

RECONSTRUCTION CREATES OPPORTUNITIES IN EL SALVADOR

By Rachel Hodgetts, Agricultural Economist

El Salvador, located between Honduras and Guatemala, is a market that U.S. wood exporters should be keeping their eyes on. The country is very pro-American, has a dollar-based economy, very low tariffs with continuing reductions, streamlined customs procedures, and has one of the most transparent business climates in Latin America. Furthermore, after being hit by two earthquakes earlier this year, construction is booming.

A recent report published by the U.S. Embassy in El Salvador specifically points to the housing market as an area for increased U.S. exports (see report at www.usinfo.org.sv/econcomm.htm). The report notes that in 1999, El Salvador had a housing deficit of 551,000 homes and, at the current rate, the government would need 56 years to rebuild. This averages out to an annual increase in housing demand of 38,000 homes, of which 5.2 percent can be considered high-income housing (costing \$17,000 or more), 16.7 percent middle-income housing (between \$7,429 and \$14,258), and 78 percent low-income housing. Although Salvadorians traditionally prefer concrete and adobe homes, the reconstruction efforts going on in El Salvador at this time have the potential to open the market for alternative materials.

The key factors that reconstruction organizations use in evaluating housing models are local supply, costs, resistance to earthquakes and hurricanes, and local labor familiarity. Since concrete is the most expensive material, other materials would have an advantage in the area of costs. Construction Industry Association (CASALO) officials believe the earthquakes have improved the likely acceptance of prefabricated houses since many of these homes were able to withstand the disaster. To overcome the lack of labor familiarity with wood, U.S. companies would most likely need to develop training programs directed at homebuilders and construction labor in order to penetrate the market. Besides reconstruction, there may also be opportunities in the hotel construction industry, which has recently been growing.

El Salvador has an excellent relationship with the United States. About 1.3 million Salvadorians live in the United States and they send almost \$1.5 billion in remittances back to their families each year. The privatization of the banking sector has provided importers with numerous financing options and the political environment is stable and expected to remain so. The new administration, elected in June 1999, has continued to shift government spending away from military spending towards mostly social spending, often working with local construction companies and banks. Social programs account for 48 percent of the Central Government budget, and construction has made up an increasing portion of this.

In the period immediately before the earthquakes, the government focused its housing policy on providing housing for the poor through the National Fund for Popular Housing (FONAVIPO) and the Social Fund For Housing (FSV). The former provides a direct subsidy of \$2,000 for the construction of new homes valued at less than \$7,428 and the latter provides loans for housing valued between \$9,700 and \$14,285. More recently, the Government has said it will provide financing to rebuild 170,000 destroyed or badly damaged homes and repair an additional 100,000 homes out of the 334,866 homes that were either damaged or destroyed. The government has also gotten international financing to fund a housing plan which is meant to meet the flood of migration to urban areas. In addition to domestic aid, the U.S. Government ,

principally through USAID, had earmarked \$54 million to El Salvador's housing reconstruction effort.

Unfortunately, several difficulties remain in the market that will not be overcome without effort. For example, due to preferential trade agreements and lower costs, Honduras and other Latin American countries can send lower quality, lower priced wood to the market. Also, the general lack of wood on the local market may deter some builders from using wood unless they can be assured that stocks will be available for their projects. In addition, the Salvadorian housing market suffers from an unsold housing inventory, despite its housing shortage. Some explain this by saying that builders are out of sync with consumer preferences and purchasing power, or that potential customers for these houses do not have access to credit. To alleviate this problem, the Government developed the Social Fund For Housing, which is a credit plan between the construction sector and private banks that helps find purchasers for unsold houses. The introduction of U.S. dollars as legal tender in January of 2001 has also helped the construction sector by reducing the cost of importing construction materials and decreasing local interest rates, from 14.55 to 11.5 percent, encouraging investment in real estate for higher-valued homes.

Entering a new market is always difficult but the current housing deficit in El Salvador seems to be a good opportunity for the wood products industry. A good place to start would be seeking a contract with one of the various aid agencies that are rebuilding the destroyed homes. For example, the U.S. Agency for International Development (www.info.usaid.gov) will be sending out a request for proposals some time between now and the end of the year to build 15,000 houses in El Salvador for \$3,500 per unit. For more information on reconstruction projects contact Rachel Hodgetts at (202) 720-1001 or Patrick Smeller at (202) 482-0133.