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USAID DOMESTIC RESOURCE MOBILIZATION PROJECT

QUARTERLY REPORT
OCTOBER – DECEMBER 2017
CONTRACT No.: AID-519-C-17-00002

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Project Title: USAID Domestic Resource Mobilization Project

Sponsoring USAID office: USAID/El Salvador Economic Growth Office

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Contractor: DAI Global, LLC

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ACRONYMS

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| ACCE | Uruguayan State's Procurement and Contracting Agency |
| AFIP | Argentinian Federal Revenue Administration |
| COMPRASAL | E-Procurement System |
| CONEVAL | Mexican National Council for the Evaluation of Social Development Policy |
| CSMS | Case Selection Management System |
| COP | Chief of Party |
| DAI | DAI Global, LLC |
| DGA | General Directorate for Customs |
| DGCG | General Directorate for Government Accounting |
| DGICP | General Directorate for Public Investment and Credit |
| DGII | General Directorate for Internal Revenue |
| DGP | Budget General Directorate |
| DGT | Treasury General Directorate |
| DPEF | Directorate of Economic and Fiscal Policy |
| DINAFI | National Directorate for Financial Administration |
| ENAFOP | National School of Public Service |
| FPEMP | Fiscal Policy Expenditure Management Program |
| GDP | Gross Domestic Product |
| GOES | Government of El Salvador |
| IDB | Intern-American Development Bank |
| IPSAS | International Public Sector Accounting Standards |
| IT | Information Technology |
| LACAP | Salvadoran Public Procurement Law |
| MINED | Ministry of Education |
| MINSAL | Ministry of Health |
| MOF | Ministry of Finance |
| MTEF | Medium-Term Expenditure Framework |

| | |
|-------|--|
| MTFF | Medium-Term Fiscal Framework |
| MTIF | Medium-Term Institutional Framework |
| OTA | Office of Technical Assistance of the United States Treasury |
| PAAC | Annual Procurement Plan module |
| PFM | Public Fiscal Management |
| ROB | Result Oriented Budget |
| SAFI | National Financial Management System |
| SITEP | Treasury Revenue System |
| TSA | Treasury Single Account |
| UNAC | MOF National Procurement Office |
| USAID | United States Agency for International Development |

EXECUTIVE SUMMARY

The United States Agency for International Development (USAID) signed a contract with DAI Global, LLC on April 27, 2017 to continue improving public financial management practices, increase domestic revenue mobilization and generate additional revenue for the public sector in El Salvador.

The purpose of the Domestic Resource Mobilization Project is to support a technical assistance program to the Government of El Salvador's (GOES) Ministry of Finance (MOF) in the areas of tax policy, public administration, public expenditure and revenue management systems, and public-private dialogue between the government, the private sector, and the civil society. The main counterpart for these activities is the MOF.

The Project has four main components. These are:

1. Component 1: Budget Planning and Preparation Improved
2. Component 2: Budget Execution Improved
3. Component 3: Tax Policy and Administration Improved
4. Component 4: Transparency and Public-Private Dialogue on Fiscal Policy Strengthened

Highlights for the first quarter of Fiscal Year 2018 (and third quarter of Project implementation), October to December 2017, are listed below.

Quarterly results/highlights

- Expenditure quality assessment for the health sector reviewed and adjusted
- Roadmap for the 10-month intervention of ROB implementation in MINSAL developed
- DGT administrative and functional reform proposal drafted
- IPSAS training to national hospitals delivered
- IPSAS Training to GOES decentralized institutions delivered
- IPSAS Training on superior financial instruments to MOF directorates involved in SAFI II development and decentralized GOES Institutions delivered
- Training on COMPRASAL II PAAC Formulation, PAAC Execution and Libre Gestion modules delivered
- Overview of COMPRASAL II for Court of Accounts
- Development of e-learning modules for COMPRASAL II training
- Study Tour to Uruguay to learn about their experience on Public Procurement
- Development of a conceptual model for the Public Investment System
- Study tour to Argentina about simplified tax system implementation
- Fiscal Amnesty Law went into effect
- Development of a Draft of a Customs Fraud and Crime Enforcement Rule

- Development of an assessment of customs audit operation
- Proposal to redesign the Public Procurement Ombudsman Portal
- Communication strategy with GOES, Legislative Assembly, Private and Civil Society groups to get buy-in for key reforms approval
- Development of a communication strategy with GOES, Private and Civil Society groups to get their feedback from fiscal reforms proposals and implementations
- Agreement of a Cooperation Program with ENAFOP for GOES trainings
- Coordination of activities with other USAID Projects
- E-learning workshop for MOF Directorates
- Signing of contract with TechChange
- Development, submission and approval of the Project FY2018 Work Plan

Other Activities in progress

- Support the implementation of Results-Oriented Budget in MINSAL
- Review and adjustment of the expenditure quality assessment for the education sector
- Development of a training plan for DGP staff on Results-Oriented Budget formulation and implementation
- Development of a Magazine of Public Financial Management subjects in collaboration with the MOF
- Development of e-learning modules for Medium-Term Frameworks and Results-Oriented Budget Implementation
- Study Tour to Mexico to learn about their experience on Budget Monitoring & Evaluation
- Review and draft of a new AFI Law reform proposal
- Support the DGCG administrative and functional reform implementation
- Development of the SAFI II Government Accounting Subsystem
- Development of the SAFI II Treasury Subsystem
- Integration of the COMPRASAL II, SAFI II Budget, Accounting and Treasury Subsystems
- Implementation of COMPRASAL II *Libre Gestión* and PAAC modules
- Development of COMPRASAL II Contract Management Module
- Development of e-learning modules for the COMPRASAL II trainings
- Training on Use Cases development for the DGICP
- Support the approval of the Simplified Tax System proposal
- Support the approval of the administrative tax arrears collections bill
- Training on use cases development for the DGT, DGII and DGA
- Strengthening of the DGT Tax Arrears Collections Direction capacity to collect tax arrears
- CSMS II Tax Arrears Collections Module use cases development
- Support the review and development of a new conceptual model for the tax control process

- Support the development of the economic, fiscal and institutional presence maps
- Assessment of DGII training needs for the implementation of the new tax control system and tax arrears system implementation
- Collections Current Account Module within CSMS II
- Support the development of the use cases for the new SITEP
- Support the implementation of the e-filing system
- Assessment of the DGII Audit Unit
- Development of the DGA Administrative and Functional Reform proposal
- Draft of a Custom Code Proposal
- Development of a Customs Service Call Center and Customs Service Site
- Assessment of DGA training needs
- Development of a communication strategy with GOES, Private and Civil Society groups to get their feedback from fiscal reforms proposals and implementations
- Training on Public Procurement for Civil Society Institutions

COMPONENT I: BUDGET PLANNING AND PREPARATION IMPROVED

The Domestic Resource Mobilization Project supports the MOF in the implementation of Medium-Term Frameworks, a set of tools that will provide the Government with fiscal targets, data and instruments that must guide the budget ceiling, key budget programs and resource allocations. These frameworks will enforce a fiscal discipline that will help the GOES to achieve fiscal sustainability. Additionally, the Project supports the reform of the budget system. The new budget system will enforce the GOES institutions to develop budget programs with a full set of output, efficiency and economy indicators, helping GOES to improve public value creation and resource allocation and rationalization.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE QUARTER

- **Expenditure quality assessment for the health sector reviewed and adjusted** – The Project finished reviewing and updating the expenditure quality assessment for the health sector developed by the previous USAID assistance, the Fiscal Policy and Expenditure Management Program (FPEMP). The assessment was presented first to the International Donors Round Table that supports the MOF. All Donors agreed that the study was of high interest and that it will be a useful tool to develop better fiscal policies. Afterwards, the assessment was presented to the Budget General Directorate (DGP) authorities of the MOF and the Ministry of Health (MINSAL) authorities. The assessment identified the main sources of inefficiency in MINSAL's Budget Formulation and Execution and provided recommendations on how to address them. The current main problems of MINSAL are that they do not link their budget to their programs and objectives and they do not perform a proper monitoring and evaluation of their budget which results in unproductive allocation of resources. Similarly, MINSAL's information systems are not integrated and they are not being used as a source of information for the development of the budget. The Minister of Finance highlighted the quality of the assessment and the importance of implementing the recommendations made by the Project for MINSAL to improve the management of resources and have a more efficient budget allocation and service delivery.
- **Roadmap for the 10-month intervention of ROB implementation in MINSAL developed**– Following the assessment of the expenditure quality assessment for the health sector, the Project had meetings with technical staff from the Ministry of Health to coordinate the intervention that will be carried out to support the ROB implementation. As a result of these meetings a 10-month roadmap was developed. The roadmap marks the activities needed to correctly implement a Results Oriented Budget in MINSAL, taking into account the findings and recommendations of the expenditure quality assessment.

WORK IN PROGRESS

- **Support the implementation of Results-Oriented Budget in MINSAL** – In coordination with the IDB, the Project started supporting the implementation of the result oriented budget in the MINSAL based on the findings of the expenditure quality assessment and following the roadmap developed by Project and MINSAL technical staff. The Project had several meetings with MINSAL authorities and technical staff to identify what are the specific problems where technical support is more needed and help to fix these problems.
- **Review and adjustment of the expenditure quality assessment for the education sector** – The Project continued reviewing and adjusting the expenditure quality assessment for the education sector that FPMP developed. Project technical team is reviewing FPMP conclusions and recommendations and is adjusting them based on new data available and Project technical staff experience.
- **Development of a training plan for DGP staff on Results-Oriented Budget formulation and implementation** – The Project started working closely with DGP to review their 2018-2020 training needs. This includes both classroom training and the development of e-learning modules that are expected to be delivered starting the second quarter of FY2018.
- **Development of a Magazine of Public Financial Management subjects in collaboration with the MOF** – As part of the Change Management Strategy in Component I, the Project started working with MOF Communications department to issue a magazine on different Public Financial Management subjects. The magazine will have articles written by MOF managers and the Project's technical staff. It is expected that the magazine's first issue will be ready by next quarter and it will be developed both in print and digital formats.
- **Development of e-learning modules for Medium-Term Frameworks and Results-Oriented Budget Implementation** – The Project held meetings with DGP to define a schedule for e-learning training for Medium-Term Frameworks and ROB implementation. To facilitate the development of the e-learning modules, the Project delivered a seminar on how to develop e-learning materials, the seminar was attended by staff from DGP who are developing a course for the e-learning modules. The Project expects the materials will be ready by next quarter; by then, the courses will be updated to an e-learning platform.
- **Study Tour to Mexico to learn about their experience on Budget Monitoring & Evaluation** – The Project started organizing a study tour to the Mexican National Council for the Evaluation of Social Development Policy (CONEVAL, in Spanish) for four authorities of the Salvadoran MOF where they will learn about the CONEVAL's experience in the development of Budget M&E methodologies and Budget M&E information systems needed for the proper implementation of ROBs. The study tour will take place in January 2018.

NEXT STEPS

- **Development of a Medium-Term Expenditure Framework Implementation Assessment** – The Project identified the current situation of the MTEF implementation, which only has a methodological document that has not been implemented yet; the Project will review the methodology and provide feedback and recommendations for its improvement. The Project will also identify the possible difficulties to implement the MTEF and will plan the different activities to improve the development of the Medium-Term tools.
- **Development of a Medium-Term Institutional Framework Implementation Assessment** – The Project identified the current situation of the MTIF, which only has a methodological document that has not been implemented yet; the Project will review the methodology and provide feedback and recommendations for its improvement. The Project will also identify the possible difficulties to implement the MTIF and will plan the different activities to improve the development of the Medium-Term tools.
- **Deliver training to GOES staff on MTIF development** – Beginning in February, the Project will conduct three, 4-hour trainings program on MTIF development, for over 3,600 employees throughout the Central Government. In addition, the Project will do more in-depth training for DGP staff.
- **Development of a Public Expenditure and a Revenue Forecasting Model for MTEF**– The Project will develop a model for MTEF forecast that will estimate more accurately future public revenues and expenditures.
- **Support the implementation of Results-Oriented Budget in MINSAL** – The Project, in coordination with the IDB, will continue supporting the implementation of results oriented budget in MINSAL, based on the findings of the expenditure quality assessment and following the roadmap developed by the Project and MINSAL’s technical staff.
- **Review and adjustment of the expenditure quality assessment for the education sector** – In the next quarter, the Project will finish reviewing the expenditure quality assessment for the education sector that FPMP started. The Project will present the main findings and recommendations of the document to the MINED and MOF authorities, in order to support the approval of the recommendations derivate from the study. Once approved, the project will support with the IDB the implementation of the recommendations made in the assessment to strengthen MINED’s capacities to properly formulate the budget and allocate resources in a way that will not only save GOES money but also will improve public value creation.

COMPONENT 2: BUDGET EXECUTION IMPROVED

The Domestic Resource Mobilization Project supports the MOF in improving cash management practices through the implementation of an advance Treasury Single Account (TSA), a cash projection tool and a new legal model for contracting and monitoring banking services, modernizing government accounting through the adoption of the International Public Sector Accounting Standards (IPSAS), developing a sound public procurement electronic system and enhancing its financial management information system. Additionally, the Project supports the GOES in the improvement of the oversight and accountability of its institutions through the strengthening of the Court of Accounts.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE QUARTER

- **DGT administrative and functional reform proposal drafted** – The Project conducted an assessment of the current DGT organizational structure and made a reform proposal to prepare DGT to successfully implement the TSA, improving cash management IT systems, cash flow forecast tools, and a Budget Commitment Installment System. The proposal is currently being reviewed by the MOF Viceminister. The Project will support its approval and implementation of the reform once approved.
- **IPSAS training to national hospitals delivered** – The Project finished the IPSAS training to the national hospitals and decentralized entities. The training was on accounting conceptual model and government accounting system model, property and cost module (IPSAS 11, 12, 16, 17, 21, 27, 31 and 31), presentation of financial statements, chart of accounts and income (IPSAS 1, 2, 3, 10, 14, 18, 22, 24, 33, 9 and 23), consolidation (IPSAS 20, 34, 35, 36, 37 and 38), related parties (IPSAS 5, 13, 19 and 26), provisions (IPSAS 29) and basic financial instruments (IPSAS 3, 9, 12, 16 y 26). Sixty-six (66) accounting staff from 30 national hospital were trained on these topics.
- **IPSAS Training to GOES decentralized institutions delivered** – The Project delivered training to GOES ministries on presentation of financial statements, chart of accounts and income (IPSAS 1, 2, 3, 10, 14, 18, 22, 24, 33, 9 and 23). Seventy (70) accounting staff from different GOES ministries were trained on these topics.
- **IPSAS Training on superior financial instruments to MOF directorates involved in SAFI II development and decentralized GOES Institutions delivered** – The Project delivered IPSAS training on superior financial instruments to MOF directorates involved in the SAFI II development and to some decentralized entities. Decentralized entities were chosen based on their involvement in the management of complex financial instruments. Sixty-four (64) financial personnel from these institutions were trained on this topic during the reporting period.
- **Training on COMPRASAL II PAAC Formulation, PAAC Execution and Libre Gestion modules delivered** – From October to December, Project delivered training on

COMPRASAL II to 346 personnel from eleven GOES institutions and one municipality¹. The trainings were delivered by the MOF National Procurement Office (UNAC) personnel and by the end of December twelve new GOES institutions were trained on COMPRASAL II implementation, from which five have successfully started with the implementation process on their procurement procedures.

- **Overview of COMPRASAL II for Court of Accounts** – In December, the Project facilitated the delivery of a 4-hour overview of COMPRASAL II system for 40 auditors from the Court of Accounts. The presentation had a good reception among the participants and as a result the Court of Accounts requested additional in-depth training for their procurement personnel.
- **Development of e-learning modules for COMPRASAL II training** – The Project started working on the design of the e-learning program to improve MOF's Moodle platform and to develop/convert existing programs to the e-learning platform. The first e-learning training modules successfully developed are COMPRASAL II PAAC and *Libre Gestión* modules. During the reporting period, the Project worked closely with MOF Training and Capacity Building Department and UNAC to coordinate and support the development of the e-learning programs for the upcoming training. The Project also started working with UNAC and DINAFI personnel to create the training simulation for the e-learning platform.
- **Study Tour to Uruguay to learn about their experience on Public Procurement** – In November, the Project organized a study tour to the Uruguayan State's Procurement and Contracting Agency (ACCE for its Spanish acronym) to learn from their experience in implementing the vendors' registration system and control, framework agreements and reverse auction. The study tour was attended by the UNAC director and other three UNAC personnel, as well as by USAID officials. It is expected that the lessons learned in this study tour will help the MOF in the implementation of a sound vendors' registration system as well as framework agreements and reverse auction, to boost GOES efficiency on public procurement.
- **Development of a conceptual model for the Public Investment System** – The Project developed a conceptual model for the new Public Investment System that will help the GOES in the improvement of public investment projects formulation, execution and M&E, improving the processes and procedures of the GOES investment policy. The model is currently being discussed and reviewed with the General Directorate for Public Investment and Credit (DGICP) authorities. The model will serve as the foundation for the development of the Public Investment Subsystem within SAFI II. It is expected that the new investment system corrects all the problems, inconsistencies and delays that the Salvadorian public investment currently has.

¹ The twelve institutions are: National Institute of Pensions for Public Employees, Ministry of Government and Territorial Development, Salvadoran Institute for Municipal Development, Salvadoran Institute for Teachers Welfare, Salvadoran Institute for Integral Rehabilitation, Salvadoran Institute for Agrarian Transformation, Municipality of Soyapango, Ministry of Culture, Inter-municipal Association of El Salvador, National Public Security Academy, Attorney General Office and Ministry of Public Works.

WORK IN PROGRESS

- **Review and draft of a new AFI Law reform proposal** – The Project continued drafting a new AFI Law reform proposal taking as reference the reform proposal developed by FPEMP and MOF director's observations. The new proposal will comply with the Fiscal Responsibility Law (enacted in November 10th, 2016).
- **Support the DGCG administrative and functional reform implementation** – The Project started the development of an implementation plan including staff requirements, new areas roles and training programs of the approved DGCG. The plan will be completed during the next quarter.
- **Development of the SAFI II Government Accounting Subsystem** – The Project's IT Team continued developing the SAFI II Accounting Subsystem started by FPEMP, during the reporting period, a series of meetings between the Project and MOF personnel were held in order to discuss integration processes and to run some functional tests on the modules developed. By the end of this quarter, the Project reached 86% of software development, from the 53% left by FPEMP.
- **Development of the SAFI II Treasury Subsystem** – The Project continued with the development of the SAFI II Treasury Subsystem started by FPEMP. After reviewing the advancement status of the subsystem, DGT requested some changes to the Project COP in the use cases needed to integrate SAFI II Treasury and Government Accounting subsystems. Said changes were approved and Project IT Team started working on the required modifications, these new tasks will have an impact on the software development plan. This situation was properly explained to the Committee in charge of monitoring SAFI II Project, to DGT Director and Deputy Director. In December, a series of meetings between the Project and MOF personnel were held to discuss integration processes and to run some functional tests, which were performed in cooperation with DGT staff. The Project requested DINAFI to populate the tables for the subsystem in order to run more realistic tests in the next months. During the reporting period, Project's IT Team finished programming the codes necessary to link the SAFI II Treasury Subsystem with the Central Bank's payments system. To the end of the quarter, Project reached 73% of software development, from the 55% left by FPEMP.
- **Integration of the COMPRASAL II, SAFI II Budget, Accounting and Treasury Subsystems** – During this quarter, the Project had several meetings with MOF personnel regarding SAFI II Accounting and Treasury subsystems integrations with SAFI II Government Budget, Investment, Payroll and Public Debt subsystems and COMPRASAL II. The Project discussed with the MOF the integration of the budget availability certificate and the budget commitment installment, both of which are part of the public procurement flow that is initiated with the receipt of goods and services in COMPRASAL II. Additionally, the necessary criteria to establish the communication mechanisms for the integration of SAFI II Accounting and Treasury Subsystems with MOF Public Investment System were created, the Project now has all the necessary input to start the integration of these modules and will work on its development in the following

months. On the other hand, in order to ensure the full development of the modules needed for the integration of the SAFI II subsystems, Project COP requested the MOF to assign to DPEF the role of coordinating the SAFI II development to guarantee that DINAFI complies with the deliverables. The Vice-Minister agreed and now the DPEF is coordinating the system development. From then on, the Project has coordinated efforts with DPEF to solve the SAFI II development issues. The challenges continue being budget, payroll and public debt data loading system, which are being developed by the MOF. The Project insisted that the final version of the data structure and business rules for the Budget, Investment, Payroll and Public Debt System must be submitted to the Project by January 31st in order to start developing the Integration Modules. If the MOF fails to meet the date, the SAFI II will not be deployed in January 2019. The DPEF Director promised to guarantee that the System requirement will be provided before the end of January 2018.

- **Implementation of COMPRASAL II Libre Gestión and PAAC modules** – The Project followed up the implementation of the PAAC and *Libre Gestión* modules in all public institutions. The software is ready to be deployed in a production environment. In December, UNAC sent an instruction to all GOES entities which makes the use of “*Libre Gestión*” module mandatory for all public institutions. Additionally, the Project met with the Court of Accounts to establish cooperation on the implementation of COMPRASAL II PAAC and Libre Gestión Modules by all Public Institutions. The Project also held a meeting with the Director of UNAC to suggest some reforms to the Cooperation Agreement between the Ministry of Finance and the Court of Accounts. The reforms the Project suggested would facilitate the implementation of COMPRASAL II system and its adoption by all government institutions.
- **Development of COMPRASAL II Contract Management Module** – The Project and UNAC began to elaborate the use cases for the COMPRASAL II Contract Management Module. Project also started to coordinate a functional test of the developed parts of the module to guarantee the quality, security and performance of the new module. Once the module is developed, Project and UNAC will train public institutions on its use.
- **Development of e-learning modules for the COMPRASAL II trainings** – The Project started to design the e-learning program to improve MOF’s Moodle platform and to develop/convert existing COMPRASAL II programs to the e-learning platform. The Project will also work with DINAFI to create a training simulation for trainees. The Project expects to complete the PAAC and *Libre Gestión* e-learning modules by Quarter 2 of FY2018. Change Management Team will continue working closely with the MOF Training and Capacity Building Department to coordinate the development of the e-learning programs.
- **Training on Use Cases development for the DGICP** – The Project’s IT Staff, with support from Project Change Management Team, continued delivering training in use cases development to the DGICP staff to explain the Project standard and engineering processes for development of software requirements. It is expected that the training will provide them with an adequate methodology to start the use cases design for the SAFI II Public Investment

Subsystem that will be developed by the Project during the second and third year of implementation.

NEXT STEPS

- **Implementation of the DGT administrative and functional reform proposal** – Once approved, the Project will support the implementation of the administrative and functional reform proposal for the DGT in order to prepare the Directorate to manage the new treasury system under the advance TSA model.
- **Development of an inventory of GOES bank accounts for TSA implementation** – Even though the DGT has centralized most of the GOES payment process, an important number of bank accounts remains open at GOES entities. The project will support the development of a bank accounts inventory to determine the unnecessary bank accounts at the GOES entities and will recommend a plan for their closing and integration to the TSA. The closing of some bank accounts will depend on the AFI Law reform approval.
- **Development of a Conceptual Model for a new cash flow projection tool** – The Project will elaborate a conceptual model for an electronic cash flow projection tool. The tool will help the DGT in the cash forecast that must support the budget commitment installment.
- **Review and draft of a new AFI Law reform proposal** – During the next quarter, the Project will continue working in the draft of a new AFI Law reform proposal. The Project will continue having meetings with DGT, DGP, DGICP and DPEF authorities to review the proposal with them and include their recommendations. With support of the Project, the GOES will have a consistent law that will follow best international practices and that will provide the legal basis for the implementation of all the other public financial management reforms.
- **Support the implementation of the DGCG administrative and functional reform** – The Project will continue with the development of the implementation plan for the DGCG administrative and functional reform. Extensive support will be provided to DGCG in the administrative and functional reform implementation in a way that will prepare them to successfully support IPSAS adoption.
- **Development of the SAFI II Government Accounting Subsystem** – In the following months, the Project will continue developing this software and requesting to DINAFI the delivery of the completed Budget Subsystem and other elements that are required to start the integration between all the SAFI II subsystems and the COMPRASAL II software. The Project will also continue running functional tests on the developed modules.
- **Development of the SAFI II Treasury Subsystem** – In the next months, the Project will continue developing the Software and requesting to DINAFI the delivery of the completed Budget Subsystem and other elements that are required to start the integration between all the SAFI II Subsystems and the COMPRASAL II software. The Project will also continue running functional tests on the developed modules.

- **Support DGICP in the adjustment of the Public Debt Management Module** – The Project will start supporting the DGICP in the adjustment of the Public Debt Management module use cases to integrate them with the others SAFI II Subsystems. The Public Debt Management module needs to be integrated with others SAFI II Subsystems (i.e. Treasury, Accounting, Budget) for the GOES to have a highly productive and effective financial system and to be able to continue with the public financial management reforms.
- **Integration of the COMPRASAL II, SAFI II Budget, Accounting and Treasury Subsystems** – The Project will continue requesting DINAFI to finally complete and deliver the SAFI II Budget Subsystem. In the meantime, the Project will continue making the necessary adjustments for the correct functioning of COMPRASAL II and for its integration with SAFI II Subsystem. The Project will also continue running functional tests on the modules with which the integration process has started.
- **Support the testing of COMPRASAL II *Licitaciones, Concursos Públicos y Contratación Directa* module** – The Project will provide technical assistance to UNAC to guarantee the quality, security and performance of the new COMPRASAL II *Licitaciones, Concursos y Contratación Directa* Module, this will ensure that the new developed module meets the functional requirements established by the use cases given by UNAC for its development. Additionally, the trial process will allow to verify the correct functioning of the module considering the following aspects: 1) Fulfillment of information security requirements, 2) Availability in the most used browsers, 3) Operational capacity to provide the service to the expected number of users, and 4) System operation with normal average load during high and low seasons.
- **Support the implementation of COMPRASAL II *Libre Gestión* and PAAC modules**– Starting in January, the Project will start delivering training on COMPRASAL II to twenty-seven additional public institutions. The trainings will be delivered by UNAC personnel and consultants hired by the Project will support UNAC in delivering training and implementation of PAAC Formulation, PAAC Execution and *Libre Gestión* modules for these new institutions.
- **Follow up the approval of the LACAP reform proposal** – In the following months, the Project will continue providing technical support to UNAC in the approval of the LACAP reform proposal that includes new procurement procedures. At the moment, the proposal continues being reviewed by the Viceminister of Finance’s Office. The Project will assist the MOF Viceminister to solve any queries and update the modifications that may arise from the revision, and then, after 2018 elections and the new Legislative Assembly is established, Project will aid with the revision and approval of the bill.
- **Training on COMPRASAL II for Court of Accounts** – In January, Project will deliver a 4-hour training on COMPRASAL II system for almost 70 procurement personnel of the Court of Accounts, it is expected that with this training the staff will be more familiarized with the system when public institutions start implementing it, which will allow them to perform better audits and have more control over public procurement.

- **Develop an assessment of the Court of Accounts Audit Practices** – In the next quarter, the Project will perform an assessment of the Court of Accounts audit practices to analyze their capacity to control public expenditure and will provide recommendations for its improvement.
- **Development of e-learning modules for IPSAS training** – Since it might not be necessary to develop the e-learning modules for IPSAS training until FY2020, the Project Accounting Specialists have proposed to continue the classroom training to complete the current cycle of training for those Ministries where a large portion of the personnel has already been trained.
- **Development of e-learning modules for the COMPRASAL II trainings** – In the next months, the Project will start supporting UNAC with the development of e-learning materials for upcoming trainings. The Project will also assist in developing e-learning materials (content) and work directly with different ministries as on-the-job coaches to foster the implementation of the project. MOF Training and Capacity Building Department will provide support to record the audiovisual materials for the developed e-learning programs. Next quarter, the Project will also develop an e-learning module on the use of COMPRASAL II operating manual. The Project is expecting to run pilot tests for COMPRASAL II PAAC, *Libre Gestión* and operating manual's e-learning modules in the second quarter of FY2018.

COMPONENT 3: TAX POLICY AND ADMINISTRATION IMPROVED

The Domestic Resource Mobilization Project supports the MOF in the broadening of the tax base and compliance effort, supports the improvements of the tax administration and enforcement and the strengthening of the operational capacity of the Customs Administration.

KEY ACCOMPLISHMENTS / HIGHLIGHTS FOR THE QUARTER

- **Study tour to Argentina about simplified tax system implementation** – In October, the Project organized a study tour to the Argentinian Federal Revenue Administration (AFIP in Spanish), for two DGII authorities and DPEF Director where they learned about the Argentinian experience in the implementation and administration of a simplified tax system that follows the international best practices. This experience will help the MOF in the possible implementation of a simplified tax system for micro and small business.
- **Fiscal Amnesty Law went into effect** – The Fiscal Amnesty Law went into effect on October 27th, 2017 for taxpayers in El Salvador. This law allowed taxpayers the opportunity to pay their delinquent taxes owed without penalties and/or interest. This amnesty was launched as an incentive to taxpayers for a period of 90 days. The MOF also launched the electronic payment capability for collecting delinquent debts through their website. The Project suggested for Collections Directorate's Call Center to initiate massive calls to delinquent taxpayers to inform them of the tax relief and assist them to voluntarily pay, without doubts this produced a massive reaction from the taxpayers to take advantage of the opportunity. As a result of current and past USAID assistance to the DGT tax arrears collections direction and the creation of the call center, there was a wider outreach and more taxpayers were able to rely on the amnesty which resulted in increased revenues. As a result of the Amnesty Law, the Collections Directorate reported preliminary revenue collections of **\$41,164,876.77** as of December 31, 2017. Normal preliminary figures for revenue collections for 2017 show a total of **\$36,863,150.65**. Concrete figures will not be known until all bank deposits are taken into account, by the end of January.
- **Development of a Draft of a Customs Fraud and Crime Enforcement Rule** – The Project finished drafting a Customs Fraud and Crime Enforcement Rule. A presentation of the reform proposal was made to the Vice-minister of Revenue, which was received positively and it is being reviewed for approval. Defrauding and smuggling are very common in most of Central American countries, thus, GOES needs to improve its customs control mechanisms and strength customs law enforcement; this would help to have better control, avoiding smuggling and defrauding.
- **Development of an assessment of customs audit operation** – The Project developed an assessment of the Customs audit process to present a proposal for the implementation of a

customs fraud breakdown program. The Project developed a new model that identified a large share of importers and exporters with discrepancies in amounts of merchandise reported between El Salvador and other Central American countries, Risk Maps were constructed around this information and a presentation of the new maps, data mining cross-referencing system and case selection process was made to the Vice-Minister of Revenue and the Customs Director. The Customs Director is reviewing the findings and the strategy and will render a decision in the next quarter.

WORK IN PROGRESS

- **Support the approval of the Simplified Tax System proposal** – The Project staff had several meetings with the Vice-Minister of Revenue and MOF legal experts to review the proposal of a simplified tax system for micro and small businesses developed by the Project. The Viceminister agreed with the proposal, nevertheless, minor adjustments will be done and then discussed on early January 2018 to be ready for presentation to the Minister of Finance. The proposed system simplifies the compliance rules on income and value added tax for micro and small businesses, helping them to enter to the formal economy and increasing GOES revenues.
- **Support the approval of the administrative tax arrears collections bill** – During the quarter, the Project continued supporting the review and adjustment of the tax arrears collection bill in order to guarantee full attachment of the bill to the Salvadoran Constitutions, legal system and international best practice. A final draft was agreed and the MOF authorities will submit it to the Legislative Assembly once the new congress is in place after 2018 elections.
- **Training on use cases development for the DGT, DGII and DGA** – The Project continued delivering trainings on use cases development to staff from the General Directorates of Customs, Treasury and Internal Revenues to explain them the Project standard and engineering processes for software development requirements. During the trainings, the Project's IT Staff has provided full support to ensure that the requirements are solidly formulated, allowing for the proper development of a software. The trainings were expected to finish by October but it was deemed necessary to extend the period of training as Project IT team realized that MOF staff needs more training than initially expected. With this training MOF staff will be able to properly design use cases for software development facilitating their work and the Project's IT staff code programming.
- **Strengthening of the DGT Tax Arrears Collections Direction capacity to collect tax arrears** – The DGT Tax Arrears Collections Direction has been very successful in increasing revenues for the past three months, this is partly attributable to the strategy of inventory stratification implemented with support of the Project in the previous quarter and to the Tax Amnesty Law that went into effect on October. For the period from May to November of this year, total collections have increased of approximately 41% over the same period from last year (**\$17 million** in 2016 and **\$24 million** for 2017). The Direction has identified gaps on the follow-up of the cases coming from DGII and Customs, some of these cases were not

identified timely and have been in the system without actions for a long time. The Collections Director is currently perfecting these cases to put them into production so the pending accounts can be collected.

- **CSMS II Tax Arrears Collections Module use cases development**– As result of the training in use cases development, personnel from DGII, DGT and DGA began building screens and programming specifications to build the different modules that will comprise CSMS II. The Collections Management Information Module within CSMS II will aid management to effectively allocate work and resources to attain higher revenues and the integration of the Master File of Current Account with Collections module will resolve many of the issues related to perfecting taxpayers tax debt entrance into the Collections process, starting the collection of delinquent debt quicker. This quarter, use cases for a Performance Indicators’ sub-module were developed within the CSMS II Collection module.
- **Support the review and development of a new conceptual model for the tax control process** – The Project continued to work with DGII in building the framework for the new data mining, case selection and audit model developed by the Project. DGII officials and the Project worked in completing the preliminary steps to implement the data mining strategy. A server will be procured to house the data that will be secured from information returns and external sources. A software package developed by another donor was identified to manipulate and organize the data, so the case selection process can be achieved and the cases be expeditiously put into production. With the help of the Project, internal tax information forms are being revised and expanded to secure much more information that will be used to detect evaders. The Project also met with Directors of DGII Planning, Audit and Case Selection Units to discuss the creation and building of Performance Indicators that will be used to measure the new fiscal process. DGII officials stated that they developed some indicators in the past with support from the German Cooperation, but these were never implemented. The previously created indicators will be reviewed for implementation, along with other basic indicators that the Project will help to develop. Once the indicators are ratified, the Project will start the process of conceptualizing parameters to build an indicators’ module within CSMS II for audit.
- **Support the development of the economic, fiscal and institutional presence maps**– The Project continued to assist DGII in their efforts to fully implement the Risk Model Maps suggested under FPMP, previously. Pilot tests for the new fiscal and institutional maps were already conducted and they were institutionalized in 2017. Only peripheral actions remain to complete, such as a series of follow-up meetings that were held with DGII personnel to ensure that activities and tasks related to data mining to determine risk and case selection advance toward the completion of the Maps.
- **Assessment of DGII training needs for the implementation of the new tax control system and tax arrears system implementation** – The Project gathered equipment and training needs from DGII, based on the training needs that were identified, the Project started working with MOF Training and Capacity Building Department to determine which programs can be provided internally and which courses the Project will support. The training needs focus

on management and technical skills. Also, the equipment DGII needs would enable them to further implement the Risk Model Maps suggested by the Project, which will be fully institutionalized in 2018. The Project additionally identified the e-learning needs for public fiscal auditors. The Project identified a training need to improve the performance of the fiscal auditors in completing the on-line process for the audits. MOF Training Department will provide support to help them develop the program of e-learning. The department has developed an effective classroom course for fiscal auditors, but they need to reach a wider audience for which the e-learning platform will be useful. Project will support the Department to create the e-learning modules.

- **Collections Current Account Module within CSMS II** – The Project organized a meeting with authorities from DGA, DGII and DGT (Collections) to coordinate the integration of the Current Account in CSMS II. All accounts from these directorates, whether paid or in arrears, should be funneled through a unified Current Account in order to have a transparent control and for the unpaid accounts to meet all legal requirements for the Collections Directorate to be able to collect them immediately after the accounts are assigned to this Directorate. Currently, DGII is the only directorate with an organized section to perfect the arrear accounts before they reach Collections. DGII also keeps a repository or database that allows them to issue “solventias” when these are requested by taxpayers. A “solventia” is a certification by the DGII on behalf of the Ministry of Finance that shows that a taxpayer does not have any pending tax issues. The DGA does not currently have a section that handles these accounts, therefore, this process will be reviewed by the Project to determine how it could be improved. It was decided that DGII will be the best to handle the integrated Current Account. The involved areas of the three Directorates will start meeting at the beginning of next quarter to start developing the use cases for the module making use of the knowledge acquired in the trainings on use cases, after that, the Project can start to program the use cases in CSMS II.
- **Support the development of the use cases for the new SITEP** – The Project had a meeting with OTA and DGT personnel to start working in the development of the use cases needed for the SITEP migration plan. OTA was required to deliver a description of the development strategy, they prepared the document and sent it to Project IT Team, DGT also provided the list of use cases for each module that they have identified. After reviewing DGT’s use cases and OTA’s development strategy, the Project came up with a preliminary development plan for SITEP that attends DGT’s priorities and requests. Additionally, the Project has started the process of training DGT personnel on SITEP’s development strategy, delivering a JAVA training to DGT programmers, the training will continue in the next months. Most of the sessions are being recorded to be used as a resource to create an e-filing module in 2018. To date, at least the 70% of the training has been completed. The Project will continue providing technical support in the use cases development on the next quarter.
- **Support the implementation of the e-filing system** – This quarter, DGII continued the implementation of the e-filing system for Income Tax Returns and VAT Taxes. DGII also launched e-filing for some third-party data returns. It is expected that the Directorate will be

launching additional returns for e-filing after the IT equipment the Project will provide them is delivered by the second quarter of FY2018.

- **Assessment of the DGII Audit Unit** – The Project followed-up on the progress of the Internal Audit Unit that was created under DGII by recommendation of previous USAID assistance, Tax Policy Administration Reform (TPAR) Project. The Project realized that the Unit did not conduct the agreed audits during this period. Project found that there is a separate Internal Audit Unit under the Transparency and Anticorruption Unit with about 20 auditors who have been conducting many audits for several years. The Project conducted an assessment of needs for this Unit, one of the areas where the Unit has requested support is training. Starting next quarter, the Project will work with this Unit to determine additional needs and provide technical assistance. In the meanwhile, the Project will develop a managerial workshop for the Unit, according to the needs identified in the assessment, the training will focus on two areas: provide a management training overview distinguishing the difference between a manager and a leader, and working with managers from audit and tax collections to identify the information (reports) needed to be included in the new management information system.
- **Development of the DGA Administrative and Functional Reform proposal** – The Project developed and presented a proposal for an administrative and functional reform of the DGA to the Director of Customs and to the Vice-Minister of Revenue. They are currently reviewing the proposal and based on the feedback DGA provides, the Project will thoroughly revise the restructuring plan and Customs administrative processes to present a final proposal towards a more effective operation of Customs.
- **Draft of a Custom Code Proposal** – The Project experts in coordination with an attorney from DGA continued drafting the main articles for the Customs Code proposal. The draft is almost completed and the Project delivered a presentation to the Vice-ministers of Revenue and Finance on the progress of the Code, they were both very pleased with the Project's work. In December, a meeting was held with Customs Director to update him on the Code advances. He expressed to be very satisfied with the results and agreed with the Project COP that the review of the proposal will take place on February 2018.
- **Development of a Customs Service Call Center and Customs Service Site** – The Project was planning to support the approval and implementation of a Customs Service Site and Call Center under DGA during this quarter, but it was decided by the Project and DGA Director to wait until a proper assessment of the customs customer services was developed before starting the logistics for these two initiatives. The call center and the service site will provide information to customs users in a very expedite and low-cost way. The assessment will be conducted in the following months.
- **Assessment of DGA training needs** – The Project began discussions with DGA to finalize a Communications Strategy and to assess what their training needs will be. The Project is currently working with both MOF Training and Capacity Building and Communications Departments to define a strategy to meet all DGA training and communications needs. The Project also held meetings with DGA to define a training schedule, the Directorate asked for

support to communicate the improvements and educational activities to customers. The Project will follow-up accordingly to meet this need. Additionally, the Project initiated discussions with Guatemala's SAT Training Department to share information about the e-learning programs they are developing for Customs. The Project also started discussions with the IDB to be granted access to their e-learning programs for Customs, the IDB is agreeable to conducting some of their programs on a regional basis. This may be a valuable resource if El Salvador joins the Customs Union to which Guatemala and Honduras already belong.

NEXT STEPS

- **Support the approval and implementation of a simplified tax system for micro and small businesses** – Once the Project includes the adjustments required by the Vice-Minister of Revenue and MOF legal experts into the Simplified Tax System proposal, it will be presented to the Minister of Finance for approval.
- **Support the approval of the administrative tax arrears collections bill** – In the third quarter of FY 2018, once the new *diputados* are established after 2018 Legislative Assembly elections, the Project will resume support to the approval of the Tax Arrears Reform. The Project will organize presentations, technical discussion and study tours to advocate for the approval of the tax bill.
- **Support the MOF in the creation and establishment of a Fiscal Reform Unit within the DGII** – The Project will recommend the creation of a Fiscal Reform Unit that should be responsible for drafting and supporting the tax reforms requested by the GOES. This activity is planned to start during next quarter.
- **Training on use cases development for the DGT, DGII DGA** – In the next quarter, the Project will finish delivering trainings on use cases development to the DGT, DGII and DGA. During the trainings, the Project IT Staff will provide full support to ensure that the requirements are solidly formulated, allowing the proper development of a software.
- **Support the strengthening of the DGT Tax Arrears Collections Direction capacity to collect tax arrears** – In the following quarter, the Project will continue providing support to Tax Arrears Collections Direction to improve their capacity to collect revenues. The Project will also monitor the results of the strategies implemented until now to assess more opportunities of improvement.
- **Support the establishment of a Customer Service Center in the DGT Tax Arrears Collection Direction** – The Project will work with DGT Collections Direction to design and build a Customer Service Center to receive taxpayers that are in delinquent status. This Center will attend to taxpayers that respond to calls from the Collections Call Center and taxpayers contacted by administrative Collections. Next quarter, the Project will assess the present Customer Service processes to recommend enhancements before proceeding with design and implementation. The physical area for the Customer Service Center has been identified.

- **Development of CSMS II Tax Arrears Collections Module** – Once the use cases training finishes, the Project will support DGT Tax Arrears Direction in the use cases design of the CSMS II Tax Arrears Module.
- **Support the review and development of new protocols and models for the tax control process** – The Project will continue working with DGII officials to construct the framework around the recommendations made by Project and to ensure that activities and tasks related to data mining to determine risk and case selection advance toward the completion of the economic, fiscal and institutional presence maps. Project gathered training needs at DGII to facilitate the implementation of the new models and will be working with them to design the training work plan during the second quarter.
- **Support the development of the economic, fiscal and institutional maps** – In the following quarter, the project will continue support DGII in the development of the economic, fiscal and institutional maps for tax control.
- **Strengthening of the Fiscal Studies Unit** - The Project will support the strengthening of the DGII Fiscal Studies Unit. The Project will provide them training, equipment and software to create the economic map, perform accurate revenues forecasting's and better fiscal studies that help the Case Selection Unit to detect possible tax evasion cases.
- **Support the implementation of the e-filing system** – The Project expects to provide the equipment for e-filing deployment to DGII next quarter. Once the computer equipment is received, the MOF has committed to launch e-filing within two months.
- **Proposal to improve the effectiveness and visibility of the Internal Audit Units** – Next quarter, the Project will conduct an in-depth assessment of the Internal Audit Units under DGII and Minister of Finance with emphasis in internal controls and operational efficiencies and will provide recommendations for its improvement.
- **Development of the DGA Administrative and Functional Reform proposal** – The Project will thoroughly revise the restructuring plan and Customs administrative processes to present a final proposal towards a more effective operation of Customs. The reform will include a new call center to attend technical inquiries from Customs' users and a Service Center to attend customers with forms and inquiries. The final proposal will be presented in January 2018. If approved, the Project will start working in the design and implementation of the new reform and structure.
- **Support the approval of the Custom Code proposal** – The Project expects to conclude the development of the Code proposal by next quarter. Once finished, the Project will advocate for its approval with the DGA, Viceminister of Revenue and then the Legislative Assembly.
- **Support the approval and implementation of the Customs Fraud Crackdown Program** – If DGA Director approves the recommendation of the assessment of custom audit process, the Project will support the implementation of a customs fraud crackdown program as a way to improve the control of customs violations and facilitate trade.
- **Development of an assessment of the customs customer service** – As requested by DGA, during the next quarter the Project will develop an assessment of the customs customer

service. The assessment will highlight the main weaknesses and opportunities of improvement of the current Salvadoran customs customer service.

- **Development of the Customs Service Call Center structure** – Learning from previous USAID assistances experience with the implementation of a Tax Compliance Call Center under DGII and a COMPRASAL II Call Center under UNAC, the Project will support the approval and implementation of a Customs Service Call Center under DGA. These call center and service site will provide information to customs users in a very expedite and low cost way.

COMPONENT 4: TRANSPARENCY AND PUBLIC-PRIVATE DIALOGUE ON FISCAL POLICY STRENGTHENED

The Domestic Resource Mobilization Project supports the improvement of the public finance transparency and the strengthening of the dialogue between the public and private sector regarding fiscal issues. Project also supports the creation of new channels for citizen participation on fiscal matters.

ACTIVITIES/WORK IN PROGRESS

- **Proposal to redesign the Public Procurement Ombudsman Portal** – The Project started developing an assessment of the MOF Public Procurement Ombudsman to suggest a two-year work plan for upcoming activities. The Project also developed an initial proposal to redesign the actual Public Procurement Ombudsman, the plan and proposal was discussed with the UNAC Director who agreed with the plan and accepted most of Project suggestions to redesign and re-structure the Portal, UNAC is still evaluating its implementation and Project will discuss the proposal with UNAC Director again in January 2018.
- **Communication strategy with GOES, Legislative Assembly, Private and Civil Society groups to get buy-in for key reforms approval** – This quarter, the Project reached out to the Legislative Assembly and political parties leaders to schedule meetings to present and discuss many aspects of the Project's initiatives and reform proposals. Project is waiting for clearance from the Vice Ministry of Finance to have these meetings, as soon as Project has approval, a concrete communications strategy will be developed to support the fiscal stabilization of the country.
- **Development of a communication strategy with GOES, Private and Civil Society groups to get their feedback from fiscal reforms proposals and implementations** – With the goal of building a stronger relationship between the Project and different Government and private institutions, a series of meetings were held with various MOF authorities and universities academics that will help to establish a network for further cooperation. The Project also reached out to the Ministry of Economy to discuss many topics concerning the development of the Project activities such as Customs reform, e-filing system, simplified tax system, among others.

NEXT STEPS

- **Development of a communication strategy with GOES, Private and Civil Society groups to get their feedback from fiscal reforms proposals and implementations** – To continue the with the strengthening of the Public-Private Dialogue, the project has scheduled

a series of meetings with Civil Society organizations to reinforce the relationship with them and to start the discussion on a higher level of the Public Expenditure Reform the Project is supporting. On January 2018, the project will conduct a presentation to the National Association of Private Companies, National Association of Industrials and Salvadoran Foundation for Social and Economic Development.

- **Training on Public Procurement for Civil Society Institutions** – The Project is redefining a work plan for the implementation of COMPRASAL II system with different Civil Society Institutions, Goods and Services Suppliers and Government Institutions. With support from UNAC a work plan for training activities will be developed and it will include training for follow-up and evaluation of the implementation process in all GOES Institutions.

CROSS-CUTTING ACTIVITIES

This section includes a list of different topics, activities and events that affected the overall performance of the Project and each of its components during the quarter.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE QUARTER

- **Agreement of a Cooperation Program with ENAFOP for GOES trainings** – The Project reached out to ENAFOP to establish a new cooperation between institutions, the Director of ENAFOP is willing to work together with the Project and a cooperation work plan for upcoming training of GOES institutions in COMPRASAL II, SAFI II and ROB is under discussion.
- **Coordination of activities with other USAID Projects** – This quarter, the Project had the opportunity to meet with other USAID initiatives to coordinate activities and foster learning and sharing of experience. Project met with USAID Pro-Integridad Project which focuses on transparency and civic engagement to identify areas in which both projects have common interest, two primary areas were identified: COMPRASAL II and Accounting. Whereas our project focuses on the development of public systems to improve transparency and efficiency, Pro-Integridad Project focuses on public awareness issues, both projects will coordinate efforts in the future if pertinent. Project M&E Team met with USAID El Salvador Competitive M&E Director and Grants Manager to discuss and identify which of the Project activities may affect the competitiveness of medium, small and micro enterprises. It was agreed to hold meetings in the future to coordinate efforts and to foster experience and knowledge sharing. Component 3 Team and Change Management Team also met with personnel from USAID El Salvador Competitive Project and it was agreed that both projects will be working collaboratively to interact with El Salvador's private industry leaders to assist in bringing change and improvements in Customs to facilitate commerce.
- **E-learning workshop for MOF Directorates** – The Project conducted a one-day e-learning workshop for 36 course developers from all MOF Directorates. The workshop was organized by Project e-learning Development Specialist and focused on the basics of e-learning methodology and design. In the workshop, there were also participants from José Matías Delgado University and the National School of Public Training. DINAFI, MOF Training Department and Project e-learning specialist delivered presentations. A panel discussion was held at the end of the event where the participants shared experiences and e-learning activities. Feedback from the participants was excellent.
- **Signing of contract with TechChange** - The Project signed a contract with TechChange for the development of the e-learning modules of COMPRASAL II, ROB and Medium-Term Frameworks. TechChange will support the e-learning program providing a state of the art e-learning system that will support all the change management strategy. Project anticipates an initial capacity assessment meeting with TechChange in January.

- **Development, submission and approval of the Project FY2018 Work Plan –** Complying with the contract, the Project developed and submitted the FY 2018 Work Plan. The Work Plan explains very detailed the activities the Project will carry out during this fiscal year. USAID COR approved the Work Plan.

DOMESTIC RESOURCE MOBILIZATION PROJECT - PROGRESS TOWARDS EXPECTED RESULTS

| EXPECTED RESULT | PROGRESS |
|---|--|
| COMPONENT 1: Budget Planning and Preparation Improved | |
| 1. At least 75 percent all GOES entities (including all ministries) produce a Medium-Term Institutional Framework (MTIF) . | The DPEF is the responsible for the development of the MTFE, DGP is responsible for the development of the MTEF and GOES entities are responsible for the development of MTIF. That said, the Project will review the methodology and technical tools of the Medium-Term Frameworks and provide feedback and recommendations for their improvement, Project will also identify the possible difficulties to implement the frameworks and will plan the different activities to improve the development of the Medium-Term tools. |
| 2. Aggregate GOES expenditures have a variance less than 1 percent from planned budget on an annual basis. | Project continued developing the Treasury and Accounting subsystem within the SAFI II and supporting the deployment of the COMPRASAL II. Project also continued drafting a new AFI Law reform proposal that will include, among other thing, the implementation of budget commitment installments. Project also started supporting the improvement of the budget formulation practices in MINSAL for the ROB adoption. The Project plans to deliver similar training and assistance to the Ministry of Education, Public Works, Environment and Natural Resources, Agriculture and Livestock, Defense, and Security and Justice. All these ministries comprise aprox. 50.5% of the 2016 executed budget. |
| 3. Composition of GOES expenditure has a variance less than 1 percent from planned budget on an annual basis. | Project continued developing the Treasury and Accounting subsystem within the SAFI II and supporting the deployment of the COMPRASAL II. Project also continued drafting a new AFI Law reform proposal that will include, among other thing, the implementation of budget commitment installments. Project also started supporting the improvement of the budget formulation practices in MINSAL for the ROB adoption. |
| COMPONENT 2: Budget Execution Improved | |
| 1. 100 percent of all GOES entities using TSA | The Project conducted an assessment of the current DGT organizational structure and made a reform proposal for these structures to prepare DGT to successfully implement the Treasury Single Account System (TSA). Project will support the approval and |

| EXPECTED RESULT | PROGRESS |
|---|--|
| | implementation of the reform. On early 2018, the project will support the development of an inventory of existing GOES bank accounts that will be affected by the advance TSA implementation. |
| 2. Full integration of TSA sub-system with SAFI-II. | The Project continued with the development of SAFI II Treasury Subsystem started by FPMP. The subsystem is being developed fully integrated with the TSA. It is expected that, if MOF complete the Budget Subsystem by the end of January, the Project will have the Treasury Subsystem ready by mid-2018. |
| 3. MOF consistently produces a moving 12-month Cash Flow Projection | Project will start supporting this activity on third quarter of FY2018. The Project will carry out a study tour to Argentina for DGT official where they will learn about Cash Projection tools development and implementation. |
| 4. 100 percent of excess bank accounts reconciled and closed. | The Project conducted an assessment of the current DGT administrative and made a reform proposal for these structures to prepare DGT to successfully implement the Treasury Single Account System (TSA), Project will support the approval and implementation of the reform if approved. On early 2018 the project will support the development of an inventory of existing GOES bank accounts that will be affected by the advance TSA implementation. |
| 5. 100 percent implementation of SAFI-II in all GOES entities | The Project continued with the development of SAFI II Treasury and Government Accounting Subsystems started by FPMP. It is expected that, if MOF complete the Budget Subsystem by January 2018, the Project will have the SAFI II ready for deployment by mid-2018. |
| 6. 100 percent deployment of COMPRASAL II PAAC module and “Libre Gestión” modules to all GOES entities. | Project is continuing FPMP efforts of advocating for the enforcement of the RELACAP and the use of COMPRASAL II among public institutions. This quarter, Project supported UNAC in delivering training on COMPRASAL II <i>Libre Gestión</i> Module to GOES institutions, 12 entities were trained in PAAC Formulation, PAAC Execution and Libre Gestión modules in their procurement processes, next quarter 27 additional institutions will be trained. |
| 75 percent out of 262 municipalities implement SAFIM (These must include the 50 municipalities of <i>Plan El Salvador Seguro</i>). | Project has agreed with the MOF to conduct an assessment of the Municipal Integrated Financial System (SAFIM) in early 2019. Based on the assessment the Project will develop a workplan that will be discussed with the DGCG in order to start the |

| EXPECTED RESULT | PROGRESS |
|--|---|
| | improvement of the system and support its deployment across all municipalities. |
| <p>8. GOES' Ministries that manage at least 50 percent of the GOES Annual Operating Budget will be strengthened in public financial management.</p> | <p>The Project developed the public expenditure quality assessment for the health sector and started supporting the ROB implementation in the MINSAL. Project will continue developing the public expenditure quality assessment for the education sector. In addition, the Project will contact the Argentinean MOF to request their assistance in the delivering of a training for MINED and MINSAL on the development of a multi-year ROB for the education and health sectors. The Project plans to deliver similar assistance to the Ministry of Public Works, Environment and Natural Resources, Agriculture and Livestock, Defense, and Security and Justice. All these ministries comprise approx. 50.5% of the 2016 executed budget.</p> |
| <p>COMPONENT 3: Tax Policy and Administration Improved</p> | |
| <p>1. Contribute to the GOES' efforts to achieve a two percent increased tax revenue measured as a percentage of GDP over the baseline established at the end of calendar year 2017.</p> | <p>During the reporting period, the Project drafted a Customs Fraud and Crime Enforcement Rule that seeks to increase customs control and customs revenues. Additionally, the Project continued the drafting of a new Customs Code and supporting the improvement of DGII and DGA audit techniques. The Project also is supporting the implementation of a simplified tax system and administrative tax arrears collections. Moreover, the Project continues supporting the strengthening of the DGT Tax Arrears Collections Direction. These initiatives, among others, are expected to increase tax revenues.</p> |
| <p>2. Level of tax payer non-compliance reduced (Baseline provided by MOF statistics).</p> | <p>During the reporting period, the Project drafted a Customs Fraud and Crime Enforcement Rule that seeks to increase customs control and customs revenues. Additionally, the Project continued the drafting of a new Customs Code and supporting the improvement of DGII and DGA audit techniques. The Project also is supporting the implementation of a simplified tax system and administrative tax arrears collections. These initiatives, among others, are expected to reduce taxpayer's non-compliance rate.</p> |
| <p>3. All regulations and directives drafted to operationalize the proposed "Procedural and Tax Law Reform" bill.</p> | <p>After the new Legislative Assembly is established in June 2018, Project will resume FPEMP efforts of getting approval for the administrative tax arrears collections bill.</p> |

| EXPECTED RESULT | PROGRESS |
|---|---|
| <p>4. Tax revenues from customs declarations increased by 10 percent from 2017 baseline ratio.</p> | <p>In the reporting period, the Project continued the development of a new custom code that will allow the implementation of new customs control systems and will simplify the compliance cost for the taxpayers. Additionally, the Project drafted a Customs Fraud and Crime Enforcement Rule that seeks to increase customs control. Project also started drafting the DGA organizational reform proposal and in the next quarter will start supporting the improvement of the custom customer service.</p> |
| <p>5. Sharing of information between DGA and DGII increased.</p> | <p>Project is currently training DGA, DGII and DGT staff for the design of use case for the CSMS II customs modules and the integrated current account module.</p> |
| <p>COMPONENT 4: Transparency and Public-Private Dialogue on Fiscal Policy Strengthened</p> | |
| <p>1. Fiscal transparency improved, as measured by international rankings such as the World Bank Open Budget Survey scores and PEFA assessments.</p> | <p>Once Project IT staff finish the development of the SAFI II Treasury, Accounting and Investment Subsystem, they will start the upgrading of the MOF Fiscal Transparency Portal. These subsystems need to be developed first because the portal will take the information and data generated by those systems.</p> |
| <p>2. 100 percent increase in the number of visits to the MOF's Transparency Portal.</p> | <p>Although the Project won't start working in the improvements of the Fiscal Transparency Portal until early 2020, once SAFI II Treasury, Accounting and Investment subsystem are finished, the Project will organize events, presentations and other communications strategies that will increase civil society awareness on public finance issues. These activities will help to increase the annual number of MOF's Fiscal Transparency visitors.</p> |
| <p>3. 75 percent of 262 municipalities hosting a sustainable Municipal Fiscal Transparency Portal.</p> | <p>By the end of 2020, the Project will start the development of the new Municipal Fiscal Transparency Portal.</p> |
| <p>4. At least two events per year increasing dialogue among GOES, municipalities, civil society organizations, the private sector, and tax payers carried out.</p> | <p>The Project will resume the organization public events after March 2018 elections.</p> |

FINANCIAL INFORMATION (AS OF DECEMBER 31ST, 2017)

| FINANCIAL REPORT | | | |
|--|-----------------|--|-------------------------|
| BUDGET CHART (OCTOBER 2017 - DECEMBER 2017) DAI GLOBAL LLC - DOMESTIC RESOURCE MOBILIZATION PROJECT AID-519-C-17-00002 | | | |
| LINE ITEMS | BUDGET | INVOICED TO DATE (as of December 2017) | BUDGET AMOUNT REMAINING |
| TOTAL ESTIMATED COST | \$25,937,945.00 | \$2,316,418.27 | \$23,621,526.73 |
| FIXED FEE | \$1,556,277.00 | \$159,994.29 | \$1,396,282.71 |
| TOTAL ESTIMATED COST PLUS FIXED FEE | \$27,494,222.00 | \$2,476,412.56 | \$25,017,809.44 |

| FINANCIAL REPORT | | | | |
|--|-----------------|--|-------------------------|----------------|
| BUDGET CHART (OCTOBER 2017 - DECEMBER 2017) DAI GLOBAL LLC - DOMESTIC RESOURCE MOBILIZATION PROJECT AID-519-C-17-00002 | | | | |
| LINE ITEMS | BUDGET | INVOICED TO DATE (as of December 2017) | BUDGET AMOUNT REMAINING | % BUDGET SPENT |
| TOTAL BILLING | \$27,494,222.00 | \$2,476,412.56 | \$25,017,809.44 | 9.01% |
| TOTAL OBLIGATION | | \$6,433,544.18 | | |
| PERCENT OBLIGATION SPENT | | 38.49% | | |

| FINANCIAL REPORT | |
|--|----------------|
| BUDGET CHART (OCTOBER 2017 - DECEMBER 2017) DAI GLOBAL LLC - DOMESTIC RESOURCE MOBILIZATION PROJECT AID-519-C-17-00002 | |
| MUNICIPALITY | EXPENDED |
| SAN SALVADOR | \$2,476,412.56 |

Note: The Domestic Resource Mobilization Project has a nationwide presence. All the expenses of the Project are to strengthen the capacity of the GOES.