El Salvador Fiscal Policy and Expenditure Management Program (FPEMP)

First Year Evaluation Report

June 2011 – June 2012

December 2012

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FISCAL POLICY AND EXPENDITURE MANAGEMENT PROGRAM (FPEMP)

FIRST YEAR EVALUATION REPORT
June 2011 - June 2012

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ACRONYMS

AECID	Spanish International Cooperation
AMT	Alternative Minimum Tax
CAPTAC-DR	Regional Center of Technical Assistance for Central America, Panama and Dominican Republic
CRN	National Persons Registry
CSMS	Case Selection Management System
DAI	Development Alternatives Incorporated
DCGC	General Directorate for Government Accounting
DECAMH	MOF Training Department
DFD-MH	MOF Training and Human Talent Development Department
DGEA	MOF General Administration Directorate
DGICP	General Directorate for Public Investment and Credit
DGII	General Directorate for Internal Revenue
DGP	Budget General Directorate
DGT	Treasury General Directorate
DINAFI	National Directorate for Financial Administration
EU	European Union International Cooperation
FPEMP	Fiscal Policy & Expenditure Management Program
GDP	Gross Domestic Product
GIZ	German International Cooperation
GOES	Government of El Salvador
GRP	Government Resource Planning
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
IVP	International Visitor Program
MOF	Ministry of Finance
NIT	Tax Identification Number
OTA	Office of Technical Assistance of the United States Treasury
PEFA	Public Expenditure and Financial Accountability

PFG	Partnership for Growth
PFM	Public Financial Management
ROB	Result-Oriented Budget
SAFI	National Financial Management System
TCA	Taxpayer Current Account
TPAR	Tax Policy & Administration Reform
TRS	Taxpayer Registration System
TSA	Treasury Single Account
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

This First Year Evaluation Report reviews the achievements of Fiscal Policy & Expenditure Management Program (FPEMP) counterparts in terms of human and institutional capacity development, changed processes and procedures, and its results. These achievements can be either classified as FPEMP's outputs and outcomes deriving from various factors that either facilitate or hinder attaining them, including political will, leadership and determination, response to pressure for reform, both internally to the specific government agencies involved as well as external.

The achievements reviewed in this report have benefitted from FPEMP assistance, recognizing when applicable the joint work with other donor assistance programs. As expected, program outcomes cannot be easily measurable in the first year of implementation, but we make an effort to show through this report the link between outputs leading to outcomes in a measurable way by providing important baseline data that will facilitate its quantification in future years.

This report clearly shows that there have been significant achievements in the first year of implementation despite all challenges associated with the first year. FPEMP successfully achieved its milestones for the first year providing the assessments, technical advice and options and recommendations that form the foundation for building a new and strong public financial management system in El Salvador. Many of the program outputs achieved in the first year are expected to result in important measurable outcomes in the coming years.

This First Year Evaluation Report points out the many achievements in three areas of work—public expenditure management, tax revenue mobilization and private sector outreach. Highlights of these include:

- The Ministry of Finance (MOF) has a conceptual model proposal for a new National Financial Management System (SAFI) that integrates all aspects of a modern public finance system, which serves as the basis for the development of a new SAFI II conceptual model.
- The design of the Treasury Single Account (TSA) conceptual model has been developed and the elimination/consolidation of the more than 1,600 account is underway.
- The implementation plan for adopting the International Public Sector Accounting Standards (IPSAS)—the core integrator of Public Expenditure and Financial Accountability (PEFA)—has been developed and will be rolled out throughout the Government, including subnational governments.
- A new Large Taxpayers Office launched redefining its scope from 2,500 to 600 large taxpayers, thus serving taxpayers that contribute to 65 percent of total tax collections.
- The General Directorate for Internal Revenue (DGII) now provides online, real time information for medium and small taxpayers through a self-service kiosk system providing instant services for different key processes.
- The Treasury now has a fully functional Collections Call Center established to collect the US$22 million currently outstanding in tax arrears.
- 1,197 persons—93 percent of which were taxpayers—were trained on the new fiscal reforms facilitating greater understanding and compliance thereof.
- Fifteen (15) Fiscal Transparency Strategic Lines were presented and agreed upon between the private sector and civil society to be implemented in three key areas: public financial management, citizen audit and fiscal transparency portal.

- The new EXPRESATE project—an educational program for high school students and public outreach facility on fiscal matters—has been endorsed by both the government and civil society and will be implemented as a key strategy for strengthening fiscal education public outreach to citizens.
- The new Ministry of Finance Training and Human Talent Development Department (DFD-MH), formerly DECAMH, is on its way to becoming a center of excellence attaining more comprehensive and modern functions that better fit the MOF's needs within the new modernized public financial management structure being implemented.

This First Year Evaluation Report is supplemented with an annex presenting a result's matrix that is meant to document the delivery of project outputs including technical reports, trainings, study tours, and outreach events. While this matrix might not be complete since it does not include specific information about installation of Information Technology (IT) systems or purchases of equipment, for instance, it should provide the reader with much information of what has been done linking these to FPEMP's expected results/outcomes.

The overall conclusion to this First Year Evaluation Report is that much has been achieved in the first year in terms of assessments, conceptual models and development of action plans, most of these constituting program outputs. The main recommendation is that in the following year, FPEMP assistance focuses on capitalizing on the technical work already achieved which is the backbone of the work to come. FPEMP should continue collaborating closely with government counterparts as well as other donor assistance programs to continue impetus for reform, ensuring that what was already delivered is properly implemented and set to deliver the expected outcomes.

Additionally, there should be greater attention to complement the modernization of management processes with policy advice though budget policy analysis, not just as a vehicle for improving policy discussion but also as an outreach mechanism involving civil society and academics. This would involve outreach events that not only improve communication between the government and the private sector, but also promotes informed and rational fiscal policy debate, discussion and eventually reform.

INTRODUCTION

Background and Purpose

This report reviews the first year of the United States Agency for International Development (USAID)-funded FPEMP, reviewing activities and key program results, identifying factors that facilitated or impeded achievement of results, and recommending options for accelerating or enhancing program results and impact in the current and future years. The report also serves as reference point for most of the various forms of assistance the FPEMP has rendered over the first year of operations.

FPEMP formally began on June 10, 2011, when USAID and Development Alternatives Incorporated (DAI) signed the contract. The program is for four years with an optional fifth year. FPEMP's four-year period concludes on June 9, 2015.

Implemented by DAI, FPEMP contributes to achieving the objectives of El Salvador's Five Year and Anti-Crisis Plan and those of the MOF: namely, to improve the efficiency of public expenditure management, improve voluntary fiscal compliance, and improve taxpayer/client services to accelerate economic growth while preserving stability. In this context, FPEMP supports the MOF to transform the Government of El Salvador (GOES) into a high-performing, result-driven administration that taxes citizens fairly, spends money wisely, and promotes greater social inclusion, thus improving the lives of all Salvadorans.

Structure of the report

This introductory chapter includes a discussion on the background, purpose and methodology used to prepare and review the report. The next chapter provides an overview on the program's goal and recent economic and fiscal developments in El Salvador. Next are three separate chapters, one for each program objective. The final chapter provides findings and recommendations for next steps.

Methodology

This evaluation report is the outcome of detailed review of documents, technical studies, data and program progress reports as well as consultation and interviews with many persons engaged with the FPEMP, including USAID El Salvador, program team members, and Salvadoran counterparts from the MOF. There was an effort to interview major counterparts who have collaborated with and benefited from FPEMP assistance in the first year, including several individuals and units of the MOF. From the DGII: the Director General, Large Taxpayers Office, Strategic Planning Unit, Tax Analysis Unit, Case Selection Unit, and IT Unit. From other Directorates of the MOF: Treasury General Directorate (DGT), General Directorate for Government Accounting (DGCG), Budget General Directorate (DGP), MOF General Administration Directorate (DGEA), General Directorate for Public Investment and Credit (DGICP), and National Directorate for Financial Administration (DINAFI).[1]

[1] For a complete list of persons interviewed and consulted, please see Annex 2.

This report is based explicitly on the Annex Results Matrix at the end of the report. This annex was developed to reflect the program's work plan, quarterly FPEMP Progress Reports, the Performance Monitoring Plan (PMP), and other program generated information. This report is based on the program's objectives, expected results, achievements, and work product or deliverables. The program outputs reported in Annex 1 are limited only to those that have had immediate impact on helping counterparts to achieve the improvements included here.

Throughout this report, accomplishments are supported with quantitative indicators wherever possible, but to ensure broad capturing of achievements, we also include qualitative information. This includes quotes from counterparts, reports in newspapers, or policy statements from the government.

USAID Strategic Objective and FPEMP Goal

El Salvador and the United States have embarked on a new Partnership for Growth (PFG) to mobilize the traditional and non-traditional resources of both governments to remove obstacles and identify opportunities for broad-based economic growth in El Salvador. The PFG is a bilateral collaboration based on a focused and deliberate strategy to generate the greatest possible impact of joint development efforts, as detailed in its Joint Country Action Plan 2011-2015. El Salvador is one of only four countries worldwide with which the United States is developing this partnership.

The PFG countries are selected based on a track record of partnering with the United States, policy performance, and potential for continued economic growth, among other criteria. One of PFG's main objectives is to engage governments, the private sector and civil society with a broad range of tools to unlock new sources of investment, including domestic resources and foreign direct investment.[2]

FPEMP has been designed to support the achievement of USAID's objectives through the PFG initiative, following Goal 4 (from constraint 2): Raise (net) tax revenues to 16 percent of Gross Domestic Product (GDP) by 2015 and use public resources efficiently and transparently. Likewise, FPEMP's goal is to "create a stable macroeconomic environment that fosters inclusive, broad-based economic growth through enhanced transparency, accountability and more efficient use of public resources." The program goal is expected to be achieved, in part, by reaching the three program objectives discussed next. To simplify this goal, the next chapter is devoted to analyzing the goal of achieving a "Stable Macroeconomic Environment."

FPEMP has three explicit objectives comprised in three project components. These objectives are as follows:

Objective 1: Enhanced public expenditure management (through improved efficiency in the use of resources and stronger public financial management)

Objective 2: Improved revenue mobilization (through sound tax policy and better revenue administration)

[2] Information available from the U.S. Department of State website, Partnership for Growth Factsheet available online at http://www.state.gov/r/pa/prs/ps/2011/11/177887.htm

Objective 3: Strengthened private sector engagement (through greater outreach and enriched communication mechanisms)

The three components work areas are:

Component 1: Public expenditure management

Component 2: Tax revenue mobilization

Component 3: Private sector outreach

Each of the components has a team that works with a defined annual work plan, with dedicated staff embedded within counterparts' facilities. The program's cross-cutting team, including program management and administration, outreach, IT, capacity building support through Georgia State University partners, helps ensure that FPEMP's component teams have the tools and support necessary to meet the program's objectives and expected results.

Expected Results, Achievements and Delivered Outputs

The expected results presented in this report follow the expected results from FPEMP's work plan. These are results anticipated to arise from counterpart's achievements which directly support—or indicate at least partial accomplishments of—program objectives. It is obviously not expected that the program achieves complete fulfillment of its objectives and results, however, by evaluating achievements and delivered outputs, it is possible to ensure that FPEMP is on track in progressing towards achieving its objectives and expected results.

All achievements mentioned in this report are attributed to the counterpart agencies in the MOF and the GOES. Achievements are changes in behavior or capacity of counterparts, improvements to laws or regulations or processes that have a direct impact on results. These achievements are not claimed as FPEMP's output, but they support program objectives and results, and are promoted by FPEMP's support and resources. Additionally, not all of FPEMP's counterparts' achievements might be documented in this report. Instead, the report focuses on achievements that have a direct relationship to both the program's objectives and results.

USAID-funded FPEMP provides a variety of outputs including: technical assistance, human and institutional capacity building, IT and other equipment, systems, advisory assistance, outreach mechanisms, technical reports, and advocacy that altogether help support counterparts' achievements and improvements that lead to expected results.

International Donor Assistance and Coordination

The GOES is advancing its fiscal reform agenda with support from multiple international agencies. The DINAFI, in coordination with other units of the MOF, leads the efforts of international assistance coordination from:

- USAID
- German Agency for International Cooperation (GIZ)
- European Union International Cooperation (EU)
- International Monetary Fund (IMF)
- Inter-American Development Bank (IDB)

- World Bank (WB)
- Spanish Agency for International Cooperation (AECID)
- Office of Technical Assistance of the United States Treasury (OTA)

The first six months of the FPEMP were hindered by the lack of a specific modernization plan for donor coordination. Finally, in January 2012, the DINAFI issued the MOF's modernization plan 2012 – 2014 providing a roadmap for international technical assistance and coordination. This plan presents a detailed list of objectives and activities linked to a specific set of international donors who will contribute to attaining the MOF's objectives and results. As such, FPEMP supports certain activities exclusively and other activities in conjunction with other international technical assistance.

In an attempt to not claim sole credit for assistance provided to the MOF, we will specify—when applicable—whether other donors were also involved in delivering an output or attaining achievements toward the objectives. A more detailed list of the Modernization Plan components is available in the MOF's Accountability Report (June 2011 – May 2012).

GOAL: A STABLE MACROECONOMIC ENVIRONMENT

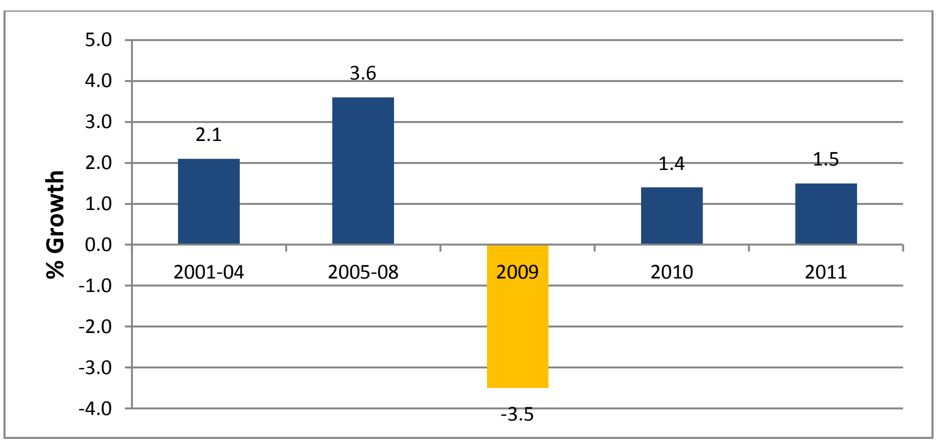
This chapter reviews recent economic and macro-fiscal trends in El Salvador over the past few years. This section reviews recent developments and the economic outlook, presenting selected economic and fiscal indicators providing additional context for this report.

FPEMP's goal is to "create a stable macroeconomic environment that fosters inclusive, broad-based economic growth through enhanced transparency, accountability and more efficient use of public resources." The government authorities have been committed to prudent policies that promote a stable macroeconomic environment, particularly striving to place the public debt-to-GDP ratio on a downward path and protecting social spending. FPEMP's objectives of further strengthening El Salvador's fiscal position through higher fiscal revenues, expenditure efficiency and improved financial management can contribute to achieving El Salvador's fiscal consolidation objectives.

Recent Economic Trends

Despite flourishing economic growth experienced during the early 2000s, the world financial crisis took a heavy toll on economic activity in El Salvador, as overall GDP contracted by 3.5 percent in 2009 and per capita GDP by 4%. In the last two most recent years, the Salvadoran economy has slowly regained the pace it had experienced in earlier years. While the 1.5 percent growth achieved in 2011 was lower than expected, growth is anticipated to reach 2 to 2.5 by the end of 2012.

Figure 1. Real GDP Growth in El Salvador, 2001-2011



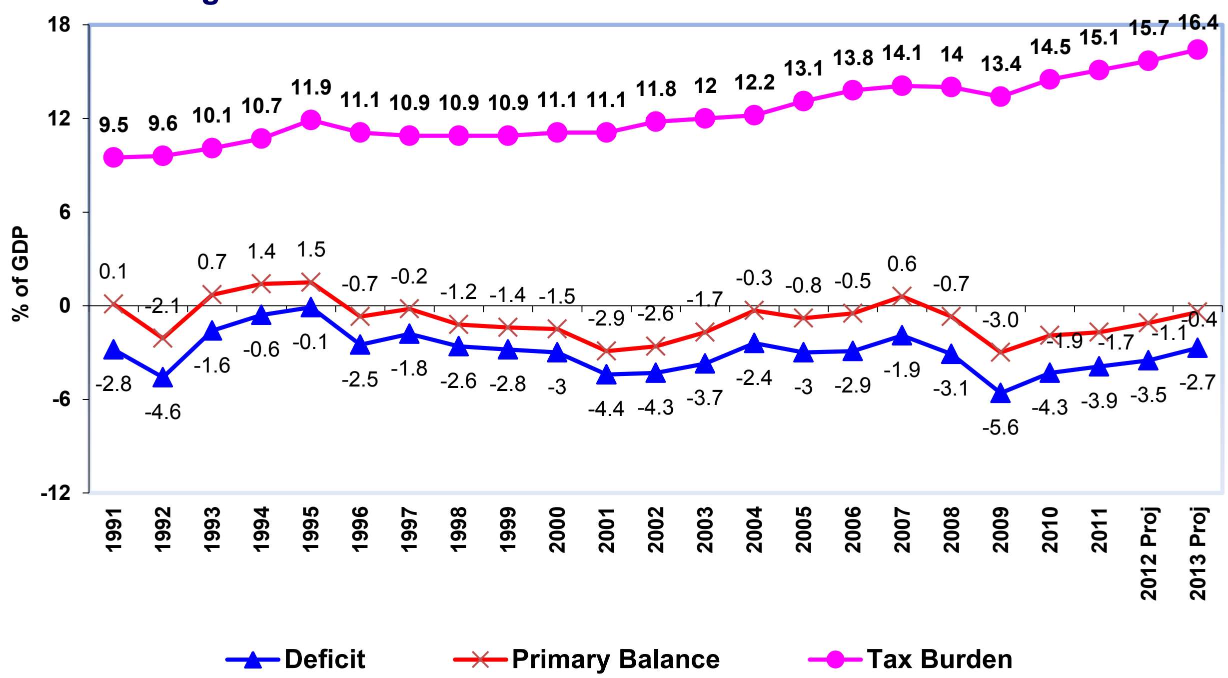
Source: Central Bank and Ministry of Finance, El Salvador.

The negative real economic growth rate in 2009 (-3.5%) was mainly due to a sharp contraction in domestic and external demand—as evidenced in the drop of remittances, decrease of exports, restrictions to bank credit and contraction in major productive sectors of the country. The economy grew in 2010 and 2011 as a result of a slight upswing in domestic demand resulting from a moderate increase in remittances and increased credit access. This upturn is expected to provide a boost to the services sector. In addition, the manufacturing sector has benefited from the recovery of the country's leading trading partners.

Fiscal Trends

Fiscal indicators in 2011 show that despite the greater revenue mobilization achieved in recent years, this has not been enough to finance the increase in public spending. As such, the fiscal deficit has remained high—4.3 percent of GDP in 2010 and nearly 4 percent of GDP at the end of 2011—not reaching the target established in the *Stand by* agreement with the IMF of US$817 or 3.6 percent of GDP.[3] The primary balance (deficit derived after deducting interest payments) also reached its peak in 2009 at 3 percent of GDP and has been improving slightly overtime and projected to become positive in 2014.

Figure 2. Current Status of the Salvadoran Public Finances

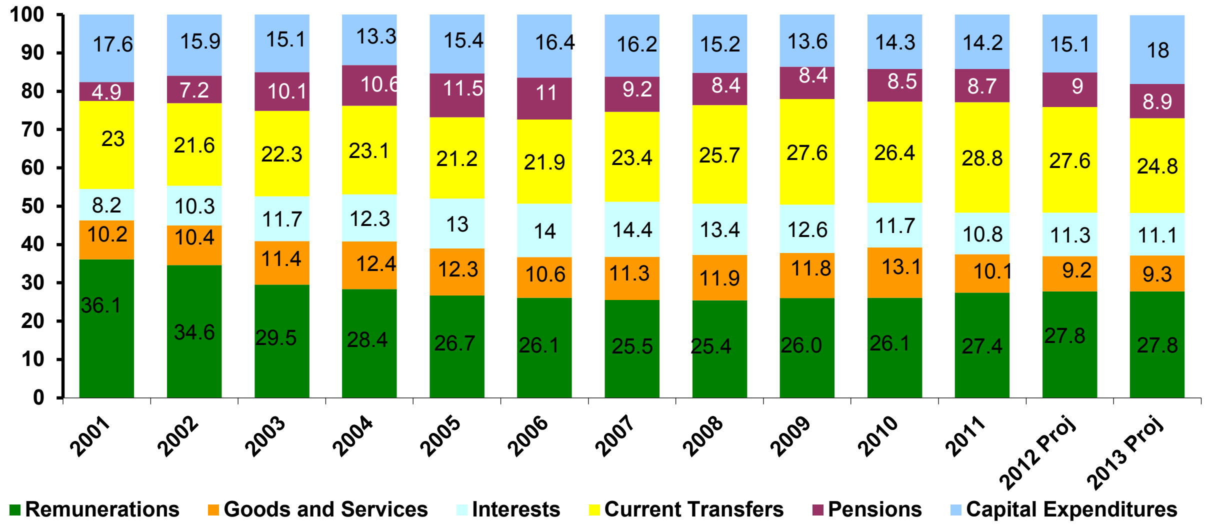


Source: Ministry of Finance, El Salvador.

While tax burden has gained a consistent upward trend as result of recent tax reforms and modernization of the tax administration, there is greater need to create fiscal space in order to improve capital spending while also striving to reverse the increasing (non-financial) public debt level which reached 52.3 percent of GDP in 2012.

[3] Third review under the Stand-by Arrangement Staff Report, IMF Country Report No. 11/306, IMF October 2011.

Figure 3. Composition of Central Government Spending (as % of total)



Source: Ministry of Finance, El Salvador.

Increases in public spending in recent years are the result of discretionary measures, such as increases in wages and salaries, pensions and subsidies. An analysis of the composition of central government spending (figure 3) shows that remunerations and current transfers (including transfers to subnational governments but mostly subsidies) are crowding out capital expenditures. As such, the 14 percent of the budget that had been allocated to capital expenditures in 2006 has been decreasing annually until reaching a low 10.8 percent in 2011. There is an urgent need to improve to not only improve revenue generations but to improve efficiency in the allocation of public resources, focusing on enhanced social spending and capital investments.

Prospects

Economic and fiscal prospects for El Salvador in the medium term are positive. It is expected that the GOES will continue to be committed to achieving the goals and objectives laid out in the Five-Year Plan and the ongoing commitments with the PFG initiative as well as the Reform Agenda supported by the various donors currently assisting in different areas of fiscal policy and public financial management.

The FPEMP are strongly committed to assisting the GOES achieve its goals and objectives through provision of technical assistance in the three main areas as presented in the current report—enhanced public expenditure management, improved revenue mobilization, and strengthened private sector outreach.

OBJECTIVE 1: ENHANCED PUBLIC EXPENDITURE MANAGEMENT

Although the GOES over time has established and consolidated a robust system to support its core public financial and expenditure management functions—including a normative framework, procedures, and information tools—improvements are needed in key areas in order to improve efficiency in the use of resources, obtain greater investment levels and achieve stronger public financial management. The weaknesses and needs for improvement are also evident in the latest detailed PEFA evaluation for El Salvador[4], concluding that despite the high level of performance identified in the most fundamental dimensions of public financial management, there are major weaknesses detected in key areas that affect the overall quality of the system.

Technical assistance to the GOES has particularly concentrated on improving budget planning, such as adopting a multi-annual and Result-oriented Budget (ROB); treasury management, including instituting a TSA; accounting, particularly to ensure that it complies with IPSAS; improving fiscal transparency, publicly providing budget information that citizens need and want; and strengthening and upgrading the new SAFI to conform to the new procedures and modules in the new budget system. Assistance in all of these areas in the next few years will result from coordinated efforts among 8 different donors, including USAID, GIZ, EU, IDB, OTA, World Bank, IMF, AECID, and 8 different departments at the MOF, led by the counterparts at DINAFI.

FPEMP work in the area of Public Expenditure Management focused on setting a strong basis for a new budgeting and public financial management model for El Salvador—this is, undertaking a detailed assessment of the current system and designing a conceptual model proposal for the new budget system, which contains the complete strategic vision, methodology and detailed elements of the reform. This conceptual model proposal document now serves as the foundation for remaining activities in reforming the budget and financial management system in El Salvador. Other achievements in this area in the first year include contributing to the conceptual model for the new TSA, setting up a collections call center at the DGT, assessment of the public investment and public debt system, assessment of the public assets system, assessing the government accounting system, and building a stronger administration through improving human resource utilization at the MOF.

The Conceptual Model Proposal of the new Budget and Financial Management System

"The development of the conceptual model proposal of the new budget system by FPEMP experts set a great start to the reform. It summarizes the conceptual integral vision of the system setting the foundations for sustainable change, also allowing derivation of an action plan for improving spending, revenue, transparency and capacity building."

- Dinora Cubias
Directress, DINAFI El Salvador
July 2012

[4] *El Salvador: Informe del Desempeño de la Gestión de las Finanzas* (PEFA), Informe final versión 10 de mayo de 2009, Oficina Europea de Cooperación EuropeAid (AidCo). Rotterdam, 25 August 2009.

Modernizing Public Expenditure and Financial Management in El Salvador

In the first year, the FPEMP undertook the grand task of producing a comprehensive report that reviews and evaluates the current status of the entire budget and public financial management system of El Salvador, and proposes specific changes and improvements to the system, including an integral vision for the modernization of SAFI, strengthening the institutional capacity of the agencies involved in the public financial management system, and implementation of ROB system.

The document evaluates in detail de current instruments for medium term budgeting, public expenditure management, the public investment system, the treasury system, government accounting, administrative management, and the organizational structure of the ministry of finance.

Diagnoses of the current system warn about the following major weaknesses[5]:

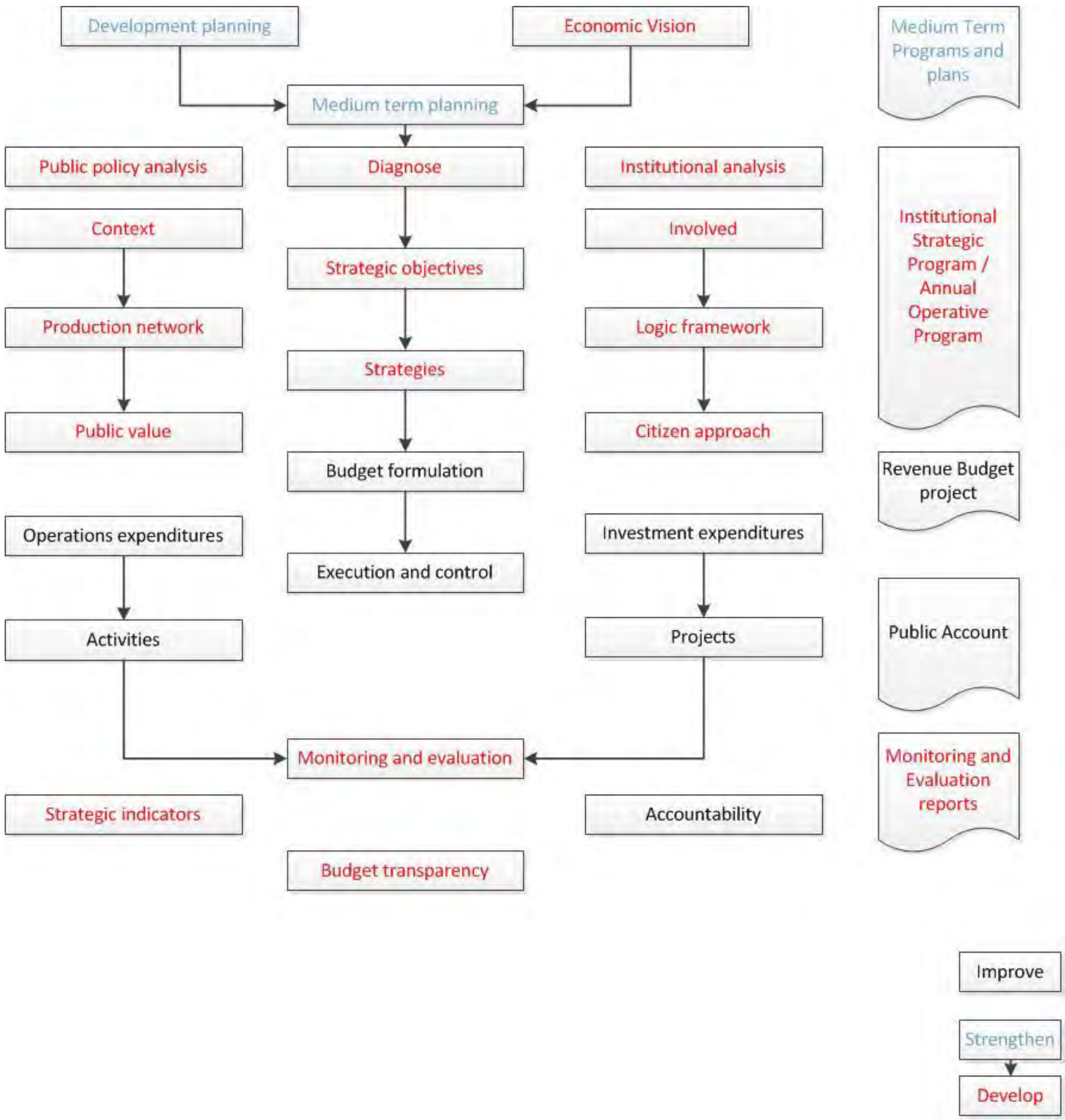
- The authorities and institutions do not have accurate, timely and relevant financial information to support management decision making;
- Line ministries have no control over and responsibility for their financial transactions;
- There remains a disconnect between strategic planning, financial management and administrative-institutional level programming;
- Administrative deficiencies persist regarding the formulation and implementation of the budget that generate high costs in terms of efficiency and transparency;
- The absence of a TSA and the proper utilization of the banking network causes major inefficiencies;
- Serious deficiencies in program structures and outcomes and gaps in national accounting standards affecting the quality of information and accountability;
- Deficiencies in the legal / regulatory and management of tasks and responsibilities.

The proposal to develop a new budget and financial management system is based on the evaluation of the weaknesses and challenges of the current system, and proposes a conceptual model for the comprehensive reform of the public financial management system in El Salvador. This conceptual model proposal also serves as the basis for modernizing the SAFI for the entire public sector. The approach developed in the conceptual model proposal presents a holistic view of the problems and their solutions, concluding with the development of orderly and organized functions and processes that serve as the foundation to achieve maximum results for greater effectiveness, efficiency, economy and transparency.

The overall functional model for the reform process towards a medium term, results-based system is presented in the graph below:

[5] *Propuesta de Modelo Conceptual para la Reforma Integral del Sistema de Administración Financiera en El Salvador* (Enero 2012), proyecto FPEMP, USAID.

Figure 4. Components of the new model for budget management and control



Source: Conceptual Model proposal, FPEMP (January 2012).

Given the comprehensiveness of the conceptual model proposal document, its development took several months of the program's first year. This concept paper was prepared by an entire team of budget and public financial management experts who took the time to develop an integral institutional assessment and evaluation, and designing the new model of the various functions of the administrative budget process, working alongside with the MOF leadership.

The report identifies that the current financial management system requires the introduction of a series of solutions and modern management methods in order to obtain optimal results from the reform, among which are the following:

- Developing and implementing medium term fiscal planning;
- Developing and implementing performance based budgeting;
- Strengthening public investment towards productive and social spending;
- Introducing monitoring and evaluation in the public budget system;
- Implementing a modern TSA, based on a scheme of decentralized management throughout the national banking network;
- Transforming governmental accounting into an effective and efficient decision making tool for public financial management;
- Developing of a consistent legal and regulatory framework that supports the public budget and financial management reform;
- Developing a comprehensive system for processing budget and accounting information that meets the functional needs of the Salvadoran PEFA system.
- Improving functional organizational structures that solidify processes, management models, human and institutional capacity building of public servants who work in the financial management and administrative system.

The proposal for reform consists on building an integrated financial management and administration that serves to strengthen decision-making and institutional capacity of the public financial sector. This involves the development and implementation of tools and systems for planning, budgeting, scheduling and execution and accountability of revenue, expenditure and public funding; integrated and aligned to a measurement of outputs and outcomes. All of these functions would then be supported by the new SAFI II.

The conceptual model proposal has served as fundamental input for the development of the donor coordination matrix and action plan for moving the reform forward. As a result, since January 2012, all donors have been assigned specific tasks in the reform process, which in coordination with tasks performed by other donors should bring about the desired outputs and outcomes of the reform. As such, the remaining of the first year, FPEMP concentrated its efforts in completing the tasks it has assigned for contributing towards the implementation of a TSA, improving the government accounting system, supporting the public investment strengthening, and improving human resource utilization.

Complementing efforts in this area, FPEMP supported an International Visitors Program (IVP) to the Colombian MOF to learn about their experience in the development and implementation of a Government Resource Planning (GRP) system. This activity supports the development and implementation of the new SAFI II. The attending group included officers from the DGP, DGT, DINAFI, and the MOF's IT unit.

IVP to the Colombian MOF was an eye opener

"The study tour to the Colombian Ministry of Finance helped me understand how the GRP system works—its business processes and how it integrates treasury operations—allowing me to take a more proactive approach in the development of the new SAFI for El Salvador."

- Jose Lino Trujillo
Deputy Director, DGT El Salvador
July 2012

Moving towards a Treasury Single Account (TSA)

The complete implementation of a TSA is an essential tool for the Government's cash management. It is critical for ensuring that (i) all tax and non-tax revenues are collected and payments are made correctly in a timely manner; and (ii) government cash balances are optimally managed to reduce borrowing costs (or to maximize returns on surplus cash). This is achieved by establishing a unified structure of government bank accounts via a TSA system.

Nevertheless, the incomplete implementation of a TSA in El Salvador, as well as the lack of an electronic payments system has led to inefficient management of tight cash flows, particularly as line ministries often have idle balances in commercial bank accounts. According to the DGT, currently there are more than 1,600 bank accounts that need to be consolidated. Because of this institutional deficiency, the Government has had to pay for this deficiency in multiple ways. A diagnosis of treasury operations in El Salvador by the FPEMP highlights a number of deficiencies in the system. First, there are high opportunity costs due to idle cash balances in bank accounts often failing to earn market related remuneration. Second, the government had had to incur unnecessary borrowing costs on raising funds to cover a perceived cash shortage. Third, there is no mechanism in place to monitor government arrears to suppliers, where finance charges are implicit in the prices for goods and services purchased by the state. Fourth, there are no standard documents or voucher controls in the management of revenue and expenditures, manual interventions in registering operations is abundant. Lastly, there is poor reliability in fiscal planning of medium term spending.

Table 1. El Salvador's Treasury Bill Cost in U.S. Dollars (1994 – 2007)

Year	Discount Paid	Weighted Average Rate
1994	1,080,948	11.27%
1995	11,745,240	11.60%
1996	15,277,689	10.04%
1997	16,843,975	7.76%
1998	10,258,874	8.14%
1999	15,307,646	8.15%
2000	26,403,492	8.16%
2001	31,027,135	5.22%
2002	4,504,081	3.17%
2003	1,797,175	3.64%
2004	10,156,369	3.76%
2005	7,914,662	4.24%
2006	11,763,474	5.55%
2007	15,135,000	5.52%
2008	27,665,855	5.44%
2009	48,964,301	6.55%
2010	3,082,846	1.25%
2011	12,258,584	2.09%
2012	17,350,198	3.64%

Source: Treasury General Directorate

In order to fulfill obligations, the Salvadoran Treasury raises funds through issuing "Letters of the Treasury" (known as "*letes*" in Spanish). These are securities acquired at a discounted cost representing less than the amount that the investor will receive at the time of repayment. The difference between the redemption value of the Letter and its purchase price or yield is the interest generated by these Treasury Bills. These *letes* cost the government millions of dollars every year. Table 1 presents a historical view of these costs to the government. Thus far, in 2012, these borrowing costs amount to $12.35 million dollars.

The objective of the technical assistance provided to the MOF is to strengthen the capabilities of the DGT so that this agency can fulfill its functions in a more effective, efficient and transparent manner. Assistance in treasury operations are integrated into four main processes: (i) revenue management; (ii) payment of obligations and spending control; (iii) cash flow planning, account management and debt management; and (iv) trustee and investment management.

Some of the recommendations presented by the FPEMP include[6]:

- Improve financial management functions in budget formulation and budget execution, aligning available cash to associated uses and objectives;
- Optimization of cash-flow management functions to help eliminate idle funds in banking accounts;
- Negotiate agreements for banking services that are more efficient;
- Establish a controlled process for budget execution. Monitoring and control over central government liquidity (requires connectivity to the SAFI II, and forecasting capacity);
- Update budget classifiers for income and expenses.
- Integration of commercial bank accounts into a mature TSA;
- Implement effective administrative decentralization.

FPEMP activities in the first year were undertaken in coordination with other missions also supporting the DGT, including the Regional Technical Assistance Center for Central America, Panama and the Dominican Republic (CAPTAC-DR); the Fiscal Affairs Department of the IMF, and the OTA. Assistance in the first year from FPEMP, besides the diagnosis of the current situation, concentrated in the establishment of a critical path for the design of the conceptual model of the Treasury System and the implementation of the TSA.

Before the end of the first year, the FPEMP had already completed defining the conceptual framework of the treasury system model that will interact with the new version of SAFI, determining the detailed functional requirements and examining the processes to be developed. This model is yet to be reviewed and validated by the DGT, and MOF officers. This conceptual model represents one of three parts of the system to be developed. The other two have been tasked to the IMF-CAPTAC mission and to the OTA.

FPEMP provides renowned experts to the MOF

"The FPPEMP project provided to the MOF the best experts in the region on treasury operations and government accounting. We had been hoping for these experts for many years, and FPEMP was able to provide them to us in the first year of the program."

- Lilena Martinez de Soto
Deputy Directress, DINAFI El Salvador
July 2012

It is expected that as technical assistance continues for improving treasury operations at the DGT, the number of accounts outside the TSA should be reduced to zero, and the reduction over time in the cost of *letes* should be evident due to better cash planning and management.

Improving accounting standards of government accounts

A government accounting system is a set of principles, standards and procedures to collect, record, assess process and systematically control all information concerning economic and financial transactions that affect the public sector. A proper accounting system provides information on the budget and financial management for proper decision-making, transparency and accountability. Countries around the world adopt the IPSAS to improve the quality of

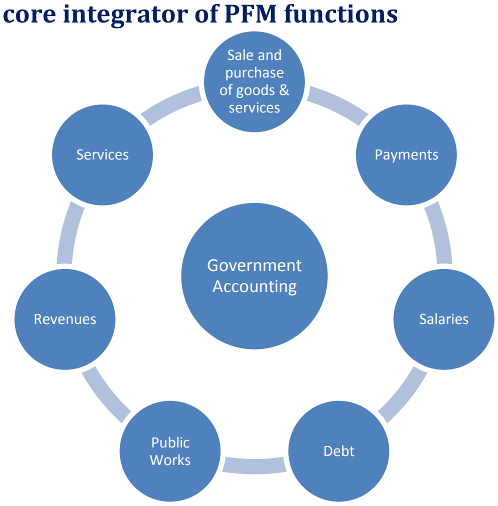
[6] Reporte de la Misión de Apoyo a la Dirección General de Tesorería (Junio 2012), Proyecto FPEMP, USAID.

general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments.

El Salvador has yet to fully comply with international accounting standards and procedures. Adopting international accounting standards for the public sector is a key element in the reform process. The FPEMP supported efforts in this area in the first year undertaking a complete diagnostic of the situation, and establishing a roadmap for adopting IPSAS and developing a capacity building plan. During this diagnosis, the program found that the DCGC for two years and on its own initiative has begun working with analyzing the IPSAS, dedicating part of its staff's time to study and analyze them, which has allowed DCGC to gain knowledge and a significant advantage, facilitating the reform process in this area.

Previous to FPEMP's assistance, the DGCG had chosen the path of "harmonization" of IPSAS—which has many disadvantages and is not an international best practice—versus the full "adoption of IPSAS". The adoption of IPSAS represents a profound change of the nucleus of the accounting system, and not just a change in form. The program recommended the DGCG the adoption of the IPSAS involving a significant conceptual change in the government accounting system accompanied by a change of mentality. The path of adoption was presented to the Salvadoran authorities and this path of reform has now been endorsed.

Figure 5. Government Accounting System as the core integrator of PFM functions



Additional FPEMP assistance in this area during the first year included a detailed review and recommendations to guide normative changes required as well as update the conceptual model developed by the DGCG *"Proposed composition and structure of the government accounting system harmonized with IPSAS".*

Among recommendations presented by FPEMP include the following requisites that need to be met before proceeding with the adoption of IPSAS:

- Recognize that the government accounting system is the core integrator of the financial management system (see figure 5);
- Respect the universality of the government accounting registry;
- Respect the registry which can have multiple effects;
- Structure the public sector considering not only the institutions, but also recognizing which of these institutions or government entities are accounting units, registry units and consolidation units, always within the framework stipulated by Government Finance Statistics Manual 2001 of the IMF;
- Integration of budget classifications and charts of accounts;
- Relationship matrix between the budget and the accounting system to exploit all budgetary and proprietary information; and
- Clearly define the times of budgetary and accounting registries.

It is expected that the adoption of IPSAS will also extend to the subnational level of government, particularly having municipalities adopt IPSAS facilitating integration of the national accounts. According to the detailed work plan developed for the adoption of IPSAS, government accounting standards will comply with IPSAS at 100 percent by 2015.

Additional to the technical assistance provided, in the first year FPEMP delivered training on IPSAS to 18 government officials from DINAFI, the DGP, and the DGCG.

Support the Public Investment, Debt and Assets System strengthening

Public investment and public debt management in Salvador are functions of the DGICP, which aims to obtain, monitor, and manage public investment and debt resources from the public budget. The public investment component has been incorporated into the SAFI in 1998, at which time the Ministry of Planning was abolished. Currently, there is a great need for the GOES to improve the level and the efficiency of public investments and to better manage public debt.

As part of the process in strengthening public financial management of El Salvador, the MOF requested support from the FPEMP and to the EU in the area of public investment and public debt management, in particular, support for the development of the conceptual model of this subsystem under the new SAFI II. As part of this effort in the first year, the FPEMP undertook two important activities:

Diagnosis of the Public Investment and Public Debt Management system: This report provides a comprehensive diagnosis of the current situation in the management of public investment and public debt, including a complete analysis of macro processes, and other processes in the subsystem of investment and public debt for the non-financial public sector, and developing recommendations that serve as input for the development of a new conceptual framework, policy, strategic, operational and institutional framework.

There are three main results achieved through this first report, which include:

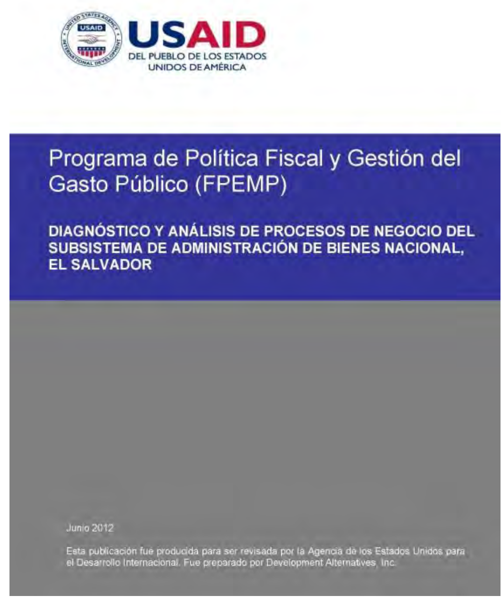
- Establishing a first inventory of macro and micro processes, identifying those responsible for these processes and managers in the organizational structure of the DGICP and suppliers and customers /users that configure the institutional environment in which the Ministry of Finance operates in this area.
- Business process mapping to the level of disaggregation including procedures, identifying the sub-processes that make up each process, identifying strengths and weaknesses, and evaluating the inventory of processes.
- Identifying areas for improvement and developing recommendations that feeds the design of the new conceptual model of the public investment and public management system. This

assistance provide six important recommendations for improving the public investment system, as follows:

i. To update the functional framework of current SAFI, under a process management approach and to effectively reconfigure the organizational structure of each of the decision makers who manage the SAFI. This new functional framework should be based on: a culture of planning and setting goals and targets; and results-based management.
ii. The new conceptual model should guide the implementation of all subsystems at the national level, as well as it should require compliance from all other levels of government, to combine and integrate strategic plans and public investment projects to be implemented in a fiscal year according to the Government's medium-term economic and social policy and revenue and funding made available. It should also keep a unitary and comprehensive budgeting process that integrates treasury and public debt, enabling the government accounting system to fulfill its purpose of in the financial management system in terms of collecting, recording, processing and systematically controlling all information concerning public sector transactions, in monetary terms, in order to provide the financial management information about the budget that is needed.
iii. Pre-investment and investment programs must include an annual work plan, a financial plan, a procurement plan, expected physical and financial outcome, geographical distribution, and a monitoring and evaluation plan for investments which is compatible with the monitoring and evaluation system of the budget.
iv. The new normative financial management framework should track the life cycle of investment projects, including a sectoral and territorial focus. Its application should be based on a medium term expenditure framework that promotes coordination between planning, budgeting and investment, as well as the development and issuance of annual and multiannual investment and pre-investment programs.
v. Definition and development of administrative and technical information management instruments, involving a project's entire programming life cycle, from identification to completion, providing criteria for ex post evaluation.
vi. There is a need to focus on the human and institutional capacity strengthening through training and/or technical assistance to the operating staff of the investment management division and executive managers in order to apply the new management frameworks and methodologies, as well as project formulation and appraisal ex ante and ex post. The capacity building support will help guide decisions in selecting projects in terms of quantity, quality, time and cost.

Diagnosis of the Public Assets System: This second report developed in FPEMP's first year of assistance supports the improvement of the public investment system providing a comprehensive diagnosis of the public assets system in order to support the development of a conceptual model for the new SAFI II. The report includes the analysis of the normative, functional and organization framework for public assets management, and analysis and evaluation of all processes and sub-processing comprising public fixed assets and public sector consumption (and inventories). There were four public sector institutions that were selected to take part in the business process analysis: MOF, Ministry of Health and Public Assistance, Bloom Hospital, Ministry of Public Works.

This report draws important conclusions about the weakness of the system and it provides important recommendations for the design of the new public financial management model. Among these conclusions include the following:



- Lack of a governing body that exercises responsibility for public assets management and public sector consumption.
- There are no specific technical standards that determine clear procedures for registration, management, movement, and disposal of public assets, and public sector consumption and inventory control.
- The institutions that were analyzed have their own operating procedures for the management of fixed assets, a situation that distorts important decision making processes regarding the disposal of State property, specifically. Also, in some cases these are outdated in relation to the rules currently in effect, the same which are already deficient.
- Some institutions present procedures that are slow, complex and bureaucratic.
- No unit has an advisory capacity, promoting regulatory and policy adjustments, training, fulfilling the duties of a supervisory unit for the management of public property, which can oversee all purchase, sale, donation, exchange, transfer, and granting of immovable property of the State.
- There is no direct interrelationship with other subsystems in the SAFI, based on the processes that were analyzed.
- There are no measures in place to assess and evaluate the management of assets (plant and equipment) and goods (inventories).
- Given that institutions making purchases or contracts for purchases use their own catalog of goods and services, information about what the State buys and how it is administered is unavailable for fixed asset as well as inputs and supplies.

Recommendations that were provided in this area as a result of FPEMP's technical assistance include the following:

- Issue a provision to appoint the MOF as the governing body for national Public Assets Management, to issue basic rules and regulations for the entire public Sector.
- Create a unit within the MOF, with advisory and training capacity, to perform the registration of all property owned by the Central Government, to intervene in any purchase, sale, gift, exchange, transfer, compensation and granting of immovable property of the State, as well as to issue norms and procedures to be applied in the broader public sector, including the preparation of general inventories.
- Develop standardized procedure manuals that are simplified with clear steps, roles, functions and responsibilities, including interactions with other subsystems and associated rules and regulations for the entire public sector.

- Develop a core instrument that is both conceptual and functional for the administration of public assets and supplies, to ensure efficient and timely information for the management and disposition thereof.
- Utilize a standard catalog for goods and services for the entire public sector, in order to have consistent information, with common characteristics, to facilitate scheduling, purchasing, inventory control, registration in the accounting system, including well-defined purchasing requirements and providers' offers. This would also enable the subsystem to interface with purchases and public procurement, budget execution (in revenue and expenditures) and public assets management.

OBJECTIVE 2: IMPROVED REVENUE MOBILIZATION

El Salvador has achieved important progress to raise tax revenue and to expand the tax base thus improving revenue collections from 12.2 percent of GDP in 2004 to 15.1 percent in 2011—a three percentage point increase—managing to cope and recover quickly from the effects of the global financial crisis in 2008. Despite great improvements in revenue mobilization, there further need to mobilize greater revenues to create fiscal space for priority spending and to improve public investment levels. FPEMP continues to support the DGII—as it did during the predecessor USAID-funded Tax Policy and Administration Project (TPAR)—creating a tax system that is more equitable, efficient and taxpayer-friendly. FPEMP's approach in the first year to achieving this objective has been to focus on improving taxpayer services, tax enforcement and key tax administration processes.

During the first year, the DGII with assistance from the FPEMP team carried out a Tax Benchmarking study that compares operations, policies, and revenue performance with an international set of standards. This document was introduced to the DGII as part of tax policy and administration assistance during TPAR, who continues to undertake the study as part of the DGII's planning and management.

Table 2. Tax Revenue Collections, El Salvador 2004-2011 (as % of GDP)

Taxes	2004	2005	2006	2007	2008	2009	2010	2011	Estimated for 2012
VAT	6.5%	6.8%	7.3%	7.5%	7.5%	6.9%	7.3%	8.0%	7.9%
Income tax	3.6%	4.1%	4.4%	4.8%	4.9%	4.9%	4.9%	5.0%	5.6%
Customs duties	1.1%	1.1%	1.1%	1.0%	0.8%	0.7%	0.7%	0.7%	0.8%
Consumption	0.5%	0.6%	0.5%	0.5%	0.4%	0.5%	0.6%	0.6%	0.6%
Other taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%
Special collections	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%

Source: Ministry of Finance, El Salvador

Benchmarking performance of the Salvadoran tax system

Generally, the DGII has been able to guard public revenues despite a decelerating economy and external shocks that have worked against tax revenue collections in recent years. The DGII has been able to bring more taxpayers into the tax net improving the number of taxpayers.

The Value Added Tax (VAT) is the most important tax representing more than 50 percent of total tax collections in El Salvador. VAT performance improved over time as shown in increased levels of the VAT productivity rate, improved VAT compliance and the lowering of the VAT evasion rate. The VAT gross compliance rate—which is a measure of the amount of revenue relative to the tax rate per household consumption (this is the final base of this tax)—has increased 6 percentage points in five years reaching 67 percent in 2009. Likewise, income tax gross compliance increased by 10 percent in the same time period reaching 56 percent in 2009.

The VAT and income tax evasion rates have also been declining over time. (This information is not yet available for 2010 and 2011).

Besides achieving important progress in tax compliance, the DGII also made important progress in improving tax administration. In tax year 2011, nearly 60 percent of taxpayers e-filed, up 10 percent from 2010 and administrative costs continue to decline. See the table below for more information on select performance indicators of the Salvadoran tax system.

The rest of this chapter discusses improvements to tax administration as supported by the FPEMP team in the first year.

Table 3. Select performance indicators of the Salvadoran tax system

Indicator	Benchmark	2004	2005	2006	2007	2008	2009	2010	2011
Structure									
Percentage of taxpayers that provide 75% of total collection	5%	2.5	2.3	2.3	2.5	2.5	2.5	3.2	N/A
VAT collections (as % of total tax collections)	35%	53.3	52.5	53.1	52.5	53.4	51.8	52.7	N/A
VAT rate	16%	13	13	13	13	13	13	13	13
Compliance									
VAT evasion rate	10%	40.9	38.9	37	34.9	32.9	30.7	N/A	N/A
VAT productivity rate	0.58	0.47	0.49	0.51	0.53	0.55	0.57	N/A	N/A
VAT Gross Compliance Rate	90%	59.1	68.7	61.1	63	65.1	67.1	N/A	N/A
Income tax Evasion	15%	58.7	55	55	51.4	47.7	44.1	N/A	N/A
Income tax productivity rate	0.5	0.14	0.15	0.03	0.06	0.09	0.12	N/A	N/A
Income tax gross compliance rate	85%	41.3	45	45	48.6	52.3	55.9	N/A	N/A
# of tax officials p/1000 habitants	1.00 to 2.00	0.3	0.3	0.3	0.3	0.3	0.3	N/A	N/A
Active taxpayers per tax official	150 to 250:1	317	341	391	450.1	452	437	N/A	N/A
% of taxpayers audited	1%	0	0.6	0.6	0.7	0.8	0.9	N/A	N/A
Tax Administration									
% of large taxpayers e-filing	100%	0	4.8	5	20	40	44.8	48.9	58.7
Admin. Cost as % of tax collections	2%	0.67	0.66	0.65	0.61	0.52	0.58	0.50	0.49
Business days for VAT refunds	25	30	30	30	30	30	30	30	30

Source: Tax Analysis Unit, DGII.

Improving the Large Taxpayers' Office

In the first year of the program, FPEMP supported the MOF's strategy to improve the large taxpayers' office control, collections and taxpayer service functions. With FPEMP assistance, the DGII established a renewed, one-stop-shop large taxpayers office, redefining the parameters of clients by reducing the universe of large taxpayers from 1,500 to the largest 600 taxpayers—who are known to contribute 65 percent to total tax revenues of the country.

On the Press: **MOF-USAID launches new Large Taxpayers Office**

Inauguran subdirección de grandes contribuyentes

Este sector genera el 65% de los ingresos tributarios del fondo de la nación.

La Prensa Gráfica, El Salvador (September 2012)

Redefinition of the Large Taxpayers Office incorporated the analysis of international best practices that the FPEMP facilitated through an IVP to the Chilean Internal Revenue Service, Large Taxpayers Directorate. In this opportunity, Salvadoran tax administration officials from the DGII, the large taxpayers office, taxpayer services office and the Fiscal Compliance Office were exposed to the experience in Chile learning important lessons in the implementation of a front and back office, taxpayer control techniques, IT systems, and others. This experience guided the redefinition of the new Salvadoran Large Taxpayers Office, while also guiding the development of protocols for the front office and fiscal compliance techniques for the back office to help improve tax collections from large taxpayers.

FPEMP facilitates a renewed Large Taxpayers Office

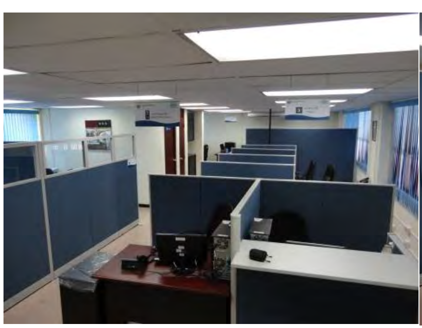
"I have been impressed with the FPEMP team's responsiveness in providing technical assistance. The FPEMP Director is always helping resolve problems to make change happen. The DGII staff is highly motivated by witnessing real change take place".

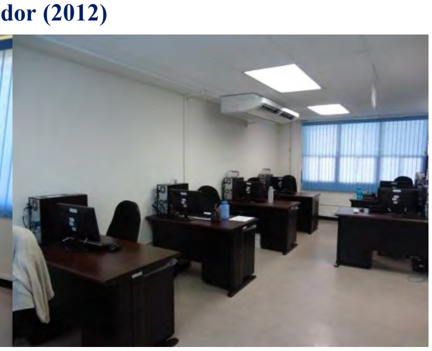
- Carlos Cativo
Director, DGII El Salvador
July 2012

FPEMP assistance in launching this office also included the restructuring of functions, including the creation of a front and back office. The office space was relocated, renovated, and fully equipped with office furniture and information technology hardware and software. Technical assistance and training for this office has concentrated on the strengthening of Transfer Pricing techniques and skills, providing continuity on previous technical assistance and training in this area provided by the TPAR project.

The new office location of the Large Taxpayers Office was geared towards improving taxpayer services that are particularly needed for this segment of taxpayers. The front office, for instance, conveniently accommodates at least four taxpayer service representatives thus providing timely

The New Large Taxpayers Office, DGII El Salvador (2012)





Front office **Meeting Room** **Back office**

and effective service to all large taxpayers needing assistance. Additionally, the new office provides a meeting room to accommodate larger groups and meetings with the needed privacy, which was lacking in the previous office setting. The back office provides at least another seven tax officers that can assist large taxpayers seeking support with more complex issues.

Improving taxpayer services to medium and small taxpayers (self-service kiosk system)

Besides FPEMP's assistance to the DGII on improving large taxpayer services, assistance was also provided—and as requested by the MOF—to medium and small taxpayers. While TPAR assistance created important units that provide medium and small taxpayers with important services (i.e. Taxpayers Assistance Call Center and Taxpayer Advocate Unit), as part of the Government's strategy to provide e-services and online services, FPEMP supporting the establishment of a self-service kiosk system that provide online, real time information to this segment of taxpayers.

The self-service kiosk system provides instant services for different processes including:

- Tax account inquiry
- Payment status for VAT
- Request for tax transcript statement or solvency statement
- Information on the tax calendar
- Summary of main services available at DGII and steps to follow
- Taxpayer survey

Cleaning and updating the Taxpayer Current Account (TCA)

This task is critical to the well-functioning of the tax administration system. The TCA is a central component in tax administration management that enables the DGII to record and monitor all taxpayers transactions related to debits and credits, allowing the calculation of consolidated balances by account type and over time. The TCA module in the tax administration information system allows the creation of accounts and subaccounts that are configurable for different control concepts and for a subset of taxes or taxpayers (payment arrangements, controls, etc.), also including control mechanisms that prevent changes to the current account without a source document to back it up.

The TCA of the Salvadoran tax administration system suffers many deficiencies and it needs to be cleaned, updated and upgraded in the tax administration information system. In the first year, FPEMP tax administration experts along with the IT team provided important progress for achieving a cleaned and up-to-date current account, comprehensively assessing the TCA, analyzing business processes and identifying redesign and adaptations that affect the TCA module. For this task, the DGII counterpart team created 10 use cases, which the FPEMP developed during the first year, adding additional functionalities to the TCA application, some of which include:

- *Error tracking:* Performing an evaluation for tracking errors in the documents and/or payments made by the taxpayer, the financial system and/or the tax authorities that were detected in in cases where a request for the "solvency document" (or "tax transcript") was initiated in person or via web.

- *Re-defining the resolutions process:* Incorporating timely administrative actions affecting current account balances arising from entries from the legal units of the DGII, ensuring the traceability of these transactions and incorporating reverse options to be managed by current account analysts.
- *Fast query about tax account status via web (no password):* Facilitating taxpayers' inquiries on tax account status initiated by taxpayers through the MOF's web portal allowing a new tax query option that does not require a user pin number.
- *Taxpayer solvency request (with password):* Facilitating taxpayer online inquiries on the status of the tax account via web, allowing the taxpayer to request official copies of tax transcript statements, providing information on the use of these documents and document delivery site.
- *Automated assignment of tax transcript requests.* Reducing lag time between requests and the assignment of tax transcript process to a tax official, allowing the even distribution of workload among analysts and technicians while providing them with correct information and timely management of assigned requests.
- *Entry of internal applications:* Allowing the entry of tax transcript requests from government employees, with strict monitoring and control of the requested document.
- *Supervision of analysis reports:* Facilitating information to the supervisor for the review, consultation, monitoring and control of cases reviewed by staff, in order to approve, reject, or reassign these analysis reports.
- *Selectivity Criteria for supervision of solvency requests:* Defining selection criteria for supervision of requests based on taxpayer status, type of analyst, and number of solvency reviews performed.
- *Reprocessing of data:* Revising payment processes related to current account transactions to verify the proper application of debits/credits to taxpayer balances from its origin.
- *Analysis of applications:* Facilitating information to analysts for the proper development of their work regarding physical requests of tax solvency statements.
- *Guarantees to the current account:* Providing access to the Integrated System of Guarantees (GIS) to achieve resolutions on penalty assessment including current account balance adjustments.

During the second year, FPEMP will continue with the cleaning and updating process of the current account. FPEMP will continue updating the TCA applications and following up with required changes in the TCA procedures that will safeguard its integrity and sustainability.

Cleaning and updating the Taxpayer Registry System (TRS)

Restoring and protecting the integrity of the TRS is also a critical component of the tax administration. There are more than 4.7 million taxpayers registered in the TRS but less than half of these are active taxpayers. Cleaning up the TRS is another major task that the FPEMP assists with, ensuring that the entire registration process is updated to improve categorization of taxpayers' information, as well as creating inter-linkages with other person registries—such as the National Persons Registry (CRN)—ensuring that information on taxpayers can be unified and automatically updated through this process.

For updating the TRS module, the MOF counterpart team created 12 use cases to be analyzed and developed with support from the FPEMP team. The FPEMP team worked closely with the DGII's counterpart team to assess the status of the TRS and commence work to clean up the database. In the first year, FPEMP assistance achieved the following in this area:

- Registration of taxpayer identification number (NIT) for natural persons, including categories for risk levels.
- VAT registration for natural persons, including changes to fields and search criteria to avoid duplicate entries. Also added new fields including relatives, new address fields, new general data and economic activity categories, among others. This same updates were performed for replacement of NIT for individuals.
- Revising VAT registry for natural persons changing the search criteria to streamline the process and avoid duplication of entries while also adding the management of resident and non-residents and exporter and importer statuses. These changes also apply to the VAT registration of natural persons.
- Revising enrollment and renewal of NIT for legal persons creating new controls, updating general settings of new functionalities while capturing observations and comments from the tax administration.
- A section in Form-210 was modified. Adjustments to the printable version of the tax registration form to reflect the new information captured for all registration transactions.
- Printing NIT cards. Changes in the navigation and functionality of the NIT card printing screen.
- Terminating NIT registries for natural and legal person. Adding new NIT termination information, with proper terms and justifications in place.
- Checking the RUC adjustment process to reflect the new information captured and developing the business rules to be followed.

In the second year, the FPEMP team will assist with cleaning up the TRS database. Given the magnitude of this effort, the project will bring in interns from local universities to assist, creating a team that will be fully dedicated to the clean process.

Rigorous and Fair Audits

A centerpiece of USAID's assistance to the DGII through the TPAR project was the development of an automated, risk-based case selection management system (CSMS). The CSMS I became fully operational in January 2010 reducing tax officials' discretion in the audit selection process and improved transparency and efficiency in case management. FPEMP is currently providing continuity providing technical assistance for upgrading to a new CSMS II.

The new CSMS is expected to integrate customs information with tax revenue, to improve the risk methodology, enabling better, more productive audits. Additionally, FPEMP will assist in upgrading the CSMS capabilities to expand beyond the audit and control areas providing case management capabilities to two new units, the

The FPEMP staff knows exactly what our needs are...

"The return of the FPEMP team has provided continuity to our work providing value-added to the technical assistance, with open communication and flexibility".

- Jeremías Aguilar
Manager, Case Selection Unit, DGII El Salvador
July 2012

Fiscal Compliance and the VAT refunds units. The end result of a complete CSMS II is to expand case management capabilities through all stages of the audit process, including taxpayer hearings, administrative appeals and judicial appeals.

The CSMS II is expected to provide a new service architecture that integrates the entire revenue system, allowing the efficient management of files and investigations by eliminating current overlapping control functions integrating audit efforts into an efficient, coordinated task.

The following table presents an overview of the productivity of the CSMS in performing tax audits at the DGII covering the period January 1, 2011 to July 31, 2012. The table presents the number of cases that are automatically selected by the system based on risk criteria and parameters already determined for different types of taxpayers. Once cases are selected, these are automatically assigned to an auditor who would take on the case and put it in production. From the table, it is clear that audits of large taxpayers are the most productive representing 84 percent of total tax collections from audits; hence the need to redefine the scope of the Large Taxpayers Office, as well as its audit function and transfer pricing.

Table 4. Tax audits Collections, by taxpayer type (January 1, 2011 – July 31, 2012)

Unit	# of Cases Selected for audit	# of Cases in production	Total Collections	% of Total
Large Taxpayers	216	63	$ 51,479,964	84%
Medium Taxpayers	284	62	$ 4,719,014	8%
Other Taxpayers	840	104	$ 2,607,913	4%
Regional Office-West	326	32	$ 391,063	1%
Regional Office-East	191	40	$ 1,963,421	3%
Total	**1857**	**301**	**$ 61,161,376**	**100%**

Source: Case Selection Unit, DGII, El Salvador.

In the first year FPEMP assistance worked with the CSMS counterpart team to develop new modules for the CSMS II, with particular focus on upgrading CSMS II management of audit plans. Some of these applications developed in the first year include:

- *Variables:* Configuring variables according to analysis undertaken at the Case Selection Unit for selection of taxpayers to be audited.
- *Business rules:* Configuring business rules for specific audit plans, in order to obtain selection of taxpayers to be audited based on specific parameters, according to analysis conducted by the Case Selection Unit.
- *Cloning*: In order to streamline the selection of audit cases, audit plans cloning of variables and business takes place making it easier to create a new plan from existing ones, which can still being refined by the Case Selection Unit.
- *Execution:* Executing the specific audit plans defined by variables and business rules to obtain the selected list of taxpayers to be audited.
- *Exporting:* Exporting executed plans—extracting selected cases—into a spreadsheet (Excel).
- *Case Transfers:* Transferring selected cases among those already executed, and classifying them as the defined list to be audited.

Mobilizing revenue through the Treasury's Collections Call Center

One of the MOF's main goals is to mobilize greater tax revenues by improving taxpayer compliance. In the first year FPEMP identified the need to create a Collections Call Center operated by the DGT, similar to the Fiscal Compliance Call Center implemented under TPAR assistance.

There are three instances in which tax payments can be collected following a taxpayer's failure to make payments. The first instance takes place at the DGII, where the Fiscal Compliance Division detects stop filers and non-filers and attempts to collect payment. The second instance is led by the DGT when tax due is classified as a tax arrears. The third and last instance involves cases that are taken to the Office of the Attorney General (*Fiscalía General de la República*).

Following the success of the Fiscal Compliance Call Center at the DGII which has helped mobilize millions of dollars in tax payments from stop filers and non-filers, FPEMP assisted the DGT to set up a Collections Call Center by defining the conceptual model, procuring the necessary equipment (i.e. computers, headsets, and power supplies). The Call Center is expected to be fully functional by July 2012 and it is expected to collect about $22 million U.S. dollars—which is the current balance in tax arrears.

OBJECTIVE 3: STRENGHTENED PRIVATE SECTOR OUTREACH

The third main objective of FPEMP assistance is to bridge differences and build consensus between the Government and the private sector. To this end, the GOES must not only educate and inform the private sector, but also demonstrate its commitment to more efficient, effective, and transparent management of the country's fiscal affairs. Improved public-private dialogue provides a mechanism for fostering greater compliance and increasing tax revenues. While the Government had indicated prospects for forging a national fiscal pact to advance common goals and objectives when it first took office, to this day this has not been a priority, and still pending political decisions.

Therefore, in the first year of the project, FPEMP supported the MOF and the GOES through different activities that aim to reach the objective. Main achievements in this area include those that follow.

Facilitating greater understanding and compliance with fiscal reforms

During the first year, the MOF with FPEMP's support delivered several trainings on the new fiscal reforms targeted to individual taxpayers and businesses. FPEMP supported the delivery of these training events resulting in 1,197 persons being trained. From these, 83 persons were MOF personnel and 1,114 persons were taxpayers.

By means of Decrees Nos. 957 and 958, published in the Official Gazette on 15 December 2011, the Congress approved a tax reform for corporate and individual income tax, which became effective as of January 1, 2012. Some of the most relevant amendments regarding the corporate income tax are detailed below[7].

- **Rates:** The income tax rate for companies, de facto companies and other legal entities with taxable income exceeding US$150,000 is increased to 30% (previously 25%). Other companies and legal entities are subject to the 25% rate.
- **Income tax on profit distribution:** As from fiscal year 2012, profit distribution received by residents or non-residents from a resident company is subject to a final withholding tax at the rate of:
  - 25%, where the recipient is the resident of a tax haven or country or territory with a preferential tax regime, as defined yearly by the tax administration, the DGII.
  - 5% in all other cases

  Profit distribution is considered as received by the taxpayer when effectively received in cash or in kind (including securities, debt set-off and loss set-off). Profit distribution also includes dividends, other payments exceeding the company's profits and payment of legal reserves. Profit distribution derived until fiscal year 2011 is tax exempt.
- **Hidden profit distributions:** A 5% final withholding tax is levied on the gross amount of hidden profit distribution by a resident company, which is considered to be distributed, in cash or in kind, as loans, advance payments or any other kind of financing to:

[7] IBFD Tax News Service, available online at www.ibfd.org

- Shareholders, quota holders, beneficiaries or any other person considered to be a related party by the income tax law.
- Residents of a tax haven or country or territory with a preferential tax regime, as defined by the tax administration
- Non-resident parent companies or their permanent establishments or branches domiciled abroad

Loans and financing methods are exempt from the 5% withholding tax where:

- The interest rate is agreed at the market value
- The lender is a financial institution regulated by the Superintendent of the Financial System or a public or private entity whose main business activity is financing
- The recipient is the state, a municipality, an autonomous institution or a public entity

With effect from 1 January 2012, the reform also introduces an alternative minimum tax (AMT). The AMT is levied on resident companies and individuals at the rate of 1% on the taxpayer's total gross income. For purposes of the AMT calculation, gross income does not include:

- Income that was previously subject to a final withholding tax
- Non-taxable income
- Salaries or wages
- Income received from activities subject to controlled prices or regulated by the state
- Income derived from agricultural or cattle-raising activities

The following taxpayers are exempt from the AMT:

- Employees
- Companies deriving an annual gross income not exceeding US$150,000
- Companies and individuals exempt from income tax
- Companies or individuals initiating trade operations or business
- Taxpayers incurring losses for a maximum of two taxable periods
- Industrial and commercial free-trade zone users

Promoting Fiscal Transparency

As part of the strategy to strengthen private sector outreach, the MOF is committed to demonstrating greater fiscal transparency in the management of public resources. FPEMP along with the EU supported the MOF in the first year with developing the Fiscal Transparency Strategic Lines, working jointly with the Presidency's Transparency Division. For this purpose, the FPEMP held four forums so that the Government could present the proposed Fiscal Transparency Strategic Lines. These forums included representatives from the MOF and the Presidency's Secretary of Transparency and members of the civil society, including business associations, universities, professional associations, media, think tanks, government entitites, Court of Auditors, Non-Government Organizations and multilateral agencies.

During the forums, participants accepted and agreed to the 15 Strategic Lines which promotes the expansion of access to information for the common citizen, including those who are not familiar with this kind of data and those who are not able to access to the internet. In addition, these forums concluded with support for the creation of citizen's audits for public investment monitoring with emphasis on including the youth.

The 15 Fiscal Transparency Strategic Lines that were presented and agreed upon are divided into the following three categories:

Public financial management:

1. Publish the Government's fiscal planning in the short, medium and long term through the Medium Term Macro Fiscal Framework and the Medium Term Expenditure frameworks.
2. Inform citizens about resource allocation and budget appropriations assigned within the results-based budget framework.
3. Present and publish a mid-year report and analysis of the Government's nonfinancial public sector financial status.
4. Publish the evolution of behavior in current spending, current transfers, wage assignments, personnel and contractors at the Ministry level and decentralized entity.
5. Publish an accountability report about compliance with austerity norms.
6. Publish a status report on public debt, liabilities and risks.
7. Advance with publishing financial statements that follow international standards.
8. Report on the Treasury's status through the Transparency Portal of the Ministry of Finance.
9. Public a report on the state of the municipal public finances.
10. Report on the fiscal costs that impact the tax system.
11. Report on the status of tax administration and management (collections, tax control, tax compliance, tax arrears collections as well as those from the Office of the Attorney General).
12. Communicate to citizens any improvements on tax simplification and reduction on compliance costs.
13. Facilitate access to information from the Purchase and Public Procurement System (COMPRASAL).

Fiscal Transparency Forum, defining strategic lines of action, public –private participation (April 26th, 2012)

Citizen's audits:

14. Create a mechanism to support the implementation of strategic investment projects, through which civil society actors can be involved in monitoring project implementation through open forums, while making recommendations that contribute to the effective and efficient execution of the work.

Improvements to the fiscal transparency portal:

15. Expand coverage and functionality of information available through the Fiscal Transparency Portal.

Following up to the agreement on the Fiscal Transparency Policy and Strategic Lines, the FPEMP continued to support the Government's effort to improve information dissemination, communication and information, working closely with the Communications Unit of the MOF, and the revamping of the Fiscal Transparency Portal of the Ministry of Finance.

Revamping the Fiscal Transparency Portal at the MOF

The Legislative Assembly of El Salvador passed the Access to Public Information Law in December 2011. This new Law requires government institutions to publish specified information and establish offices to receive requests for information beginning on May 8, 2012. Additionally, requests are to be answered within 10 working days if the information is less than five years old. Furthermore, the MOF is now required to publish monthly reports on the budget and other relevant information on the state of public finances.

In support of the GOES Fiscal Transparency Policy as well as supporting compliance with the newly approved Access to Public Information Law, the FPEMP assisted the Government's effort to revamp the current Fiscal Transparency Portal available via the MOF website, which was launched in October 2010. In the first year, FPEMP developed a complete assessment of the current Portal, also developing a draft plan of action including short, medium and long term activities to strengthen and upgrade the usefulness and scope of the information provided via the Portal.

According to the MOF, since the passage of the Law, there have been hundreds of inquiries submitted for information on the Government's public finances. The MOF along with the Presidency's Under Secretary for Transparency have worked arduously to meet these demands and to comply with what is stipulated in the law. FPEMP's assistance in this area aims to revamp the MOF's Fiscal Transparency Portal to a level where citizens' demand for information can be satisfied via the Portal, thus reducing the number of citizen inquiries and increasing the number of visitors to the Transparency Portal. The table below presents some baseline indicators on the number of visitors to the Portal, number of reports and analytical documents available, and the number of updates to the Portal—all of which should improve due to the current efforts to revamp the Portal.

Table 5. Current Use of the Fiscal Transparency Portal

	2010 (Nov-Dec)	2011	2012 (Jan-Sept)
# of visitors	19,015	122,299	125,897
# of reports and analytical docs available	129	147	158
# of updates to the website	3	12	8

Source: Ministry of Finance, El Salvador

As part of this assistance, the FPEMP presented in the first year a proposal for the new design and content of the Fiscal Transparency Portal. These recommendations consider at least two types of reports to be made available and presented in a simple format that can also be exported to excel, these two types are: (i) publishing essential documents about the state of public finances in the reports and documents section, such as the Medium Term Fiscal Framework and Accountability Reports; (ii) publishing other relevant documents available about the state of public finances such as reports on municipal debt and budgetary and financial results of municipalities, and other relevant analytical reports available.

More specifically, the FPEMP proposed the development of 16 different modules containing different relevant information to be incorporated in phases. (See table below)

Table 6. Proposed Modules for the Fiscal Transparency Portal

	Module	Scope	Description	Source
1	Expenditures: Appropriations & Budget Execution	Nat'l Govt	Budget information & execution	SAFI
2	Revenue (Treasury Collections)	Nat'l Govt	All info on revenue collections of the Central Government	Revenue Vice-Ministry
3	Public Investment	Nat'l Govt	Presents approved projects and ready to be implemented	SIIP
4	Public Investment (Evaluation)	Nat'l Govt	Info on project execution	SIIP
5	Public Debt (SPNF)	Nat'l Govt	Info on external debt level	SIGADE
6	Finances of the Nat'l Govt	Nat'l Govt	Info on financial statements and annexes	Accounting System
7	Own revenues of each government entity	Nat'l Govt	Info on own revenue collections by each entity	SAFI
8	Transfers	Nat'l and Local Govts	Info on Transfers to Local Govts	SAFI
9	Expenditures: Appropriations & Budget Execution (LGs)	Local Govts	Budget information & execution	Accounting System
10	Public Investment (LGs)	Local Govts	Presents approved projects and ready to be implemented	SIIP
11	Public Investment (Evaluation)	Local Govts	Info on project execution	SIIP
12	Purchases and Public Procurement	Nat'l Govt	Info on Selection Process	COMPRASAL
13	Government Suppliers	Nat'l Govt	Info on registered govt vendors	SAFI
14	Monitoring reports	Nat'l Govt	Info on budget & its execution	SAFI
15	Lag between accrual offsets and payments	Nat'l Govt	info on average # of days between accrual offsets and payments to providers	SAFI
16	Prices of Goods & Services Contracts - Selection Process	Nat'l Govt	Info on prices set on contracts with providers	COMPRASAL

The above mentioned modules were presented to the Ministry of Finance along with an action plan for implementation. It is expected that the modules would be developed and implemented in three different phases throughout 2013.

Supporting Fiscal Education through the EXPRESATE project

The Fiscal Education Unit of the DGII requested FPEMP's support to implement an educational project targeting high School students between the ages of 15 and 20 years. This project is aligned with the DGII's Strategic Plan, and is complementary to other efforts that have been made in this regard, particularly linked to RECREHACIENDA—an educational project targeting school children from 7 to 14 years of age. The FPEMP team supported the development of the EXPRESATE conceptual model in the first year, in coordination with the Fiscal Education Unit of the DGII, presenting the model to the Vice Minister of Revenue who approved the initiative.

The EXPRESATE initiative involves the creation of a facility that will provide both training to high school students and outreach to the public on fiscal matters. This initiative was also presented to the private sector and civil society representatives during fiscal transparency forums organized by FPEMP, gaining wide acceptance, and the MOF has placed top priority to this activity. The civil society representatives highlighted the EXPRESATE project as critical. This project (the only of its kind in Latin America) is a unique opportunity for the Government of El Salvador to build fiscal responsibility within the young Salvadoran population, who are not only the future taxpayers but also those who will take a great role in the monitoring and control of public resources in the coming years.

The FPEMP will continue to assist the implementation of this initiative by supporting the development of curricula and materials, renovation of the facilities, and purchase of equipment required to implement the initiative.

Transforming the MOF Training Department into a Center of Excellence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POLÍTICA FISCAL Y GESTIÓN DEL GATO PÚBLICO –FPEMP-.

Análisis y propuesta para el Fortalecimiento Institucional y Desarrollo de Capacidades del Departamento de Capacitación del Ministerio de Hacienda – DECAMH -.

16 de Diciembre de 2011

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In 2012, a Ministerial Agreement developed and approved by the Minister of Finance, provides the MOF's training department with more comprehensive and modern functions that better fit the MOF's needs within the new modernized structure of public financial management that is being implemented. The DECAMH functional reforms are the result of the capacity building assessment, options and recommendations developed and proposed by the FPEMP.

The Ministerial Agreement includes the proposed organizational structure and functional capacities for each of DECAMH's areas. As a result, a new area was added—the Planning and Development of Curricula Unit), and other new functions were delineated for other areas including Implementation of Training Programs and courses, and support for

Capacity Building. It is important to highlight that the name of the training center, formerly known as DECAMH, was modified to be the "Ministry of Finance Training and Human Talent Development Department" (DFD-MH), which demonstrates the importance that the MOF places on human development for the improvement of functions and services.

In an effort to transform DECAMH into a center of excellence, FPEMP undertook a comprehensive needs assessment geared to identifying the gaps between DECAMH's current structure and key functions versus what should be in the new model of a modernized training center that aligns with the current reforms that are underway at the MOF.

FPEMP developed a proposal for the institutional strengthening and capacity building of the DFD-MH based on this assessment. The consultant worked with both the Human Resources Division and the DECAMH personnel to build the proposal and the timeline for its implementation. This proposal was submitted to the Human Resources Director and the DFD-MH Director for their feedback. The proposal was approved by both units, and the implementation phase was rolled out at the end of the FPEMP's first year.

Few highlights on the recommendations put forth by the FPEMP program include:

- Improve needs assessment analysis of training needs
- Advance the design of training programs or
- Select the appropriate methodology
- Manage the development of new courses (especially technical)
- Evaluate the impact of capacity building and training

FPEMP will continue to support the strengthening of the DFD-MH center to implement the recommendations brought forth during the first year of assistance. FPEMP assistance will soon begin delivering training on "course design methodology" and "train-the-trainers" for MOF officials. Additionally, other capacity building strategies will also be implemented such as on-the-Job- Training (OJT) and e-learning techniques.

Building a stronger administration through improved human resource utilization

As part of the assistance to the MOF training department, as well as part of support to the PEFA reforms underway in El Salvador, the FPEMP began supporting the MOF to improve human resource utilization thus improving operational efficiency in utilizing professional internal staff while building a stronger administration.

This is also part of FPEMP's strategy to assist the MOF with human and institutional capacity development. The objective of this assistance is to assess, evaluate and build capacity of MOF technical area employee profiles, identifying gaps in their profiles between their current skills and the skills they need to perform well, and filling in the gap through various capacity building strategies. This activity began in the first year of the program and capacity building will continue alongside with the rest of the Public Financial Management (PFM) reforms being implemented.

The following summarizes the process undertaken:

- **Needs-assessment:** A team of FPEMP experts supports the needs assessment process by gathering information on technical are profiles, evaluating and developing updated technical area staff's profiles for each of the MOF directorates. The purpose is to identify any gaps between current skills and skills required to efficiently perform their jobs.

- **Curricula design and development:** Once needs and gaps have been identified in each technical area, the next step will be to develop course curricula to bridge these gaps. As part of this effort, the FPEMP already began delivering training on methodologies to elaborate training curricula for the different MOF work positions. Personnel at DFD-MH and the Human Resource departments will be trained on this methodology.
- **Selecting the appropriate capacity building methodology:** The last step in this process will be for the MOF, though the DFD-MH training center, to identify the best methodology and strategies to deliver capacity building and training needed for employees to advance their skills to meet the new requirements according to their upgraded job profiles. Options for delivering such capacity building exercises include: in-class training, on-the-job-training, e-learning, etc.

The FPEMP will continue supporting this important task of building a stronger MOF through institutional strengthening and improved human resource utilization—advancing the skills of their technical staff, while ensuring that they are well prepared to adapt to their jobs throughout the reform process.

FINDINGS AND RECOMMENDATIONS

An analysis of FPEMP's first year of assistance reveals that much has been achieved in the first year of the program despite challenges faced in the first half of the year with the lack of a clear reform agenda and the absence of a coordination mechanism for donor assistance in the area of fiscal policy and public financial management. Once that hurdle was overcome—when the MOF assigned DINAFI as the coordinator of donor assistance—a donors' coordination matrix specifying the tasks and activities that each donor should undertake significantly improved the delivery of donors' technical assistance. The implementation of the reform agenda now enjoys a clear action plan that provides guidance to both counterparts and donors involved in the process.

Following the donors' coordination matrix and FPEMP's work plan, the program produced a significant amount of work in the first year in terms of technical reports, trainings, equipment, along with advocacy and advice—producing comprehensive assessments of the current status in El Salvador and integrating best practices to the local context developing conceptual models for major elements of the new public financial management system. As it is expected in the first year of implementation, most of the work delivered can be considered output and helps to set the baseline for attaining the expected project outcomes. As such, this First Results Report contains a number of quantitative and qualitative indicators and their baseline measures that will be monitored in subsequent years of the program's implementation. The program was designed with a four to five year horizon, and this first year marks only the beginning of that period.

The major recommendation arising from this First Year Evaluation Report is that the program should now turn attention to get the technical work already developed in the first year (i.e. assessments, conceptual models, and technical advice) to bear fruit by developing and implementing what has already been put forth as options and recommendations, particularly for work under the public expenditure management component. Work developed for the tax revenue mobilization component needs to start bearing fruit in the second year in terms of enhanced fiscal compliance, particularly from the Collections Call Center of the Treasury, and the Large Taxpayers Office. The FPEMP team should continue to work in close coordination with the government counterparts and other donor assistance programs to ensure that the impetus already gained in the first year endures.

Below is a list of specific recommendations in particular areas of assistance:

Treasury Single Account (TSA)

A well-established TSA is a prerequisite for effective cash management and is a key tool for the MOF and the Treasury to establish oversight and centralized control over the Government's cash resources. It also enhances the overall effectiveness of the public financial management system facilitating better fiscal and debt management and better reconciliation of fiscal and banking data, thus improving the quality of fiscal information. It is expected that the establishment of the TSA in El Salvador will significantly reduce the government debt servicing costs, lower liquidity reserve needs, and help maximize the return on investments of surplus cash. It is important that FPEMP, along with the IMF and the OTA assistance involved in the TSA implementation, ensure that the model for the TSA is comprehensive—involving all government entities, reducing the amount of additional accounts to zero, and sustainable—ensuring that the proliferation of these extracurricular accounts does not happen again.

Government Accounting

Based on recommendations presented by the FPEMP team in the first year, and following international best practices, it will be important that the MOF decides to follow the adoption of IPSAS and not just align or harmonize the current government accounting system. This will guarantee that the technical assistance and reform process in this area is the best option for the GOES ensuring sustainability of the new government accounting system. This is very critical since the government accounting system serves as the core of the entire public financial management system interlinking various processes that are essential for attaining the objectives of the reform.

Results-Oriented Budgeting (ROB)

While the implementation of ROB will take place in the second year of the program, it is important that FPEMP and other donors working in this area closely coordinate efforts with the DGP—the main counterpart for the ROB implementation. Additionally, it is important to consider that the implementation of ROB is not just a change in processes but also a change in the way officers think and perform their daily activities. It is important that FPEMP assists in institutionalizing this change developing a technically sound human and institutional capacity development strategy created in close collaboration with stakeholders—one that will cultivate strategic thinking, build capacity, and secure buy-in—ensuring that these changes become embedded in the way the government operates and interacts with the public.

Tax Administration

Assistance to the DGII was very successful in the first year in building knowledge, improving customer service, strengthening audit, identifying and collecting tax arrears, and cleaning up the taxpayer registry and current account. It is important that the newly launched Large Taxpayers Office—which now serves the largest 600 taxpayers rather than 1,500—finds a balance in its scope between enforcement and collection and providing taxpayer services, all of which contribute to improved tax collections. FPEMP assistance should continue supporting this area improving audit techniques for specific areas of economic activity as well as transfer pricing techniques that meet international standards. While officers of the Large Taxpayers office have already been equipped through tools, equipment and capacity building (i.e. study tours, training courses, and on the job training), it is now time to put all of this to work to produce the expected outcomes.

In terms of the cleaning and updating of the TCA and the TRS—which consists of intensive work not just updating the processes and information technology that houses this information but also the manual cleanup of the data—it is important that FPEMP together with the counterparts at the DGII find optimal ways to protect and restore the integrity of both the TCA and TRS finding a sustainable solution to this problem.

Fiscal Transparency Portal

Fiscal transparency—the public availability of timely, reliable, and relevant data on the past, present, and future state of the public finances—forms the foundation of a modern and effective public financial management system. Since its launch, the use of the Transparency Portal has increased but there is still a lot more to be done to achieve a platform that discloses comprehensive user-friendly information on the use of public resources. Besides incorporating data on the planning, formulation, execution and audit of the public budget, it is also important to include analytical reports that can be uploaded and presented through outreach events to the private sector and civil society.

FPEMP could intensify support for policy advice to the MOF and other relevant ministries involved in the reform by conducting policy work that can provide analysis about public spending that can drive ideas to be brought to public debate. Policy discussion only at the Cabinet level is not adequate, but instead FPEMP could assist in leading discussions with civil society and academics to build momentum for informed and rational economic and fiscal policy debate, discussion, leading to eventual reform.

ANNEX 1. RESULTS MATRIX

Objective 1: Enhanced Public Expenditure Management

	Expected Result	Major Achievements	Delivered Project Outputs
a	Enhanced skills in budget formulation, monitoring and evaluation		As agreed with the MOF, FPEMP will provide training in this area to the 12 GOES institutions that the MOF will assign by the end of the second year. Work in this area is jointly delivered with the GIZ.
b	Improved budget and policy analysis		Scheduled for the second year.
c	Accounting and financial controls strengthened	Approved decision to adopt IPSAS versus harmonize/align. Implementation plan ready to roll out.	1. Assessment of DGCG and chart of accounts. 2. Training on IPSAS to Directors and Deputy Directors of the DGP, DGCG, DGT, DINAFI and DGICP. A total of 16 persons trained. 3. Roadmap and timeline for implementation of IPSAS.
d	Operational multi-year ROB knowledge and applications throughout the GOES		FPEMP and GIZ worked on the budget modernization plan proposed to the DGP. This is joint work with GIZ and GIZ will develop the new programmatic budget, medium term expenditure framework and institutional framework, and ROB methodology and manuals while FPEMP will support the implementation of the system in 12 GOES entities in the second and third year.
e	Improved efficiency of the Treasury to program and manage government funds	Conceptual model for new TSA sub-system fully developed.	1. Assessment and evaluation report of the treasury operations. 2. Development of the conceptual model for a sub-system of the TSA. 3. Implementation plan for TSA implementation.
f	A modernized, integrated SAFI enabling consistent budget formulation, execution, and M&E processes across all spending agencies	Conceptual model document provides the basis for the development of the new public finance system and the new SAFI II.	1. Assessment, evaluation and design of a conceptual model for the new GOES public finance management system. 2. Study tour for the Colombian MOF on the GRP's development and implementation strategy. A total of 5 high level officials attended. 3. Assessment and business process analysis for the Public Investment System, the Public Debt System, and the Public Assets System for SAFI II.

Objective 2: Improved Revenue Mobilization

	Expected Result	Major Achievements	Delivered Project Outputs
a	Sound, coherent tax policy	DGII's Tax Analysis Unit is able to perform analysis on tax benchmarking with minimal donor assistance (a legacy of TPAR).	Updated tax benchmarking study which provides an analysis of the tax structure, performance of the tax system in terms of collections, compliance, evasion and productivity comparing its progress from year to year, and comparing it to other countries in the region.
b	Consistent, clean and up-to-date taxpayer records	70% of new applications developed. Clean up strategy developed.	1. Assessment of the Taxpayer Current Account; successfully developed 8 use cases providing additional functionalities to the TCA application. 2. Assessment of the Taxpayer Registry System; successfully developed 7 use cases that improve management of taxpayers registered with the DGII.
c	Targeted audits and improved tax enforcement	Launch of new, redefined Large Taxpayers Office	1. The new Large Taxpayers Front and Office back office is in charge of serving large taxpayers on issues related to audits and tax enforcement. 2. Study tour to Chilean tax administration to learn from their experience in the implementation of a Large Taxpayer Directorate. 3. Development of Case Selection Management System updates to transform it into a more efficient audit and management tool.
d	Greater fiscal compliance	Treasury Collections Call Center fully functional	1. Established a Collections Call Center at the Treasury for collecting tax arrears. 2. Trained 1,197 persons on new fiscal reforms to facilitate greater understanding and compliance, 93% of persons trained are taxpayers.
e	Improved taxpayer services	Six self-service kiosks available at DGII central and regional locations	1. Implementation of new, redefined Large taxpayers Office--front office which provides taxpayer services to taxpayers in this category. 2. Launching of 6 self-service kiosks providing automated, real time basic services to medium and small taxpayers.

Objective 3: Strengthened Private Sector Outreach

	Expected Result	Major Achievements	Delivered Project Outputs
a	Enhanced Communication mechanisms between the GOES and non-governmental sector	A total of 45 private sector actors attended XX forums on fiscal matters.	1. Facilitated forums between the GOES and non-governmental sectors. 2. Development and design of EXPRESATE program, a new platform for fiscal education to youth and civil society outreach on fiscal matters.
b	Private sector better understanding and complying with newly enacted fiscal reforms	Training outcome in terms of assistance surpassed expectations.	1. Training on new fiscal reforms delivered to 1,114 taxpayers.
c	Better monitoring of public expenditures through public sector and civil society partnership programs	Mutual agreement between public sector and civil society on 15 Fiscal Transparency Strategic Lines.	1. Development of 15 Fiscal Transparency Strategic Lines agreed by the private sector on 3 main areas: public financial management, citizen audit and transparency portal. 2. Assessment of the MOF's fiscal transparency portal and development of new design to be implemented.
d	Functional state of the art in-house training program for MOF personnel	Launch of the new MOF training department, "Ministry of Finance Training and human Talent Development Department" (DFD-MH).	1. Assessment, evaluation and design of new MOF's training center. 2. Implementation plan of new MOF training department developed based on modern, up-to-date technique and technical knowledge. 3. Thirteen MOF officials trained on the methodology to elaborate training curriculums for workstations. 4. Improving human resource utilization through updating technical personnel profiles. Next step is to analyze gaps in training, and develop training curricula and implementation strategy.

ANNEX 2. LIST OF PERSONS CONSULTED

A. USAID

1. Mr. Martin Schulz, COTR, USAID El Salvador

B. GOVERNMENT OF EL SALVADOR, MINISTRY OF FINANCE

2. Mr. Roberto Jesus Solórzano, Vice-Minister of Finance
3. Mr. Guillermo Alfredo Posada Sánchez, Director of the MOF General Administration Directorate
4. Ms. Dinora Margarita Cubias Umaña, Directress of DINAFI
5. Ms. Lilena Guadalupe Martínez de Soto, Deputy Directress of DINAFI
6. Mr. José Lino Trujillo Barahona, Deputy Director of DGT
7. Mr. Carlos Gustavo Salazar Alvarado, Director of DGP
8. Mr. Mario Leonel Villatoro Reyes, Deputy Director of DGP
9. Ms. Rina Elizabeth Castellanos de Jarquín, Directress of DGICP
10. Ms. Delia Lorena Reyes Bonilla, Deputy Directress of DGICP
11. Mr. Inmar Rolando Reyes, Director, Director of DGCG
12. Mr. Humberto Barrera Salinas, Deputy Director, Deputy Director of DGCG
13. Mr. Carlos Alfredo Cativo Sandoval, Director of DGII
14. Mr. Jorge Luis Martinez Bonilla, Deputy Director of the Large Taxpayer Office
15. Mr. Carlos Martinez, Manager of the Strategic Planning Unit from the DGII
16. Mr. Luis Conde, Manager of the IT Unit of DGII
17. Mr. Luis Canjura, Manager of the Tax Analysis Unit from DGII
18. Mr. Jeremias Aguilar, Manager of the Case Selection Unit from DGII

C. FPEMP

19. Mr. Enrique Giraldo, Chief of Party, Tax revenue Mobilization Component Lead, and Acting Public Expenditure Management Component Lead
20. Ms. Fressia Cerna, Private Sector Outreach Component Lead
21. Mr. Renato Bonilla, Information Technology Manager
22. Mr. Cesar Sagastume, Monitoring and Evaluation Specialist
23. Ms. Marielos Leon, Finance and Administration Manager

ANNEX 3. LIST OF DOCUMENTS REVIEWED

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11. USAID FPEMP, Assessment of the General Directorate of the Treasury, June 2012.
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14. USAID FPEMP, Diagnosis and Analysis of the Public Investment and Public Debt System in El Salvador, June 2012.
15. Fiscal Transparency Strategic Lines Presentation.
16. Report on Fiscal Transparency Strategic Lines Forum, August 2012.
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