trade facilitation and e-commerce and legal/regulatory experts based in El Salvador, Guatemala, and Honduras. Through our networks within each country, the team conducted interviews and focus group discussions with logistics service providers, couriers, MSMEs, export and trade associations, Customs, and other trade-related government agencies, including those supporting MSMEs. In-country data collection was approached on a “360 degree” basis to seek as many relevant perspectives as possible. Field work spanned October–December 2021. The topics in each interview or focus group were tailored specifically to the appropriate country context, drawing from the SAF-DE checklist on trade logistics which explores the following: policy objectives addressing international best practices; legal foundations (laws, regulations, and rules) governing digital commerce; core institutions enacting and enforcing key laws and regulations and examining their capacity, accessibility, transparency, accountability, and inclusivity.

Where possible, the team sought to collect quantitative data to further enrich our findings. We developed a short survey that was answered by over 400 businesses in the three countries to understand their experiences with e-commerce and exports.³ The high-level findings are detailed in each country chapter with full results in Annex D. Finally, Customs services in each of the three countries provided trade data on expedited shipments (through couriers), consolidated shipments, and postal parcels to enhance our understanding of the trends, markets, and modalities for trade in e-commerce channels. While data specific to e-commerce transactions are difficult to identify, these are the most prevalent sources for cross-border e-commerce trade in the region.

A series of validation workshops were held in each country in January 2022 to review preliminary findings with stakeholders. These workshops also served to raise awareness among participants of the need for continued collaboration and engagement to address challenges to cross-border e-commerce. The feedback from stakeholders at the workshops is reflected in the findings and recommendations presented in this report.

THE IMPORTANCE OF TRADE FACILITATION FOR E-COMMERCE

Over the past few years, the global pandemic has forced businesses and consumers to become more comfortable with e-commerce processes. But for cross-border transactions, there is still a need to transport the goods into foreign markets and ultimately to the end user. E-commerce signals a major shift from traditional models for cross-border trade and transport. The landscape of large, containerized shipments is now fragmented into a mosaic of small-scale, low-value packages. This has implications for businesses, regulators, Customs officials, and logistics service providers who are all facing new risks – and fresh opportunities (Table I).

TABLE I. KEY BUILDING BLOCKS OF CROSS-BORDER DELIVERY FOR E-COMMERCE

Business Environment	National Environment
Access to postal and express delivery services with tracking ability	Increased transparency on cross-border e-commerce-related customs procedures and rules on the application of duties and taxes
Access to warehouses and delivery services at destination	Application of simplified customs procedures and expedited customs clearance for small parcels
	Increased de minimis threshold for import duty exemption to reduce the burden on the Customs authorities
	Mechanisms to ensure freedom and security of cross-border data flows
	Increased efficiency for connectivity infrastructure (for delivery of goods: road, air transport; for delivery of services: encryption technology, Internet bandwidth)
	Modernized national postal services to increase efficiency of delivery

Source: International Trade Centre (2016): Checklist: Cross-Border Delivery.

The emergence of e-commerce demands more efficient transport, clearance, and delivery of small, low-value shipments. The faster pace of international trade and higher volume of packages accelerates the

³ This limited sample survey was developed through Google forms and circulated to databases of businesses through CENPROMYPE, AGEXPORT (Guatemala), COHEP and SENPRENDE (Honduras), CIFACIL and COEXPORT (El Salvador) and the USAID Economic Competitiveness Project in El Salvador from October—December 2021. It was designed to be simple and straightforward and to take between 5-10 minutes to complete. The results generally reinforced the findings of interviews and focus group discussions.

need for coordination among government control agencies, including streamlined and digitized operations and interoperability of procedures and systems through a single point of entry. To respond to consumer demands for speed and predictability in delivery times, air cargo shipments are taking on increased importance for lightweight products. Business-to-consumer (B2C) e-commerce requires the use of postal or express delivery services for last-mile delivery.

These shifts have a disproportionate impact on MSMEs and also affect the larger businesses which rely on MSMEs as part of their supply chains. But e-commerce is not a solution in and of itself – it is only a channel. To effectively facilitate access to markets, the backbone of logistics, infrastructure, and a conducive regulatory framework must be in place. These concepts as they relate to conditions in Central America are further explored in the following chapters of this report.

When it comes to digital trade, this report considers regional and international aspects of such transactions, analyzing the relevance of regional regulations (the Central America Unified Customs Code (CAUCA) and its regulations (RECAUCA)), the Northern Triangle Customs Union, the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), and best practices for trade facilitation as enshrined in the World Trade Organization’s Trade Facilitation Agreement (TFA) and the World Customs Organization (WCO)’s Revised Kyoto Convention (RKC).

REPORT STRUCTURE

The remainder of this report is structured in four chapters. The regional chapter discusses treatment of digital trade in regional and bilateral trade agreements, explores regional trade facilitation and regulations, examines trade infrastructure and logistics, considers e-commerce models for cross-border trade, and provides recommendations to increase regional e-commerce for MSMEs. Following are three country chapters that explore more in-depth the policy objectives, legal framework, and core institutions affecting the enabling environment for cross-border e-commerce in El Salvador, Guatemala, and Honduras. These chapters present the team’s findings related to regulations and trade facilitation and capabilities of MSMEs to manage cross-border trade and offer a series of targeted recommendations for institutions and traders to increase access and availability of cross-border e-commerce transactions. The report concludes with a discussion of next steps.

Annex A contains the SAF-DE checklist for Trade Logistics. Annex B lists the public and private sector stakeholders who participated in interviews and focus group discussions throughout the course of this study in each of the three countries and at the regional level. Annex C provides a matrix comparing digital economy provisions across several model free trade agreements. Annex D presents the survey data for all three countries.

CENTRAL AMERICAN REGION: INTRODUCTION

AN ENABLING CONTEXT FOR CROSS-BORDER E-COMMERCE

The potential of e-commerce to boost Central American economies depends on the adoption of cross-border business models and a harmonized and simplified policy framework that allows for fast, affordable, and reliable deliveries to rapidly growing digital markets. Central America, especially El Salvador, Guatemala, and Honduras, has significant untapped potential to integrate MSMEs into export value chains through e-commerce channels, and to promote digital tools to generate sales, accelerate productivity, and diversify consumer markets. Together, these three countries form the largest and most interconnected market in Central America, accounting for about 72 percent of intraregional trade, in terms of the number of digital transactions.⁴

MSMEs are deeply woven into Central America’s economic and social fabric. They supply over 90 percent of jobs, offer training opportunities across regions and sectors, including for low-skilled workers, and support community welfare, especially in remote and rural areas. Sparks of vibrant entrepreneurship ecosystems are emerging in urban centers that have the potential to boost innovation and productivity.⁵ SMEs are very diverse in terms of business models, size, age, and entrepreneurs’ profiles, and draw on a varied talent pool of both women and men. They range from microenterprises in the services sector to middle-range industrial companies, from traditional crafts, agriculture, and food to high-tech start-ups. Still, the majority of micro-enterprises are informal or represent a form of temporary self-employment (El Salvador, CONAMYPE, 2017) and lag behind in the adoption of digital tools (IDB Chequeo Digital 2020). This is exacerbated by the low quality and speed of internet connectivity in the region (ITU, 2020). The contribution of MSMEs to export value chains is limited in most countries, and that is precisely where e-commerce has the potential to transform innovation and market expansion for this sector.



Across the region, increasing imports of small parcels have strained the operations of Customs Administrations and national postal services. Customs data from El Salvador and Guatemala show that imports of postal parcels increased significantly between 2018 and 2021, while imports of expedited shipments by courier rose by double digits.⁶ This “tsunami of parcels” has increased the cost of

⁴ SIECA. Number of digitally transmitted Customs Declarations. <https://www.sieca.int/index.php/plataformas-electronicas/tablero-de-datos-sobre-duca/duca-fl>

⁵ Alfaro, Amo and Montenegro. *Digital Entrepreneurship and Innovation in Central America*. December 2021. World Bank Group.

⁶ Analysis of statistics provided by the Customs Administrations in El Salvador (DGA) and Guatemala (SAT), November 2021.

operations for regulatory agencies and reduced revenues through evasion of duties and fees or through substitution from bulk imports to individual imports (to clear thresholds for taxes/duties). Trade in small parcels also increases the risk of counterfeit/illicit goods and smuggling and the perception of “unfair competition” between imported products and domestic manufactured goods.

Some retailers and manufacturers consider e-commerce as a threat, rather than an opportunity. Domestic firms that manufacture locally or import goods for resale must comply with tax regulations and product requirements, while imports under simplified regimes (i.e., those below the *de minimis* threshold⁷) are not required to comply with local sanitary and health regulations, among other requirements. Therefore, Central American manufacturers argue that imports through e-commerce channels have a competitive advantage over domestic products.

Customs authorities are faced with an influx of small parcels and low value shipments, requiring distinct procedures and handling compared with large and bulk shipments. With an increased workload comes challenges in monitoring compliance of imports with standards, including, for instance, safety norms for manufactured products, or sanitary and phytosanitary (SPS) measures for agricultural and food products, as well as intellectual property rights enforcement.

“E-commerce imports, mainly goods imported under simplified regimes (for example, de minimis values) are not even required to comply with sanitary and health requirements. The Online Purchases Law places domestic firms that create local employment and pay taxes at a disadvantage.” MSMEs are on the losing side because of the growth of cross-border e-commerce.”

--Representatives of the Chamber of Commerce and Industry, El Salvador, November 2021.

In developed economies, Customs and border agencies are focused on adjusting their approaches to risk management for the complex clearance processes required for parcel shipments, for which detailed data on consignors or consignees are not always available. Adapting risk management is even more critical for developing countries. Guatemala, for example, reports that in some cases goods are simply abandoned at the border due to the high cost and long wait for Customs clearance. The Organization for Economic Co-operation and Development (OCED) countries are discussing options with various third-party logistics providers and marketplace fulfillment companies to find solutions to minimize these risks. In the European Union, an estimated 5 billion euros are lost annually due to non-declaration of dutiable or taxable goods associated with e-commerce.⁸ Experience from other regions highlights the importance of adapting the regional trade regulatory framework and modernizing border control operations to ensure that Central American economies benefit from digital marketplaces, while maintaining fair competition, security, and safety.

TRADE FACILITATION AND LOGISTICS FOR MSMEs ENGAGING IN E-COMMERCE

Rapid, reliable, and affordable deliveries necessitate an ecosystem of supportive regulations and efficient cross-border administrative procedures. Regulations and logistics have a significant impact on prices and the time required for goods to reach their destinations. High prices and lengthy delays especially reduce market access for SMEs and affect the attractiveness of cross-border e-commerce for consumers.

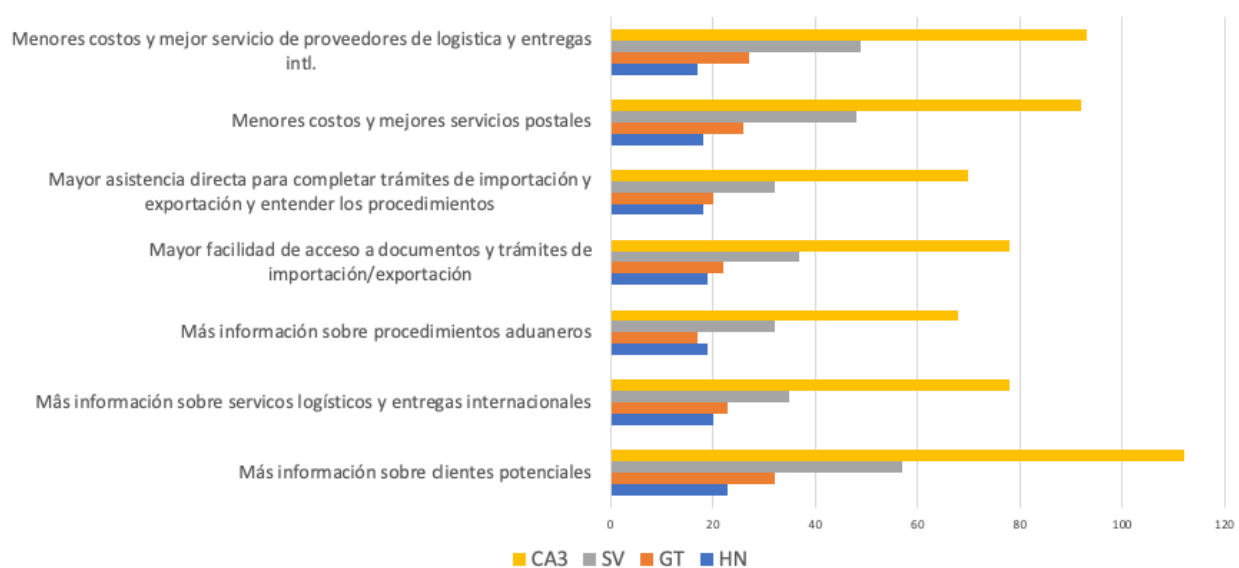
Large firms in well-organized supply chains enjoy economies of scale that minimize the impact of administrative costs. Without economies of scale, SMEs face challenges when shipping small parcels to

⁷ Shipments below the *de minimis* value avoid payment of taxes and duties. <https://www.trade.gov/de-minimis-value>

⁸ Ankur Huria. Facilitating Trade and Logistics for E-Commerce. World Bank Group. December 2019.

multiple locations (The Economist Intelligence Unit 2014). The high costs imposed by Customs delays, late deliveries, or inefficient processes for returns also have a disproportionate impact on the bottom lines of MSMEs. A survey of MSMEs conducted in 2019 by CENPROMYPE shows that respondents perceive that Customs procedures and the complexity of international deliveries are the main barriers for expansion of cross-border e-commerce (IFC Central America Digital Entrepreneurship and Innovation 2021; CENPROMYPE 2019). However, a limited sample survey conducted among over 400 targeted firms that export or had export and e-commerce potential in Guatemala, Honduras, and El Salvador offered a different response (figure 1). These firms considered market intelligence and lower costs for logistics and postal services as the most important factors to boost international sales. Customs and compliance procedures are not the main factor; however, these are also part of logistics costs.

FIGURE 1. THE MAIN FACTORS SUPPORTING INTERNATIONAL SALES FOR MSMEs



Source: E-Commerce, Trade Facilitation and Logistics MSME Survey. USAID Regional Trade Facilitation and Border Management Project. 2022

The global pandemic has accelerated digital transactions for local purchases in Central America, but the region still lags global trends. An estimated 21 percent of Latin American consumers shopped online in 2019, comprising about 6 percent of global online shoppers. One reason for this is the small size of local markets. Limited volumes and profitability have not yet translated into scalable and sustainable e-commerce business models. Firms need to access opportunities in the United States and larger regional markets with higher numbers of online shoppers. In much of Central America and the Caribbean, local online retailers are relatively small and less common (except for services such as food delivery). It is estimated that cross-border shipments, mainly from the United States, make up 60-90 percent of business-to-consumer (B2C) sales. (UNCTAD 2021 E-Commerce Report). Delivery companies with a regional presence operate in each country, however, rarely conduct cross-border e-commerce. This is the case of Hugo, the Salvadoran e-commerce Unicorn, that is rapidly expanding in Central American markets. Hugo started with food deliveries and has expanded to cosmetics, pharmacy, and other consumer products. Imported postal parcels, expedited shipments, and family support packages are a

proxy to estimate e-commerce purchases, since Customs statistics do not report online transactions. Statistics confirm that imports through these channels originate mainly from the United States.⁹

GAPS IN THE REGIONAL FRAMEWORK TO ENABLE INNOVATION AND MARKET EXPANSION FOR MSMEs THROUGH E-COMMERCE

This section analyzes existing gaps in the regional regulatory framework for cross-border trade, trade infrastructure, business and delivery models for MSME exporters, and support services for MSMEs to benefit from the e-commerce ecosystem. If updated and modernized, these tools have the potential to allow Central American MSMEs to flourish and thrive in the global digital economy.

MSMEs can reap significant benefits from trade integration instruments, however micro- and small enterprises find it expensive and burdensome to navigate through the Customs and sanitary requirements necessary to compete in neighboring central American markets. Streamlined and harmonized trade procedures can boost Central American countries' growth through two channels. First, enhanced efficiency and clarity in cross-border procedures can reduce costs and uncertainty for exporters both at home and in the destination market. For example, digitized and streamlined procedures can enhance predictability and efficiency of online transactions. Second, increased import efficiency can allow firms involved in Global Value Chains (referred to as GVC-firms) to access critical inputs and materials more quickly and reliably, and therefore enhance their export competitiveness. (Firms can purchase inputs and materials through B2B e-commerce channels and obtain them faster and reduce costs, becoming more efficient.) (World Bank 2021).

BOX I. CASE STUDY: ORGANIC FRUIT SPREADS (HONDURAS)

Sara is a producer of organic fruit spreads. Her facility is located in El Paraíso, in rural Honduras. She supports a network of more than 28 women growers. Her organization sells products to the Central American communities in the United States. They have sent the product through individual travelers (“viajeros”) and have received repeat orders. They want to become exporters, but the biggest challenge is to comply with sanitary permits and labeling requirements. Without these permits, Sara is unable to export through formal channels.

Sara wishes to become an exporter, and has received assistance from many organizations, including SIECA and USDA.

Source: Sara Euceda, Oropolí, El Paraíso. Focus Group Honduras, December 13, 2021.

Sanitary and health registration requirements remain the primary challenge for MSMEs seeking to export. The Central American Common Regulatory Framework establishes common regulations for Customs procedures, however other border control agencies (regulating sanitary and phytosanitary issues, plant, animal, and human health and safety, and environmental controls, etc.) do not have a common framework. While the Regional Technical Regulations (RTCAS) mandated product and process level harmonized standards, in practice these are not implemented consistently in all countries. Mutual recognition regimes are only in place for low-risk food and beverages. Further, MSMEs wishing to export are required to obtain product registrations in the destination market. This requires a significant investment for MSMEs, which limits the potential markets for those seeking to export non-processed foods, cosmetics, and other regulated products (including personal care and

⁹ General Customs Directorate of El Salvador, (DGA), Superintendency of Revenue, Guatemala (SAT). November 2021.

veterinary products) that require special registration and/or import permits.

TREATMENT OF DIGITAL TRADE IN REGIONAL AND BILATERAL TRADE AGREEMENTS

Beyond simplified import and export procedures for low-value shipments, additional actions are necessary to support the expansion of e-commerce among Central American countries and with leading trade partners. These include: a legal framework that establishes the appropriate standards for secure transfers of electronic records and enables paperless trade at scale; a data protection framework that embodies minimum best practice standards, including cybersecurity and commitments on consumer protection; and capacity building programs to expand connectivity, bridge the digital divide, and assist MSMEs looking to grow through e-commerce (ICC/ UNCITRAL).

While modern multilateral, regional, and bilateral agreements include provisions for digital trade, the Central American economic integration system does not prioritize digital trade in its economic integration agenda. The region therefore lags behind in developing a strategic approach to take advantage of the growth of e-commerce. A plurilateral agreement on e-commerce is currently under negotiation at the World Trade Organization (WTO) and digital trade is being addressed in regional and bilateral agreements through enhanced Customs procedures that go beyond Trade Facilitation Agreement (TFA) commitments. The United States-Mexico-Canada agreement (USMCA) has the most comprehensive digital chapter, which in addition to Customs facilitation WTO/ TFA “plus” obligations,¹⁰ also promotes free flows of data, the principles of free speech and safe harbor for digital service providers, cybersecurity, data protection, consumer protection, and interoperable electronic authentication of electronic signatures.

The European Union pursues a different approach, and maintains a balance between trade flows and privacy, consumer rights, and personal data protection. The Digital Economy Partnership Agreements (DEPAs) are standalone agreements that address areas beyond trade and data flows, including: i) the use of electronic devices; ii) national treatment and the nondiscrimination of digital products; iii) the facilitation of documents for cross-border business, including e-invoicing and electronic payments; iv) personal data protection; v) cybersecurity; vi) online consumer protection, including a commitment to working toward eliminating unsolicited advertising messages (spam); vii) protection of secure digital identities; viii) an ethical governance framework for implementing artificial intelligence; ix) free data flows; and x) addressing the digital divide and digital inclusion by ensuring access to an open internet.¹¹ The provisions on digital trade in USMCA, European Union, and DEPAs could be useful starting points to design roadmaps for Central America to consider in adopting competitive, fair, and inclusive practices for digital trade. Annex C provides a comparison of the features of these agreements.

CUSTOMS UNION AND DEEPER INTEGRATION SCHEMES

Deeper integration schemes toward a Customs Union between Guatemala and Honduras have delivered tangible results in trade facilitation through improved procedures, enhanced infrastructure, increased coordination between Customs and border control agencies, and effective public-private dialogue. Guatemala and Honduras initiated the Customs Union process in 2015. By 2019, border crossing times

¹⁰ WTO-plus obligations represent specific obligations contained in accession protocols that are perceived to expand the existing obligations under multilateral trade agreements and go beyond the existing requirements (Qin, 2016). For example, higher thresholds, simplified requirements, notifications, or mutual recognition.

¹¹ IADB Blog. Digital Economy Partnership Agreements. <https://blogs.iadb.org/integration-trade/en/the-digital-economy-partnership-agreement-a-milestone-in-trade-negotiations/>

fell from 10 hours to only 15 minutes, and logistics costs were reduced by an estimated 15 percent.¹² Despite this impressive progress, more remains to be done. While the Customs Union provides for digitization of trade documents, provisions for trade of small packages and consolidated cargo are not yet addressed. El Salvador recently signed an Action Plan to join the Customs Union. This is a promising development. Together, the three neighbors cover 57 percent of all territory in Central America and account for about \$6.2 billion in regional trade value.¹³

TRADE FACILITATION AND REGULATIONS

TRANSPARENCY AND PUBLICATION OF INFORMATION

The Central American Common Regulatory Framework does not include standards or regulations that mandate transparency and publication of information. Instead, publication of information is mainly regulated by national laws. And while border control authorities publish and update information about laws, regulations, procedures, hours of service, and online forms, including through single windows, the information is seldom organized in way that facilitates greater understanding of the procedures and risks of cross-border trade. The primary audience for specialized trade information is Customs brokers and other international trade professionals. There is a need to develop more content targeted to the needs and capacities of MSMEs and less technically oriented audiences.

USE OF CUSTOMS BROKERS

Most Central American traders rely on the specialized knowledge of customs brokers to perform complex import and export operations. While larger firms likely employ an in-house broker, medium and smaller firms typically hire an external broker. International transportation and logistics firms offer the customs brokerage as a service. In addition, the Central America Unified Customs Code (CAUCA) and its Regulations (RECAUCA) establish a minimum threshold of 1,000 Central American Pesos (equivalent to \$1,000) for transactions that require a customs broker. The use of a customs broker is mandatory for all shipments above this limit.

The WTO TFA Agreement provides for optional use of customs brokers. This is considered a best practice because eliminating the mandatory use of customs brokers helps businesses to reduce the time and cost of trade transactions based on ‘value for money’ considerations. It also speeds processing times and promotes accountability of brokers, eliminating incentives for delays in customs clearance. Evidence suggests that the cost of using a customs broker to complete a Customs declaration is a significant part of the trading costs for low-value shipments. Therefore, mandatory use of customs brokers limits the adoption of trade facilitation provisions that would expand e-commerce shipments, such as simplified procedures for air cargo expedited shipments and postal services packages.

In Central America, importers and exporters may issue self-declarations for shipments valued below the \$1,000 threshold. In practice however, procedures for direct Customs declarations require hard copies, and often individuals are required to submit signed declarations to Customs authorities in physical form. In other cases, individual importers or exporters are not able to take advantage of the digitized Customs

¹² <https://blogs.worldbank.org/trade/leave-your-hammocks-home-how-customs-union-between-guatemala-and-honduras-cut-trade-times-10-hours>

¹³ SIECA Statistics.
<http://estadisticas.sieca.int/documentos/ver/PB%20Transporte%20importancia%20en%20la%20econom%C3%ADa%20centroamericana.pdf>

declarations. For example, in El Salvador, an importer that submits a self-declaration (*Declaración de Oficio*) is still required to sign in-person at the airport Customs office.

EXPEDITED SHIPMENTS

CAUCA and RECAUCA establish definitions, procedures, and requirements for expedited shipments. The current CAUCA V and RECAUCA, which date from 2008, adapt the regional framework to World Customs Organization (WCO) standards and the obligations under the United States, Central America and Dominican Republic Free Trade Agreement (CAFTA-DR). The current Customs framework, however, lags behind the modern provisions set forth in the WTO TFA Agreement and the Revised WCO Kyoto Convention. At the national level, independent laws, regulations, and procedures regulate expedited shipments. (See country chapters).

CAUCA definitions need to be updated and adapted to the global multilateral trade definitions adopted in the WTO/TFA. Several high-priority examples:



- **Interpretation of the *De Minimis* threshold.** CAUCA Article 566 paragraph c) excludes from eligibility for simplified, express release any shipments not included in the document categories or those that do not fall below the *de minimis* value. Using the *de minimis* threshold as a limitation for processing goods constitutes a gap in relation to international best practices and effective application of the TFA because *de minimis* should be used to collect taxes and fees rather than to restrict procedural simplicity and speed.
- **Value limitation.** Regular, non-simplified processing: CAUCA Article 566, paragraph c) states that shipments that cannot be classified as correspondence or documents, samples, or shipments with a Customs value lower than or equal to 1,000 Central American pesos (*de minimis*) will not be subject to simplified processing. This exclusion from simplified processing based on value rather than on the risk of the transaction constitutes a gap in terms of the risk-based management principles of trade facilitation. Limitations should be based on the type of goods or transactions and other factors of a risk management system.
- **Limitation of benefits to air transport.** The current expedited shipment provisions in RECAUCA refer to goods transported by air. This therefore limits the benefit of such procedures for goods transported by land, which is the most common form of transportation for intra-regional trade.
- **Limitation for imported goods.** Central American regulations lack specific provisions for simplified and expedited shipments for exports. MSMEs often use courier services and postal services, but these services lack an official export declaration which can be used in formal business procedures, like value-added tax returns or other incentives for exporters.
- **Digitization and obligations for advance exchange of electronic data.** RECAUCA (Art. 568) requires electronic transmission of air waybills to Customs authorities, however it does not address the need to digitize the payment of duties, clearance, and release, also integrating the supply chain actors. The transmission, exchange, and acceptance of electronic data enables better controls, improved traceability, and streamlined release of merchandise. Electronic data also enhances dynamic risk management systems.
- **Simplified clearance procedures for return shipments.** Cross-border e-commerce requires a streamlined return process, especially for B2C transactions. RECAUCA provides for the possibility of temporary imports and re-exportation, however it does not contain provisions to handle returns for small packages.

- **The current regulations do not take into consideration the origin of goods, and to what extent preferential trade treatment may apply.** For example, goods originating from the Central American Common Market, CAFTA-DR, or the European Union may be exempt from taxes or other requirements, compared to goods originating from other countries where members do not have a preferential trade agreement.
- **Exclusion of regulated goods from the simplified Customs declaration.** RECAUCA (Art. 573) excludes different categories of goods from the simplified declaration, specifically “goods that are subject to restrictions like permits, certificates, or approvals.” This limits the benefit of the process to goods that are regulated, but impose low risk (processed foods, personal care products, certain electronics, etc.), especially within the Central American common market, where standards are harmonized.

PAPERLESS TRADE - DIGITAL TRANSMISSION OF TRADE DOCUMENTS

The **Central American Digital Trade Platform (PDCC)** will enable faster data exchange and transmission of forms and approvals between Customs and border control agencies, including immigration, agriculture, and health authorities. This initiative was launched in 2016 and is supported by the Inter-American Development Bank and the European Union. Although significant progress has been achieved in the exchange of data among Customs, National Single Windows, and with SPS authorities, other border control agencies, including Ministries of Health and the Environment, continue to encounter difficulties in connecting to the regional digital platform.¹⁴

As part of the Central American Trade Facilitation and Competitiveness Strategy and the European Union Association Agreement obligations, regional authorities have succeeded in establishing a Unified Customs Form that is digitally transmitted. The DUCA-F for Central American Goods Customs Declarations and the DUCA-T for goods in transit have significantly shortened processing times at regional borders. Since its launch in 2019, the number of digitally transmitted declarations using DUCA has grown significantly, even as the global pandemic and resulting supply chain issues limited trade in 2020 (see figure).

 DIGITAL TRANSMISSIONS OF CUSTOMS FORMS 						
COUNTRY	2019	2020	2021	GROWTH 20/19	GROWTH 21/20	GROWTH 21/19
COSTA RICA	25,362	24,327	40,498	-4%	66%	60%
EL SALVADOR	41,171	33,196	40,908	-19%	23%	-1%
GUATEMALA	8,798	77,844	92,698	-5%	19%	13%
HONDURAS	18,145	18,323	21,117	1%	15%	16%
NICARAGUA	11,966	13,610	15,405	14%	13%	29%
PANAMÁ			1959			
CENTROAMÉRICA			21,4606			

SOURCE: SIECA'S DIGITAL PLATFORM

¹⁴ Consultation with SIECA, Jan 13, 2022.

DIGITIZATION OF PROCEDURES, DATA EXCHANGE, AND PAYMENTS

Across economies, regardless of income level, allowing electronic submission and processing of Customs-related documents has been one of the most common and effective ways to reduce delays in the trading process. In Central America, traders can submit selected trade documents electronically, but hard copies are often still required by border control authorities. Interviews and focus group discussions conducted for this study highlighted this in-person requirement for the invoice and the bill of lading for expedited shipments in El Salvador; invoices for imports and exports in Honduras; and SPS certificates and other permits for controlled goods in all three countries.

ENABLING THE LEGAL FRAMEWORK FOR DIGITIZATION

To simplify regulatory compliance for businesses and citizens, provide transparency, and digitize procedures for trade “behind the border,” government authorities must follow good regulatory practices, including the implementation of anti-red-tape laws. Regulations are considered high quality if they attain the intended public policy objective while imposing minimal costs on society, stakeholders, and the environment. High quality regulations are also non-discriminatory, bringing equal benefits to domestic and foreign traders and consumers. Good regulatory practices therefore underlie international trade and economic integration in general.¹⁵ The Regional Central American Economic Integration Framework does not provide for good regulatory practices. Instead, these issues are addressed through national legal frameworks.

At a national level, Guatemala, El Salvador, and Honduras have each implemented measures to improve the quality of regulations. Honduras implemented the Administrative Procedures Simplification Law in 2002, with the objective of reducing bureaucracy and the administrative burden for business compliance. El Salvador established the Regulatory Reform Body in 2017 and has since adopted laws and regulations to reduce bureaucracy and unnecessary requirements in administrative procedures. In May 2021, Guatemala approved the Law for Simplification of Requirements and Administrative procedures.

Red-tape reduction laws are necessary to ensure that border control agencies adopt trade facilitation standards, by reducing unnecessary requirements, accepting digital documents, and promoting digital procedures. The implementation of these laws can effectively improve the business enabling environment and reduce the costs of compliance, particularly when specific targets for reduction of unnecessary requirements are established. These benefits are more pronounced for small firms. Digitization of procedures can effectively reduce the regulatory burden on SMEs and facilitate their participation in the formal economy, improve their productivity and competitiveness, and enhance their participation in and benefits from a globally integrated economy.¹⁶

DATA PROTECTION AND PRIVACY

Large multinationals operating in Central America, or firms with multi-country presence, often implement best practices on the use of data following international standards such as the Asia-Pacific Economic Cooperation’s Cross-Border Privacy Rules (CBPR) or the EU’s General Data Protection Regulations (GDPR). Data protection is a critical enabler for establishing a safe environment for online services, whether shopping, registering for email, making payments, or providing personal information. Traders and consumers can have confidence in using these services only when data protection regulations are strong, avoiding abuse and surveillance. The Central America Regional Economic

¹⁵OECD. <https://www.oecd-ilibrary.org/docserver/5jlv59hdgtf5-en.pdf?expires=1640053410&id=id&accname=guest&checksum=214CDADBED70777430BB7FCF3E5283A1>

¹⁶ OECD. Improving the enabling environment of SMEs through effective regulations. Policy Note. Ministerial Conference, 2018. <https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-1.pdf>

Integration Framework lacks common provisions related to data privacy, data protection, and data transmission. Countries have initiated drafts of related laws, however provisions for data protection are dispersed across several legal instruments, which is difficult for traders to keep track of, and does not align with international standards.

E- COMMERCE LAWS

Providing legal validity for electronic transactions is a precondition for enabling e-commerce, however the Central America Regional Economic Integration Framework lacks a common standard. At a national level, Guatemala, Honduras, and El Salvador have all passed legislation inspired by the UNCITRAL Model Law. The nature of e-commerce transactions and the economic importance of data requires certainty and predictability in areas related to online consumer protection, data privacy and data protection, access to source codes, recognition of electronic documents, competition, tax and legal obligations for foreign platforms, and geographic limitations, among other key issues. Countries now have the opportunity to modernize their legal framework as a tool to promote the digital economy as an engine for growth, employment, and inclusion. A harmonized regional e-commerce framework may serve a baseline and is critical to promote digital trade and investment in a larger regional market.

ELECTRONIC PAYMENT OF TAXES AND DUTIES

Adopting procedures for electronic payment of fees, taxes, duties, and charges collected by Customs (not the other governmental entities) on exports and imports are key to cross-border e-commerce, and also reduce corruption by eliminating the possibility of bribes connected to controls at the border. Tax and revenue authorities, including Customs, in the three countries have established the obligation of electronic payments for taxes and import duties. However, this obligation is not contained in the regional provisions for CAUCA and RECAUCA. In addition, not all border control agencies facilitate online payments to firms and individual users. E-commerce and revenue collection can be enhanced by adapting payment technologies and innovative business models and digital tools.¹⁷

PRE-ARRIVAL TRANSMISSION OF DOCUMENTS

Allowing traders to submit import and export documentation electronically prior to arrival of the cargo at the port of entry/exit allows border authorities to begin processing clearances, initiate risk assessment, communicate any questions or inconsistencies to traders, and expedite release and delivery of goods. Pre-arrival processing also allows for streamlined and efficient international supply chains and logistics planning, which is a key pillar of cross-border e-commerce.

RECAUCA specifies pre-arrival procedures for maritime and air cargo, however for land transported cargo pre-arrival processing is not required. Most recently, the region introduced procedures and unified Customs declarations forms (DUCA and FYDUCA) that have allowed traders to transmit documents in advance (table 2). Phytosanitary permits can also be digitally transmitted. However, physical documents are still required by border authorities for trade of controlled goods, such as cosmetics, personal care products, antiques, and wood products, among others.

¹⁷ World Customs Organization. Framework on Standards on Cross-border E-Commerce. E-Commerce Package. http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/ecommerce/wco-framework-of-standards-on-crossborder-ecommerce_en.pdf?db=web

TABLE 2. PRE-ARRIVAL PROCESSING PROVISIONS IN REGIONAL AGREEMENTS

Pre-arrival processing Provisions	Requirements	Agreement/Regulation
Carrier manifests for maritime transport	Minimum 24 hours	RECAUCA
Carrier manifest for air transport	At least two hours before arrival of the airship	RECAUCA
Carrier manifest for de consolidation companies (air cargo)	Prior to arrival of the aircraft	RECAUCA
Carrier manifest for ground transport	Electronic pre-transmission or submission upon arrival	RECAUCA
Unified Customs Declaration (DUCA)	Electronic pre-transmission	CA-EU Agreement.
FYDUCA	Electronic pre-transmission	Guatemala-Honduras Customs Union
Transport Documents	RECAUCA requires carriers to provide the information contained therein to customs via electronic transmission, or via other authorized media, without indicating the deadline for doing so.	RECAUCA
Manifests and consolidation documents	Documents must be delivered prior to the arrival of the aircraft.	RECAUCA
Phytosanitary Permits	Electronic Transmission	Central America Trade Facilitation and Competitiveness Strategy
Health Permits	Physical document required by border controls	Not regulated
Environmental Permits	Physical document required	Not regulated
Arts and Antiques	Physical documents required	Not regulated

Source: SIECA/CAUCA/RECAUCA.

RISK MANAGEMENT

The adoption of risk management systems by border authorities allows for more efficient fiscal, safety, and security controls. The regional Customs Code established the mandate for Customs Authorities to implement risk management systems, however this obligation is not extended to other border control authorities (including health, agriculture, security, etc.). The Central American Strategy for Trade Facilitation and Competitiveness promotes an integrated approach to manage Customs, immigration, and security risks.¹⁸ In 2019, the Regional Economic Integration Council (COMIECO) approved a Regional Strategy for Integrated Customs Risk Management, modeled after WCO standards.¹⁹

Risk management systems support efficient border control operations when authorities are challenged by a large volume of transactions and cargo, allowing the implementation of relevant border controls on high-risk consignments and expedited release of low-risk consignments. Customs Administrations in all three countries implement risk management systems, however evidence and anecdotes compiled during this study suggest that implementation of the risk management system for expedited shipments and consolidated cargo can be refined. In El Salvador for example, logistics firms indicated that Customs cannot control the extent to which the Online Purchase Facilitation Law is used for commercial purposes.²⁰ The law does not contain limits on the number of articles or number of times that an individual can import. The responsibility of determining the nature of the importer is left to the courier companies. In Guatemala, Customs operations are simply overwhelmed by the number of packages that are processed at airport facilities. Security, SPS, and other border control authorities conduct separate procedures, and do not always coordinate with Customs for a joint risk management approach. Family support packages, commonly purchased through e-commerce channels, are considered high-risk imports.

The use of technologies is key to enhance risk management in Central America. Non-intrusive inspection systems are in place in El Salvador, but only applied on a selectivity basis. Honduras and Guatemala have not yet implemented non-intrusive inspection systems in expedited shipments and other cargo inspection procedures.

AUTHORIZED ECONOMIC OPERATORS

Enhancing trust and cooperation between Customs, other border control agencies, and logistics operators is critical to enable a streamlined international supply chain that supports e-commerce transactions. Authorized Economic Operators (AEO) are parties involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs Administration, that comply with specified requirements regarding security of the supply chain, management of commercial records, financial viability, among other considerations that prove trustworthiness and reliability to Customs authorities.

The AEO figure is considered in CAUCA and RECAUCA and recently adapted to WCO standards. CAUCA sets forth the requirements for an AEO and promotes mutual recognition between countries. El Salvador, Guatemala, and Honduras have all begun AEO programs with large importers, exporters, Customs agents, and logistics firms. As more couriers and logistics consolidators enter the AEO programs the compliance and clearance procedures offered to MSME exporters and importers, and the quality and security of international logistics services, can be enhanced. Evidence suggests that AEO

¹⁸ Central America Trade Facilitation and Competitiveness Strategy.

https://www.mineco.gob.gt/sites/default/files/folleto_estrategia_de_facilitacion_del_comercio.pdf

¹⁹<https://www.mineco.gob.gt/sites/default/files/acuerdo-no-01-2019-comieco-ex0001.pdf>

²⁰ Focus groups, October 2021 - January 2022.

programs have significantly reduced the time of warehousing of imported goods, between the time of declaration and release. This is important for delivery times and costs associated with warehousing before release.²¹

ELECTRONIC INVOICE

The rollout of a system for electronic invoicing contributes to better fiscal controls, increased tax revenues, and more efficient cross-border trade processes that support e-commerce. Electronic invoices can benefit businesses through increased productivity, speeding e-commerce transactions, and facilitating cross-border trade. Moreover, the use of electronic invoices may trigger other digital business opportunities, such as electronic factoring services and export/import credit solutions. Export invoices are easily generated through the system and support a more expedited process for value-added tax credits and returns. The full benefits of the electronic invoicing system are achieved when the e-invoice is adopted by all taxpayers, including small firms and individual businesses. In Guatemala, the e-invoice was fully implemented among large firms and small taxpayers in 2018, and its implementation has resulted in stronger controls and improved revenue collection.²² El Salvador has started a pilot program for e-invoicing with large firms.²³

Electronic invoices are widely used in Latin American countries²⁴ for domestic transactions, but their potential for cross-border trade is untapped. The interoperability of digital invoices among Customs authorities is an innovative tool that improves data exchange and optimizes the automation process of cross-border trade. It also facilitates the traceability of transactions. The implementation of the e-invoice in Brazil has demonstrated benefits by reducing the number of physical documents (85%), the amount of information required (60%), and decreasing processing times (50%), in addition to achieving significant savings for private trade operators.²⁵

LOGISTICS AND TRADE INFRASTRUCTURE

Despite its privileged geographic position to access larger, more dynamic markets, the Northern Triangle countries face significant infrastructure challenges in the quality and capacity of ports, airports, and roads, which negatively impact the operational efficiency of international trade and logistics services and raise their costs.²⁶ This represents a barrier to regional competitiveness in accessing foreign markets and linking to global value chains, especially for MSMEs. Despite the regional commitments to improve policies and investment in infrastructure, Central America has suffered in its logistics performance when compared to other regions. Between 2014 and 2018, discrete improvements in rankings of the Logistics Performance Index²⁷ pillars (LPI) show that Honduras has improved its ranking for infrastructure, while El Salvador and Guatemala lag its ranking compared to other economies. Guatemala has improved its ranking in the quality and competence of logistics services, while El Salvador improved its ranking in the timeliness of services.

²¹ World Customs Organization, Compendium of Case Studies on E-Commerce, June 2020. <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/ressources/permanent-technical-committee/227-228/pc0616eae1b.pdf?la=en>

²² Interview with Representative of Super Intendency of Revenue (SAT), December 2021.

²³ Author's interviews with Representatives from the Secretariat of Innovation and the Ministry of Finance; November 2021. <https://www.elsalvador.com/noticias/negocios/ministerio-de-hacienda-electronica-publica/888343/2021/>; <https://publications.iadb.org/publications/english/document/Electronic-Invoicing-in-Latin-America.pdf>

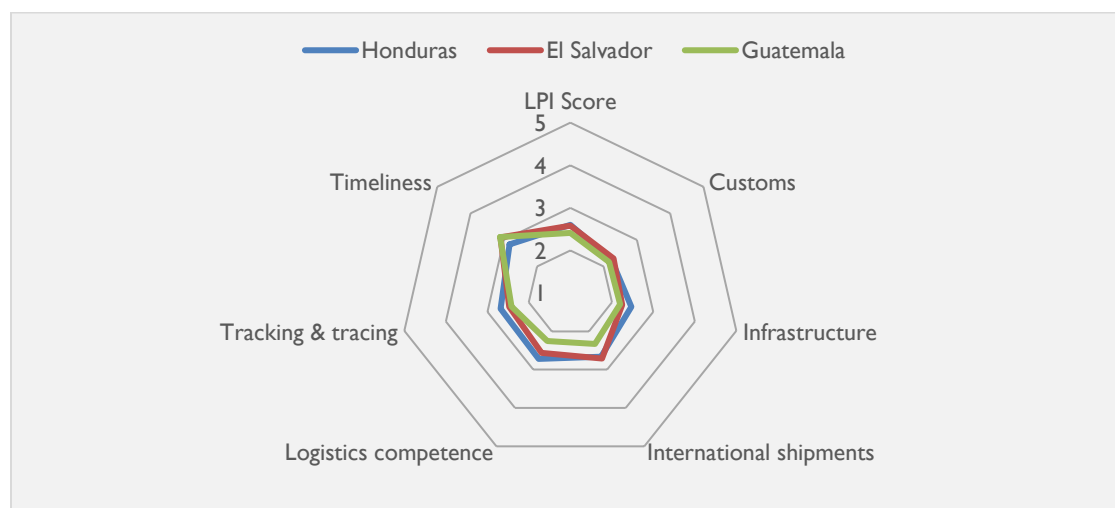
²⁴ Argentina, Brasil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Peru and Uruguay.

²⁵ Interamerican Development Bank. Opportunities of Adopting E-Invoice in Cross-border Trade. February 1, 2022. <https://blogs.iadb.org/gestion-fiscal/es/oportunidad-el-uso-de-la-factura-electronica-en-el-comercio-internacional/>

²⁶ SIECA/ COMIECO. Central American Regional Policy for Logistics and Mobility, 2015.

²⁷ Logistics Performance Index Report, 2018. World Bank Group.

FIGURE 1: LOGISTICS PERFORMANCE INDEX RANKING, 2014 & 2018



Source: World Bank Logistics Performance Index Country Scorecards.

LAND TRANSPORT

The cost of transport represents an important share of the total cost of cross-border traded goods, especially for goods that require express delivery. In Central America, transport accounts for 30-35 percent of total logistics costs (World Bank, 2012). Land is the most common transportation mode for regional cross-border trade. High transport costs are explained by five key factors: (i) difficulty in accessing credit; (ii) high fuel prices; (iii) high security costs; (iv) long travel times, including waiting times at borders; and (v) backhauls (empty containers). MSMEs confirmed that the cost of express deliveries for individual packages may range between \$18–40, which greatly limits potential exports for low-value merchandise, even for shipments to neighboring countries. The cost of parcels exported by postal services is similar to the rates charged by private courier firms (Express Mail Service of the Universal Postal Union (EMS/UPU) network rates). Anecdotal evidence suggests that freight rates for exports are higher than those for imports in most countries in Central America. As a result, shippers may be confronted with oligopolistic markets, where high prices are the result of low export volumes and limited competition. All three countries promote the integration of transport and logistics services in export value chains through incentives to establish transport and logistics facilities in free trade zones. El Salvador implements the International Services Law, which provides fiscal incentives to firms that provide logistics, packaging, and warehousing services to export value chains. Honduras and Guatemala also have export incentives in free zones that facilitate logistics for exporters.

As the primary mode of transport for regional trade, land transport is an important enabler for e-commerce in Central America. However, the high cost and limited services are barriers for MSMEs. Consolidated cargo is a lower-cost service available in the three countries, but the complexity of Customs clearance procedures and other required documentation still discourage smaller firms. The current regulations do not provide for a simplified procedure for export and import of land transported goods.

Despite the adoption of the Central American Strategy for Trade Facilitation and Competitiveness in 2015, land transport times have not decreased over the last five years. The recent publication of a Time Release Study (TRS) revealed that at La Hachadura-Pedro de Alvarado, the most transited border along the Pacific Corridor, the release time for imports from El Salvador to Guatemala may take up to 15 hours. The TRS is an important step to establish a baseline for performance and to compel border control authorities to agree on an action plan. Current plans to improve the efficiency of border crossings by Guatemala, Honduras, and El Salvador include binational coordination and common procedures among border authorities (including partner country counterparts) such as joint inspections, one-stop controls, interoperability of IT systems, improved management of transit flows in border-controlled areas, and advanced processing of Customs documents and other permits.

BOX 2. REDUCING BORDER CROSSING TIMES AT CORINTO

In 2014, Guatemala and Honduras signed the Protocol for Deeper Integration in the framework of the Central American Customs Union. Both countries agreed to establish a political and technical governance scheme and created a fund to maintain the Customs Union. There has been significant progress in integrating Customs procedures at one checkpoint, and between border authorities operating at the Trade Facilitation Center in El Corinto. Authorities there agreed to common tax revenue regulations, a common invoice and Customs Declaration (FYDUCA) and the harmonization of part of phytosanitary inspections and standards. Recently, peripheral controls for Customs offices outside the Customs Union territory were established in Tecun Umán (at the border with Mexico) and Puerto Cortes in Honduras, which will result in improved trade and logistics corridors. Still, benefits of the Customs Union cover only half of Guatemala-Honduras bilateral trade. The remaining goods depend on the harmonization of sanitary standards and or are subject to specific duties and taxes. Lack of connectivity and access to digital devices limit the impact of digitization of procedures. Another challenge is the poor road infrastructure. Despite these challenges, the times for crossing the border at El Corinto went from 8 hours in 2017 to only 8 minutes in 2021. The Guatemala-Honduras Customs Union has proven to be an effective model to deepen regional integration.

AIR TRANSPORT

Air cargo is the main form of transport for expedited shipments to international markets, primarily to the United States and Europe. Many private passengers' airlines provide air cargo services.²⁸ MSMEs confirmed that the cost of shipments for express deliveries for individual packages may range between \$18–40, which greatly limits potential exports of low-value merchandise, even for shipments to neighboring countries.

²⁸ <https://www.iata.org/contentassets/bc041f5b6b96476a80db109f220f8904/honduras20-20eng.pdf> ; <https://www.aviacionline.com/2021/06/honduras-law-project-to-promote-low-cost/> ; <https://www.airport-technology.com/projects/new-palmerola-international-airport/> <https://www.iata.org/contentassets/bc041f5b6b96476a80db109f220f8904/el20salvador20-20en.pdf> <https://www.iata.org/contentassets/bc041f5b6b96476a80db109f220f8904/guatemala20-20eng.pdf>; https://www.centralamericadata.com/en/article/home/Cargo_Airport_Project_is_Unfeasible https://www.centralamericadata.com/en/article/home/Guatemala_and_Exports_by_Air

“The increased volumes of air cargo demand increased capacities of airport facilities, which requires a significant investment for the government, so that logistics operations can be performed at COMBEX-IM facilities.”

-Jorge Gomez, COMBEX-IM Director, El Economista²⁹

“Daily incoming flights that transport expedited shipments, primarily from the United States, arrive in San Salvador International Airport during the early afternoon hours. This causes operational challenges for Customs and the Autonomous Ports Authority (CEPA), and in some cases cargo cannot be processed on the same day, delaying deliveries to final customers since Customs and Airport Authorities have limited staff and times of service. On the other hand, logistics services firms consolidate land transportation between airport facilities and operating centers.”

-Courier Company representative, AMCHAM focus group, October 2021.

“In Honduras airport infrastructure management is granted to one private firm, and couriers have little negotiation power on the costs and conditions for efficient operations.”

-Representative of the Honduran Courier Association, Validation Session, January 2022.

The Regional Regulatory Framework established in RECAUCA (Art. 565) restricts logistics companies to perform separation and release operations for air cargo shipments in a Customs-controlled area. For this purpose, logistics companies are required to maintain computer equipment with the necessary connections to the Customs IT system and to assign Customs officials permanently or when needed, based on risk criteria, to such control areas. This is a departure from international best practice because it leads to a lack of transparency and predictability in the operation of logistics services. In Guatemala, couriers operate in a Customs-controlled facility located in the international airport – COMBEX-IM. In El Salvador only one courier maintains an approved facility to deconsolidate cargo, while the remaining companies operate in the Customs-controlled area at the international airport facility. Logistics firms in Honduras are required to deconsolidate air cargo at Customs facilities in the airport, and when shipments are inspected, the costs increase significantly due to warehousing costs charged by private warehouse operators. The locations to manage expedited shipments cargo have effectively become a bottleneck for their operations.

MARITIME TRANSPORT AND PORTS

Central American countries can benefit from their geographic locations with proximity to North American markets and access to the Pacific and Atlantic maritime routes.

TABLE 3. CENTRAL AMERICAN PORT CAPACITY

Country	Metric Tons, 2018	Metric Tons, 2019
Guatemala	26,960	27,985
Honduras	14,127	14,326
El Salvador	6,373	6,682
Total	47,460	48,993
Panama	79,977	87,892

²⁹ <https://www.eleconomista.net/economia/Guatemala-la-millonaria-inversion-que-requerira-la-saturada-area-de-carga-de-la-terminal-del-Aeropuerto-Internacional-La-Aurora--20200929-0007.html>

Source: Central American Transport Commission (COCATRANS). 2019 Statistics.

Guatemala has the largest port capacity, nearly 28,000 metric tons in 2019, through its ports in the Pacific and the Caribbean (table 3). Puerto Quetzal, in the Pacific, is the main port (handling 48 percent of maritime cargo), followed by Puerto de San Jose (handling 11 percent of maritime cargo). Cargo in the Caribbean is handled by Puerto Santo Tomas de Castilla (27 percent) and Puerto Barrios (14 percent). Most cargo is containerized (39 percent), followed by solid bulk (33 percent) and liquid bulk (22 percent).

Honduras had more than 14,000 metric tons of port capacity in 2019. Puerto Cortes is its main port in the Caribbean, handling 81 percent of maritime cargo in 2019, followed by Port Castilla with 18 percent, San Lorenzo (9 percent), and Tela (2 percent).

El Salvador's ports are in the Pacific. The port of Acajutla is the largest in the country, handling 74 percent of maritime cargo, followed by RASA (19 percent), CORSAIN (4 percent) and Cenergica (2 percent). Alba Petroleo terminal ceased operations during 2019. Most maritime cargo are imports (84 percent). About 35 percent of cargo is bulk solid, 35 percent bulk liquid and only 23 percent is containerized cargo.

Freedom of transit allows importers and exporters from El Salvador, Honduras, and Guatemala to use trade corridors that connect production facilities directly to ports and destination markets. Exporters from El Salvador, for example, ship cargo to the United States and other export markets through Puerto Santo Tomas de Castilla in Guatemala and Puerto Cortes in Honduras. On the other hand, most containerized cargo to El Salvador enters through Puerto Quetzal in Guatemala. Imports from South America and Asia arrive at Panamanian ports and are transported by land to Central American markets. Efficient trade corridors, multimodal transport systems, and networks of rural feeder roads can further connect firms to domestic, regional, and international markets. Investment in port infrastructure and port management has been a challenge for Central American countries. In the last decade, only Honduras improved its port infrastructure by increasing the capacity of Puerto Cortes.

POSTAL SERVICES

The capacity of a country's national postal service is an important indicator of its readiness to expand e-commerce (UNCTAD). The ZIPD Index (developed by the UPU) measures the performance of postal services in terms of their reliability (speed and predictability), relevance, reach (networks, international partners), and resilience (diversified revenue streams). Postal service development in Central American countries, specifically El Salvador and Honduras, lags behind their regional counterparts, and far behind global best performers (see figure).



In Central America, postal services are integrated with Customs for imports but not for exports. Customs prioritizes integration of import procedures because of the importance of fiscal controls and to facilitate revenue collection (duties and taxes on imports). However, the demand for postal services for export purposes has not been sufficient to establish an integrated export procedure. The MSME survey confirms that exporters of small packages overwhelmingly prefer private logistics providers, and the main reason is their perception that the national postal service is too slow.

In El Salvador and Guatemala, Customs maintains a presence within the central postal services building. In Honduras, Customs maintains a representative in the national postal service offices for controls. Packages must be collected in person, and recipients must present identification and an invoice for the purchased items. This process is timely and expensive for recipients in rural areas at a distance from capital cities.

In Guatemala and El Salvador, the importance of national postal services for imported parcels is rapidly increasing, although it remains modest compared to the number of packages imported as expedited shipments (through couriers). Postal services offer options to send packages overseas and the rates vary

according to the weight of the package and destination. The rates are published online. Compared with private sector logistics providers, national postal services could offer lower-cost domestic and international delivery services, which can facilitate deliveries for MSMEs. In Guatemala, Honduras, and El Salvador, however, the cost of parcels exported by postal services is similar to the rates charged by private courier firms (EMS/UPU network rates).

In contrast with other Latin American countries, El Salvador, Honduras, and Guatemala do not currently implement programs to promote MSME exports, such as *Exporta Fácil* (see box). Postal service representatives agreed that while the predominant demand for their services comes from individuals, they have the potential to do more to support exports by MSMEs. These efforts should be coordinated with other government institutions, such as Customs and MSME development agencies.

BOX 3. SIMPLIFIED EXPORTS PROGRAMS (EXPORTA FÁCIL)

Over seven countries in Latin America and the Caribbean have launched *Exporta Fácil* programs to support MSMEs. Brazil, Ecuador, Peru, Colombia, Costa Rica, Uruguay and Panama have successfully supported MSMEs export through their national postal systems, with the support of other government entities.

Exporta Fácil helps to reduce transaction costs for MSMEs by fostering the integration of such firms into the international market. It seeks to facilitate the internationalization process for MSMEs in distant locations through a simplified import/export process via the postal system using the designated postal operator's logistics platform.

This type of simplified export procedure requires collaboration between postal services, Customs, and Single Windows for trade, to reduce the requirements for small packages with a limited weight and volume (30kgs, and \$10,000, in the case of Brazil). Establishing a simplified export program involves not only streamlining postal and Customs processes but also, above all, aligning the *Exporta Fácil* project with other public and private actors and projects to reduce export costs, eliminate excessive bureaucracy, and foster an export culture.

Source: Inter-American Development Bank/INTAL. OECD Aid for Trade.
<https://www.oecd.org/aidfortrade/47086606.pdf>

IMMIGRANTS TRADE NETWORKS: FAMILY SUPPORT PACKAGES THROUGH “ENCOMENDEROS” AND “VIAJEROS”

Migrant communities from El Salvador, Guatemala, and Honduras in the United States maintain close networks with their home countries, with robust flows of goods to and from the region. Transport of these goods takes the form of passenger luggage and packages for family support, where travelers (“viajeros,” also called “encomenderos,” or travelers who carry a package entrusted to them³⁰) charge consumers or firms a reduced fee to carry a package to its destination. A traveler may charge around \$10–30 to deliver a small package bought by a consumer who lives in Central America to a U.S. address, mainly in capital cities or major urban centers. Delivery typically takes about a week and may require

³⁰ Encomendero is a term adapted from the Spanish colonial times, that refers to a conqueror that is entrusted with laborers and the collection of taxes.

private delivery services to reach rural areas. Travelers also take goods from their home country to the United States. The most common products making these trips are ethnic foods, medicines, and handicrafts. Micro- and small firms that export to the United States confirmed that this is the most common form of transport because of the low cost and lack of documentation. However, informal transactions of this nature entail higher risks, including because goods are not insured.

CAUCA (Art. 112, 113 and 114) and RECAUCA (Art. 578, 579, 580, 581, 582, and 583) allow for duty-free, tax-free entry of merchandise valued at \$500 or less. Countries have also implemented regulations that contain provisions for handling packages sent by immigrants to their families in Central America. In Honduras, the *Law of the Absent Honduran (Legislative Decree 185-86)* exempts certain goods from taxes and tariffs during the holidays (between November 15 and January 15 of each year). The law does not impose a limit on the value of such imports. In 2003, El Salvador established a specific procedure for travelers (*Gestores de Encomiendas*) to facilitate entry of family support packages. The latest modification of the Online Purchases Law also exempts packages valued up to \$300 from duties, taxes, and non-tariff requirements if they enter the country with travelers who are registered with Customs. Goods can be transported by air, sea, or land. In Guatemala, by contrast, requirements comply with the CAUCA and RECAUCA threshold of \$200 for postal parcels and \$500 for family support. The traveler's association in Guatemala claims that transporters are charged excessive duties and fees, and the release of goods is slow. An individual that picks up a family support package must present physical proof of family ties through his or her birth certificate. At the request of the Legislative Assembly, the Ministry of Economy is considering a differentiated classification of goods under this category to streamline and expedite procedures.³¹

It is important to note that the number of transactions and total value of family support packages have increased to a level of commercial relevance, when compared with the value of expedited shipments that are imported by couriers. Data collected by Customs does not disaggregate family support packages from merchandise for commercial purposes.

E-COMMERCE LOGISTICS MODELS FOR CROSS-BORDER TRADE

While the majority of trade (80 to 90 percent) of e-commerce transactions takes place for imports of consumer goods from the United States and China, a few Central American firms are accessing export markets using digital tools, including digital marketplaces, websites, and social media.³² Through interviews and focus groups the team found that MSME exporters use a variety of logistics channels. Micro-enterprises and entrepreneurs often market their products through social media and arrange to send small packages through encomenderos, some use expedited shipments (courier services), and others consolidate cargo and sell through distributors or partners in destination markets.

E-COMMERCE IMPORTS

Imports for commercial purposes are normally excluded from simplified procedures and couriers. However, MSME retailers commonly buy merchandise in small packages. B2C e-commerce is the most common form for imports. Direct imports arrive mostly by air cargo, through freight forwarders, travelers/ family support shipments, and maritime consolidated shipments.

Products imported through express delivery services are subject to tariffs and value-added tax. Airport clearance times are normally expedited and release of merchandise, once cleared by Customs, rarely exceeds six hours. Imports originate mainly from the United States and China, and most consist of

³¹ "Instalan Mesa Técnica para Analizar Impuestos a Encomiendas de Migrantes. Congreso de la República de Guatemala, 2020.

³² UNCTAD E-commerce Report, 2021.

consumer goods and electronics, purchased online by Central American consumers. Express delivery firms and travelers do not offer a return service since the Customs framework governing these transactions is complex.

Globally, B2B e-commerce is massive: up to five times the size of B2C, valued at \$14.9 trillion in 2021.³³ B2B e-commerce activity is not reported in Guatemala, Honduras, and El Salvador. No information on importers and exporters that handle their purchases in wholesale quantities using e-commerce platforms to complete transactions was identified during the study. B2B e-commerce is a key building block for modern supply chains and should be promoted among all businesses as part of digital transformation.

E-COMMERCE FOR MSME EXPORTERS

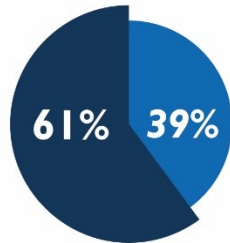
During interviews and focus groups, the team found that only select MSMEs are exporting through e-commerce channels. Based on a limited sample survey (about 400 responses from firms in El Salvador, Guatemala, and Honduras), firms responded that they use e-commerce tools to sell their products. Most MSME respondents exported food and beverages, handicrafts, and fashion and accessories. Their primary destination markets are Central America and North America, and the reason why firms are either not exporting or are not exporting more are: i) lack of information about potential clients and ii) the high costs of logistics, transport, and delivery in destination markets. During focus group discussions in the three countries, MSMEs did not mention specific Customs procedures or requirements that would constitute export barriers. Despite participating in e-commerce business development programs, many MSMEs emphasized the difficulties they encounter in maintaining and updating digital tools, especially because international payments are not always viable for their target clients. Customers in the United States or Europe have preferences for using certain payment methods such as Paypal, but the transaction fees for these services are very high and not generally available for small businesses in Central America.

³³ <https://www.statista.com/study/44442/statista-report-b2b-e-commerce/>



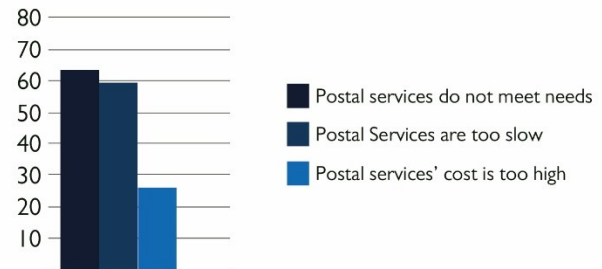
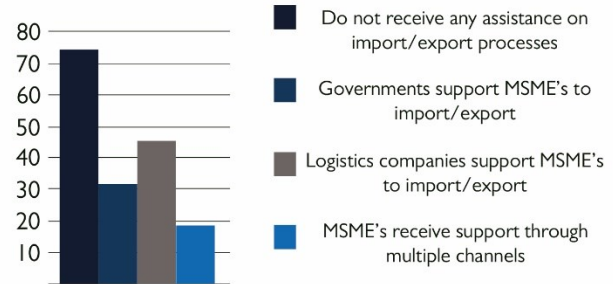
MSME's IN THE NORTHERN TRIANGLE

MSME's need more support to access international markets



61% of the MSME's know where to find information regarding import/export procedures

The postal service is underutilized



MAIN DESTINATIONS OF EXPORTS



USA



CENTRAL AMERICA



EUROPE



MAIN EXPORTED PRODUCTS



FOOD AND BEVERAGES



ARTS AND CRAFTS



SERVICES

Larger firms and export consolidators expressed a desire for a more streamlined, simplified process for exports of expedited shipments. Such a process should include processing of the exporter value-added tax credits, and the export invoice. Providers of express logistics services, like DHL and UPS, expressed a desire to submit all documentary requirements in digital form, both for export and for import in destination markets.

E-COMMERCE AMONG WOMEN-LED FIRMS

Women-led businesses face challenges related to skills, access to technologies, access to finance, and empowerment, especially for those women that live in contexts with inherent biases and socio-cultural norms that limit their ability to participate in the growth of the digital economy.³⁴ Although e-commerce has enormous potential to support women-led businesses, when it comes to cross-border trade, these challenges can become more acute.

A digital divide in the adoption of digital skills still prevails in the three countries and is closely related to education levels, location of residence, and age. The digital gap is wider for women in the rural areas. In a recent study conducted by the Inter-American Institute for Cooperation on Agriculture (IICA), participants raised the need to ensure access to cell phones, resources to purchase data, as well as connectivity itself, which is especially limited outside cities (IICA 2020).³⁵ The study also found that mobile phone ownership is significantly higher for more educated females living in urban areas, confirming again the double disadvantage brought about by the interacting gender, socio-economic status, and location of residence. In contrast with other regions, more men are active on Facebook than women in Guatemala and El Salvador; while more men use smartphones than women in all three countries.

Enterprise development programs in Central America invest in promoting women-led businesses. For example, CENPROMYPE's key initiative is promoting female entrepreneurship through its regional Micro and Small Business Development Centers network. Other public-private initiatives such as Vital Voices, and Club Nacional de Mujeres Emprendedoras in Honduras offer trainings and networking resources for women-led businesses. Most recently, the use of digital tools and e-commerce have also become part of the resources offered to strengthen women-led MSMEs.

USE OF DIGITAL MARKETPLACES

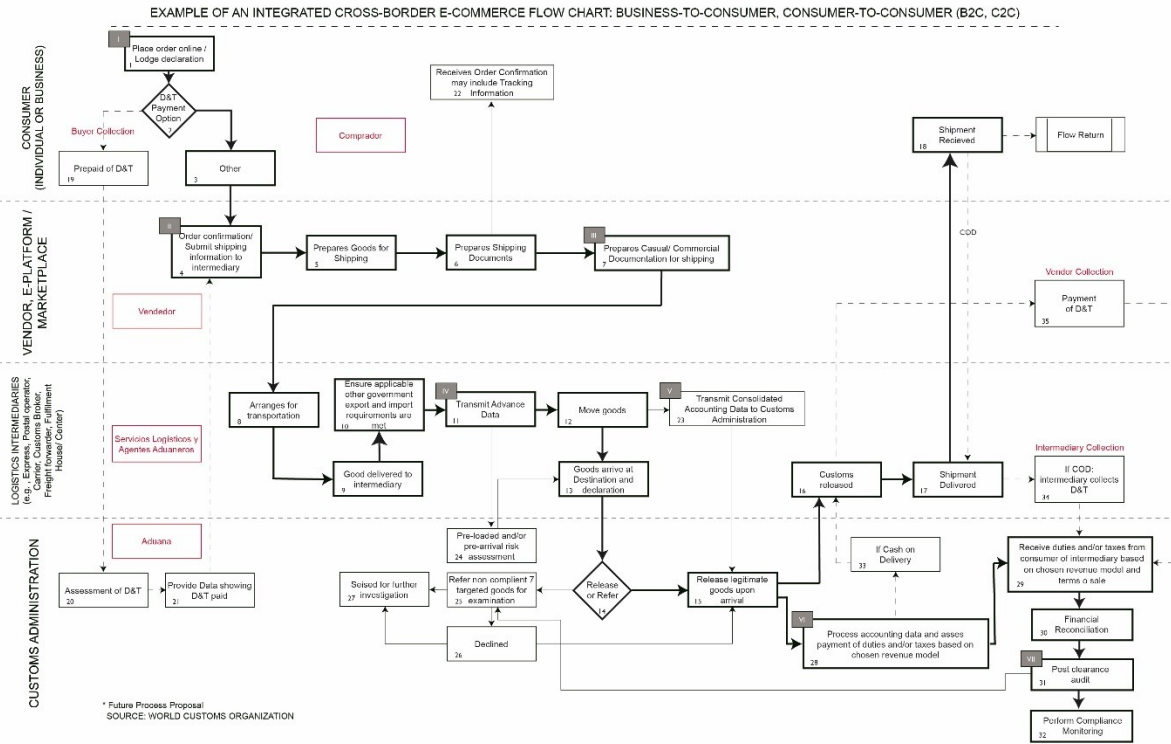
Products manufactured in Central America and sold in digital marketplaces are mainly intended for the U.S. market. The most common platforms for these transactions include Amazon, Etsy, and E-Bay.³⁶ These platforms allow producers to generate traffic and increase sales. Firms that sell through digital marketplaces normally establish a commercial presence in the United States, which allows them to import merchandise directly and open a bank account to receive and manage payments. Selling through these popular marketplaces also requires the capacity to fulfill large volumes of orders and maintain a high standard of customer service, including managing returns and reimbursements. As for every export market, exporters need to comply with quality standards and product requirements, like product safety,

³⁴ Montenegro, Gabriela. Deepen the Empirical Understanding of the Use of E-Commerce by Women-Led Firms. E-Trade Alliance, April 2021.

³⁵ IICA, 2020. Rural Women and Equity in the context of the COVID-19 Pandemic: Recommendations for a New Starting Point.

³⁶ Focus Group with AGEXPORT Logistics service Providers SIEX and COEXPORT, December 2021.

labeling, and intellectual property rights.³⁷ Central American products range from roasted coffee to fashion accessories, apparel, and other manufactured consumer goods. Micro and small firms in Central America rarely have the capacity to meet these high standards. However, a variety of service providers and export consolidation and logistics firms complement these roles and open digital marketplace opportunities for MSME exporters. In addition, by participating in digital marketplaces firms are motivated to innovate, follow consumer preferences closely, follow competitors' trends, and advance in a constant learning curve to access growing export digital markets.



NICHE PLATFORMS – DIGITAL MARKETING PARTNERS IN DESTINATION MARKETS

The business model for niche digital platforms revolves around targeting a very specific segment within an industry or market, which are smaller, less competitive, and often less price sensitive. Products that sell in these markets are often higher value-added and possess a unique differentiator. Central American products that could be considered niche include specialty coffees, jewelry, handicrafts, and apparel. MSMEs that produce highly differentiated products have different logistics possibilities to get their products to market in an expedited and secure manner. Compared with global mass marketplaces, sellers are likely to have better conditions and negotiating power when selling differentiated products through niche marketplaces. Consumers of highly differentiated goods care mainly about the speed, the quality of packaging, and customer service before, during, and after the sale, and may be less sensitive about the cost of getting the product delivered to their door.

37 Amazon requirements for international sellers.

Examples of niche digital markets:

- Handicrafts and accessories niche markets; ArtFire, Cargoh, Amazon Handcrafts, Etsy
- Specialty coffee – specialty coffee platforms Louis Dreyfus Company, Typica Japan, TeaandCoffee, Freshfarmer;
- Apparel: LAGO, Boho Hunter, Stitch Lab Miami, Ikal, Si Collective, ModaLab;
- Latino and Hispanic markets; vasalsuper.com
- Artisan wood products: Etsy

Drop shipping is an order fulfillment method that does not require a business to keep products in stock. Instead, the digital store sells the product and passes on the sales order to a third-party supplier, who then ships the order to the customer. The digital store is responsible for marketing and driving traffic to their site. They also manage orders and payments and

receive a profit in return. Since the digital store does not hold the inventory, the manufacturer is responsible for the logistics arrangements of getting the goods shipped to the final consumer. The drop shipping model is beneficial when the seller’s capacity to generate traffic to their websites or social media is weak.

Third-party logistics providers (3PL) are utilized by many e-commerce businesses to oversee and manage their supply chain operations. 3PLs specialize in optimizing the supply chain, allowing online stores to focus on marketing and other business operations. 3PL arrangements are an effective way to lower logistics costs for MSMEs engaging in cross-border e-commerce. Some 3PL providers focus on specific geographies in destination markets. With technological advances, many 3PL providers have expanded their services by integrating shipping services with warehousing, merchandise, freight consolidation, compliance and transport. Thanks to technology, logistics service providers can offer additional value to their clients, such as inventory optimization and controls, demand forecasting, reporting, transportation and delivery tracking, and transport and distribution auditing services. Advanced technologies in logistics supply chains, mainly in destination markets, support exporters to compete and expand.

Marketing, logistics, and distribution services provide important benefits to MSME exporters in destination markets. To obtain the full benefits of the digital economy, exporters must review and analyze market and customer data, which allows them to refine market entry strategies, to innovate and to grow.

BUSINESS-TO-CONSUMER (B2C) DIRECT SALES AND SHIPPING

E-commerce shipments from businesses to international consumers are accelerating, mainly among developed economies. This is driven by the ease in setting up e-commerce shops/portals by foreign sellers; increased popularity of e-commerce channels for consumers; and the relatively high value thresholds in which products may enter the United States and other markets via streamlined customs entry processes.³⁸

“U.S. Customs and Border Protection (CBP) reports that “Since 2000, the number of Americans shopping online has increased nearly four-fold, from 22 percent to 79 percent. This rise in e-commerce has led to a massive increase in shipments valued under \$2,500, affecting sea, rail, and land ports of entry. By the end of Fiscal Year 2017, one express hub saw a 1,000 percent increase in shipments over

³⁸ https://www.tradecommissioner.gc.ca/guides/US_guide_shipping_logistics-EU_guide_exped_logistique.aspx?lang=eng#IIIA_CaseStudies

20 years, primarily small shipments." (U.S. Customs and Border Protection E-commerce Strategy, 2020)³⁹

The trade ecosystem needs to promote simplified import and export procedures, and firms' capacities to comply with cross-border trade requirements. The increase of online buyers in developed economies represents an opportunity for Central American MSMEs. Selling directly to consumers in foreign markets takes preparation of the product, packaging, last mile delivery, logistics, compliance with the import country requirements, and customer services support.

Interviews and focus groups confirmed that B2C cross-border logistics services are available for MSME exporters, but that the costs often are too high for products to be competitive in destination markets when compared to other merchandise available through digital marketplaces. Because of these inflated costs, B2C cross-border logistics for small packages is only economically viable for high-value products.

EXPORT AGGREGATORS

Export aggregators play an important role in incorporating MSMEs into export value chains. These firms gain experience and knowledge of export market requirements, develop relationships with buyers, distributors, and brokers, and consolidate shipments, which can effectively reduce the costs for transport and logistics for MSME exporters. Export aggregators have expertise with Customs and cross-border compliance and can support MSMEs to develop export strategies, while allowing them to maintain focus on their core competencies. In practice, in Central America export aggregators often take the form of marketplaces. For example, UTZ Marketplace sells artisan and household brands from Guatemala. There are many websites selling Salvadoran food products in the United States (Rio Grande, Saborapais, El Rinconcito, etc.).

Independently from the strategy that a firm may choose to get their products to export markets, e-commerce requires a predictable, traceable, and digital process to handle goods, and to ensure that goods arrive safely and rapidly to the final customer.

³⁹ https://www.cbp.gov/sites/default/files/assets/documents/2020-Feb/E-Commerce%20Strategy%20Overview_0%20%281%29.pdf

BOX 4: TRADE AGGREGATORS PLAY A KEY ROLE IN ENABLING MSME EXPORTS

Integrated Services for MSMEs (ISMITS) is a single portal that provides specialized international trade services to support MSMEs to reduce their costs and support e-commerce transactions. By using ISMIT services, the MSME can outsource the management of “non-core” activities such as Customs clearance and logistics to ISMIT and the specialized service providers that are connected to the system.

An ISMIT can provide fully integrated electronic support services and interact with a Single Windows or with Customs and other border authorities directly. In addition to cross-border compliance ISMITS can also provide a platform for trade logistics, trade finance, international market intelligence, and other services.

Logistics and transport service providers can gain customers from the MSME sector via ISMIT consolidation services. Instead of a small volume shipment from the MSME, ISMITS consolidate and aggregate the requests and orders of MSMEs into a large volume shipment for logistics and transport service providers. Through ISMIT, transporters also receive information electronically, which helps them to reduce transport costs and time.

China and Southeast Asia, the global top performers in cross-border e-commerce, offer successful examples of integrated trade electronic services, including OneTouch China, TradeXChange Singapur, CALISTA, and CamelOne ECargo Marketplace.

Source: [UNECE. White Paper on MSMEs. June 2021.](https://unece.org/sites/default/files/2021-06/WhitePaper_MSMEs-ISMIT%20v1E.pdf)
https://unece.org/sites/default/files/2021-06/WhitePaper_MSMEs-ISMIT%20v1E.pdf

CENTRAL AMERICA REGION: RECOMMENDATIONS

The Regional Central American Economic Integration System can be a useful platform to help members harness the benefits of e-commerce for sustainable economic growth. The digital divide is still significant, and countries are yet to develop national policy frameworks to support the development of the digital economy. Through collaboration, they can adopt simplified Customs procedures, digitized and harmonized processes and regulations to create opportunities for businesses – particularly MSMEs – to benefit from digital cross-border trade.

FOR THE REGIONAL ECONOMIC INTEGRATION COUNCIL (COMIECO) AND THE CENTRAL AMERICAN CUSTOMS COMMITTEE:

- Modernize the RECAUCA for expedited shipments, and to integrate trade facilitation best practices, including provisions for export procedures, land transport, digitization, and transmission of electronic documents, AEOs, and other mechanisms to achieve logistics efficiency in the supply chain.
- Establish a simplified process for intra-regional trade of expedited shipments, for imports and exports by air, land, and sea, following the Customs Union Deeper Integration model. This procedure can begin with the goods most commonly trade through e-commerce channels, and with trusted operators, logistics providers, and couriers. Documentary requirements for export should be reduced to a minimum to allow firms to experiment in new export markets while

scaling up operations. (Firms that are just beginning to export may not always comply with permits and other fiscal requirements.)

- Increase the threshold for a simplified customs clearance procedure from \$1,000 to \$2,500 (consistent with the USMCA), to reduce the cost of Customs clearance for small shipments. The simplified procedure should be based on low risk of goods, and the nature of trade transactions, rather than the value.
- Undertake an analysis of the potential impact of a *de minimis* threshold for intra-regional expedited shipments, through the Customs Union-Deeper Integration process between Guatemala, Honduras and El Salvador.
- Deepen the analysis of the impact of a *de minimis* value for all low-value imports of consumer goods, based on the experience of El Salvador's Law for Online Purchases.
- Promote AEO/trusted trader programs among logistics services firms and export aggregators, including the mutual recognition of AEOs within the Northern Triangle.
- Accelerate the implementation of the Central American Integrated Customs Risk Management Strategy to strengthen and refine integrated risk management modules and manage simplified and expedited transactions, including collaboration agreements between Customs and other border control agencies. Customs Administrations would benefit from capacity building and exchanges to discuss best practices in risk management to handle e-commerce trade.
- Strengthen collaboration and joint actions at borders between Customs and other border control agencies to reduce the time of crossing at land borders. This includes coordinated hours of operation, joint inspections, interoperability of IT systems, unified forms, advanced declarations, among others.
- Establish a procedure for interoperability of e-invoices among Customs and Revenue Administrations (Ministries of Finance), as Central American countries implement e-invoicing for all taxpayers.
- Pursue the harmonization of digital economy regulations to foster a larger regional digital market that spurs growth, investment, and employment. The Regional Economic Integration Framework needs to review its status vis-à-vis other regional economic groupings with respect to digital trade. Benchmarks include the Pacific Alliance, the USMCA, the EU, and DEPAs.

FOR NATIONAL MINISTRIES OF ECONOMY:

- Continue the process of digitization of procedures and acceptance of digital documents, including the full implementation of the Central America Digital Trade Platform and the full roll-out of the electronic invoice in El Salvador and Honduras. Strengthen the implementation of anti-red tape laws (*Leyes de Simplificación de Procedimientos Administrativos*) that reduce unnecessary requirements and promote the use of digital tools and electronic documents for cross-border trade, mainly for health, food safety, environment, and other non-Customs procedures. Mechanisms to speed up implementation may include: mapping of procedures and streamlining of plans and schedules; mandatory use of electronic signatures for administrative approvals; mandatory acceptance of digital payments of duties and fees; intergovernmental coordination to ensure progress; common standards for Good Regulatory Practices; and digitization.
- Establish simplified procedures through which small exporters can obtain export value-added tax credits and returns, also adopting the e-invoice mechanisms.
- Review the impact that *de minimis* schemes are having on consumers, local retailers, MSME manufacturers, and tax revenues. The net effects of an increased *de minimis* value for developing countries still need to be studied. The goal should be to strike a balance between reduced government revenues from lower import duties and taxes and gains to economic agents, including consumers and MSMEs, as the expansion of e-commerce increases the number of small, low-value parcels.

FOR CUSTOMS ADMINISTRATIONS:

- Promote AEO/trusted trader programs for logistics firms and export aggregators offering expedited services. Promote the mutual recognition of AEOs within the Northern Triangle.
- Replace the Customs officials' discretionary powers with efficient use of risk management and non-intrusive inspection (NII) systems: the standards should be clear and should leave no room for Customs officials to exercise discretion. Risk management systems used in conjunction with pre-declarations, electronic documentation, and NII methods will be essential to this process.
- Strengthen risk management modules for managing simplified expedited transactions.
- Strengthen collaboration and joint actions at borders between Customs and other border control agencies to reduce the time of crossing at land borders. This includes coordinated hours of operation, joint inspections, interoperability of IT systems, unified forms, advanced declarations, among others.
- Develop, test, and scale up digital tools that enable integration between Customs and logistics services providers, so firms can anticipate documentary requirements for export and import and process documents and payments electronically.

MSME CAPACITIES:

- For local firms, exporters, and importers, both large firms and MSMEs, promote the benefits of B2B e-commerce and increase their knowledge to accelerate digital transformation and optimize supply chains.
- Strengthen the capacities of logistics and transport service providers and international trade entrepreneurs to transform themselves to become export aggregators, through grants, e-commerce business model competitions, and business links with international logistics service providers and 3PLs in leading destination markets.
- Continue strengthening capacities of enterprise development programs, including export promotion agencies, to deliver knowledge and resources for MSME digital transformation, mainly on market intelligence, digital export markets, e-commerce cross-border trade, and logistics business models.

FOR POSTAL SERVICES:

- Strengthen the operational and services capacities of national postal services to handle incoming and outgoing parcels, responding to the increased demand of e-commerce, and assess opportunities for increased revenues. Promote greater collaboration between Customs, trade Single Windows, postal services, and private logistics services to implement simplified export procedures.
- Increase investment and budgets in national postal services, including IT equipment, and qualified staff to provide logistics services for both domestic and international deliveries.
- Seek partnerships with well-performing postal service administrations from other Latin American countries through the Postal Union of the Americas, Spain, and Portugal (*La Unión Postal de las Américas, España y Portugal*) and other technical assistance resources to promote the adoption of best practices.

LEGAL FRAMEWORK FOR THE DIGITAL ECONOMY:

- In addition to simplified processing for low value shipments for cross-border Customs, sanitary, health, and security controls, other disciplines can foster digital development among Central American countries and with key trading partners. This should be enshrined in a legal framework that establishes the standards to securely transfer of electronic records and enables paperless

trade at scale; makes commitments for consumer protection in a data protection framework that embodies minimum best practice standards; and capacity building programs to expand connectivity, bridge the digital divide, and assists MSMEs looking to grow through e-commerce.

EL SALVADOR: CONTEXT FOR CROSS-BORDER E-COMMERCE

MSMEs in El Salvador can benefit from cross-border e-commerce, find export market niches, link to global value chains, and optimize productivity by accessing inputs and materials faster and at lower costs. MSMEs are the engine of El Salvador's economy. They represent 99 percent of businesses, contribute to 35 percent of GDP, and generate about 700,000 jobs.⁴⁰ However this sector has limited links to global value chains. Only 15 percent of MSME firms export, and for micro and small businesses this figure is even smaller (1 percent and 4 percent, respectively).⁴¹

E-commerce can provide opportunities to increase productivity and market access for MSMEs, by linking them to international suppliers and buyers. MSMEs anticipate that e-commerce is the most relevant technology that will impact their businesses in the next 10 years.⁴² While small businesses face various challenges to the adoption of e-commerce tools for cross-border trade, they report that Customs procedures and cross-border logistics are the main barriers to exporting through online channels.⁴³ Cross-border trade procedures affect the efficiency of international logistics and directly impact the costs of inputs and materials as well as the costs and times of delivering products to markets.

E-COMMERCE TRENDS

According to a study carried out by the company Beyond Borders, El Salvador is the second-fastest growing market for e-commerce in Central America, reaching 50 percent annual growth in 2021. This growth is likely to continue and even accelerate, supported by El Salvador's youthful population and a low penetration rate of only 20 percent.⁴⁴

In El Salvador, mobility restrictions imposed to contain infections due to the global pandemic spurred innovation by firms and consumers. The pandemic forced national retailers to turn to e-commerce, which in turn has created opportunities for global players and companies specialized in logistics, payments, and technology that are already looking to expand to Central America. The Beyond Borders study highlights El Salvador's potential as a logistics center for the region.⁴⁵

E-commerce activity accelerated in 2020, and in many cases, it was the only way that suppliers found to get their products to customers and continue operating during the crisis. Firms' use of social media and other electronic outlets increased by 83 percent in 2020, as determined by a survey carried out by the Consumer Protection Office.⁴⁶ These online purchases were primarily made through social networks (33 percent); direct phone calls (27 percent); followed by 20 percent of purchases through mobile applications (apps) and 20 percent of purchases through the providers' websites.

⁴⁰ CONAMYPE 2017.

⁴¹ ILO, 2019.

⁴² International Finance Corporation. Digital Entrepreneurship and Innovation in Central America. December 2021.

⁴³ CENPROMYPE 2019.

⁴⁴ <https://diario.elmundo.sv/comercio-electronico-en-el-salvador-crecera-un-50-en-2021-ebanx/>

⁴⁵ <https://diario.elmundo.sv/comercio-electronico-en-el-salvador-crecera-un-50-en-2021-ebanx/>

⁴⁶ Survey. Defensoria del Consumidor; Estado y Desafía de la protección al Consumidor en el Comercio electrónico, March 2021.

During 2020, more than 9,496 businesses maintained active websites in El Salvador. By product type, the most common online sales are clothing and food and beverages. Financial services, computer equipment, cosmetics, and vehicles are also commonly bought and sold online, along with consumer products from department stores and services like tourism and air transport.

But the opportunities of online business are also balanced by its risks. Salvadoran consumers filed six times more claims for online protections in 2020 compared with 2019. Consumers reported a lack of compliance with the terms of the product or service, including delivery times (58 percent), undue charges (11 percent), and poor quality of products or services (7 percent), among other issues.

However, approximately 78 percent of the websites monitored by the Consumer Protection Office do not meet the basic requirements established under El Salvador's Consumer Protection Law.⁴⁷

E-COMMERCE IMPORTS

E-commerce imports enter El Salvador by courier and as family support packages (*Regimen de Encomiendas*). The Law of Online Purchases provides the legal basis to begin to quantify imports of small packages through online purchases. According to data provided by El Salvador Customs (Dirección



PARCELS



For imports of parcels, the United States is the leading supplier of imports by air and also by land.

COURIERS



For imports of couriers, the United States is the leading supplier of imports by air.



For imports of couriers, China is the leading supplier of imports by sea, by mail and multimodal



General de Aduanas (DGA)) for 2018-20 and the period between January-November 2021, imports into El Salvador through couriers entered by air, mail, sea, and through multimodal logistics channels (see figure).

Courier imports by air accounted for the greatest value at \$20.8 million for the first eleven months of 2021, growing over the course of the pandemic from \$19.1 million in 2019. The United States was the leading supplier of courier imports by air, followed by China. Multimodal courier shipments totaled \$6.8 million between the period of January-November 2021, growing significantly from \$726,464 in 2019. For multimodal courier imports, China, Mexico, and the United States were the leading suppliers. Imports from couriers by sea and by mail also increased, but from a lower base. Such imports reached \$3.3 million (by sea) and \$2.8 million (by mail) in 2021. For maritime courier imports, China and the United States were the leading suppliers. For courier imports by mail, China, the United States, and Hong Kong were the leading suppliers.

DGA also provided data on imports of encomiendas from 2018-20 and for the period between January-October 2021. By value, the imports of encomiendas by air increased slightly from \$18.5 million in 2018 to \$18.9 million in 2021. Such imports came in primarily from the United States. Over this same period, imports of encomiendas by land increased by 355 percent, from \$7.6 million to \$34.6 million. Guatemala was the leading supplier of encomiendas by land.⁴⁸

E-COMMERCE EXPORTS

In terms of e-commerce exports, the precise value is difficult to quantify because official records do not differentiate between traditional and online transactions. Business-to-business (B2B) exports can be registered as traditional cargo, and business-to-consumer (B2C) packages can be registered as consolidated cargo or small packages sent by courier or by postal service. Exports of small packages by express delivery services (couriers), postal services, or informal courier services are not registered as exports by Customs and other border authorities.

Anecdotal evidence from focus groups and interviews with logistics service providers, business development program managers, and MSME representatives bring important insights to the analysis of e-commerce exports. Larger firms in El Salvador, especially in the apparel and light manufacturing sectors, link to international value chains that sell through digital channels to online consumers. Although e-commerce logistics strategies are not normally managed by Salvadoran exporters, firms need to adapt to faster response and delivery times to feed these digitally-enabled supply chains. Few Salvadoran firms export directly to online consumers. During focus groups, MSMEs confirmed that they sell to buyers in the United States through digital channels, marketing their products through their own websites and social media. However, the transactions are not completed online. Most firms stated that they use informal networks of couriers to send the goods to buyers in the United States. Very few firms use formal courier services.

ENABLING ENVIRONMENT FOR CROSS-BORDER E-COMMERCE

El Salvador is prioritizing the development of the digital economy. The government, businesses, and civil society are all making significant efforts to improve connectivity, electronic payments, digitization of government services, and have initiated a process of regulatory reforms to support these advancements. However, the country still faces many challenges to take full advantage of digital trade. These include limited infrastructure (availability of radio spectrum) that affects the quality of connectivity and coverage

⁴⁸ Data provided by DGA for regimen 4400 (courier) and for encomiendas. Only import data were provided.

of broadband and mobile data, insufficient access to digital financial services, basic levels of digital skills and capabilities among businesses, and high logistics costs for cross-border trade.

To overcome these barriers, the government has prioritized several policies that enable the framework for digital economic development in El Salvador. The Digital Agenda (2020-2030) defines the pillars for digital governance, government modernization, and innovation, with an emphasis on e-commerce. This strategy is a key element of the government's pursuit of a digital transformation for public institutions, which represents a whole-of-government effort to deliver high-quality public services that improve the quality of life of Salvadorans.⁴⁹ The Secretariat of Innovation is leading the implementation of the Digital Agenda in coordination with the Secretariat for Trade and Investment. To boost economic competitiveness and facilitate increased opportunities for Salvadoran businesses to take advantage of international markets, the Trade and Investment Policy (2020-2050) places special emphasis on trade facilitation mechanisms.

The Presidency ensures that activities are implemented, and oversees the drafting and revision of laws, regulations, and norms. The Secretariat of Innovation and the Secretariat of Trade and Investment coordinate with Ministries and autonomous institutions to ensure the implementation of national strategies and policies. Key institutions of the executive branch include:

Ministry of Economy: The Ministry of Economy executes the country's commercial policy, strengthens trade and investment flows, and leads the development of trade negotiations with other countries and multilateral organizations. Within the framework of e-commerce, the Ministry develops initiatives and projects to strengthen trade facilitation, and has programs specifically designed for the implementation of e-commerce. It offers training in the development of digital capacities linked to e-commerce for youth, students, and the professional population, regardless of whether these are self-employed workers, entrepreneurs, as well as representatives of MSMEs so that they can generate new income and incorporate innovative business models into their economic activities.

Ministry of Finance: The Ministry of Finance (MINFIN) is responsible for tax, revenue, public expenditure, and procurement. As part of its role in revenue collection, MINFIN is in charge of the electronic invoice program. One of the main responsibilities under MINFIN is the collection of duties and taxes on imports through the **General Directorate of Customs (DGA)**. While ensuring efficient collection of public revenues, DGA plays a key role in maintaining border controls, pursuing a balance between risk management and the facilitation of trade.

Ministry of Health: The Ministry of Health (MINSAL) supervises registries of food and beverages, and issues import permits for these products.

Ministry of Agriculture: The Ministry of Agriculture (MAG) issues sanitary and phytosanitary certificates for exports of agricultural products and approves and issues import permits for such products.

The National Directorate of Medicines: The National Directorate of Medicines (DNM) is an autonomous public institution in charge of controls for medicines, cosmetics, and other controlled substances for human use and consumption. DNM maintains a register of firms that produce, import, distribute, and sell medicines. DNM also issues import permits and export certificates for these products.

⁴⁹ <https://www.gobiernoelectronico.gob.sv/wp-content/uploads/2018/09/Estrategia-de-Gobierno-Digital-2022.pdf>

Central Bank of Reserve Center for Imports and Exports: The Center for Imports and Exports (CIEX) is El Salvador's Single Window for Imports and Exports, where DGA and the other border control agencies (including DNM, MAG, MINSAL, etc.) maintain a representative to perform controls and issue import and export permits and certificates. CIEX operates electronically and some trade-related procedures are carried out through digital means. Expedited air cargo shipments are not processed by CIEX.

Executive Commission for Ports and Airport: The Executive Commission for Ports and Airports (CEPA) is a public, autonomous institution that manages ports and airports, including handling of transportation and cargo services. San Salvador's International Airport (Oscar Arnulfo Romero) handles all international air cargo shipments.

Postal Services (Correos de El Salvador): The National Postal Service operates under the umbrella of the Ministry of Internal Affairs (Gobernación). With over 60 offices serving the entire country, including rural areas, the National Postal Service is a key asset for the country's e-commerce potential. While its importance in handling commercial and non-commercial packages is increasing, it has not yet developed a service to export small packages for MSMEs.

The National Commission of Micro and Small Enterprises: The National Commission of Micro and Small Enterprises (CONAMYPE) has a key role in promoting policies, regulations, and programs to strengthen MSMEs. CONAMYPE implements several programs to support enterprise development, including regulatory compliance for business formality and export promotion and capacity building programs.

The National Trade Facilitation Committee: El Salvador's National Trade Facilitation Committee (NTFC) is led by the Secretariat of Trade and Innovation and coordinated by the Ministry of Economy and includes as permanent advisory entities the Ministry of Finance, Ministry of Justice and Public Security, Ministry of Agriculture and Livestock, Ministry of Health, Ministry of Public Works and Transportation, as well as DGA, CEPA, CIEX, and the Civil National Police. The Committee develops and publishes a national trade facilitation plan through the MINEC portal.⁵⁰ Its implementation is periodically reviewed through regular consultations with the private sector through the Interunion Commission for Trade Facilitation (CIFACIL).

RELEVANT NATIONAL LEGISLATION AND ADMINISTRATIVE PROVISIONS

El Salvador has in place various laws, regulations, and administrative provisions related to e-commerce, and the government has placed great importance on the regulatory component in the Digital Agenda. El Salvador is creating standards that seek to integrate all the actors involved in the country's development through innovation and the application of information and communication technologies (ICTs). Thus, the country is making efforts in the short term to develop the technological and institutional infrastructure necessary to digitize different services that the government provides to citizens, which include electronic invoicing, digital identity, electronic medical files, and other initiatives that will simplify and modernize the administrative management of public services. Despite these efforts, stakeholders in El Salvador report continued regulatory gaps due to a lack of understanding in the general population of the legal requirements. This lack of awareness leads to general uncertainty about which legal steps must be followed and raises the time and cost for online purchases. Recognizing these weaknesses, El Salvador is preparing to make the necessary adjustments to adapt its legal framework to the digital environment. The following regulations contribute to the standardization of e-commerce in El Salvador:

⁵⁰ [Trade Facilitation Plan. Ministry of Economy.](#)

GOOD REGULATORY PRACTICES

As part of the Millennium Challenge Corporation (MCC) Compact Agreement, in 2017 El Salvador established a modern framework of regulations and governance to improve the business investment climate through a Regulatory Improvement System. The Administrative Procedures Law mandates elimination of unnecessary requirements and the streamlining of paperwork, both of which help to facilitate import and export processes for e-commerce and decrease the time for cross-border trade. The Regulatory Reform Law mandates the establishment of the Regulatory Reform Body, regulatory improvement plans, cost-benefit analysis of new and existing regulations, and the registry of administrative procedures. As it relates to e-commerce, the law improves Customs processes through a framework for governance, implementation and surveillance that is based on effectiveness, legal certainty, and simplicity. The Regulatory Improvement Body, a decentralized entity under the Office of the Presidency, directs and coordinates the implementation of the system. The Regulatory Improvement System mandates transparency and publication of administrative procedures, elimination of unnecessary requirements, and promotes digitization of government services, all of which are beneficial for e-commerce. Under this law, the Ministry of Economy, Customs Administration, the Ministry of Health, the Directorate of Medicines, and the Ministry of Agriculture have each made progress in eliminating unnecessary requirements, mapping most administrative procedures, and publishing information about procedures in the official online platform.⁵¹

In addition to the Regulatory Improvement System, the National Open Data Policy promotes access to public information and sets forth basic commitments for accountability and transparency to make public data available to all. The Law of Access to Public Information mandates that all Government institutions, including municipalities and autonomous institutions, publish all regulations, norms, and procedures, as well as reports on activities, budgets, and performance results. This information is published in the Transparency Portal (*Portal de Transparencia*).⁵²

But even as progress has been made in the regulatory improvement process, key mechanisms remain incomplete, including the National Registry of Procedures and the Court for the Elimination of Bureaucratic Barriers. If these developments were accelerated, they could encourage e-commerce and cross-border trade. According to representatives of CIFACIL, the national registry has the potential to improve transparency, reduce unnecessary requirements, and promote the use of technology across government agencies. Border control authorities, including DGA and DNM, confirmed that progress is gradual and that the development of the registry must go hand-in-hand with the necessary technological developments to achieve full digitization.⁵³

The terms of the Regulatory Reform Law mandate ex-ante and ex-post regulatory impact assessments, however this is not being carried out consistently or with sufficient rigor. Private sector representatives advocate for an integrated approach to the implementation of regulatory institutions, tools, and processes. At present, the review processes are the weakest part of the regulatory cycle because many jurisdictions do not have the legal obligation to carry them out. In addition, stakeholders must be clear that ex-post reviews can provide the inputs for the creation, modification, or elimination of current regulations in addition to shedding light on new policy issues that government bodies should focus on.

CONSUMER PROTECTION LAW AND REFORMS RELATED TO E-COMMERCE

⁵¹ omr.gob.sv

⁵² <https://www.transparencia.gob.sv>

⁵³ OECD (2011), *Regulatory Policy and Governance: Supporting Economic Growth and Serving the Public Interest* [Política Regulatoria y Gobernanza: Apoyar el Crecimiento Económico y Servir al Interés Público], OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264116573-en>. (OECD, 2011[2])

The Consumer Protection Law seeks to balance the rights of consumers with the needs of suppliers and to provide legal certainty in these commercial relationships. In 2018, it was reformed to include the concept of e-commerce, establishing special obligations for suppliers who make their products and services available to consumers through digital channels. The law regulates the implementation of technology security measures to protect the personal information and financial information of consumers, the reversal of payments, and the availability of clear, complete, and truthful information about the products and services offered through digital means. But various aspects of the law are not aligned with best practices. Some provisions are technology-specific, such as the mandate to use specific software. One provision mandates the publishing of tax identification numbers, which is not considered a secure commercial practice, and aspects of the law that aim to protect consumers are in practice difficult to enforce. For example, the legal framework for consumer protection does not provide for an electronic dispute settlement mechanism, which is a best practice implemented by modern consumer protection agencies.

E-COMMERCE LAW

The E-Commerce Law entered into force on February 10, 2021.⁵⁴ It follows the United Nations Commission on International Trade Law (UNCITRAL) model, providing general definitions and provisions for electronic commerce, communications, and transactions. The law applies to all persons (individuals or legal entities), including public institutions that provide services by technological means or by interconnected communication networks (through the Internet). It also recognizes the importance of data protection rights, and the legal validity of electronic invoices and electronic contracts. However, while it provides a framework for digital transactions for governments and businesses, it leaves out important aspects of digital trade, such as the treatment of foreign digital platforms or transactions performed by entities in a foreign jurisdiction, and online consumer related aspects (leaving the latter to an outdated Consumer Protection Law). The Electronic Commerce Law is currently under review to consider reforms in line with the Digital Agenda.⁵⁵

OTHER LAWS AND REGULATIONS RELEVANT FOR ELECTRONIC TRANSACTIONS AND PAYMENTS

Data flows, electronic transactions, and electronic payments are governed by a fragmented set of laws, regulations, and judicial decisions in El Salvador. The adoption of formal banking and digital payments in the country remains lower than other countries in the region (World Bank Findex 2017), which limits the potential for domestic driven e-commerce. A comprehensive, modern legal framework to address digital payments is not yet in place. Such a framework is critical for e-commerce, as it builds trust and efficiency in the payments system, eliminating the need for in-person transactions. El Salvador has recently enacted a National Policy for Financial Education and Inclusion and established the Office for Financial Innovation, coordinated by the Central Bank of Reserve.⁵⁶ The current regulations include the Financial Inclusion Facilitation Law (2017);⁵⁷ the Bitcoin Law;⁵⁸ and the Norms for the Bitcoin Ecosystem.⁵⁹ Banks, regulated by the Superintendency of the Financial System and the Central Bank of Reserve, offer digital banking services, credit cards and debit cards, as well as other more innovative services like QR code payments. The Government is also drafting a Fintech Law.

⁵⁴ <https://www.diariooficial.gob.sv/diarios/do-2020/02-febrero/10-02-2020.pdf>

⁵⁵ Consultation with the Secretariat of Innovation, February 2022.

⁵⁶ <https://www.oif.gob.sv>

⁵⁷ https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073615729_archivo_documento_legislativo.pdf

⁵⁸ <https://www.asamblea.gob.sv/sites/default/files/documents/decretos/E0B1DD6E-D839-486E-ACF4-A24C3B62866E.pdf>

⁵⁹ <https://www.bcr.gob.sv/regulaciones/upload/NRP-29.pdf?v=1637335369>

El Salvador is the first country to adopt Bitcoin as a legal tender, which has triggered initiatives for deeper financial innovation and opened the door to investment and trade in crypto currencies. Under this law, businesses may accept bitcoin payments, and over 36 entities are registered to perform bitcoin transactions. The adoption of bitcoin in the country is in early stages, and closely monitored by the Superintendency of the Financial Services and the Central Bank of the Reserve. Its use is still incipient. During the study, traders and logistics firms reported that they either did not use or did not plan to use bitcoin and did not comment on the integration of bitcoin transactions into their e-commerce growth plans.

Other specific laws offer protections and legal security in the online environment. This includes the Law on Credit Card Transactions, which establishes protection mechanisms for purchases made with credit cards in the e-commerce environment, as well as the regulation established for those card providers, seeking protection of online buyers.⁶⁰ The Electronic Signature Law facilitates the existence, legal validity, and security of digital contracts by authorizing electronic transactions and e-signatures. The 2011 Law of Computer and Related Crimes (amended in 2016), regulates unlawful conduct committed with IT and establishes a legal framework for conduct that violates the rights of people who have been affected in their online transactions; others include the Law on the Regulations on Credit History of Persons (2011), and the Criminal Code (1997).

ELECTRONIC INVOICE

The Ministry of Finance has made progress toward the implementation of the electronic invoice. Currently in a pilot phase, certain qualified large taxpayers are receiving authorization to issue and submit e-invoices to the Tax Administration. Still, the pilot involves direct interactions with participating companies, so no guidebook or manual has yet been developed. Once the legal reforms to the Tax Code are approved to fully integrate the electronic invoicing system, the option to use e-invoices will be rolled out to more companies.

LAW OF INTERNATIONAL SERVICES

This law regulates the establishment and operations of services that support export value chains, including logistics services, call centers, warehousing services, etc. By regulating the establishment and operation of industrial parks and service centers, as well as the benefits and responsibilities of the owners of companies that develop, manage, or operate in them, it provides tax benefits for carrying out activities classified as the provision of international services with the objectives of promoting job creation, economic diversification, and increasing national and foreign investment. The law is currently under review by the Government of El Salvador to adapt to new business models for services delivery, including the requirements for and digitization of administrative procedures.⁶¹

The law offers many benefits to services providers operating in El Salvador, including total exemption from import tariff rights (DAI) and value-added tax (VAT) on machinery, equipment, tools, spare parts, accessories, furniture and office equipment, and other goods that are necessary to provide the designated services. And during the period of operations in El Salvador, the law specifies that companies are exempt from income tax (ISR) for income generated by the designated activity and exempt from municipal taxes on the company's assets.

REGULATIONS AND TRADE FACILITATION

⁶⁰ <https://www.asamblea.gob.sv/node/11846>

⁶¹ <https://elsalvador.eregulations.org/media/Ley%20de%20Servicios%20Internacionales.PDF>

INTERNATIONAL TRADE AGREEMENTS

Multilateral and bilateral trade agreements, the Regional Framework for Central American Economic Integration, and national laws and regulations govern cross-border trade and contain provisions for international data transfer, trade of digital services, and expedited shipments for online purchases. El Salvador is part of the Joint Initiative for Electronic Commerce along with other WTO Members, and a signatory of the United States, Central America, and Dominican Republic Free Trade Agreement (CAFTA-DR). El Salvador, along with other Central American countries signed a Free Trade Agreement with the Republic of Korea that contains provisions regarding digital transactions and e-commerce. To some extent, existing national laws and regulations implement the commitments contained in the multilateral and bilateral agreements, however there are certain gaps in the implementation towards the objectives of free trade, and the transparency and predictability of information, especially for MSMEs.

CAFTA-DR is important in the context of e-commerce because it develops and recognizes the economic growth and opportunities generated by this type of trade, specifically through provisions for expedited shipments and courier services. The agreement also recognizes the applicability of the WTO rules on e-commerce to transactions in the region and with the United States (covering electronic supply of services, Customs tariffs on digital products, and non-discrimination for digital products).

The World Trade Organization's Trade Facilitation Agreement (TFA) contains provisions to expedite the movement, release, and clearance of goods, including goods in transit. In addition, it establishes measures to achieve effective cooperation between Customs and other border authorities in matters related to trade facilitation and compliance with Customs procedures. It also contains provisions on technical assistance and capacity building in this area. Its provisions as they relate to expedited clearance and dispatch of merchandise are particularly important for e-commerce to ensure the timely delivery of goods ordered through digital channels.

CUSTOMS SIMPLIFICATION LAW AND ADMINISTRATIVE RULINGS

The objective of the law is to establish the basic legal framework for the adoption of simplification, facilitation, and control mechanisms for Customs operations, through the use of automatic information exchange systems. The law adapts Customs services to global standards of quality and efficiency in terms of international trade facilitation, control of tax collection, and protection of society. When Customs issues administrative rulings it publishes them on the DGA website.

LAW OF FACILITATION OF ONLINE PURCHASES

The Law of Facilitation of Online Purchases is particularly relevant to expedited shipments and small parcels, both of which are commonly used for e-commerce transactions. When the global pandemic hit El Salvador in 2020, DGA issued a temporary decree to simplify online consumer purchases. The decree applied to postal shipments, air shipments of parcels, small, informal shipments, and purchases made through e-commerce platforms and imported by expedited delivery or courier. This regulation established a *de minimis* threshold of \$200, under which imports would be exempt from duties and sanitary documentary requirements. In September 2021, the Legislative Assembly approved the permanent adoption of similar provisions under the Law of Facilitation of Online Purchases. The law contains revised provisions, based on experiences from the temporary implementation period. It increases the *de minimis* threshold to \$300 and establishes the determination of the Customs value of goods as value of the merchandise, plus freight (10 percent) and insurance (1.5 percent). Some items that exceed this value are also allowed, including photographic cameras, laptops, and personal computers.

During consultations for this study, the Chamber of Commerce indicated that their members had provided extensive feedback to guide the development of this law for the benefit of commercial enterprises in El Salvador, but these considerations are not part of the law. A major concern of the private sector is that because the law does not regulate the amounts that are considered “non-commercial purposes,” it creates a regulatory vacuum which may contribute to possible unfair competition due to fewer controls and requirements. Logistics service providers report that informal couriers have distorted the services, offering sales over the internet (which often are unrelated to family help), and even engaged in tax evasion.⁶² Under the law, couriers and logistics providers have the responsibility to ensure appropriate use of the benefits for non-commercial purposes. Rather than imposing limits on the allowable number of such shipments for importers, DGA is surveilling importers through its risk management system to determine how individual importers are making use of this facility.⁶³

“Procedures must facilitate exports. What has been done for import processes is not to be criticized, but the truth is that exports are the pillar of the country’s economic development and there should be further development there. Each export that is carried out has a large cost that is absorbed by the private sector.” –CIFACIL Representative⁶⁴

PARCELS AND INFORMAL PACKAGES

“Encomenderos” are networks of informal couriers that travel regularly back and forth between cities in El Salvador and the Salvadoran diaspora, largely in the United States. Using formal transportation systems, primarily air travel, these community couriers carry letters, money, clothing, and other goods between family members. Encomenderos need to register with Customs, maintain a bond, and comply with specified documentary requirements. Informal couriers are specialized for the regions they cover, airlines utilized, and the type of goods transported. They are organized under the National Association of Encomiendas Managers (ANGEC), which serves as a communication and negotiation entity with the Customs Administration and other authorities.

In the case of the encomenderos system, we were not able to arrange for direct interviews. However, the statistics and anecdotal evidence gathered through field work show the values and volumes of family shipments under the Parcel Managers regime (*Gestores de Encomiendas*) have increased. Such shipments are now reaching commercial levels, comparable in volume to expedited shipments.⁶⁵ For these transactions, DGA facilitates imports of family support packages, recently included in the Online Purchases Law (explained above), exempted from payment of duties and permits for goods valued at up to \$300. This regime is implemented through a DGA Administrative Ruling.⁶⁶

Parcel shipments enter by air and by land; they come mainly from the United States. This is the preferred channel for micro-enterprises, entrepreneurs, and small companies (exporting handicrafts, fashion, and food products) due to the low cost and the fact that they do not require Customs documents.⁶⁷ Due to its informality, this delivery channel limits the potential for growth and scaling up of exports.

⁶² Validation with Logistics service providers. January 24, 2022.

⁶³ Validation Session with the Government of El Salvador, January 2022.

⁶⁴ Validation Session with CIFACIL, January 24, 2022.

⁶⁵ According to data provided by SAT, imports of encomiendas by land totaled \$34.6 million for the period January-October 2021, while imports by courier (across all forms of transportation) totaled \$33.7 million for January-November 2021.

⁶⁶ DACG No. DGA-009-2018 defines the guidelines for the simplification of the Customs clearance of imports of family parcels entering the country by land or sea and processed in San Bartolo. DGA-018-2011 defines provisions related to the entry of luggage for travelers from abroad, household goods, and small, family shipments of a non-commercial nature.

⁶⁷ Focus group discussion organized by CONAMYPE and the Acelera Empresaria Program, November 2021.

DIGITIZATION OF DOCUMENTARY REQUIREMENTS AND ACCEPTANCE OF ELECTRONIC DOCUMENTS

In recent years, El Salvador has followed important digital transformation processes for regulatory improvement, particularly in foreign trade processes. This has yielded important successes, including the CIEX system, the Central Reserve Bank's electronic Single Window for international trade. CIEX links internal processes and agencies (Customs, MINSAL, etc.) and regional partners (through implementation of the DUCA, the Central American single declaration form). Through CIEX, most export requirements and procedures can be completed online. However, to complete import transactions, many documents must be presented in hard copy and in some cases the original document is required. This is accompanied by the entry into force of the Administrative Procedures Law which promotes digitization of procedures and reduces unnecessary requirements and the Digital Agenda, which encourages integration of ICTs in public management, thereby ensuring that services can be provided more quickly and efficiently.

Private sector representatives consulted during the course of this study, as well as some of the trade associations, indicated that many trade documents are still required in physical form, either because the systems are not completely up-to-date or officials themselves lack access to digital tools. For example, at land borders not all authorities who are reviewing documentation have access to digital devices. The criterion is always to verify against paper for import or export documents including the declaration or sanitary permit, or tax documentation and even legal documents from importers. According to the Customs Simplification Law, traders have the opportunity to consult with Customs and resolve these issues prior to seeking clearance.

There are challenges for public institutions in identifying their processes and documentary requirements that must be reviewed, simplified, and put in order so that they can be functional in a digital environment. Digitizing all of the necessary documents for foreign trade processes remains a challenge. Although documents can be submitted digitally, many times they are still required in physical form because the electronic systems are not able to validate electronic documents. For example, traders must submit hard copies of the bill of lading, commercial invoices, and health certificates.

DGA has allowed for e-signatures by Customs agents since the early 2000s, which has expedited the electronic submission of Customs declarations, easing and hastening import and export procedures. However, the use of e-signatures for Customs procedures is only available for Customs agents; electronic filing with an e-signature is not available for importers or exporters. In practice there is no uptake of e-signatures in other border institutions, limiting its effectiveness to apply to cross-border trade transactions. Authorities such as DNM planned to begin implementation of electronic signatures in 2022, thereby simplifying the procedures and improving their response times. To accompany expanded e-signature capabilities, a data protection law is urgently needed to protect information from manipulation or leaks.

As more procedures are fully digitized, Customs criteria tends to become more uniform and standardized, providing more certainty to users and a better overall experience. During consultations, business representatives stated that criteria applied by Customs officials is often discretionary. Officials at one post may ask for different documents than at another post, which creates complexities for logistics and transport, and often causes delays and increases costs. Through increased digitalization and standardization of procedures, Customs officials in El Salvador can increase the effectiveness of their work in ensuring compliance with standards and requirements and concentrate controls in higher risk operations.

ADVANCE NOTICES AND PROCESSING OF CUSTOMS DECLARATIONS

In line with the WTO Trade Facilitation Agreement, El Salvador Customs has promoted advance processing of Customs declarations. This process is in place for maritime shipments and air cargo, however it is not consistently implemented at land borders due to limitations in the provisions of CAUCA V and RECAUCA. Experience shows significant reduction in the times and costs of cargo crossing borders when operators make declarations and payments prior to arrival at the border.⁶⁸ This has allowed the DGA to process operations more efficiently and reduce operating risks, resulting in a decrease in documentary inspections and physical inspections of cargo. Advance processing of information is mandatory for air and maritime transport, which speeds up the clearance and release of goods; however, in land transport, the mandatory advance declaration of merchandise has not yet been implemented at El Salvador's borders. During interviews, logistics services providers and transporters confirmed that original physical documents are often required to complete the clearance and release process at land borders.

SIMPLIFIED GOODS DECLARATION

In line with CAUCA and RECAUCA provisions, imports valued below \$1,000 can enter El Salvador using a simplified declaration. Imported shipments above this value require submission of a Customs declaration through a Customs agent. The obligatory use of Customs agents for these shipments makes consolidated and low-volume shipping transactions more expensive. MSMEs must then rely on Customs agents to carry out import or export transactions. According to best practices, hiring Customs agents should be optional for firms and not a legal requirement. The criterion of a value-based measure for a simplified declaration does not follow risk management criteria (as established by the World Customs Organization) and constitutes one of CAUCA's legal gaps before the TFA, which establishes that simplified procedures should be based on the risk of the operation, rather than the value of the shipment.

EXPEDITED DELIVERY

Simplified processes for couriers and expedited delivery companies are established in the General Administrative Provision DACG No. DGA-009-2012. However, these processes do not contain provisions to determine the risk criteria of the transactions in terms of the size of the shipment or its value. The procedures for expedited shipments are limited to air cargo imports, while exports, land transported goods, and commercial purchases (B2B) are not covered. Simplified procedures that allow for expedited clearance and release of goods are critical for e-commerce, especially for smaller and low-value packages, a common delivery method for B2C digital trade.

CAFTA-DR, CAUCA, and RECAUCA contain provisions and requirements for expedited shipments. However, these provisions are outdated and do not align with the best practices as elaborated in the TFA. For imports by air, the expedited procedures implemented by El Salvador Customs are in line with the TFA, and therefore go beyond the CAUCA/RECAUCA. In addition to simplified procedures for couriers using air transport, as explained earlier, the Online Purchases Law introduces a *de minimis* value of \$300 for non-commercial purchases of certain goods, further expediting the clearance process for shipments by informal couriers.

Daily incoming flights carrying expedited shipments, mainly from the United States, arrive at the San Salvador International Airport in the early afternoon, which poses operational challenges to Customs and airport authorities, which have limited hours of service. As a result, in some cases the cargo cannot

⁶⁸ Central American Strategy for Trade Facilitation and Competitiveness.

be processed on the same day, delaying deliveries to end customers. There is an expectation that the services of the air cargo terminal will be improved through a public-private partnership. A private sector operator indicated that further improvements could be achieved if the number of licenses assigned per courier operator were increased. The general air cargo manifest can be transmitted electronically prior to the arrival of the goods, but in order to utilize this mechanism, consignees must have carried out the electronic deconsolidation prior to the arrival of the shipment where the content is clearly and correctly described without generating ambiguity in its interpretation.

TREATMENT OF SMALL PACKAGES

There is no simplified and expedited procedure for export of smaller and low-value packages. For these shipments, the general export procedure is applied. MSMEs that send commercial packages overseas often hire consolidation services or if they work through couriers or postal parcels, these are not registered as export transactions. The private sector considers it a high priority to extend the simplified goods declaration to exports and to develop user guides for traders and couriers to understand the system. The regulations must be made clearer so that traders know where special regimes (i.e., CAFTA-DR) can be applied. In line with its TFA commitments, El Salvador is working to overcome obstacles and achieve effective cooperation among border authorities to strengthen expedited services and logistics for small shipments.

COOPERATION BETWEEN BORDER AGENCIES

While there is a delegation of border control agents by DNM, MINSAL, and the Ministry of Environment and Natural Resources (MARN) to the General Directorate of Customs, currently there are no harmonized guidelines between institutions to carry out joint physical inspections. Moreover, not all borders have adequate infrastructure to carry out joint physical inspections, for example San Cristóbal. The presence of the Anti-narcotics Division (DAN) at some border points is at the request of users and is subject to the availability of the authority. Even where border agencies are co-located, their schedules are not coordinated. The global pandemic has also delayed border operations by reducing the overall availability of operational staff. There are opportunities for improvement in the implementation of joint actions based on coordinated border management between border authorities in neighboring countries which speeds up the border crossing, including at La Hachadura-El Salvador/Pedro de Alvarado-Guatemala.

Under the current conditions, traders reported that they often have to prepare different sets of data or documents and make them available in different formats or use different access channels for each of the relevant units during the clearance process. The private sector (as represented by CIFACIL) emphasized the detrimental impact of the cost of shipping on exports. To remedy this, a joint physical inspection would be more cost-effective, particularly in San Bartolo. While authorities such as DGA and DNM occasionally offer joint inspections, inter-agency communications can be an issue along with the interfaces between their respective IT systems. Stakeholders anticipated significant benefits from increased coordination between DGA and MINSAL in particular to facilitate cross-border trade.

POSTAL SERVICES

Postal services are increasingly important in the age of online transactions. As explained earlier, parcel operations tend to be larger than postal correspondence operations. El Salvador's Postal Service coordinates with the DGA and operates a Customs facility to handle imported parcels. However, according to our survey of MSMEs in El Salvador, the Postal Service is perceived to be slow, and companies reported that it did not meet their needs for reliability or speed of delivery. It offers an

international courier service through the Express Mail Service of the Universal Postal Union (EMS/UPU) network, and their fees are nearly equivalent to private courier international shipping rates.

Stakeholders indicated that development of a simplified export shipping procedure, using the infrastructure of the national post office, would help support increased exports by MSMEs and rural businesses. The Postmaster of El Salvador reported that progress has been made with modernizing the services and as a result the demand for postal services is growing.

TECHNOLOGICAL INFRASTRUCTURE

While the adoption of the ASYCUDA World system has facilitated Customs operations, there is a gap in the level of technological development of certain institutions involved in international trade that generates bottlenecks in cross-border trade procedures. There are still basic issues with connectivity and technological capacity at El Salvador's borders. ASYCUDA itself has limitations and many countries have left the system because it is considered outdated by international standards.⁶⁹ El Salvador's Digital Agenda does not consider a strategic approach to ICT development of state-of-the-art technologies like blockchain, artificial intelligence, and other tools that could be applied to risk management or other aspects of cross-border trade.

CAPABILITIES OF MSMEs TO MANAGE CROSS-BORDER TRADE

Similar to the other countries, Salvadoran MSMEs are missing opportunities to use e-commerce to access export markets. Through interviews and focus groups with MSMEs that export or have export potential, private and public enterprise development programs, and a limited firm-level sample survey,⁷⁰ the primary obstacles for Salvadoran MSMEs are a lack of information about the preferences of potential clients and the high costs for logistics and delivery services, including national postal services. This section presents high-level insights from the survey; the full results are presented in Annex D.

Of the 174 Salvadoran firms that responded to the survey, the majority are using e-commerce. More than three-quarters (78 percent, or 136 firms) reported using online channels to buy and sell products, including their own websites, social networks, and digital marketplaces. However, past studies, surveys, and anecdotal evidence suggest that MSMEs use social media and electronic messaging applications to market their products for domestic sales. Fully electronic transactions that integrate delivery and payment are not common among MSME firms in El Salvador, or throughout the region.

COMPLIANCE WITH CROSS-BORDER TRADE PROCEDURES

Of the Salvadoran firms who responded to the survey, just under half (47 percent, or 81 firms) reported export sales. For those firms with established customers abroad, sales went primarily to Central America (44 firms), North America (42 firms), and Europe (19 firms), with a few reaching markets in South America, Asia, and the Caribbean. For those firms without international clients, they reported that the high costs of logistics and delivery services was the most important factor limiting their ability to export.

⁶⁹ EEAS. Europa. Strengthening the Capacities of Customs Administration, 2021.

⁷⁰ The online survey was circulated through CENPROMYPE databases and CIFACIL, COEXPORT, and the USAID Economic Competitiveness Project in over the period October-December 2021. 174 responses were obtained in El Salvador. The survey is not a representative sample of Salvadoran exporters.

In terms of finding information about Customs procedures and documents required for import/export transactions, this did not appear to be a binding constraint to cross-border trade in El Salvador. More than half (56 percent) of exporting firms indicated that they knew where to go to access this information. Many of the exporting firms responded that they do not receive assistance to comply with Customs and other export requirements (45 responses). For those receiving help, they worked with logistics providers (16 responses), and the government (15 responses), with 11 firms receiving help from multiple channels.

Most firms who responded to the survey do not use postal services to export, because it is considered too slow (29 responses), and it does not fit their needs (24 responses). Ten firms indicated that the costs of postal services were too high. Most respondents prefer to use private logistics services, which are considered more reliable. Forty-nine firms reported using such services, while 22 firms responded that the cost for such services was either too high or did not meet their needs.

EL SALVADOR: RECOMMENDATIONS

El Salvador can create an improved business environment for e-commerce by adapting the regulatory framework and administrative procedures for cross-border trade and developing the capacities of MSMEs to adopt logistics models for digital trade. The recommendations from the findings of this report can inform USAID strategies that support good regulatory practices and streamlined trade, as part of the National Trade Facilitation Strategy. In parallel, USAID through its regional and country programs can support the Secretariat of Innovation, MINEC, CONAMYPE and private sector initiatives to improve the capacities of MSMEs to develop and adopt business models for international digital markets, promote initiatives with private logistics and transport firms to aggregate volumes and develop efficient transportation and logistics models, and seek partnerships with international logistics providers and marketplaces in destination markets.

I. Implement good regulatory practices to improve transparency, predictability, and efficiency in cross-border trade procedures. Removing unnecessary requirements and streamlining cross-border trade procedures is a necessary step to digitization, which is key to e-commerce. Although El Salvador has institutionalized the Regulatory Improvement System and enacted laws and regulations to improve the regulatory environment, not all border control authorities have adopted good practices consistently.

Suggested activities include:

- Complete the National Registry of Procedures, so that government institutions map existing procedures, commit to an improvement plan, and track progress.
- Implement the Court for the Elimination of Bureaucratic Barriers to enable a comprehensive governance and improvement process where the interests of stakeholders from different economic sectors and government agencies are represented.
- Improve the consistency of ex-ante and ex-post regulatory impact assessments to inform the quality of regulations and highlight the areas for improvement more accurately.
- Develop guides and protocols for public consultations and feedback on new regulations and reforms, establishing a procedure to inform stakeholders and allowing realistic timelines to provide comments and feedback to regulators.

- Improve the transparency of information and keep it updated and published in a comprehensive, prompt, non-discriminatory manner and with easy access, prioritizing procedures that are more relevant for MSMEs.
- Develop guides and manuals for public officials and enhance the use of information and technology to standardize criteria and processes to create greater certainty for the users of cross-border trade procedures while reducing unnecessary compliance and logistics costs. (Primarily for: DGA, MAG, MINSAL, CIEX, DNM, and the National Postal Service)

2. Increase digitization of procedures and acceptance of electronic documents to enable digital trade. El Salvador must continue with the digital transformation process for regulatory improvement to achieve paperless environments for cross-border trade, including in Customs and other border entities, especially the Ministry of Agriculture, Ministry of Health, DNM, Postal Services, Ministry of Finance, and Ministry of Internal Affairs.

Suggested actions include:

- Develop and sustain ICT capabilities within public institutions through investments in resources (staff, hardware, software, physical infrastructure, and connectivity). This investment should be included not only in the national Digital Agenda, but also be reflected in the operating plans and budgets of the institutions themselves. Access to high-speed connectivity and digital devices is key to manage digital procedures, not only in central government offices, but also at borders.
- As the electronic signature certification process is rolling out, implement a pilot program to adopt the e-signature for all government officials within ICT advanced entities like DGA, DNM, Ministry of Finance, and CIEX, and gradually adopt the e-signature as other institutions become more digitalized (MAG, MINSAL, Postal Services, etc.). Best practices show that the mandatory adoption of e-signature within the government has triggered the use of this tool for citizens, firms, and legal and trade professionals in some countries (including Costa Rica and Spain).
- Expedite digital processing in lieu of paper document review at land borders. This is simply following through on the mandate of the Customs Simplification Law.
- Invest in creating a digital culture within cross-border regulators and administrators (DGA, DNM, CORREOS, MINSAL, MAG) and empower staff to adapt and manage the digital environment. This involves working to eliminate the culture of centralized authority through signatures and stamps which only serves to justify unnecessary requirements and instead promote business growth and a positive user experience.
- Improve interconnectivity between Customs and border agencies and the Central Bank.

3. Adopt advance notice and processing of Customs declarations and other border control requirements across all major ports and borders. DGA operators must make informed business decisions, using legally binding resolutions. The DGA should make the most of available resources by having advanced information regarding future imports, thus reducing the time it takes to issue resolutions. DGA must also make consultation and training mechanisms available to Salvadoran importers and exporters so that they can learn about the programs that require advance rulings.

Suggested actions include:

- DGA should continue to issue uniform criteria regarding advance declarations so that the operators that make the declarations and payments prior to arrival at the border can have more agile processes, and thus minimize the time and cost of cross-border transactions.
- DGA should continue to reduce documentary inspections and physical inspections of cargo.
- Although information is available in advance for air and maritime transport, in the case of land crossings, DGA should establish more consistent processes by implementing the advance declaration of merchandise as mandatory manner as well as expediting the authorization process for DUCA-F at the time it arrives at the border.
- DGA should develop an application in which the manifest can be transmitted electronically.
- DGA should resolve the problem of Teledispatch at maritime Customs facilities.

4. El Salvador should review the scope of expedited shipment procedures in line with broader fiscal policy, sector-specific competitiveness, and innovation policy objectives, while implementing multilateral, regional, and bilateral trade obligations. Expedited procedures are needed to ensure the implementation of fiscal, security, and sanitary controls, while facilitating trade and promoting growth, especially for MSMEs.

Suggested actions include:

- Review and monitor the impact of the recently implemented Online Purchases Law for consumer imports of certain goods, as part of the ex-post analysis under the Regulatory Improvement System. It is important to learn to what extent this law is impacting fiscal revenues, who is benefitting, which types of goods are being imported, how the law is positively or negatively impacting different sectors, to what extent buyers (consumers) are protected for online purchases, and how intellectual property rights are considered under the law. The evaluation should use a holistic approach to determine the net benefits or effects of the law across different sectors of the economy.
- Review the criteria of the threshold for a simplified procedure, based on the risk of the transaction rather than the value of the shipment. Compared to its regional neighbors, El Salvador has implemented higher thresholds for simplified procedures for expedited air shipments, up to \$3,000. It is important that this criterion is consistent and reinforced by a robust risk management approach. Analyze the impact of extending this threshold to expedited land shipments.
- Develop a simplified procedure for exports of lower volume and low-value packages, exempted from export charges and fees and with minimum documentary requirements, including the possibility of claiming value-added tax returns for local inputs, materials, and services purchased by exporters.
- In addition to air cargo, develop a procedure to handle small packages at land borders. Neighboring countries like Guatemala, Honduras, and Nicaragua are important destination markets for MSME exports and have high potential for e-commerce transactions. This effort can begin in coordination with the Governments of Guatemala and Honduras under the Deeper Integration Process towards a Customs Union.
- Continue improving the clearance and release process at the international airport air cargo facilities by optimizing the process flow for airport administration (CEPA), DGA, and courier operations. The

process can be reviewed to avoid bottlenecks and delays in processing batches of arrivals that often result in increased costs for warehousing and transportation.

- Optimize the use of ICT in the clearance process, including sufficient hardware and updated software, and ensure interoperability between airport authorities, Customs, and courier operators. The number of users of the ASYCUDA World system providing services to courier firms needs to be increased.
- As the new public-private partnership for airport management begins operating, ensure that the service to air cargo maintains global standards at competitive rates. A mechanism to review the quality of airport management services and rates is important to ensure delivery of affordable and high-quality logistics services. Such a mechanism may include a commission that reports to the National Trade Facilitation Committee.
- Publicize and encourage the use of the benefits generated by the International Services Law to optimize logistics operations, develop innovative services, and improve cargo deconsolidation processes. As the International Services Law is reviewed, certain provisions could be included to promote innovation, better services, private alliances, and investment, including reviewing the minimum requirements and controls needed to promote modern logistics services that facilitate international trade. (PROESA, MINEC, and DGA)
- As the Authorized Economic Operator (AEO) program is evolving, promote the integration of couriers, transporters, logistics services providers, and export aggregators to streamline compliance, optimize logistics operations, and ultimately enhance cross-border logistics services to MSMEs.

5. Improve cooperation and coordination among border control agencies. El Salvador should continue its efforts to streamline border controls through collaboration with national authorities and those of neighboring countries.

Actions may include:

- Consider re-installing a Border Management Commissioner under the Secretariat of Trade and Commerce to ensure efficiency and adequate infrastructure at borders. The Commissioner should aim to improve collaboration and coordination of border control agencies through harmonized schedules, joint inspections, optimization of resources, and other activities to streamline procedures. The Commissioner should also seek closer collaboration with border police, immigration, and anti-narcotics forces, and the Ministry of Public Works and Transportation.
- Develop guidelines and protocols that define the delegation of control of sanitary, phytosanitary, environmental, and other controls to Customs. This will facilitate streamlined procedures and establish criteria for the intervention of authorities. (DNM, MARN, and MAG).
- Carry out joint operations with counterpart border control agencies in Guatemala and Honduras, especially at high-transit trade routes along the Pacific Corridor (La Hachadura-El Salvador/Pedro de Álvaro-Guatemala and El Amatillo) but also at borders along export trade routes, such as Angiatú and El Poy.

6. Eliminate the requirement to use a Customs agent for imports valued above \$1,000. The use of a Customs agent should be optional, and the decision to hire an agent should be based on the quality and breadth of their services, rather than an obligation. This is a mandate that derives from CAUCA; however, it deviates from the TFA provisions and international best practices. Customs agents possess

the knowledge and experience to handle Customs and other border control procedures, however these services should be part of modern and specialized international trade services provided to exporters and importers.

Actions may include:

- Revise CAUCA, RECAUCA, and national laws and regulations, including the Customs Simplification Law and other Customs Administration rulings.
- Publish online the contact information for qualified and registered Customs services that firms could provide voluntary support for international trade transactions.

7. Enhance postal services to enable exports of MSMEs. The quality of postal services is an essential pillar for e-commerce. El Salvador's national Postal Service has many strengths and is well-positioned to become an enabler for MSME e-commerce with sufficient investment into an actionable strategy to improve the quality of its services and increase operational efficiency. Investing in the quality of postal services will have significant returns for the institution itself, and for the inclusion of rural MSMEs and consumers in digital markets.

Suggested actions include:

- Restructure operations and procedures to respond to the current needs of users, including the shift from handling correspondence to handling commercial packages, both for domestic and international markets.
- Put in place a digital transformation process to ensure efficient, expedited, secure, and reliable services, including tracking of packages, digital payments, and digital applications to seamlessly integrate with commercial websites and marketplaces.
- Optimize the use of performance data to improve strategic planning, including the improvement of existing services, developing new services, and yielding increased efficiency and innovation.
- Implement a rigorous capacity building program for Postal Service staff, to train them on customer service, logistics, packaging, and cross-border procedures.
- Conduct an in-depth analysis of postal rates, compare with those in neighboring countries, and explore the potential to offer differentiated rates for MSME exporters.
- Continue pursuing alliances with postal services in leading destination markets, including partnerships with private logistics providers in these markets.
- In coordination with export promotion programs and border control agencies (DGA, CIEX, MINEC, PROESA, CONAMYPE, and COEXPORT), develop a specialized program to support MSME linkages to export markets that includes a simplified, completely digitized cross-border procedure with minimum requirements; as well as logistics support services for MSMEs, including tailored customer service and the management of returns for e-commerce transactions. This effort can be jointly led by the Secretariat of Innovation and the Secretariat of Trade and Investment.

8. Revise the regulations and procedures for imports through family support packages (encomiendas). Despite the importance of the support of the Salvadoran diaspora to their families, the volume and value

of current shipments indicate that this trade has reached commercially significant values, almost equivalent to air cargo expedited shipments. The impact of this informal channel should be assessed in the light of the country's economic objectives, with revisions as needed to avoid potential consumer fraud, unfair competition, tax evasion, and risks to security and safety. (DGA, MINEC, Ministry of Foreign Affairs)

Suggested actions may include:

- A deep analysis of the current trade patterns under the modality of family support packages to examine the type of goods imported, the nature of the “encomiendas” business, the beneficiaries, and an indication of the extent that these services are used for commercial purposes.
- Revise the existing regulations to ensure that the modality of family support packages is used for its originally intended purpose.
- Design an import regime that allows for aggregators of these types of informal services to continue and to innovate their business models in alignment with secure and formal trade practices, avoiding unfair competition with established businesses.

9. Design an integrated strategy for bringing ICTs and the digital transformation into cross-border procedures, in line with the Digital Agenda to promote streamlined procedures, digital identification, interoperable platforms, data protection protocols, and cybersecurity for businesses and citizens engaging in online transactions.

Suggested actions include:

- The Secretariat of Innovation should develop a strategic plan for digital transformation of cross-border agencies and their procedures. Although DGA has achieved significant progress - migrating its operations to ASYCUDA World and integrating artificial intelligence in some of its services, it is important to strategically adapt to other technological innovations that allow for improved controls, interoperability with other control agencies, improved services, and greater efficiency. Innovations that are being used in other Customs Administrations include blockchain, Internet of Things, virtual reality, and data mining.
- All border control authorities (including MAG, MINSAL, DNM, MARN) must develop ICT capacities to reduce the bottlenecks generated by the technology adoption gaps among regulators, and to enable an effective, interoperable digital environment.
- Assign the necessary resources to cross-border trade authorities to acquire hardware, software licenses, IT management, and capacity building of internal and external users. The resources needed for digital transformation and its execution should be reflected in the annual budgets of these organizations.
- In the meantime, ensure that the current ASYCUDA World system covers all procedures and is consistently maintained and updated, including for the “Special Regimes” that cover important segments of El Salvador's export value chains.

10. Although the e-signature certification system is already in place, widespread use of this tool in digital procedures and transactions has not yet materialized in El Salvador. The Government should identify specific procedures among internal and external users that trigger the adoption and scale up the use for

legal transactions, financial transactions, and administrative procedures. Experiences from other countries may inform the scale-up phase planning.

Actions may include:

- Enforce the mandatory use of e-signatures for institutions that are more technologically advanced. For example, the Ministry of Finance's procedures for large taxpayers; the National Center for Registration of Commercial Entities, Real Estate and Intellectual Property Rights; the Central Bank and the Superintendency of the Financial System for all reporting and auditing procedures with financial institutions; the Customs Administration, for all import and export procedures; the DNM for registry of products and issuance of permits and certifications.
- The benefits of the use of the e-signature should be promoted among government officials, larger firms and financial institutions, and trade and legal professionals. Online training materials should be provided to support organizations in the use of e-signature.

11. The full rollout of the electronic invoice is a key enabler for digital trade, especially for cross-border transactions. It will allow the development of new e-commerce channels in addition to promoting the use of cutting-edge technologies and improving tax collection. The Government of El Salvador should prioritize the rollout of the electronic invoice based on the pilot project with larger taxpayers. As a next step, the government should seek interoperability of the e-invoice with major trading partners.

Actions may include:

- Review the enabling regulatory framework and carry forward and expedited process of legal reforms that are necessary for the legal validity of the e-invoice. Review specific provisions in the current tax code and the Value-Added Tax Law, considering the recently enacted regulatory improvement system regulations.
- Design a strategic plan to scale-up and roll out the e-invoice system in phases, with the ultimate objective of including all taxpayers. After the pilot program with a selected group of large corporations, others can be included, for example exporters, financial institutions, and retailers, gradually integrating other sectors. Small taxpayers and MSMEs will benefit from the reduction of paperwork and compliance expenses.
- Ensure that the rollout of the e-invoice is accompanied by simplified reporting procedures for MSMEs.
- Develop simple applications for small taxpayers and MSMEs to generate and manage invoices.
- Develop a robust communications strategy and training materials on the use of the electronic invoice for large, medium, and small taxpayers, including for professionals and public accountants.
- Include the option of generating export invoices, and link to the VAT return for exporters. This tool could be part of the digitization of the process to claim VAT returns for exporting firms.
- Pursue interoperability of e-invoicing with partners in El Salvador's regional and bilateral trade agreements (new agreements and reforms to existing agreements).

12. The quality of public services for cross-border trade are key enablers for digital trade, including electronic single windows, non-intrusive inspection systems, and electronic certificates and permits. However, El Salvador needs to ensure that the cost of these services is minimal and does not constitute a disincentive to export, especially for MSMEs. Charges for certificates of origin, sanitary and phytosanitary permits, and Customs risk management fees can be especially significant for low-value shipments.

Actions may include:

- Assess the impact of export services charges and fees on export competitiveness, by sector and firm size.
- Eliminate fees and charges to MSME exporters, based on the value of their export shipment. This can be part of a simplified export procedure.
- Review Customs risk management policies and non-intrusive inspections regulations and consider lowering or eliminating the risk management fee for lower value shipments. The threshold of \$300 used for the Online Purchases Law might be a good benchmark for this.

13. El Salvador's strategic location and the strengths of its international airport infrastructure relative to neighboring countries provides an opportunity to strengthen international logistics services for e-commerce, not only for Salvadoran businesses but also for those in neighboring countries. The International Services Law should be reviewed with the objective of developing a stronger, more competitive ecosystem for modern logistics services.

14. Review existing regulations that affect digital trade in line with national economic and social development objectives and the Digital Agenda. In parallel with cross-border trade and logistics, the regulatory framework needs to adapt to the nature of modern trade, including digitally-enabled trade and risk management systems for digital technologies.

Areas of regulation and reform may include:

- The scope and implementation of the current Law on Electronic Commerce.
- Taxation and other obligations imposed on foreign marketplaces and platforms that sell goods and services to Salvadoran firms and consumers.
- Review regulations that affect financial inclusion and financial innovation, to promote widespread use of digital payments and innovative financial services for digital trade.
- Develop a Cybersecurity Law and promote the adoption of cybersecurity standards and protocols.
- Provisions of the Consumer Protection Law related to online purchases.
- Competition aspects that may affect markets, MSMEs, and consumers.
- Review of the existing regulatory framework for businesses, including the Customs Code, the Commercial Code, the Value-Added Tax Law and other important instruments to ensure that they are sufficiently adapted to modern trade and economic relationships, including government-to-

business (G2B), government-to-citizens (G2C), business-to-business (B2B), business-to-consumer (B2C) and person-to-person (P2P).

GUATEMALA: CONTEXT FOR CROSS-BORDER E-COMMERCE

GROWTH OF E-COMMERCE

According to the Guatemala Chamber of Commerce, e-commerce activity has grown significantly during the global pandemic. This is partly due to the strict quarantines imposed by the government, which drove online retail activity.⁷¹ The Guatemalan Association of E-commerce reported that in 2020 internet purchases (both domestic and international) in Guatemala totaled \$1.3 million, 118 percent higher than in 2019.⁷² In fact, online sales and the use of digital media increased so much that it raised the attention of fiscal authorities. As a result, Guatemala's Tax Authority (the Superintendency of Revenue Administration (SAT)) started surveillance of online advertising and social media and expressed concerns about the potential for tax evasion.⁷³

Despite this recent growth, e-commerce faces considerable challenges in Guatemala. Limitations on electronic payments are one of the main barriers to the development of e-commerce and to the use of electronic means for the facilitation of foreign trade, which will require the development of electronic wallets. Only 29.3 percent of the population uses the internet and only 17.3 percent of Guatemalan homes have internet service. The banked population remains among the lowest in Latin America (only 27.5 percent as of September 2021). The non-banked population is particularly high outside of Guatemala City.⁷⁴ Credit cards are the other means of payment, and the Superintendence of Banks shows a total of only 910,000 credit cards issued in Guatemala (for a population of 16.6 million).⁷⁵ Prospects for e-commerce are also limited by a lack of trust in the absence of legally enforceable protections for consumer privacy and security.⁷⁶

MSMES AND DIGITAL TRANSFORMATION

MSMEs are a key sector of Guatemala's economy. They contribute to 40 percent of GDP and generate about 80 percent of employment.⁷⁷ In recent years, the MSME sector has maintained annual growth of more than 16 percent, which exceeds Guatemala's annual GDP growth.⁷⁸ In 2017, sales by Guatemalan MSMEs totaled more than \$27.5 billion (223 billion quetzals).⁷⁹ Although these figures pre-date the global pandemic, it is clear that MSMEs have shown significant growth.

Cross-border e-commerce has the potential to unlock new markets and allow MSMEs to access inputs and materials faster and at lower costs. However, this sector has limited links to global value chains and the contribution to exports is limited. A study by the International Labor Organization found that only

⁷¹ <https://www.trade.gov/knowledge-product/guatemala-e-commerce>

⁷² <https://www.trade.gov/knowledge-product/guatemala-e-commerce>

⁷³ https://www.centralamericadata.com/es/article/home/Guatemala_SAT_fiscalizar_ventas_en_linea

⁷⁴ Superintendence of Banks. Quarterly Report on Financial Inclusion No. 32. p. 15
<file:///C:/Users/Ignacio/Downloads/No.%2032%20Boletín%20Trimestral%20de%20Indicadores%20de%20Inclusión%20Financiera%20a%20septi>

⁷⁵ Ibid. p. 21

⁷⁶ <https://www.trade.gov/knowledge-product/guatemala-e-commerce>

⁷⁷ Vice Ministerio MYPE, CENPROMYPE, 2017.

⁷⁸ 2017-2023 Institutional Strategic Plan Evaluation Report, Ministry of the Economy. p. 4-11. Statistics for 2017 showed the following figures for total sales: medium enterprises Q.95,064.71 million; small enterprises Q.98,885.90 million; and microenterprises Q.29,722 million.

https://www.mineco.gob.gt/sites/default/files/informacion%20publica/evaluacion_anual_del_plan_estrategico_insitucional_2017-2023_-_ano_2019.pdf

⁷⁹ Ibid. p. 11

15 percent of medium-sized, 4 percent of small, and 1 percent of microenterprises in Guatemala are exporters.⁸⁰ This is starting to increase. According to the Ministry of Economy, exports by MSMEs have risen by more than 7 percent annually in recent years.⁸¹ Most exports are to Central America, primarily El Salvador, and the main export products are agricultural goods (fruits and vegetables), followed by manufactured goods.⁸²

CROSS-BORDER TRADE STATISTICS

There is a lack of available data on imports and exports through e-commerce channels in Guatemala. A survey sponsored by the Chamber of Commerce found that five out of 10 Guatemalans make online purchases at least once per month and approximately 5,000 firms recorded online sales in July 2020. The study found that the average value of an online purchase was \$22 (170 quetzals), and Guatemalans purchase online predominantly from local rather than international suppliers. The scope of the survey was not specific to e-commerce, and therefore the data is limited. However, an analysis of data on expedited shipments (couriers), consolidated shipments, family support packages, and postal parcels provided by the Tax Authority (SAT) complements these findings.

Import statistics provided by SAT are based on Customs declarations, however it is difficult to differentiate those transactions which correspond to online purchases. Consolidated shipments accounted for the largest value of imports according to SAT data (see figure).⁸³ The majority of imports of consolidated shipments enter Guatemala by maritime channels, reaching a total value of \$580 million in January-September 2021. This represents a slight decline of five percent from the value of such shipments in 2018. The leading sources for maritime imports of consolidated shipments over this period were the United States and China. Consolidated shipments entering Guatemala by land, almost exclusively from Mexico, totaled \$8.4 million in 2021, a decline of 49 percent of such shipments in 2018. Air shipments of consolidated cargo were relatively rare in Guatemala in 2019 and 2020, with only 7 and 6 declarations, respectively. From January-September 2021, 39 declarations were reported for a total value of \$3.8 million in consolidated air shipments, mostly from China.

By value, expedited shipments accounted for the next largest category of specialized import regime. The value of such shipments grew by 4 percent from 2018 to January-September 2021, reaching \$238 million. Approximately two-thirds of Guatemala's imports of expedited shipments came from the United States in 2020 and 2021. Other significant sources of such imports include El Salvador, Panama, and Costa Rica.

Imports of family support packages (encomiendas) mainly entered Guatemala by air, although the value of such shipments has declined over the past several years, from \$8 million in 2018 to \$4 million in 2021. Whether by air or land, most imports of encomiendas are from the United States.

While the value of Guatemala's imports of postal parcels increased by 188 percent from 2018-2021, such imports were less significant than for the other regimes, totaling only \$2.8 million in the period January-September 2021. The share of postal parcels coming from the United States increased from 8 percent in 2018 to 51 percent of all such imports in 2021.

⁸⁰ ILO, 2019.

⁸¹ Ibid. p. 5

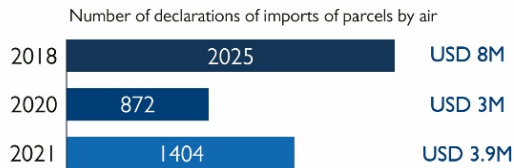
⁸² https://www.mineco.gob.gt/sites/default/files/MIPYMES/informedesituacion_y_evolu_delsector_mipymedeguatemala2015-2017.pdf

⁸³ Not all consolidated shipments correspond to online purchases, but the figure offers a proxy to estimate the approximate value and the overall trends.

CUSTOMS DATA

GUATEMALA

PARCELS



The United States accounted for **99% of the value** of Guatemala's imports of parcels by air.

The United States accounted for **88% of the value** of Guatemala's imports of parcels by land.

All Guatemalan exports of parcels were by land to El Salvador.

POSTAL BUNDLES

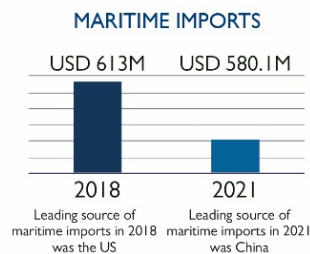


188% increase
from 2018 - 2021

TOP 5 SUPPLIERS OF POSTAL BUNDLES

1. USA
2. China
3. Malaysia
4. Germany
5. Holland

CONSOLIDATED SHIPMENTS



The value of maritime consolidated shipment exports increased from \$416,245 to \$5.6 million



The value of land consolidated shipment exports fell by 9% during this period



The number of air consolidated shipment exports decreased, however, the value increased from \$1.3 to \$1.6 million

EXPEDITED SHIPMENTS



Approximately two-thirds of Guatemala's imports of expedited shipments came from the United States in 2020 and 2021.

Other significant sources of such imports include El Salvador, Panama, and Costa Rica.

For exports, data were only available for consolidated shipments. Guatemala's exports of consolidated shipments were primarily by land over the period 2018-21, although the value of such shipments fell by 9 percent (to \$7 million in 2021). The primary markets for such shipments were El Salvador and Honduras. Exports of consolidated shipments through maritime channels increased significantly between 2018 and 2021, rising from \$416,245 to \$5.6 million. The value of exports of consolidated shipments by

air increased slightly, reaching \$1.6 million in 2021. For exports of consolidated shipments by both maritime and air channels, the United States was the leading market.

ENABLING ENVIRONMENT FOR E-COMMERCE

Guatemala is only beginning the process of coordinated development of public policies for the digital economy. From an institutional perspective, progress is uneven. This is partly due to the structure of the government, which is organized in a system of centralized and decentralized bodies. Decentralized entities are self-governing which means that in many cases they operate autonomously and outside of central government command and control mechanisms. In some cases, such entities have the authority to issue their own regulations. Each decentralized entity has developed its digitization program independently, separate from the Executive Branch.

However, several recent advancements to strengthen e-governance are encouraging and provide a basis for further development. The Commission for Open and Electronic Government (CP-GAE), which became a Guiding Policy during the Morales Administration, has now acquired permanent status as an Agency of the President of the Republic through the Administrative Simplification Act.⁸⁴ The development and expansion of electronic invoices by SAT is another positive step towards digital economic integration. Finally, progress is being made towards implementation of paperless Customs procedures in accordance with the provisions of the World Trade Organization (WTO)'s Trade Facilitation Agreement (TFA), which Guatemala ratified in 2017.

This section describes the core policies and institutions supporting the development of digital economy in Guatemala in more detail. Two significant laws – the Administrative Simplification Act and the Electronic Communications and Signature Recognition Law – support digitization and legal certainty for electronic communications.

The **Administrative Simplification Act** (Decree 5-21) intends to modernize administrative management through the simplification, streamlining, and digitization of administrative procedures, using information and communication technologies (ICTs) to facilitate interaction between individuals or legal entities and government agencies. It designates the CP-GAE as a governing body and mandates the Ministry of the Economy to oversee simplification of foreign trade procedures. It also facilitates the establishment of interagency portals, including electronic single windows, within one year of enactment of the law and obligates government agencies to determine electronic procedures for obtaining licenses, authorizations, and permits.⁸⁵

Although this law constitutes a legitimate effort to streamline public processes, it unfortunately does not cover decentralized government entities involved in the logistics processes that impact SMEs, including SAT, the Guatemalan Social Security Institute (IGSS), municipalities, and the National Council for Protected Areas (CONAP). Therefore, the impacts of this law are limited to the entities that are part of the Central government (Ministries and Secretariats). In an effort to resolve this tension between centralized and decentralized authorities, the law provides for inter-institutional coordination between both types of agencies.⁸⁶

⁸⁴ Created by Government Agreement 360-2012 as an eGovernment Transparency Commission. It was changed through Government Agreement 41-2018 to the Presidential Commission for Open Public Management and Transparency and was finally changed to the Presidential Commission on Open eGovernment.

⁸⁵ Article 41 of Decree 5-2021

⁸⁶ Articles 2 and 32 of the Law. Article 2 states that application of the law is optional. Article 32 provides for the possibility of participation in interinstitutional portals.

The Electronic Communications and Signature Recognition Law provides for the legal certainty of e-commerce (Decree 47-2008). It is modeled on the United Nations Commission on International Trade Law, provides for advanced recognition of electronic signatures and certifiers, and contains provisions on consumer protections. The law has been used in court disputes, and now the validity of emails is generally recognized as evidence in legal proceedings, with some exceptions. Prior to the enactment of the law, judges could arbitrarily decide whether or not to admit digital communications as evidence. The protection of personal data has legislative protection with respect to the disclosure and distribution of personal data of the other party, which requires the written consent of the owner. This is regulated by the Law on Access to Public Information.⁸⁷

Ministry of the Economy

The Ministry of Economy (MINECO) is the designated authority in charge of economic policies, including foreign trade and MSME development. The Vice Ministry of Foreign Trade leads the National Trade Facilitation Committee (NTFC), coordinating with other border control authorities. The NTFC has an important role, but its meetings and committees have had only achieved limited success in improving coordination among Guatemalan authorities. The Committee meets three times per year, which stakeholders indicated did not allow for sufficient follow up and coordination of efforts.

The Administrative Simplification Act designates MINECO as the entity responsible for the simplification of foreign trade procedures.⁸⁸ MINECO also maintains the Commercial Registry for all businesses in Guatemala, from commercial entities to sole proprietorships. The registry is online, and users report that it is generally quick and easy to use in filling out the required forms to establish commercial operations in the country.⁸⁹ Under MINECO, the Vice Ministry of Micro and Small Enterprises is in charge of coordinating policies and programs for enterprise development, including linking MSMEs to global value chains and capacity building programs through its network of enterprise development centers.

Superintendency of Revenue Administration (SAT) and Intendency of Customs

SAT has expanded electronic mechanisms towards a more efficient revenue administration and paperless Customs operation. The e-invoice has been successfully implemented for all taxpayers. Through the Customs Modernization Plan (MIAD), SAT is implementing an electronic risk management system that includes digital submission of declarations and online payments of taxes, duties, and fees. While these reforms have reduced Customs clearance times, the impact has been limited. Mechanisms for coordination with other border authorities have not yet been deployed, and that will be necessary to deliver the full benefits of a paperless Customs ecosystem.

Ministry of Agriculture, Livestock and Food (MAGA)

The Ministry of Agriculture plays an important role in the import and export permitting process and in the logistics of foreign trade for agricultural and food products. To this end, it has developed the VUDI system (Single Window for Imports) to support import permitting.⁹⁰ Charges for administrative costs are made in person through forms approved by the Office of the Controller. Forms are available in electronic format, although payments must be made directly to a bank. Export certificates can be obtained through the Single Window for Exports managed by AGEXPORT, a digital platform where exporters can present documents, obtain permits, and pay fees online.

⁸⁷ Decree 57-2008, Articles 38 and 64.

⁸⁸ Article 34, final paragraph of the Administrative Simplification Act

⁸⁹ <https://www.registromercantil.gob.gt/web/frm/>

⁹⁰ Ministerial resolution 301-2019. The Ministry of Agriculture has the above-mentioned window at the following website:

<http://portal.maga.gob.gt/vudi-web/>

Information on the website is organized by product and country of origin.

Ministry of Public Health and Social Welfare (MSPAS)

The Ministry of Public Health plays an important role in the import and export permitting process for food, cosmetics, medicines, insecticides, cleaning products, and similar items. This process has been digitized. The Ministry has an electronic window offering documents, descriptions, and a list of regulations on imports of medicines, and psychotropic drugs.⁹¹ Licenses and authorizations for imports and exports are found online, but payments must be made in person, as with the VUDI system.

Ministry of the Environment and Natural Resources (MARN)

Substances provided for in certain treaties and those specified in the Environmental Evaluation, Control, and Monitoring Regulations are subject to import licenses.⁹² The Ministry has forms available online but offers little information regarding the procedures and compliance requirements for obtaining licenses.

National Directorate of Postal Services and Telegraphs

The Guatemalan Postal Services were subject to a concession that was taken up by the Executive Branch and have ceased to effectively function for purposes of correspondence. However, parcel handling services are very active. According to an interview with the postal authorities, mail consists of international shipments from online sales and family members sending packages to people in Guatemala. SAT reports that approximately 20 percent of imported small packages are delivered by mail. The post office uses the same procedures as Customs for clearance and release of expedited shipments. The post office has a tracking system for packages, similar to that offered by private couriers.

Guatemalan Exporters Association (AGEXPORT) Single Window for Exports

The Single Windows for Exports (VUPE) is operated by the Guatemalan Association of Exporters (AGEXPORT) under a delegation of authority from the Ministry of Economy. VUPE centralizes all procedures for exports, which integrates the procedures of the various border control agencies that are involved in export processes, including SAT, MAG, INAB, MEM, the Ports Commission, and the Ministry of Culture and Sports, among others. VUPE has digitized its procedures to facilitate exports. The Ministry of Health is not part of VUPE, and therefore permits and certificates issued by this entity must be handled separately.

REGULATIONS AND TRADE FACILITATION

ACCESS TO DIGITAL PAYMENTS

Few government institutions are able to collect payments from individuals through credit cards, debit cards, or means of payment other than traditional banking. However, the Administrative Simplification Act requires the acceptance of credit card payments by all centralized government entities six months after the law enters into force. Two other regulations that would facilitate the adoption of digital payments are pending approval in Congress: regulations related to "Fintech," and regulations related to cybersecurity.⁹³ If passed, these regulations would provide legal support and security for electronic payment systems, including e-commerce.

Payment facilitators have little regulation beyond the banking regulation that allows for electronic transfers linked to bank accounts and the specific regulation that applies to money laundering.⁹⁴ The Superintendence of Banks regulates mobile banking systems,⁹⁵ which allow for online transfers of

⁹¹ <https://medicamentos.mspas.gob.gt/index.php/servicios/importacion-de-productos-farmaceuticos>.

⁹² Article 58 Government Agreement 137-2016 Environmental Evaluation, Control and Monitoring Regulations.

⁹³ Initiative 5601, Congress of the Republic. https://www.congreso.gob.gt/assets/uploads/info_legislativo/iniciativas/748df-5601.pdf

⁹⁴ Article 13 of the Regulations to the Law on Money Laundering and Other Assets.

⁹⁵ Agreement JM 120-2011.

payments, and the Automated Clearing House (ACH) system, which since its inception in 2011 has reduced paperwork, payment times, and clearance times for inter-bank transfers.

TAX POLICIES AND ELECTRONIC INVOICES

Guatemala has successfully rolled out the electronic invoice among all taxpayers. The Tax Administration has authorized the electronic ledger system for large and medium-sized taxpayers, as provided for in Agreement 13-2005. Small taxpayers have only been required to enroll in the electronic invoicing system if they engage in agricultural operations.

While the Tax Administration offers electronic invoicing for SMEs, the procedure for small taxpayers to secure refunds for value-added tax (VAT) used to be complex. MSMEs reported that this inability to legally recover the actual cost of VAT tax credits hurt their cash flow and made exports more expensive and less competitive. SAT has now implemented a process for transactions under 150,000 Q (\$19,469) which is almost immediate.⁹⁶ Since the mechanism is in place, it is important to assess how its use can be promoted among MSMEs looking to export.

DIGITIZATION AND ACCEPTANCE OF ELECTRONIC COPIES

As previously indicated, while the Administrative Simplification Act will help to eliminate formalities within certain government agencies, the scope of the law is limited to centralized government entities, and it is not applicable to SAT or other decentralized agencies in charge of trade-related processes. Instead, the SAT has followed its own guidelines, though with a view to promoting the concept of a paperless Customs service.

According to interviews with logistics operators, import and export processes still require the submission of paper documents and compliance with certain formalities. Such requirements include specific formats for the submission of invoices at the point of origin that impede the processing of imports or international trade in goods. This affects the price of imports because the logistical requirements imply more working capital for commercial intermediaries. The effect on MSMEs is that much greater owing to the informality characteristic of these organizations.

The fact that paper documents are still required for the release of goods from Customs facilities – despite the existence of electronic documents – is a continuing complaint expressed by logistics operators and others providing services to MSMEs. The admissibility of electronic documents is prescribed by Article 36 of the CAUCA but, in some cases, paper documents are still requested in certain parts of the system, specifically upon physical transportation of goods. However, Articles 126 and 127 of RECAUCA only permit the electronic submission of certain documents, which opens the door to the exercise of a certain amount of discretionary authority by Customs and border officials. This discretion, in turn, creates uncertainty for traders.

During interviews, SAT officials indicated that the agency was considering acceding to the Revised Kyoto Convention (RKC) of the World Customs Organization. The RKC requires member states to comply with best practices, particularly on Customs control and risk management, areas which have the potential to accelerate cross-border e-commerce. As of March 10, 2022, Guatemala became the first country in Central America to accede.⁹⁷ SAT now has a mandate to simplify and automate Customs practices, make technological improvements, and strengthen the capacity of Customs.⁹⁸ The accession

⁹⁶ Interview with Representatives of SAT, January 2022.

⁹⁷ Interviews with the National Trade Facilitation Committee revealed that participation by Latin American countries in the RKC has been limited due to language barriers in the World Customs Organization.

⁹⁸ <https://portal.sat.gob.gt/portal/noticias/guatemala-se-adhiere-al-convenio-de-kyoto-revisado/>

fulfills an objective of SAT's Institutional Strategic Plan (2021-2025) to comprehensively modernize the Customs service.

Within the Northern Triangle, border controls are harmonized through the Customs Union. The Protocol for Expansion of the Union (*El Protocolo sobre la Profundización de la Unión*) and the Council of Ministers (*la Instancia de Ministros*) and its resolutions have laid the groundwork for full and complete implementation of common border procedures and uniform documentation requirements as provided for in WTO TFA Article 10. However, there are still some continuing complaints with regard to procedures for international shipments of goods in transit. Stakeholders reported that when transporting goods within Guatemala, authorities do not recognize the transit form (DUCA-T) which delays physical transfer and transport of merchandise by land.

Regional regulations governing the movement of goods in transit are consistent with the provisions of the Trade Facilitation Agreement. In Guatemala, minor amendments are required to be fully compliant in legislation. The gap mostly lies in enforcement, although revisions are needed to certain provisions. For example, in Guatemala the transport unit may be held as a guarantee of compliance with transit requirements, which is an implicit violation of another provision of the TFA.

SIMPLIFIED CUSTOMS PROCEDURES

Logistics operators, business associations, and last-mile service providers repeatedly emphasized in focus groups and interviews that a lack of knowledge of import and export procedures by MSMEs often resulted in delays in Customs clearance and a resulting increase in inventory carrying costs. While this may be overcome through the use of a Customs broker to handle these transactions, such action resolves the consequence and not the root cause of the problem.

Guatemala has implemented a simplified procedure for imports of less than \$1,000, which it calls "lower-value imports." These transactions do not require a Customs agent. Simplified entry may be used across all modes of entry: air, sea, and land. Even for lower-value imports, all required permits, licenses, and certificates are still required as applicable (i.e., SPS certificates, etc.). According to SAT, this simplified procedure for imports is consistent with the TFA and in accordance with CAUCA. Logistics operators acknowledge that this mechanism exists, but they prefer freight deconsolidation as the most effective and lowest-cost import modality. However, freight consolidation requires access to a temporary customs warehouse.⁹⁹ Participants in a focus group with members of the Guatemalan Exporters' Association (AGEXPORT) reported that the simplified procedure for air shipments has operated smoothly.

International best practices define a simplified process for express air shipments, with a single procedure, a *de minimis* amount under which no customs duties or import charges will be applied, and an expedited clearance process, for which CAFTA-DR sets a time limit of six hours. The CAUCA and RECAUCA contain provisions on Customs regimes for urgent shipments, but these definitions are not up to date. The *de minimis* procedure was initially implemented by Guatemala between 2000–02 but was later eliminated. SAT expressed the fear that *de minimis* procedures would entail a loss of fiscal revenues, and also indicated that *de minimis* procedures would only apply only individuals, not to businesses. There is no specific *de minimis* threshold codified in the CAUCA, the RECAUCA, or Guatemala's national customs law.

EXPEDITED SHIPMENTS

⁹⁹ Article 32 of the Regulations to the Central American Uniform Customs Code.

As noted above, the SAT in Guatemala applies the CAUCA to expedited shipments not requiring a declaration. CAUCA Articles 108 and 116 apply to several methods which seek to streamline payment procedures or exemptions from import procedures and/or taxes, including family shipments, informal couriers, expedited shipments, and similar products. These articles are applicable to MSMEs because these are one of the most important, cost-effective methods for delivery of imports or exports. However, the language in the article itself is very general and the provisions are outdated when compared with the best practices incorporated in the TFA.

Under the CAUCA, there are no special provisions for express delivery services for export transactions; Article 196 simply waives the need for an export permit for samples, personal effects, or used household goods. Nor does the Customs Union Agreement between El Salvador and Honduras cover expedited processing of small packages. Thus, large exporters use regular export proceedings and according to information gathered in several interviews, MSMEs use courier services for exports. This may require the use of provisional and follow-up declarations, which has important tax and economic ramifications, precluding refunds of taxes and duties. On the import side, express delivery is available and reported to lower costs for MSMEs.

FAMILY SUPPORT PARCELS

Family parcels most often consist of baggage or personal items of travelers, or a combination of both. Such “encomienda” services offer door-to-door delivery of merchandise from abroad to consumers in Guatemala. While official statistics are unavailable due to the informal nature of these arrangements, this seems to be a preferred method of transportation for e-commerce trade as reported by participants in this study. Imports are made primarily through simplified import procedures for goods with a Customs value of less than \$1,000.

THE TRADE FACILITATION AGREEMENT AND ITS RELEVANCE TO E-COMMERCE IN GUATEMALA

As required under the terms of the TFA, Guatemala established a National Trade Facilitation Committee (NTFC) to manage implementation of the provisions of the agreement when it acceded in 2017. However, there is no dedicated representative for SMEs on the NTFC, as confirmed in interviews with local logistics service providers.¹⁰⁰

Guatemala has implemented all of the provisions of the WTO Trade Facilitation Agreement (TFA) that are consistent with the Central American Uniform Customs Code (CAUCA), and its regulations. Therefore, current Customs practices are largely based on regional regulations that predate the TFA, with the exception of the Customs Union with El Salvador and Honduras, which has its own regulations.¹⁰¹ Guatemala’s Customs practices are in alignment with authorities at the land borders of Honduras and El Salvador, and different from practices in maritime and air trade with third party countries.

TRANSPARENCY AND PUBLICATION OF INFORMATION ON PROCEDURES, REQUIREMENTS, AND FORMALITIES FOR CROSS-BORDER TRADE

The Trade Facilitation Agreement states that member countries have an obligation to notify the Trade Facilitation Committee of the location of trade-related information (including procedures for import, export, and transit; fees and charges; rulings or laws that apply to trade; restrictions or prohibitions; penalty provisions; and procedures for appeal or review). The respective notification was made by the

¹⁰⁰ Government Decree 355-2016 establishes the representatives for the committee.

¹⁰¹ The Customs Union was established through an Enabling Protocol for the deeply integrated Customs Union between Guatemala and Honduras, which El Salvador subsequently joined.

Government of Guatemala, and the information is posted on the website of the WTO Trade Facilitation Committee.¹⁰² A wide range of government agencies have developed online platforms to provide information on trade issues to export procedures and other requirements are incorporated and published on VUPE, the Single Window system for exports.¹⁰³

The amendments to the Tax Code introduced in 2016 state that the taxpayer has certain rights under Article 21 (A), one of which is the right to receive assistance from the Tax Administration in the determination of taxes. This has given the tax authorities the mandate to update the electronic portal (Portal SAT) to provide better information and assistance.¹⁰⁴ Through the portal, traders can consult the Harmonized Schedule to find information on applicable import duties, taxes, fees, and any applicable restrictions to imports, including permits and tariff rate quotas.¹⁰⁵ It also features an infographic with all the required documents to import. Documents can be presented in hard copies or in digital form. During focus groups, however, some private sector participants stated that they were unaware that these resources existed on the Tax Administration's website. In general, the private sector reported that trade-related information is scattered throughout the SAT website as well as others (for example, information on legislation related to import requirements may be found on the Integral Customs Modernization website).¹⁰⁶ As most visitors to the website are Customs agents and larger logistics operators, further promotion of these tools would ensure that MSMEs and individual traders have access to this information.

The Ministry of Economy publishes the text of the primary Free Trade and Investment Agreements to which Guatemala is a party, with their respective tariffs and rules of origin. This includes CAFTA-DR, the European Union-Central American Association Agreement, and bilateral agreements with Mexico, Taiwan, Colombia, Chile, the Dominican Republic, and the United Kingdom. Most recently, the Ministry of Economy launched a trade and investment portal, which provides information related to procedures for import, export, and transit, relevant documents, and the associated laws and regulations.¹⁰⁷ This resource contains information on procedures from Customs, MAG, MSPAS, MARN, Ministry of the Interior, Ministry of Energy and Mining, Ministry of Defense, the National Forests Institute (INAB), Ministry of Culture and Sports (MINCUDE), and PRONACOM. The target audience is trade professionals, including Customs Agents, logistics operators, trade lawyers, and business associations that work on foreign trade policy. Its contents respond to the transparency and publication mandate of WTO.

Another important effort by the government was development of the "ASI SE HACE" platform, with the guidance of the United Nations Conference on Trade and Development's methodology on e-regulations. This portal provides updated information about the most relevant procedures for businesses, including business registration, paying taxes, obtaining sanitary and health permits, construction permits, and legalization of foreign documents. However, it does not allow for online processing or payments. In interviews with MSMEs, the main complaint, confirmed by the survey responses, is the lack of easily accessible information on trade-related procedures (See Annex D). In accordance with CAUCA, logistics operators use Customs agents, which makes the procedure more expensive and thus limits the participation of MSMEs. The Ministry of Economy has launched an MSME export program, but the information currently provided on the website very limited. While the site announces the program, it does not provide links to other sites, and only provides an address and telephone number for contact.¹⁰⁸

¹⁰² <https://tfadatabase.org/members/guatemala/publication-of-information-for-governments-and-traders>

¹⁰³ <https://vupe.export.com.gt/>

¹⁰⁴ <https://portal.sat.gob.gt/portal/#aduanas>

¹⁰⁵ <https://portal.sat.gob.gt/portal/arancel-integrado>

¹⁰⁶ <https://portal.sat.gob.gt/portal/programa-miad/>

¹⁰⁷ <https://comercioeinversionguate.gob.gt/>

¹⁰⁸ <https://www.mineco.gob.gt/mipyme-exporta>

More strategic efforts should be made to showcase the online portals that have been developed by the government to support businesses in their efforts to learn more about opportunities for international trade.

PRIOR NOTICE AND ADVANCE DECLARATIONS

Advance declaration procedures are expressly permitted under the CAUCA. However, the Customs Administration gives priority to terrestrial customs for the countries of the Customs Union. CAUCA also allows advance declarations for maritime customs. Under RECAUCA (Article 568) air cargo logistics firms and couriers must submit air bills in advance. During interviews, logistics operators highlighted the importance of advance declarations for bulk cargo. Advance declarations are important because they allow for streamlined procedures and faster clearance and release of goods. This results in lower logistics costs, which is important for MSMEs.

Discussions with a regional logistics operator established that there was some degree of confusion between the provisional Customs declaration and the advance ruling. SAT confirmed that traders often neglect to file the definitive declaration after the provisional declaration has been accepted at land borders. This causes issues for exporters in recovering VAT tax credits. Logistics operators also indicated that Customs personnel continue to request physical documentation, which makes electronic processing irrelevant.

RISK MANAGEMENT

The CAUCA establishes a number of risk management policies, providing for Customs Administrations to take appropriate measures to: (i) create a common risk management framework; (ii) establish standard criteria and priority areas for Customs control; and (iii) regulate the sharing of information and risk analyses by Customs Administrations. Articles 16 through 22 of its implementing Regulations specifically establish approaches to risk analysis, including databases for the performance of these functions. The implementation of risk management and non-discriminatory systems has not yet been incorporated in risk management policies for SAT.

During interviews and focus group discussions, Customs agents and logistics operators expressed concerns with risk management control systems, which they indicated are the primary cause of backlogs in Customs clearance for ground transit. More specifically, they reported routine failures to apply uniform Customs clearance criteria with respect to what constitutes a low-risk clearance, in addition to an indiscriminate use of non-technical inspections. Logistics operators pointed out that the high inspection rates slowed the release of low-risk goods and that this was a persistent problem.

A 2020 study developed the baseline for Customs release times at land borders, maritime facilities, and air cargo operations. Land borders are by far the most efficient (10 hours on average), followed by maritime facilities (7.1 days on average), with air cargo in last place (10.2 days on average).¹⁰⁹ The Regional Study released in 2021 shows improvements in time release and reduction in rates for red selectivity (high-risk consignments) which are attributable to improvements in risk management. However, challenges still remain at some borders.

¹⁰⁹ Estudio de Tiempos de Despacho 2020, SAT. https://www.competitividad.gt/wp-content/uploads/Estudio-Tiempos-de-Despacho_compressed-1.pdf

SAT authorities indicated that the rate of physical cargo inspections has decreased significantly in recent years. The main problem that remains to be resolved is coordination with other border control agencies, particularly for inspections carried out by the Ministry of the Interior and the Police for the purposes of narcotics interdiction. Delays due to risk management practices are less prevalent for air cargo than other means of transit.

Other border control agencies face challenges to implementing risk management systems. These challenges are related to lack of IT systems and trained staff. The National Police Division for Ports, Airports, and Borders (DIPAFRONT) does not have a risk management system. The General Sub-Directorate of Antinarcotics Analysis Intelligence (SGAIA) retained over 2,954 containers during January 2022, for security reasons. SAT has signed a collaboration protocol where agencies commit to joint controls and joint risk management, but in certain situations agencies act independently. This often occurs in situations related to national security.¹¹⁰

Family support packages are considered high risk by SAT, and generally undergo documentary and physical inspections. Senders and recipients tend to be informal, and merchandise is considered of high risk for reasons of product safety. For example, ammunition and guns have been detected in this type of trade. This merchandise is exempted from all taxes and fees. The selectivity for these shipments is higher.¹¹¹ SAT has identified consolidators and de-consolidators, and often these individuals operate informally.¹¹²

CAUCA establishes minimum Customs risk control measures. Central America has agreed on a Regional Strategy for Risk Management with the support of the International Monetary Fund and USAID. This strategy has guided implementation based on global best practices, which has allowed SAT to further reduce inspection rates at borders.

CUSTOMS VALUATION

Logistics providers also reported issues related to Customs valuation. By law, traders in Guatemala have the opportunity to prove the Customs value of the merchandise. In cases of reasonable doubt, SAT has the right to revalue the merchandise. SAT has started to make improvements in explaining how these valuation measures are applied in cases of reasonable doubt. Through this system, the SAT is implementing various provisions in accordance with resolution SAT-IAAD-005-2021 to create objective criteria for establishing reasonable doubt and to eliminate subjectivity. The digitization process is still in the pilot phase, but it is expected to be fully online by mid-2022. Importers may, at their discretion, submit directly to SAT any documentation or information that helps to justify the values. In the past, this review process was carried out at the request of SAT and was done at a legal hearing. Under the new system, SAT will review the documents provided and develop a confidential table of values comparing the prices declared by users.

AUTHORIZED ECONOMIC OPERATORS

SAT has implemented and promoted the concept of Authorized Economic Operators (AEOs) as part of its operations in an effort to make its inspection and control procedures more efficient. This includes promoting the use of AEO programs for SMEs in compliance with the TFA, although there are no specific programs in place that focus on small enterprises. Guatemala currently has 65 registered AEOs, none of which are MSMEs.

¹¹⁰ Interview with Representatives of SAT, January 2022.

¹¹¹ Selectivity rates are available through the SAT Portal: <https://portal.sat.gob.gt/portal/disponibilidad-de-sistemas-informaticos-de-la-sat/>

¹¹² Interview with Representatives of SAT, January 2022.

The AEO program is accepted in El Salvador, Costa Rica, and Panama through Mutual Recognition Arrangements (MRAs). MRAs are also in force with Taiwan, Peru, and the Dominican Republic. While Guatemala's AEO is not automatically recognized in Honduras, the Customs Union Agreement provides for this framework.

Central American countries modified RECAUCA in order to allow for the recognition of AEOs and Guatemala issued regulations allowing entities which were compliant with certain requirements to apply to become an AEO. In Guatemala, AEOs enjoy the following benefits: i) simplified and fast-track procedures for customs clearance; ii) possibility to be considered as first options in tests for implementation of new procedures; iii) reduction in percentages of control of inspections; iv) priority in customs controls; and v) personalized assistance from Customs services. AEOs have computerized access to Customs control and effective submission of Customs paperwork.

BORDER AGENCY COOPERATION AND SINGLE WINDOWS

A fully integrated and interoperable Single Window that covers all cross-border transactions for exports, imports, and transit, backed by simplified and digitized procedures, remains the main challenge for improving trade facilitation in Guatemala. The Single Window for Exports (Ventanilla Unica para las Exportaciones (VUPE)) has physically integrated the offices of border control agencies and can electronically issue export permits. The operation is run by AGEXPORT, the Exporters Association, through a concession by the Ministry of Economy. Despite the advanced level of integration, there are still some gaps. For example, the Ministry of Health is not part of the system. While an agreement was signed with the Ministry of Health several years ago to bring its electronic licenses into the single window, it apparently lapsed due to lack of funding.

On the import side, procedures are implemented independently, but mainly through SAT, who is a gatekeeper for compliance for security, safety, and other import requirements. Interviews revealed how the lack of on-site presence for key border control agencies with licensing and permitting responsibilities (including the Ministry of Health, the Ministry of Agriculture, the Ministry of the Environment, the Ministry of Culture, CONAP, etc.) delays border operations, logistics services, and the processing of imports in general, including for COMBEX-IM.¹¹³ Authorities at these agencies indicated that they are trying to fill the gap in their physical presence with digital access to their records and applications. However, this strategy requires the digitization of all such documents. Not all agencies have the capacity to use digital media and there is no inter-agency institutional portal. Certain agencies have their own portals, but many do not allow for a fully electronic documentation system.

According to the schedule of commitments under the TFA, Guatemala requires technical assistance to complete implementation of the Single Window for Imports. This is in progress, but integration with existing platforms of licensing and permitting agencies (like VUDI of the Agriculture Ministry) will take time to be fully realized. Interviews with representatives of the private sector revealed a strong desire to accelerate implementation of a comprehensive Single Window for Imports with links to all relevant issuing agencies.

CAPABILITIES OF MSMEs TO MANAGE CROSS-BORDER TRADE LOGISTICS

Similar to the other countries, Guatemalan MSMEs are missing opportunities to use e-commerce to access export markets. Through interviews and focus groups with MSMEs that export or have export

¹¹³ Combex-Im is a public-private institution which manages the logistics for air cargo (both imports and exports) in Guatemala. Air cargo shipments likely constitute a significant percentage of e-commerce transactions.

potential, private and public enterprise development programs, and a limited firm-level sample survey,¹¹⁴ the primary obstacles for Guatemalan MSMEs are the high costs for logistics and delivery services, including national postal services, and a lack of market intelligence on potential foreign clients, and inexperience with cross-border trade requirements. This section presents high-level insights from the survey; the full results are presented in Annex D.

Of the 122 Guatemalan firms that responded to the survey, the majority are using e-commerce. Eighty-four percent of firms (102) reported using online channels to buy and sell products, including their own websites, social networks, and digital marketplaces. However, past studies, surveys, and anecdotal evidence suggest that MSMEs use social media and electronic messaging applications to market their products for domestic sales. Fully electronic transactions that integrate delivery and payment are not common among MSME firms in Guatemala, or throughout the region.

COMPLIANCE WITH CROSS-BORDER TRADE PROCEDURES

Of the Guatemalan firms who responded to the survey, only 47 (just under 40 percent) reported export sales. For those firms with established customers abroad, sales went primarily to Central America (32 firms) and North America (31 firms), with a smaller proportion going to Europe (10 firms), Asia and the Caribbean (2 firms each), and Australia and South America (1 firm each). For those firms without international clients, they reported that the high costs of logistics and delivery services was the most important factor limiting their ability to export.

In terms of knowledge about Customs procedures, this is an opportunity to bridge the gap between MSMEs and international markets. Just over half (53 percent) of survey respondents indicated that they knew where to go to access this information and where to find forms and documents required for import/export transactions. About one-third of firms responded that they do not receive assistance to comply with Customs and other export requirements (17 responses). For those receiving help, the majority worked with logistics providers (21 responses), with several obtaining guidance from the government (7 responses), and 5 firms receiving help from multiple channels.

Most firms who responded to the survey do not use postal services to export, because it does not fit their needs (25 responses), and it is considered too slow (17 responses). Six firms indicated that the costs of postal services were too high. Most respondents prefer to use private logistics services, which are considered more reliable. Thirty firms reported using such services, while twelve firms responded that the cost for such services was either too high or did not meet their needs.

CAPACITY FOR E-COMMERCE AND ADOPTION OF DIGITAL TOOLS

Utz is a third-party intermediary and SME located in Antigua, Guatemala and in operation since 2014. Primary operations include consulting, door-to-door delivery of packaging, and an online store. UtzBox and Utz E-commerce¹¹⁵ provide all types of services to third parties engaged in e-commerce, including services for imports and exports of parcels, as well as first and last mile logistics services. Utz typically deals with shipments of artisanal items or handicrafts, clothing, food items, and cosmetics.

Truth Trading Company (TTC) is a specialty coffee exporter. TTC was incorporated in 2009 and now has three employees and annual revenues of \$15,000. Sales of green coffee and roasted beans to international customers represent approximately 25 percent of total sales. TTC considers e-commerce a key part of its growth strategy. As an exporter, TTC has a license for coffee exports from ANACAFE

¹¹⁴ The online survey was circulated through CENPROMYPE databases and AGEXPORT over the period October-December 2021. 122 responses were obtained in Guatemala. The survey is not a representative sample of Guatemalan exporters.

¹¹⁵ utzmeansgood.com

(the National Coffee Association). It is also required to obtain export certificates. While these forms are available online, ANACAFE requires that they be presented in person.

TTC does not file claims for refunds of duties and taxes for which it is eligible under the Simplification of Exports Law since licensing procedures are so complicated. TTC cited risk management as a concern for its export shipments. When such shipments are required to undergo secondary inspection, it increases costs significantly, impacting TTC's bottom line.

Both companies use couriers for the handling of export shipments. The occasional problems are generally due to licensing procedures, which can create bottlenecks. There are also requirements for phytosanitary certificates and licenses from the INAB (the National Forestry Institute) for Utz's wood and forest products. Since it is not tied to an export permit, the use of this procedure implies the loss of any applicable refund of duties or taxes.

Bank commissions collected on payments made to exporters has a significant impact on both SMEs. Such commissions are particularly burdensome in the case of small shipments. This, plus the lost refund of duties and taxes, makes exports less competitive. TTC described an instance when an overseas customer declined to do further businesses after seeing the number of commissions involved and reviewing the payments made through Paypal.

Both companies indicated that transactions using Paypal are entered as remittances rather than exports for statistical purposes. This is because these transactions are considered transfers of funds, as no export declaration supports this type of transaction. When asked whether e-invoices have any positive effect on e-commerce, both companies agreed that the on-line electronic invoicing system was not a major improvement. It accelerated the inspection and control process slightly but had no specific benefits for e-commerce.

In terms of identifying specific delays or bottlenecks, both companies agreed that the inconsistency in policies and practices was the main issue. For example, even if paperwork is unnecessary, paper documents are often still required by officials. In the case of procedures for returned items, instead of following the procedures prescribed by RECAUCA, officials often levy import duties on these items.

GUATEMALA: RECOMMENDATIONS

Digital technologies, including e-commerce, offer Guatemala an opportunity to achieve sustainable economic growth and to support the digital transformation for MSMEs. To overcome the many barriers facing digital development, the government can build on recent progress to strengthen the regulatory environment for trade facilitation and digitization. Greater coordination is required between Customs and other border agencies to streamline and digitize import and export processes, ideally through a fully integrated Single Window. Capacity building on trade regulations and processes would benefit traders, logistics service providers, and MSMEs. Policies to enhance opportunities for MSMEs to take advantage of trade include development of simplified processes for low-value shipments and facilitating uptake of technology and tools (such as e-invoices) that can lower their costs. MSMEs must also be included in the public-private dialogue on trade, including through representation on the National Trade Facilitation Committee (NTFC).

For Regional Economic Integration and Trade Agreements:

- CAUCA and RECAUCA should be reviewed to simplify procedures and address the needs of Guatemalan SMEs, particularly with regard to expedited export procedures, expansion of AEO

programs to include couriers and logistics firms, and measures to improve coordination with border control agencies.

- Develop a simplified and preferential regime for trade of small packages within the Customs Union Deeper Integration procedures, allowing for a common *de minimis* value and fewer requirements for exports and imports of low-value packages shipped by air and land.
- Implement a regional Central American procedure for expedited shipments, taking into account the trade facilitation provisions of the TFA and other modern trade agreements such as the United States-Mexico-Canada Agreement. This should include a procedure to facilitate expedited exports to and from Central America.

For the National Trade Facilitation Committee (NTFC):

- The patchwork of existing legislation on trade has established different entities with overlapping responsibilities, including the NTFC, SAT, the Ministry of Economy, and the Presidential Commission for Open and Electronic Government (CP-GAE). While the NTFC is ultimately responsible for overseeing the trade facilitation agenda, it lacks the capacity and authority to ensure coordination of efforts at a national level. The government should establish a coordinator with the legal authority to lead development of an integrated policy on trade facilitation which includes distinct roles for each of the supporting institutions. The designated special coordinator should then work closely with CP-GAE and the NTFC to establish and implement an action plan for the simplification and digitization of trade procedures and propose any amendments in regulations that may be necessary.
- The NTFC should continue its efforts to advance the digitization of trade procedures, prioritizing and focusing resources on the procedures that have highest impact and potential to increase exports and MSME growth.
- The NTFC should be expanded to include a delegate from the Council of Micro, Small, and Medium-Sized Enterprises. The field research undertaken for this study shows that there are no provisions for proper allowances for MSMEs as the committee is currently constituted.

For SAT (Guatemala's Customs Administration):

- Now that SAT has acceded to the Revised Kyoto Protocol, it should act quickly to implement best practices for Customs procedures and promote digitization and streamlining of trade-related procedures.
- Electronic invoices are widely used as a tax collection tool. But for MSME taxpayers, e-invoices (for annual earnings under Q. 250,000 (USD 32,448) preclude the recovery of previously paid taxes and duties. The introduction of simplified procedures for SMEs would allow them to avoid registering in the Small Taxpayers system which places them at a competitive disadvantage because it does not allow for recovery of VAT paid.
- Assess the impact of an increased threshold for simplified procedures, above the current limit of \$1,000, which imposes higher compliance costs for MSMEs.
- Continue implementing improvements to the risk management systems and strengthen collaboration with other border control agencies for joint actions, including inspections, risk management, and trusted trader programs.

- As continued growth in online purchases affects SAT operations, continue to refine the risk management modules, especially for expedited air cargo shipments and family support packages to more efficiently manage cross-border flows of small packages.

For other border control agencies:

- The Administrative Simplification Act provides for the promotion of more streamlined, user-friendly websites with up-to-date information on government procedures under the umbrella of the CP-GAE. To improve compliance with the TFA provisions on interagency cooperation, CP-GAE can lead border control agencies (including the Ministry of Health, the Ministry of Agriculture, the Ministry of the Environment, etc.) to coordinate a “whole of government” approach to provide simplified and easy-to-access information on trade-related procedures.
- It is important that the Central Government and SAT implement measures to reduce costs for SMEs which increase the cost of a small export or import, including non-mandatory use of Customs Agents.
- As a way to support MSME exporters, strengthen the capacity of the National Postal Service (Correos y Telegrafos) to manage packages, both internationally and in rural areas.

For logistics service providers:

- Logistics service providers need to improve their knowledge of current legislation and regulations and to receive additional training and information from authorities, because there are tools at their disposal that are not being used and in some cases government officials report that their interpretation of the law can complicate what should be an easily solvable problem.

For business development programs (including MSMEs):

- It is important to develop electronic mechanisms facilitating payments for small shipments by MSMEs. The economic impact of shipping costs and other expenses for small shipments of specialty products can be significant and necessitates the use of deconsolidation services in other countries.
- Implement programs to increase the knowledge of e-commerce opportunities for importers, exporters, and local businesses, both in B2B and B2C markets.
- Electronic invoicing and bookkeeping streamline the VAT Export Devolution process. Because of this, it is important for businesses to finish digitizing their internal processes and embrace the e-invoice model as a way to facilitate trade and refunds of customs duties and taxes.
- It is important to have open channels of communication with the government to embark on a continuous improvement process. Mechanisms like the Customs Service’s public-private discussion forum should be expanded and strengthened, along with the prior recommendation to include representatives of the MSME sector and the business community on the NTFC. Businesses need to advocate for increased participation of MSMEs in trade policy discussions.

HONDURAS: CONTEXT FOR CROSS-BORDER E-COMMERCE

GROWTH OF E-COMMERCE

The current level of adoption of digital tools in government services and private firms, especially MSMEs, in Honduras is only marginal. However, the Honduran economy has considerable potential to benefit

from digitization and e-commerce as means for enabling inclusive and sustainable growth. Recent trends showcase the transformative promise of these technologies.

Digital transactions and payments have evolved significantly for the country. These have simplified processes, reduced transaction times and costs, and increased security and confidentiality, for companies, government, and users in general. Use of digital tools (such as WhatsApp and email) by Honduran consumers and firms to communicate directly with interactive agents is widespread (providing this service to banks, cell phone companies, restaurants, and supermarkets). The adoption of social media tools is increasing. By the end of 2021, the number of Honduran Facebook accounts was equivalent to nearly 39 percent of the country's population. Development of mobile applications has experienced tremendous demand in urban areas of Honduras. A prime example of this is the rise of online delivery services. An informal e-commerce sector has grown exponentially, utilizing social media to promote and sell goods under circumstances where e-commerce solutions are still cost prohibitive for startups.¹¹⁶

By contrast, larger firms, especially in the financial and services sectors, are gradually implementing strategies that give consumers control of the transaction, so they can resolve incidents without the need for human intervention. Banks have developed well-established B2C mobile applications that enable users to conduct electronic transactions. Online payment and electronic transactions are enabled through wire transfers, online real time banking transfers, credit cards, and Pay Pal. The two electronic wallets operating in Honduras, Tigo Money and Wallet, reported a combined total of about 1 million accounts in 2019.¹¹⁷

Cross-border e-commerce is mainly used for imports of consumer goods and only minimally for exports. Many companies are not yet able to use e-commerce channels for exporting, as they face the following challenges: longer delivery times; lack of reliable suppliers; and difficulties in using e-commerce marketplaces, as reported by exporting companies under the Temporary Import Regime (RIT regime)¹¹⁸ and by some entrepreneurs in the focus groups conducted. Cross-border e-commerce is mainly concentrated in imports of non-essential consumer goods such as consumer electronics (26 percent), home and houseware products (17 percent), and online vehicle purchases (8 percent).¹¹⁹

MSMES AND THE DIGITAL TRANSFORMATION

Despite several donor- and government-funded initiatives to promote digital transformation in Honduran MSMEs, these firms face significant challenges to successfully harness the benefits of e-commerce. Recent initiatives to help guide MSMEs toward full utilization of e-commerce include CONTACT, CATRASHOP, and KOLAU. These programs have supported beneficiary firms to sell their products through online stores, providing training and advice to companies and entrepreneurs so that they can grow and develop in the digital marketplace.

CONTACT was created by the CDEMYPEs (business development centers for micro and small businesses network) as an innovative digital platform. Through collaboration with cooperatives, Chambers of Commerce, donors, and the Government of Honduras through SENPRENDE (the Honduras National Service for Entrepreneurship and Small Businesses), MSMEs can access a business school offering training, workshops, diploma courses, and free content for the creation of new businesses, administrative planning, inventory management, point-of-sale systems, and customer

¹¹⁶ Trade.gov. Honduras Digital Trade. Honduras Country Commercial Guide. December 2021. <https://www.trade.gov/country-commercial-guides/honduras-ecommerce>

¹¹⁷ National Banking and Insurance Council. Financial Inclusion Report. 2021.

¹¹⁸ The Temporary Import Regime (RTI) grants tax exemption benefits to operators in export processing zones in Honduras.

¹¹⁹ Trade.gov, Honduras Digital Trade. <https://www.trade.gov/country-commercial-guides/honduras-ecommerce>

management. Through CONTACT, technical assistance has reached 857 companies, 38 percent of which were entrepreneurs and 68 percent of which were MSMEs.¹²⁰

CATRASHOP is a business-to-business (B2B) platform for promotion, marketing, and sales representing more than 100,000 MSMEs and entrepreneurs in more than 27 different sectors. As a virtual showcase, Honduran MSMEs can establish commercial relationships with clients that they cannot physically reach. The CATRASHOP currently has more than 4 million users.¹²¹

KOLAU is a digital marketing platform designed especially for MSMEs to create online stores. Created by the Organization of American States, Kolau has partnered with SENPRENDE and BAC Credomatic to contribute to close the digital divide and to help mitigate the impact of the global pandemic on Honduran MSMEs.¹²²

The Honduran economy, and MSMEs, will obtain greater benefits from e-commerce as more consumers adopt online purchasing and digital payments, and users and firms acquire better digital skills and tools to create, drive, and maintain transparent and secure e-commerce structures.¹²³ Business informality and the limited use of banking services have so far limited the penetration of e-commerce in Honduras. The informal economy in Honduras is large, and this problem is becoming worse due to the impact of the global pandemic. A recent study by the International Labor Organization and Tegucigalpa Chamber of Commerce and Industry¹²⁴ estimates that about 74 percent of the labor force is informally employed. Although the use of financial services is increasing, only 52 percent of adults hold a bank account (up from 43 percent in 2017), and only a minor fraction (6 percent in 2017) uses mobile banking services.¹²⁵

CROSS-BORDER TRADE: STATISTICS ON EXPEDITED, CONSOLIDATED AND CONSIGNMENT STATISTICS

Honduran Customs records import statistics based on Customs declarations; however, it is difficult to differentiate transactions that correspond to online purchases. Based on anecdotal evidence, most online purchases made by consumers are through courier services and family support packages that enter via travelers who submit a self-declaration to the Customs Administration.

FIGURE 3. VALUE OF IMPORTS FROM COURIERS AND FAMILY SUPPORT PACKAGES

¹²⁰ <https://micontact.org/>

¹²¹ <http://catrashop.spicyrocket.com/>

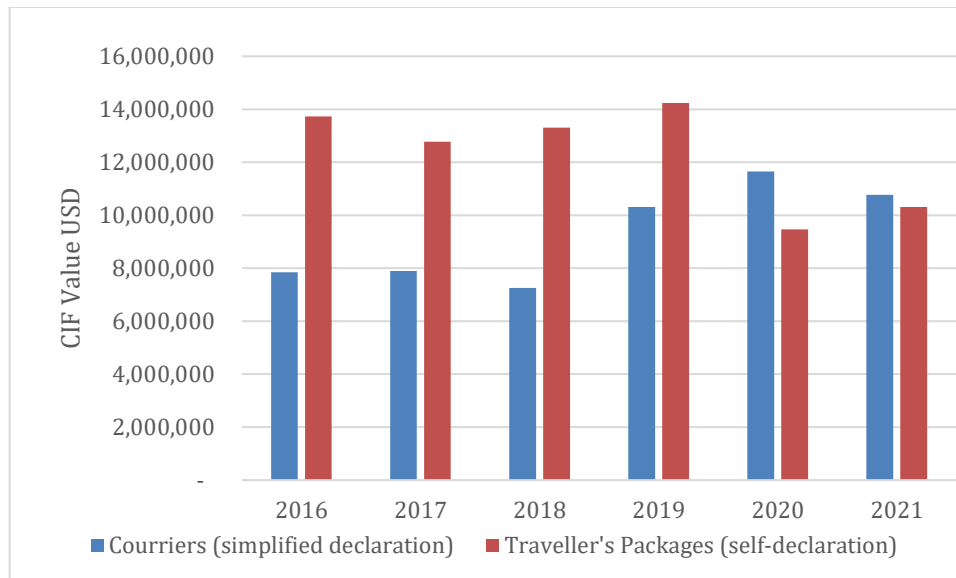
¹²² <https://www.kolau.es/honduras>

¹²³ Interview with Honduras Digital Challenge / Banco Atlantida. October 2021.

¹²⁴ International Labor Organization. *Diagnostic of the Informal Economy*. 2020.

¹²⁵ Statista / *WB FINDEX 2017*. National Council of Banking and Insurance.

<https://publicaciones.cnbs.gob.hn/boletines/Boletines%20de%20Inclusi%20Financiera/Reporte%20de%20Inclusi%20Financiera%202021.pdf>



Source: Honduras Customs.

Most imports of small packages enter Honduras under the simplified regimes for couriers (Regimen 4300) and self-declarations (Regimen 4200). The value of self-declaration family support packages peaked in 2019 before dropping off in 2020, presumably due to travel restrictions imposed in response to the global pandemic (figure 3). The value of imports by courier rose during this period, perhaps as a substitute. The leading sources of imports of small packages into Honduras are China and Mexico, followed by the United States as the third largest supplier of goods and services via the internet.¹²⁶ Customs considers family support packages of higher risk and undertakes frequent inspections. Many logistics firms are registered as couriers and seek the advantages of “green channel selectivity” through the simplified expedited mechanism, however, some firms do not always comply with the requirement that the legal framework establishes for courier operators.¹²⁷

REGULATIONS AND TRADE FACILITATION

Honduras is governed by national and international regulations through agreements and treaties that regulate the various processes for imports and exports. Traders often encounter difficulties in the lack of clarity of procedures, which makes it difficult to anticipate the costs and delivery times for e-commerce imports and to track packages. Trade compliance procedures do not provide for simplified treatment for MSMEs.

Despite an established National Trade Facilitation Committee (CONFACO), Honduras has made little progress in the full implementation of trade facilitation mechanisms. CONFACO integrates regulators and public administration in charge of trade compliance procedures in line with the WTO Trade Facilitation Agreement (TFA). The Secretariat of Economic Development leads CONFACO, which includes high-level representatives of public sector organizations (Secretariats of Agriculture, Security, Health, Customs, Finance and National Institute of Migration, National Border Police, etc.) and private sector representatives from the Honduran Council of Private Enterprise (COHEP), that represents the industrial, export, logistics, transport, and agroindustry sectors.

¹²⁶ Trade.gov. Honduras Digital Trade. <https://www.trade.gov/country-commercial-guides/honduras-ecommerce>

¹²⁷ Interview with Intelligence Department of Customs. February 2022.

TRANSPARENCY AND PUBLICATION OF INFORMATION ON PROCEDURES, REQUIREMENTS AND FORMALITIES FOR CROSS-BORDER TRADE

The Honduran legal framework mandates transparency and publication of information, however not all entities maintain and update the information consistently. The Law on Administrative Simplification is enacted by Executive Decree 255-2002. The purpose of this law is to establish the basis for simplifying and streamlining administrative procedures to guarantee that all government agencies act in accordance with the rules of economy, speed, efficiency, and spirit of service, achieving the prompt and effective satisfaction of the interested parties. The Law of Transparency and Access to Public Information was enacted by Legislative Decree 170-2006 to implement the National Transparency Policy. It ensures the right of every person to access to public information for the strengthening of the rule of law and consolidation of democracy through citizen participation.

In Honduras, the government and business associations publish information on trade, export, and import procedures. For example, the Secretariat of Economic Development (SDE) publishes a guide for exporters and investors which is available online and contains the most updated requirements, contact information, and links to procedures.¹²⁸ CENTREX, managed by SDE, is the main tool for exporters, which is the closest version of a Single Window that exists in Honduras. CENTREX is export-focused and does not incorporate procedures or services for importers.

E-Regulations, a project supported by the United Nations Conference for Trade and Development (UNCTAD), mapped a series of business administrative procedures, and published a set of requirements and forms online.¹²⁹ However, this resource has not been updated and therefore lacks various procedures and requirements that Honduran businesses must comply with.

While Honduran Customs maintains information, procedural guides, and import/export requirements on their website, businesses and logistics providers claim that the information is not consistently accurate and updated. Due to the lack of written procedures documented in places like operations manuals, traders must often rely on the discretion of Customs officials.

Other government agencies have made important advances in transparency and publication of information. SENASA, the Sanitary and Phytosanitary Regulatory Authority, has made significant progress in publishing information on the procedures required for international trade. ARSA, the Health Regulation Authority of Honduras, monitors compliance with sanitary standards and issues sanitary permits for imports and exports. Participants in this study agreed that publication of information by ARSA has significantly improved.

Several entities, including the members of CONFACO, are involved in the logistics chain of international trade and at the same time provide services to large companies and MSMEs. On the one hand, it is important that regulators ensure that information is kept up-to date and easily accessible for all stakeholders involved in the process, but also that the ecosystem promotes interaction between all the areas involved (including suppliers, clients, commercial partners, purchase/sale applications, logistics companies and government regulators), so that processes can be simplified.

LACK OF CLARITY IN THE PROCESSES AND PERSONAL DISCRETION

From the point of view of logistics operators and couriers, a lack of clarity in the processes and discretion on the part of Customs and other government authorities is common. For example, there is no clear procedure that dictates the tariff classification for certain products, so it is left to the discretion

¹²⁸ <https://sde.gob.hn/wp-content/uploads/2021/08/5.-Importaciones-y-Exportaciones.pdf>

¹²⁹ <https://honduras.eregulations.org/>

of the individual Customs agent. In other cases, logistics providers report that the same products faced different requirements as mandated by one Customs official vs. those requested by other officials in the past.

Best international practices, as directed by the TFA, establish that Members “*shall publish the description of its procedures for importation, exportation and transit... a well as ... the forms and documents required.*” Traders in Honduras would benefit from an official online publication of a Customs procedures manual that is consistently updated, and readily available as a guide for other government agencies, logistics operators, and businesses. Making this information easily accessible through an online platform would also benefit MSMEs seeking to engage in cross-border trade.

On November 9, 2021, SDE, together with Customs, launched the Integrated Foreign Trade Management Portal (PGICE).¹³⁰ This trade information portal contains the procedures, times, requirements, and costs for imports and exports, based on the description of goods, and origin and destination. SDE is investing more resources in the PGICE to make it easier for current (and aspiring) exporters to understand and access foreign markets. SDE is currently socializing this portal with Honduran companies, hoping that it will be widely adopted as a consultation tool.

DIGITIZATION OF PROCEDURES AND ACCEPTANCE OF ELECTRONIC DOCUMENTS

Honduran Customs is in the process of digitization of trade-related procedures and requirements; however, not all procedures are digitized. While Customs accepts electronic copies of documents, hard copies must be presented by importers to close the final declarations, often within five to six business days of entry of the merchandise. Other border control agencies, (including ARSA, SENASA, the Ministry of Finance, the Central Bank, and the Secretariat of the Environment) also require hard copies, often legally signed and stamped as required by law.

Customs declarations (DUCAs) are transmitted electronically by Customs agents. However, individual importers cannot submit a self-declaration electronically. At the same time, important progress is being made in paperless procedures at the Customs offices in Puerto Cortés, the largest port in Honduras. Through advance processing and acceptance of electronic documents, this USAID-funded pilot project has resulted in more rapid import transactions. The Customs Administration of Honduras is planning to scale up the paperless initiative to other ports and borders.

The following section details common trade-related documents issued by Honduran authorities and their progress toward an electronic system.

Sanitary Permits: Import and export permits are issued, transmitted, and approved electronically. Yet, in the case of ARSA and SENASA, traders must present their official seals and signatures in physical form to obtain entry or exit permits. In ARSA all permits have been digitized, while SENASA is in the process of implementing an electronic system. Both institutions are developing manuals that dictate procedures for the virtual transmission of data as a guide for inspectors performing this activity.

Invoices: Digital invoices are accepted electronically by Customs, but the Ministry of Finance and the Central Bank request these documents in physical form, as stipulated in the Customs Law (Art. 54). This law would need to be revised in order to allow for acceptance of electronic invoices.

Bills of Lading: While the importer can submit these forms electronically, for legal reasons the original must be submitted to Customs within five to six days.

¹³⁰ <https://pgice.sde.gob.hn/>

Certificates of Origin: Customs accepts a digital Certificate of Origin initially so as not to delay the clearance process, but then the original hard copy must be presented.

Import and Export Permits: SDE issues such permits for goods that are protected by tariff rate quotas or for which exports are restricted for national security, food security, or other reasons. These documents are not available in electronic form since SDE lacks the resources and capacity to implement a digital process.

Environmental Permits: The Secretariat of Energy, Natural Resources, Environment, and Mining issues permits for import/export licenses for endangered species, automotive batteries, and refrigerants. Information is not published online, and permits are not digitalized.

ELECTRONIC PAYMENT PLATFORMS

Payments of duties, taxes, and fees to Customs and SENASA can be made online. In the case of ARSA, users must make a deposit in person. However, traders interviewed for this study indicated that even after using online payment systems for SENASA and Customs, physical documentation of proof of payment is requested.

IMPLEMENTATION OF THE ELECTRONIC INVOICE

While Honduras has an invoicing regime (Agreement 189-2014) which establishes the procedures of issuing fiscal documents and other activities related to the control of such documents, there is no legal framework in place for electronic invoices. The Revenue Administration Service (SAR) manages tax collection and the control of fiscal documents. Consultations with SAR during this study revealed that there are no existing plans to develop and implement electronic invoices. The private sector also seems to lack an understanding of the electronic invoice. In interviews with logistics and courier companies, the vast majority considered that because they are self-printers (i.e., have the ability to print fiscal documents on their own devices) that was functionally equivalent to an electronic invoice. It is expected that the new government that took office on January 27, 2022, will be more interested in implementing the electronic invoice system, which will be very useful for the public and private sectors in Honduras.

SINGLE WINDOW

Honduras does not have a Single Window where traders can submit all required documentation and data through a single point of entry to all trade-related authorities (WTO/TFA Art. 10.4). Efforts are underway to combine import and export procedures, but a fully integrated and interoperable system is not yet functional. On the export side, SDE manages CENTREX, which registers and issues export permits for the Central Bank of Honduras, sanitary and phytosanitary permits, certificates of origin, and permits issued by the Secretariat of Mining, among others.

The port at Puerto Cortés is piloting a paperless Customs approach where traders can submit documents electronically without the need for physical copies. Since not all relevant institutions are participating, the processing of certificates, permits and licenses is subject to delays. Logistics and courier companies report that much remains to be done to harmonize and streamline the procedures for all relevant government institutions involved in cross-border trade. Consideration should be given to enabling the Single Window in each port Customs office in the country so that there can be an effective, modern, and integrated mechanism that streamlines processes and, consequently, reduces time and costs for users.

International best practices conceptualize the Single Window as a modern and integrated system that allows the parties involved in foreign trade and international transport to manage, through modern IT tools, the procedures required by the competent institutions according to the regulations in force for import, export, and transit operations of merchandise. The objectives are to establish a single point of entry; eliminating bureaucratic requirements for paper documents; facilitate and coordinate information exchange between government agencies; and ensure legal transparency in each transaction and exchange.

EXPEDITED SHIPMENTS

Customs applies specific regimes for each of the following categories of imports of goods: i) samples and documents; ii) goods valued under \$1,000 and iii) imports valued in excess of \$1,000. Honduras allows for the importation of expedited shipments for goods transported by air, under the regulatory framework of CAUCA and RECAUCA, for goods valued under \$1,000. However, there is no exemption from taxes, charges, or other import requirements. Customs operates a special window for the management of courier companies at airports. Apart from this threshold, Honduras Customs does not apply any other regime or *de minimis* value that allows for exemption or simplification of expedited or fast delivery shipments.

“Consumers use courier services regularly, but they often struggle to pay the exorbitant fees for the release of their packages. There is a need for a de minimis value that exempts low value shipments from taxes and fees. Sometimes a consumer ends up paying higher fees in terms of import taxes and duties than the cost of the merchandise itself. Logistics firms often process the release of goods and send the bill to clients, who may not have agreed to the charges in advance. Sometimes packages are just abandoned.... The fees and charges of courier services are excessive.”

-Customs Broker

In line with RECAUCA, the current procedure for expedited air shipments does not exempt low value, non-commercial packages from payment of taxes, duties, and other requirements, such as a *de minimis* threshold. Participants in interviews and focus groups discussions during this study indicated that this type of exemption would facilitate the growth in imports of small packages such as gifts and low-value consumer purchases.

“The firms charge because the paperwork involved in Customs clearance and release is burdensome. The amount of work needed for a containerload is the same as what is needed for a small package. It is necessary to find ways to reduce this cost and make the process more accessible. For example, a client imports different products under one declaration and is then required to present a certificate of origin for each product. The result is that the certificates cost more than the merchandise itself.”

-Logistics Firm Representative¹³¹

Goods entering from the United States with expedited treatment under the CAFTA-DR Free Trade Agreement are exempted from payment of Import Duties (DAI). Not all courier and logistics companies explain this benefit to their customers, so some companies and individuals pay more duties than they are obligated to.

LACK OF EXPEDITED EXPORT PROCEDURES

¹³¹ Quotes from participants in the Validation Session of Findings for E-Commerce, Trade Facilitation and Logistics Study for Honduras. January 24, 2022.

Exports of small packages by MSMEs are not registered by Customs, since no formal declarations are issued for goods shipped by informal couriers or encomenderos. Firms and MSMEs that participated in the focus groups and interviews during this study confirmed that they were not actively exporting using online tools. Some firms expressed that they lacked sufficient knowledge and information about the destination markets, and other firms indicated that they did not comply with the product requirements and therefore did not use formal channels to export.¹³²

From the point of view of MSMEs, there are no export regulations that benefit them, since they receive the same treatment whether sending a small package or larger volume shipments. MSMEs do not perceive any specific benefits when they seek to export to other Central American countries.

FAMILY SUPPORT AND TRAVELERS LUGGAGE IMPORT REGIMES

Since 1986, the Absent Honduran Law (through Legislative Decree No. 185-86) has granted Honduran residents abroad the right to bring in certain goods with exemptions from taxes, duties, fees, or surcharges. Since this benefit is intended for personal rather than commercial use, there are limitations on the quantities and types of merchandise allowed. The following goods are eligible: new or used underwear and outerwear (one dozen per piece); new or used bedding; table linens, towels, curtains and kitchen towels (four pieces per item); one dozen pairs of new or used footwear; laptops; televisions with screens up to 17 inches; (TV up to 17 inches), stereos, tape recorders; musical instruments; blenders, mixers, juice extractors, and coffee makers; vacuum cleaners, fans, sewing and writing machine, calculator, dryer, hairbrush, camera and camcorder, a dozen toys, ornaments for personal use (six per type of article) and toiletries (six per type of article).

CLEARANCE AND RELEASE PROCEDURES

Although Honduras Customs aims to comply with the benchmark of six hours for release of expedited shipments established in CAFTA-DR, it does not meet these guidelines. This puts exporting companies at a disadvantage when competing in international markets. The time to clear and release expedited cargo depends on the agility of the importer, logistics company, and couriers. Delays are due to a lack of technical and administrative knowledge, a lack of required documentation, and the incorrect preparation of declarations and other required documents for Customs clearance.

Customs procedures in Honduras do not allow for the separation of clearance and release of goods. Taxes must be paid by importers prior to the release of the merchandise. Customs does not allow for release of goods prior to the final assessment of duties, taxes, fees and other charges.

Air bills may be transmitted prior to arrival to the airport, however Customs does not assess all taxes, fees, and requirements prior to arrival. The lack of an advance processing mechanism makes it harder for logistics firms and other firms in the cross-border supply chain to digitize procedures, including for expedited delivery services.

TRADE LOGISTICS AND INFRASTRUCTURE

AIR CARGO INFRASTRUCTURE

Five international airports operate in Honduras: Toncontín, Palmerola, San Pedro Sula, Ceiba, and Roatán. The main Customs air cargo operations take place in Toncontín and San Pedro Sula (La Mesa). Airport infrastructure and operations are managed by private firms: PIA Operates Toncontín Airport

¹³² Focus groups with MSMEs, December 2021.

and EHISA operates San Pedro Sula, Roatán, and Ceiba. Courier firms must pay warehousing costs which increases the overall costs of services. Storage charges are assessed for small packages on a daily basis or by weight; in other countries there are no such charges for the first one to three days of storage. Procedures for the treatment of small packages are the same as for large loads, with no differences or preferential treatment for smaller items. International best practices for airport management suggest that the quality of services and rates should be reviewed periodically by a supervisory council with participation from the private sector.

“The legal framework grants couriers special treatment to perform deconsolidation operations within Customs facilities at the airport. However, airport infrastructure management is granted to one private firm, and couriers have little negotiating power over the costs and conditions for efficient operations.

-Juan Aguero, President of the Courier Association¹³³

LAND TRANSPORT

Most traded goods between Honduras and other countries in Central America are transported by land. The main border crossings are El Amatillo, part of the Mesoamerican Pacific Corridor; El Poy, on the southern border with El Salvador; and El Guasaule and El Espino on the border with Nicaragua. In the west, Honduras borders Guatemala, and cargo passes through Aguas Calientes and Corinto, where the trade facilitation integrated center under the Customs Union Deeper Integration procedures is operating.

Honduras has made significant investments in its road infrastructure in the last decade, under strategic projects that aim to connect the main trade corridors with ports, airports, free economic zones and markets. These include: Corredor Logistico, Corredor Pacifico, and Corredor Agricola. There are now high volumes of goods in transit along the Pacific corridor and the ports.¹³⁴

MARITIME TRANSPORT

Puerto Cortés on the Atlantic Coast is the main port in Honduras, and one of the most efficient and modern ports in Central America. It boasts the most modern container facility in Central America. Puerto Cortés implements paperless Customs and non-intrusive inspection systems. It serves as the main port for Honduran agriculture exports, including bananas, coffee, coconuts, and flour. Puerto Cortés is also the main departure point for exports from El Salvador to international markets. Port efficiency has improved significantly since 2013. Investments in infrastructure, technology, and equipment have resulted in improved cargo management efficiency, decreased unloading times, reduced waiting times for vessels, and improved warehousing capacities.¹³⁵ Puerto Cortés also features a Free Trade Zone where textiles, apparel, and other light manufacturing maquiladora operations are performed.

POSTAL SERVICES

Honducor is the national postal service in Honduras and provides package delivery services both domestically and internationally. The postal service has not been a reliable resource for households and businesses historically, however this is changing. Honducor recently created a unit of inspection and quality control that handles complaints. It has also improved controls in package warehousing facilities.

¹³³ Quote from participant in the Validation Session of Findings for E-Commerce, Trade Facilitation and Logistics Study for Honduras. January 24, 2022.

¹³⁴ Invest Honduras.

¹³⁵ [Revista Summa. Puerto Cortés: Un Engranaje Vital para la Logisitca de las Américas. Octubre 2021.](#)

Honducor offers the lowest rates in the market for domestic and international deliveries, which are published on its website.

In 2021, the Government of Honduras launched the Plan for Digitization of Honduran MSMEs. This initiative established an alliance between SENPRENDE, Honducor, and Kolau to support more than 15,000 firms to sell their products online. To implement this initiative, Honducor is establishing a specialized service with trained staff to work specifically with entrepreneurs, providing advice about e-commerce, packaging, and delivery.¹³⁶ In addition, Honducor offers lines of credit to entrepreneurs, through one-year service contracts.¹³⁷

CAPACITIES OF MSMEs TO MANAGE CROSS-BORDER TRADE LOGISTICS

MSMEs encounter challenges in using digital channels to access export markets. Through interviews and focus groups with MSMEs that export or have export potential, private and public enterprise development programs, and a limited firm-level sample survey,¹³⁸ the primary obstacles for Honduran MSMEs are related to product quality and standards, lack of formality and ability to comply with cross-border trade requirements, and lack of knowledge and experience with e-commerce channels. High-level insights from the survey are woven throughout this section; the full results are presented in Annex D.

PRODUCT QUALITY AND STANDARDS

Many MSMEs do not access foreign markets because they lack the necessary licenses and sanitary permits so that their products can be exported. Select MSMEs receive support from donor-funded programs (including USDA, SIECA, USAID, and others) so that they can manage the logistics of cross-border trade and comply with international requirements, however firms often lack the sustained investments and management capacities to attain the product standards and formal requirements to export. This problem is more evident for agricultural products, like coffee and processed foods, where Honduran MSMEs have the highest potential to compete in international markets.

ARSA maintains a program for entrepreneurs that supports registration and permits for processed foods and other low-risk products, like cosmetics. However, this program is mainly focused on firms that sell in the domestic market rather than exporters.

COMPLIANCE WITH CROSS-BORDER TRADE PROCEDURES

In Honduras, there is a lack of motivation for MSMEs to import/export due to higher prices, taxes, tariffs, freight, additional permits and registrations, lack of technical advice, training, and support from the Chambers of Commerce or other institutions and lack of access to technological platforms.

Even large firms encounter obstacles in export transactions. The main problems they face are delays in Customs clearance procedures, cumbersome processes, and time delays with a disproportionate impact

¹³⁶ SENPRENDE, HONDUCOR. September 2021.

¹³⁷ Interview with HONDUCOR. Maynor Ponce de Leon. October 2021.

¹³⁸ The online survey was circulated through CENPROMYPE databases, COHEP (the Honduran Council of Private Enterprise); and SENPRENDE over the period October-December 2021. 105 responses were obtained in Honduras. The survey is not a representative sample of Honduran exporters.

on perishable products. According to interviews conducted during the course of this study, Customs may take up to six months to return the relevant documentation to exporters.

Of the 105 Honduran firms who responded to the survey, only 27 (about one-quarter) reported export sales. For those firms with established customers abroad, sales went primarily to the United States (18 firms) and Central America (15 firms), with only one reaching markets in Europe and South America.

In terms of finding information about Customs procedures, this did not appear to be a binding constraint to cross-border trade in Honduras. More than half (54 percent) of survey respondents indicated that they knew where to go to access this information. Most firms responded that they do not receive assistance to comply with Customs and other export requirements (13 responses). The minority responded that they obtain guidance from the government (10 responses), logistics providers (9 responses), and other channels (3 responses).

Most firms who responded to the survey do not use postal services to export, because it does not fit their needs (15 responses), and it is considered too slow (14 responses). Only one firm indicated that the costs of postal services were too high. Most respondents prefer to use private logistics services, which are considered more reliable. Twenty-one firms reported using such services. Seven firms responded that the cost for such services was either too high or did not meet their needs.

CAPACITIES FOR E-COMMERCE AND ADOPTION OF DIGITAL TOOLS

Of the Honduran firms that responded to the survey, the majority are using e-commerce. Two-thirds of firms (70) reported using online channels to buy and sell products, including their own websites, social networks, and digital marketplaces. However, past studies, surveys, and anecdotal evidence¹³⁹ suggest that MSMEs use social media and electronic messaging applications to market their products for domestic sales. Fully electronic transactions that integrate delivery and payment are not common among MSME firms.

Interviews with large exporters confirmed that they do not use e-commerce to export. Exporters of tobacco, shrimp, and corrugated cardboard stated that their companies do not use e-commerce because they are not familiar with the business model. However, these companies indicated an interest in implementing digital tools to move from traditional cross-border trade to cross-border e-commerce.

BOX 5. CASE STUDY: GRUPO LA FUENTE – PROCESSED GOURMET FOOD PRODUCTS

¹³⁹ CENPROMYPE 2019, IFC 2021, Trade.gov, and focus groups.

Grupo La Fuente is made up of exporting companies and potential exporters that primarily use online sales channels. These companies sell packaged food products (including antipasto, salsa, and escabeche). In addition, Grupo La Fuente manufactures chocolates, with plans to begin exporting in 2022. Member companies of Grupo La Fuente wish to export to Central America in general, but mainly to Guatemala and El Salvador; they are also interested in exploring markets outside the region.

The marketing of packaged products is done locally in gourmet stores in Tegucigalpa and directly with customers. Member companies have participated in trade fairs with SIECA; there is a program to support linkages with distributors in other countries but the annual fee of \$400 does not guarantee results in terms of increased sales or international partnerships.

The biggest obstacle these companies have encountered is the lack of transparency from government authorities about the steps to follow to export a product, "the A, B, C, of the export process." In particular, companies expressed a desire for more clarity about sending samples to new markets, the type of permits or sanitary registrations needed, and the cost of international shipments. They are getting advice from contacts within the Secretariat of Economic Development to help them better understand these requirements.

The website is under construction and is expected to launch in early 2022. The site will be both informative and transactional as it will integrate a payment link for online purchases. Their challenge is to diversify and expand their market nationally and internationally through virtual stores. To achieve this, Grupo La Fuente must strengthen its digital inventory management and control capabilities and develop a promotional strategy for its processed food products.

Grupo La Fuente is working with an international shipping company because the process is more expeditious than if they were to use domestic mail. Using domestic mail would require them to travel to the post office to deliver packages, which is time-consuming and expensive. The national postal service does not allow for electronic tracking of packages.

INCORPORATION OF THE GENDER PERSPECTIVE AND THE ECONOMIC INTEGRATION OF WOMEN IN THE TRADE FACILITATION STRATEGY

In interviews with logistics and courier companies, most of them did not agree that there are barriers for women to access logistics services in Honduras. Anecdotally, many reported a large increase in the participation of women in MSMEs accessing cross-border services, however, no statistical data is kept substantiating this observation. Women are represented at high levels in the logistics industry. For example, the Honduran Association of Cargo Agencies and International Logistics Operators (AHACI), is made up of 37 active members (companies), with 30 companies within its directory, of which 17 are represented by women.

Many donors and non-governmental organizations in Honduras support women-led businesses, and many initiatives support digitization and sales of women-led businesses. For example, SENPRENDE supports women entrepreneurs through INNOVAMUJER, a program that provides assistance in finance, marketing, innovation, and logistics. Other donor-funded programs like Vital Voices Honduras, ONU Mujeres Honduras, Club Nacional de Mujeres Emprendedoras por Honduras, and SICA/CENPROMYPE also provide assistance for digitization, innovation and access to foreign markets.

HONDURAS: RECOMMENDATIONS

Honduras can take advantage of the acceleration of digital technology to harness the benefits of e-commerce for sustainable economic growth. However, the digital divide is still significant, and the government has yet to develop national policies to support the development of the digital economy. Such policies should prioritize increased collaboration among border control agencies to implement simplified and digitized procedures, pursuit of partnerships with private e-commerce platforms and logistics firms and building the capacities of all businesses – particularly MSMEs – to benefit from digital cross-border trade.

POLICIES TO INCREASE MARKET ACCESS IN THE CENTRAL AMERICAN REGION

- In collaboration with other Central American governments, work to modernize RECAUCA for expedited shipments and implement best practices for trade facilitation, including provisions for export procedures, land transport, digitization and transmission of electronic documents, AEOs, and other mechanisms to achieve logistics efficiency in the supply chain.
- Expand and scale the deeper integration schemes with Guatemala and El Salvador following the Customs Union model. Establish a simplified process for intra-regional trade of expedited shipments and for expedited imports and exports by air, land, and sea. This procedure can begin with goods most commonly traded through e-commerce channels, and with trusted operators, including logistics providers and couriers. Documentary requirements for exports should be reduced to a minimum to allow firms to reach new export markets at the lowest possible cost/shortest possible time, particularly benefitting MSMEs.

CUSTOMS PROCEDURES AND TRADE FACILITATION

- Develop and publish manuals for Customs procedures and make regular updates to provide more certainty and transparency and reduce discretionary intervention by Customs officials. Develop accessible information on procedures, requirements, forms, and applicable taxes, duties, and fees.
- Review the provisions of Regime 4200 (self-declarations) and Regime 4300 (for couriers) and adapt these to international best practices as provided for in the WTO Trade Facilitation Agreement for expedited shipments.
- Develop an electronic application to allow logistics service providers to determine in advance the value of duties, taxes, and fees to be paid for imported goods.
- Increase the threshold for a simplified Customs clearance procedure from \$1,000 to \$2,500 (consistent with the United States-Mexico-Canada Agreement (USMCA)), under which no certified or licensed Customs Agent would be required, to reduce the cost of Customs clearance for small shipments. The simplified procedure should be based on the risk of the goods and the nature of the transaction, rather than the value.
- Analyze the potential impact of a *de minimis* threshold for intra-regional shipments of expedited goods, through the Customs Union-Deeper Integration process between Guatemala, Honduras, and El Salvador.
- Examine the impact of a *de minimis* value for low value imports of consumer goods to facilitate imports of low value packages.
- Promote Authorized Economic Operator/trusted trader programs among expedited logistics services firms and export aggregators, including the mutual recognition of AEOs with other Central America countries and with major trading partners.
- Strengthen and refine integrated risk management systems to manage simplified expedited transactions, including collaboration agreements between Customs and other border control

agencies. Customs will benefit from capacity building through inter-agency exchanges on approaches to risk management practices for trade involving e-commerce.

- Strengthen collaboration between Customs and other border control agencies. This involves coordination of hours of operation, joint inspections, interoperability of IT systems at borders, and provision of unified forms, advanced declarations, and other mechanisms to reduce border crossing times.

OTHER DIGITAL ECONOMY REGULATIONS

- Develop and implement the electronic invoice for all taxpayers. Amend the Customs Law and other provisions that mandate hard copies of commercial invoices. Develop capacity building programs for the Ministry of Finance and business associations, modeled after the experience of Guatemala, Costa Rica, and other Latin American countries.
- Modernize the legal framework to foster an inclusive digital marketplace that spurs growth, investment, and employment. To achieve this, Honduras needs to review its legal framework for digital trade, including provisions on competition, data transfer, protection of personal data, financial innovation, and taxation of foreign platforms to promote digitization and growth while protecting consumers and balancing market incentives.

SECRETARIAT OF ECONOMIC DEVELOPMENT

- Continue the process of digitization of procedures and acceptance of digital documents.
- Strengthen the implementation of anti-red tape laws (*Leyes de Simplificación de Procedimientos Administrativos*) that reduce unnecessary requirements and promote the use of digital tools and electronic documents for cross-border trade, mainly for health, food safety, the environment, and other non-Customs procedures. Mechanisms to accelerate implementation may include mapping of procedures and streamlining plans and schedules; mandatory use of electronic signatures for administrative approvals; mandatory acceptance for digital payments of duties and fees; intergovernmental coordination to ensure progress; and common standards for Good Regulatory Practices and digitization.
- Establish simplified procedures through which small exporters can obtain value-added tax credits and returns, also adopting e-invoices.
- Develop, test, and scale digital tools that enable integration between Customs and logistics services providers, where firms can anticipate documentary requirements for export and import, submit digital documents, and pay duties and taxes electronically.

SENPRENDE/MSME CAPACITIES

- Strengthen export capacities of MSMEs, especially in the agriculture and food sector, to comply with international product and quality requirements. Expand and scale up initiatives supporting entrepreneurs, such as ARSA programs.
- Strengthen the capacities of logistics and transport service providers and international trade entrepreneurs to become export aggregators, through grants, e-commerce business model competitions, and commercial linkages with international logistics service providers and 3PLs in leading export markets.
- Continue strengthening capacities of enterprise development programs, including export promotion agencies, to deliver knowledge and resources that will assist MSMEs in their digital transformation, including market intelligence, digital export markets, cross-border trade, and logistics business models.

POSTAL SERVICES/HONDUCOR

- Strengthen the operational and services capacities of Honducor to handle incoming and outgoing parcels. This represents an opportunity for increased revenues as e-commerce becomes another type of service offering.
- Building on Honducor's alliance with SENPRENDE and Kolau to support entrepreneurs under the Plan for Digitization of Honduran MSMEs, promote greater collaboration between Customs and Honducor to implement simplified export procedures.

CONCLUSION

Central America as a region and the three countries featured in this report have clearly made progress towards enabling cross-border e-commerce, from advancements in the legal and regulatory framework to improved coordination of government institutions, to increased digitization of processes and payments. But there is still much work to be done to ensure that businesses and MSMEs in particular are able to reap the benefits of digital trade. Moving forward, it will be critically important to align strategies, political will, and resources (both human and financial) to continue to take advantage of opportunities in a rapidly evolving world.

This exercise highlights the importance of raising the awareness of a broad set of stakeholders of the need for further action on e-commerce-related issues. TFB will capitalize on the momentum generated through our extensive field work to continue to engage with key public and private sector figures in the next phases of this technical assistance activity. In Phase 2, TFB will work alongside CENPROMYPE and the national institutions and organizations driving progress toward international best practices. We look forward to the opportunity to contribute to the development of national action plans for trade logistics and e-commerce through the insights gained during the course of preparing this report.

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