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El Salvador Fiscal Policy and Expenditure Management Program (FPEMP)

Quarterly Report
March – May 2016

June 2016

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

FISCAL POLICY AND EXPENDITURE MANAGEMENT PROGRAM (FPEMP)

QUARTERLY REPORT March - May 2016

Program Title: Fiscal Policy and Expenditure Management Program
Sponsoring USAID office: USAID/El Salvador Economic Growth Office
Contract Number: AID-519-11-000001
REQ-519-10-000011
Contractor: DAI
Date of Publication: June 2016

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS

| | |
|-----------|--|
| AECID | Spanish International Development Agency |
| AFI | Financial Administration |
| COMPRASAL | E-Procurement System |
| COP | Chief of Party |
| CSMS | Case Selection Management System |
| DAI | Development Alternatives Inc. |
| DGCG | General Directorate for Government Accounting |
| DGII | General Directorate for Internal Revenue |
| DGP | Budget General Directorate |
| DINAFI | National Directorate for Financial Administration |
| FP EMP | Fiscal Policy Expenditure Management Program |
| GDP | Gross Domestic Product |
| GOES | Government of El Salvador |
| IDB | Inter-American Development Bank |
| IPSAS | International Public Sector Accounting Standards |
| IT | Information Technology |
| MOF | Ministry of Finance |
| PAAC | Procurement and Contracts Annual Programming |
| RELACAP | Salvadoran Public Procurement Law Regulation |
| ROB | Result Oriented Budget |
| SAFI | National Financial Management System |
| SAFIM | Municipal Financial Management System |
| SDTD | Undersecretary for Territorial Development |
| SIGMUNI | Municipal Fiscal Transparency Portal |
| SIIT | Tax Administration IT System |
| TAIIA | Internal Revenue and Customs Appeal Court |
| TSA | Treasury Single Account |
| UAAP | Hearings and Evidence Unit |
| UAT | Tax Hearing Unit |
| 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 (former Development Alternatives Inc.) on June 10, 2011 to design and implement a program for modernizing and improving fiscal policy and expenditure management in El Salvador.

The purpose of the Fiscal Policy and Expenditure Management Program (FPMP) 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 and administration, public expenditure management systems, and public-private dialogue between the government, the private sector and civil society. The main counterpart for these activities is the MOF.

FPMP has three main components. These are:

1. Component A: Enhanced Public Expenditure Management
2. Component B: Improved Revenue Mobilization
3. Component C: Strengthened Private Sector Engagement.

Highlights for March to May 2016, the fourth quarter of year five, are listed below:

Quarterly results

- Accounting registration matrix use cases modification
- Accounting subsystem consolidation module use cases development
- Advance IPSAS training to GOES entities
- Gain approval from the Vice Minister of Finance for the creation of the call center technical support office
- Support training on Administrative Law Penalties Provision for UNAC employees
- Support first stage use cases design for the e-filing system
- Implementation of the first phase of the tax control reform program
- Study tour to Colombia to learn about the Colombian experience in administrative tax collection enforcement and transfer pricing best practices
- Study Tour to Chile to learn about the Chilean experience in the implementation of a Public Procurement Ombudsman
- Fiscal Sustainability White Paper Presentation to the Civil Society

Other Activities

- Development of the treasury subsystem

- Support the National Financial Management System (SAFI) II call center implementation
- Support for the public procurement call center implementation
- Support the implementation of UNAC administrative and functional reform
- Support the public procurement law regulation (RELACAP) reform proposal approval
- Development of the accounting subsystem software
- Development of the accounting description manual under IPSAS
- Development of the accounting policy manual under IPSAS
- COMPRASAL II “*licitación y concursos*” module use cases design
- COMPRASAL II “*libre gestion*” implementation
- E-filing system development
- Implementation of the second phase of the tax control reform program
- Support the creation of the new collections call center
- Support for the tax reform bill approval
- Support for the TAIIA module development
- Deployment of the CSMS II UAAP module
- Stabilization of the CSMS II collection call center module
- Support for the MOF on the definition of the activities to be included in a new IDB loan
- Assist the MOF in the creation of the Public Procurement Ombudsman Office
- Monitoring of EXPRESATE center activities
- Follow up to the municipal fiscal transparency portal development

Introduction

This report covers FPMP activities during the period of March 1, 2016 to May 31, 2016. The Program began on June 10, 2011. The contract base period and the optional fifth year are completed and the Program is now entering to its eight months extension period.

USAID commissioned FPMP to design and implement a program for modernizing and improving public expenditure management, tax policy and administration, and strengthen public-private sector dialogue in El Salvador. The Program goals are to build a modern and transparent public expenditure system that follows the best international practices, to strengthen tax policy and administration, to improve revenue collection, and to facilitate private sector outreach.

FPMP hereby presents the progress achieved during this quarter, according to the Program's three components:

- Component A: Public expenditure management
- Component B: Tax revenue mobilization
- Component C: Private sector outreach.

Component A

The Program continued supporting the adoption of the International Public Sector Accounting Standards (IPSAS), providing training to a large number of GOES institutions on the accounting conceptual framework and the accounting conceptual model of IPSAS that was attended by 62 GOES employees; training on IPSAS general accounting policies attended by 37 GOES officials; and training on IPSAS number 11, 12, 16, 17, 21, 27, 31 and 32, attended by 162 GOES officials. Additionally, the Program finished the development of the use cases of the new public accounting system and successfully began the development of the new system. By June 9th the Program reached 40% development of the entire accounting system under IPSAS.

Regarding treasury modernization program, the Program continues waiting for the National Directorate for Financial Administration (DINAFI) to submit the budget components that are prerequisites to continue developing the treasury subsystem. However, by the end of this reporting period, DINAFI never finished the development of the treasury components despite the fact that the Program agreed with the Vice Minister of Finance on these matters.

Regarding the development of the SAFI II system, on December 2015, the DINAFI requested that the project change the software development infrastructure. The Program recommended the Vice Minister of Finance not to make the change because the proposed new tools were not mature enough to guarantee a sound and strong IT system and the level of development reached at that moment (FPMP treasury subsystem 41% and DINAFI budget subsystem 70%). The Program discussed the request with USAID and the decision was to continue with the software development infrastructure that was agreed with the MOF by April 2012 because the tools were very strong, sound and mature and because it was not acceptable to lose all the investment made in the treasury software development. The Minister of Finance agreed with the decision made by

FPEMP and USAID, but they decided to lose all the development made in the budget subsystem and start from scratch.

As FPEMP predicted, DINAFI and World Bank staff were not able to comply with the agreements and, while FPEMP complied with the software development agenda, DINAFI was not able to honor the agreement. As a result, the SAFI II manager resigned, and at the writing of this report DINAFI had not advanced in the development of the budget formulation module, nor had begun the development of the budget execution module. Due to these circumstances, the Minister and Vice Minister of Finance postponed the deployment of the SAFI II, implementation of the Result Oriented Budget (ROB), IPSAS and the full Treasury Single Account (TSA) for January 2018. Nevertheless, the Program finished the fifth year with the treasury subsystem developed at a 41% and the public accounting sub system developed at a 40%, expecting that the DINAFI submit the budget formulation and execution modules.

The Program continued developing the COMPRASAL II. During the quarter, the “*Libre Gestion*” Module was finished and a pilot for 13 institutions was planned. The Program, in coordination with National Procurement Office (UNAC), trained more than 204 GOES procurement officials from GOES institutions, who were trained in the “*Libre Gestion*” functionality. Additionally, the Program supported UNAC in the stabilization of the Procurement and Contracts Annual Programming (PAAC) formulation and PAAC execution modules.

The Program supported the creation of the Public procurement Ombudsman Office, which will be responsible to oversee and control public procurement to guarantee transparency, adherence to the law and efficiency. The Program provided training to UNAC staff, who learned from the Chilean experience on that matter. Additionally, FPEMP recommended the reform and modernization of the UNAC, a recommendation that was accepted by the Vice Minister of Finance who reformed its administrative and functional structure.

Component B

FPEMP continued the development of the Case Selection Management System (CSMS II). The Program started the test of the Hearings and Evidence Unit (UAAP) module and continued developing the Internal Revenue and Customs Appeal Court (TAIIA) module.

The Program continued supporting the MOF in the development of the tax reform proposal. The tax reform will provide the tax administration with more statutory power to address tax evasion matters that affect tax collection and propose a comprehensive reform in the tax fraud crime regulation and the tax arrears collection system. FPEMP, in coordination with the Inter-American Development Bank (IDB) and the Colombian Government, organized a study tour that was attended by 5 member of the Assembly Treasury Commission, including the Vice President of the Commission.

Finally, the Program continued supporting the General Directorate for Internal Revenue (DGII) in the reform of the tax control areas and helping them to improve their capacities to collect taxes and address tax evasion issues. As a result of the support provided by FPEMP, the MOF was

able to increase tax collection by more than \$4 million in effective tax assessments and \$50 million in voluntary tax compliance.

Component C

FPEMP continued supporting the development of the municipal fiscal transparency portal.

The Program, in coordination with the German and Spanish Cooperation, organized an event to present the Fiscal Sustainability White Paper to civil society. The Executive Director of ICEFI delivered the presentation and explained that despite the fact that tax collection has improved during the last years, reaching 16% of the Gross Domestic Product (GDP), public expenditure remains around 20% of GDP, an unsustainable situation that could make the country face default. Eighty-five (85) people attended the event, including representatives of the Congressional Treasury Commission, the private sector, the President of the Audit Court, universities, think tanks, the press, representatives of the international community, among others.

Additionally, in coordination with CHILECOMPRA, FPEMP organized a study tour to Chile for three UNAC personnel, where they learned about the Chilean experience in the implementation and administration of a Public Procurement Ombudsman Office. UNAC employees were able to complete the agenda, obtaining the full knowledge transfer on the Chilean experience with the Public Procurement Ombudsman and with some components of CHILECOMPRA transactional system.

COMPONENT A: Public Expenditure Management

FPEMP continued supporting the MOF in advancing its public expenditure management reform agenda, striving to achieve a budget process that is more effective, transparent, innovative, and responsive. FPEMP supports the MOF in improving treasury operations, modernizing government accounting through IPSAS adoption, and enhancing its financial management information system.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE QUARTER

FPEMP accomplished several important tasks under Component A during the quarter, including:

- **Accounting registration matrix use cases modification** – During the quarter, the Program supported the General Directorate for Government Accounting (DGCG) in the modifications made to the accounting registration matrices. All 19 matrices are ready for development.
- **Accounting subsystem consolidation module use cases development** – The Program developed the accounting subsystem consolidation module use cases that were approved by the DGCG and are ready for development.
- **Advance IPSAS training to GOES entities** - In coordination with the MOF and the Audit Court, the Program provided trainings to over one hundred sixty (160) employees from different GOES institutions (including the Ministry of Health, Education, Public Works, Audit Court, Hospital Rosales and Hospital Bloom, among others) on the Public Accounting System and IPSAS number 11, 12, 16, 17, 21, 27, 31 and 32. FPEMP Accounting Specialist Carmen Palladino and Gustavo Delfor led these trainings.
- **Gain approval from the Vice Minister of Finance for the creation of the call center technical support office** - During this quarter, FPEMP obtain the approval of the MOF Vice Minister for the creation and establishment of an area to support all the call centers that have been created with USAID assistance. This approval means that the MOF will create a special unit to give sustainability to all the call centers that has been key to the MOF performance improvement.
- **Support training on Administrative Law Penalties Provision for UNAC employees** - Last quarter, FPEMP funded a course on Administrative Law Penalties Provision for the UNAC Legal Advisor. However, in order to improve the technical capacities of all UNAC employees, FPEMP requested the UNAC Legal Advisor to deliver training to her coworkers using the new knowledge obtained during the course. In this quarter, UNAC Legal Advisor provided training to seven UNAC employees (including UNAC Chief) on Administrative Law Penalties Provision.

ACTIVITIES/WORK IN PROGRESS

The following paragraphs contain a short description of Component A activities in progress during the quarter:

- **Development of the treasury subsystem** - Since October 2015, the Program has been unable to make progress in the development of this subsystem because DINAFI has not sent the components that are prerequisite for its development. Nevertheless, the Program continued with testing components that already were developed. Additionally, FPEMP requested support to the Counterpart Team in order to fully complete testing and debugging of these components.
- **Support the National Financial Management System (SAFI) II call center implementation** - FPEMP continued supporting the implementation of the SAFI II Call Center. Once this call center is implemented it will be responsible for clarifying all the doubts and questions the SAFI II users may have regarding IPSAS, Treasury Single Account and other related initiatives.
- **Support for the public procurement call center implementation** - During the quarter, the Program continued supporting UNAC in the development of the Call Center Implementation Project Profile. Additionally, FPEMP continued providing complementary training and knowledge transfer to the UNAC Call Center Chief and three recently hired technicians in the use of COMPRASAL II. Furthermore, the Program continued supporting the UNAC Call Center Chief in the development of the system user's manuals, both in text and multimedia video format. Once the above is finished, the call center staff will start being used as trainers for the training process scheduled for 13 public sector pilot institutions and their providers. During the quarter the Ministry of Defense made a special request to be included in the pilot.
- **Support the implementation of UNAC administrative and functional reform** - The Program continued proving support in the approval of the MOF Vice Minister to hire the required personnel for the new positions needed to implement the new and reformed UNAC organizational structure. Additionally, the Program started supporting the design process and distribution of spaces for the installation of new furniture and air conditioning in UNAC facilities.
- **Support the public procurement law regulation (RELACAP) reform proposal approval**- FPEMP continued supporting the development of the RELACAP reform proposal. Specifically, the Program focused on the articles that include the E-Procurement system, national registry of public procurement, bids proposals submission and bids proposals opening act. All this regulation must be reformed in order to improve the COMPRASAL II implementation and to make its use mandatory. During this quarter, the proposed reforms were presented to the MOF Vice Minister, for which he gave his official approval. In the next quarter, the MOF will send the proposal to CAPRES Legal Affairs Office to obtain the approval of the President of the Republic.
- **Development of the accounting subsystem software** - During this quarter, FPEMP continued with the development process of the SAFI II Government Accounting Subsystem. The Program also continued having periodic meetings with the government accounting counterpart team to guarantee that the subsystem will be useful for the MOF. To date, the Program has reached 35% of development in this subsystem.

- **Development of the accounting description manual under IPSAS** – The Program continued supporting the development of the accounting description manual, based on adjustments recommend by the DGCG.
- **Development of the accounting policy manual under IPSAS** – FPEMP continued supporting the DGCG in the development of the accounting policy manual.
- **COMPRASAL II “licitación y concursos” module use cases design** - The Program continued developing the COMPRASAL II “*Licitacion y Concursos*” module. During this quarter, the Program reached 50% of progress in the development of the use cases (12 out of 23 uses cases developed). These use cases cover the initial stages of the bid process through the electronic bid opening, which is the final stage of the validation and approval process of the UNAC.
- **COMPRASAL II “libre gestion” implementation** - During this quarter, the Program started a training Program on the use of COMPRASAL II “*Libre Gestion*” Module for 13 public sector pilot institutions and their providers. The training began in April, until May FPEMP has provided training to 8 of the 13 pilot institutions (Ministry of Finance, National Commission for Micro and Small Enterprises, Sanitation and Financial Strengthening Fund, Ministry of Health, Central Reserve Bank, Nueva Concepcion National Hospital, Civil Aviation Authority and Salvadoran Tourism Corporation). To date, FPEMP has trained 192 procurement officials from these public institutions, in addition, to 12 people trained from the UNAC.

NEXT STEPS

Main activities for the next quarter include:

- **Development of the treasury subsystem** - In the following quarter, FPEMP will continue with the validation and testing processes of this subsystem. DINAFI has promised that by the end of July they will have finished the budget subsystem. Is very important that DINAFI comply with this because there are some components from the budget subsystem that are prerequisite for the development of the treasury subsystem. If they do comply with the dates, in the next quarter FPEMP will reassume the development of the SAFI II Treasury subsystem.
- **Support the National Financial Management System (SAFI) II call center implementation** – The Program will continue working in the development of the call center that will support the SAFI II implementation. It is expected that during the following quarter the bid for the facilities furnishing begin.
- **Support the approval of the Salvadoran Financial Administration (AFI) Law reform proposal** – The Program will continue supporting the MOF in the approval of the tax reform. The MOF already submitted the tax arrears collection bill and during the following quarter the criminal code and the transfer pricing regulation.

- **Support for the public procurement call center implementation** - In the following quarter, FPEMP will continue supporting the process of knowledge transfer to the Call Center staff on the use of COMPRASAL II, so they can in turn be trainers for the 13 public sector pilot institutions and their providers. Additionally, the Program will continue supporting the UNAC Call Center Chief in the development of the system user's manuals, both in text and multimedia video format. Finally, the Program will start the acquisition process of office furniture for the Public Procurement Call Center.
- **Support the implementation of UNAC administrative and functional reform** - During the next quarter, the Program will continue providing support to UNAC by giving advice to the newly hired staff. Moreover, FPEMP will continue transmitting the objectives and scope of COMPRASAL II project to new UNAC personnel. Additionally, FPEMP will start the acquisition process of office furniture and air conditioning units for UNAC facilities.
- **Support the public procurement law regulation (RELACAP) reform proposal approval**- During the next quarter, the Program will support UNAC to solve any questions that CAPRES Legal Affairs Office may have regarding the RELACAP reform proposal submitted by the Ministry of Finance, to ensure the approval of the President of El Salvador.
- **Development of the accounting subsystem software** - During the next quarter, FPEMP will continue with the development of this subsystem. DINAFI has promised that by the end of July they will have finished the budget subsystem. Is very important that DINAFI comply with this because there are some components from the budget subsystem that are prerequisite for the development of the treasury subsystem. If they do comply with the dates, FPEMP will continue with the development of the SAFI II Government Accounting Subsystem.
- **Development of the accounting description manual under IPSAS** – The Program will finish the adjustments to the accounting description manual and will deliver it to the DGCG director for final approval.
- **Development of the accounting policy manual under IPSAS** – The Program will continue supporting the accounting policy manual development.
- **COMPRASAL II “licitación y concursos” module use cases design** - In the next quarter, the Program will continue developing the “Licitacion y Concursos” module use cases. The Program expects to complete the development of all 23 use cases by the end of the next quarter, which includes going through the process of UNAC validation and approval prior to the actual development of the use cases.
- **COMPRASAL II “libre gestion” implementation** - During the following quarter, FPEMP will finish the training Program on the COMPRASAL II “Libre Gestion” Module for the 13 public sector pilot institutions. Additionally, FPEMP will start and complete the training program for the public sector providers, who will learn how to register themselves as suppliers, how to find business opportunities, and how to develop an electronic quote to participate in “Libre Gestion” processes with public sector institutions.

COMPONENT B: Tax Revenue Mobilization

FPEMP aims to develop a strong, modern Salvadoran tax administration that is more equitable, efficient and taxpayer-friendly.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE QUARTER

FPEMP accomplished several important tasks within Component B during the quarter, including:

- **Support the first stage use cases design for the e-filing system** - During this quarter, FPEMP supported the development of the first use cases related to Excise Tax and First Online Registration. During the first phase, the Program helped DGII in the development of 16 use cases.
- **Implementation of the first phase of the tax control reform program** – FPEMP successfully implemented the first stage of the tax control program. The Program objective was to support the DGII in the implementation of a tax control program to address tax evasion by using the CSMS through data mining models. The result of the Program developed by FPEMP and the DGII was an increase in tax collection of \$50 million.
- **Study tour to Colombia to learn about the Colombian experience in administrative tax collection enforcement and transfer pricing best practices** - FPEMP, in coordination with the IDB and the Ministry of Finance of Colombia, organized a study tour to Bogota for five *diputados* of the Treasury Commission of the Salvadoran National Assembly, where they learned about administrative tax collection and transfer pricing best practices. The COP accompanied this group of *diputados* to get their support in the approval of the new tax reform that FPEMP helped to develop.

ACTIVITIES/WORK PROGRESS

The following paragraphs contain a short description of Component B activities still in progress during the quarter:

- **E-filing system development** - During the quarter, the Program held several meetings with the DGII Information Services Unit to review the development environment, standards and graphic line of the e-filing project. With this, the Program guarantee full attachment of the software development standard adopted by the DGII and also guarantees the sustainability of the software solution.
- **Implementation of the second phase of the tax control reform program** – The Program continued supporting the successful tax control reform program improving the exploitation of the data mining tools of the CSMS and delivering training to DGII tax auditors.
- **Support the creation of the new collections call center** - FPEMP continued supporting the implementation process of the new collections call center. To date, the Program has created the distribution plan and the requirements. Additionally, FPEMP has supported the hiring of the management personnel for the call center.

- **Support for the tax reform bill approval** – The Program continued supporting the tax reform bill approval, delivering the necessary communications and providing support the DGII and MOF tax advisors.
- **Support for the TAIIA module development** – During the quarter, FPEMP continued with the development of the CSMS II TAIIA Module. Currently, the counterpart team is making some improvements that the Program considered appropriate to consider. One problem that has been detected is the fact that in some cases the MOF does not require the NIT for some applicants, for example when they are foreigners. FPEMP is working on a solution for this, since the use of the NIT is mandatory in the CSMS II.
- **Deployment of the CSMS II UAAP module** - During this quarter, the Program reached the final testing phase for the Tax Administration IT System (SIIT), Tax Hearing Unit (UAT) and CSMS II UAPP notifications modules. Special attention has been given to those components related to the calculation of the expiration date because in some cases these dates change in accordance with different type of events. In this regard, the Program, in coordination with the counterpart team, worked on the alternatives to register in the system the expiration date of the statutory power of the tax administration to determine a tax assessment. Currently, the counterpart team is in the process of validating the alternatives presented by FPEMP.
- **Stabilization of the CSMS II collection call center module** - In this quarter, FPEMP supported the stabilization of the CSMS II Collection Call Center Module. FPEMP started the development of two improvements in the collection management requested by the counterpart team in order to make it function just as the treasury counterpart team required.
- **Support for the MOF in the definition of activities to be included in a new IDB loan** – The Program supported the MOF in the definitions of the activities to be included in an IDB-funded project. The funding is connected with components that FPEMP is currently developing.

NEXT STEPS

Main activities for the next quarter include:

- **E-filing system development** - In the next quarter, the Program will continue developing the E-filing system based on the requirements defined by the MOF counterpart team. Similarly, as FPEMP finishes the development of each use case, the Program will test them with the support of the counterpart team. Additionally, the counterpart team and FPEMP will start phase two of the use cases development, which is related to the online version of the reports that taxpayers currently submit on paper through DET.
- **Implementation of the second phase of the tax control reform program** – The tax control reform program will continue, focusing on large taxpayers control using data mining.

- **Support the creation of the new collections call center** - During the following quarter, the Program will provide support to the creation of the new collections call center by starting the acquisition process of office furniture and equipment for the call center.
- **Support for the tax reform bill approval** – The Program will continue supporting the MOF in the process of gaining approval from the Presidential House and the assembly on the tax reforms proposed by FPEMP.
- **Support for the TAIIA module development** - During the next quarter, FPEMP will continue with the development of the CSMS II TAII Module. Additionally, the Program will continue supporting the testing process of the use cases that are already developed.
- **Deployment of the CSMS II UAAP module** - In the following quarter, once the counterpart team finished the testing process, FPEMP will support the placement of the CSMS II UAAP Module into production environment.
- **Stabilization of the CSMS II collection call center module** - During the next quarter, the Program will continue with the stabilization process of the CSMS II Collections Call Center Module to comply with the changes requested by the MOF. This process will include some improvements in the collections management that were not considered at the beginning and that are important for the proper operation of the module.

COMPONENT C: Private Sector Outreach

FPEMP continued supporting the MOF in the implementation of strategies to improve fiscal transparency as well as facilitate civil society and private sector outreach. It is critical that transparency be increased as well as proper space for civil society to interact with the GOES on the issues of tax collection and public expenditure.

KEY ACCOMPLISHMENTS/HIGHLIGHTS FOR THE QUARTER

FPEMP accomplished several important tasks within Component C during the quarter, including:

- **Study Tour to Chile to learn about the Chilean experience in the implementation of a Public Procurement Ombudsman** - In coordination with CHILECOMPRA, FPEMP organized a study tour to Chile for three UNAC personnel where they learned about the Chilean experience in the implementation and administration of a Public Procurement Ombudsman Office. UNAC employees were able to complete the agenda, obtaining the full knowledge transfer on the Chilean experience with the Public Procurement Ombudsman and with some components of CHILECOMPRA transactional system. It is important to highlight that UNAC employees were very pleased with what they learned during the study tour, and expressed that the study tour helped them in the implementation process of this new office.
- **Fiscal Sustainability White Paper Presentation to civil society** - The Program, in coordination with German and Spanish cooperation, delivered a conference on the Fiscal Sustainability White Paper to the Salvadoran civil society and the GOES authorities. 85 participants, coming from the largest Salvadoran economic corporations, universities, think tanks, MOF Directors, GOES Economic Commission, the President of the Audit Court and Treasury Commission of El Salvador National Assembly attended to this event. Additionally, the USAID/El Salvador Mission Director Larry Sacks, German Ambassador Heinrich Haupt, and Spanish Ambassador Francisco Rabena gave speeches about how important it is for El Salvador to have a fiscal agreement. This was an important step towards the creation of a Salvadoran Fiscal Pact that includes the public sector, private sector and civil society.

ACTIVITIES/WORK PROGRESS

The following paragraphs contain a short description of Component C activities in progress during the quarter:

- **Assist the MOF in the creation of the Public Procurement Ombudsman Office** - In this quarter, the Program supported UNAC finalizing the Public Procurement Ombudsman Implementation Project Profile. Additionally, the Program started the development of use cases that will be used to develop the Public Procurement Ombudsman website. To date, the Program has finished the website graphic design, the menu, and the different inquiry options and functionalities for complaints and whistleblowers.

- **Monitoring of EXPRESATE center activities** - FPEMP continued monitoring the activities in support of the tax awareness program for youth through the MOF's EXPRESATE Center. Since the MOF is unable to attend high school students (carried out by EXPRESATE) and elementary students (carried out by RECREHACIENDA) at the same time, they decided to receive elementary students during the first six months of the calendar year and the high school students during the last six months of the year, which means the EXPRESATE Center has not received any students during this quarter.
- **Follow up to the municipal fiscal transparency portal development** – During this quarter, FPEMP continued following the adjustment process of the Municipal Fiscal Transparency Portal (SIGmuni) carried out by the Undersecretary for Territorial Development (SDTD). Since FPEMP already has finished the development of the data loading mechanism, SDTD only needs to finish the visual incorporation of the loaded data. A couple of meetings with the SSDT took place regarding this process; additionally, SSDT have been meeting with the DGCG to ensure that they can extract the necessary data from the Municipal Financial Management System (SAFIM) to the SIGMuni.

NEXT STEPS

The main activities for the next quarter include:

- **Assist the MOF in the creation of the Public Procurement Ombudsman Office** - The Program will continue supporting UNAC in the development of the use cases for the website of Public Procurement Ombudsman. Finally, the Program will start the acquisition process of office furniture for the Public Procurement Ombudsman.
- **Monitoring of EXPRESATE center activities** - The Program will continue monitoring the EXPRESATE center activities.
- **Follow up to the municipal fiscal transparency portal development** - In the following quarter, the Program will continue following the implementation process of the SIGmuni carried out by the SDTD.

MOF's Progress towards GOES Goals

The USAID contract mandates that FPEMP/DAI report on the GOES progress toward the following targets on a quarterly basis:

| GOES Target | Progress |
|--|--|
| Build the foundations to move from the current budget system to a Results-Oriented Budget system for Health, Agriculture and Economy | The Budget General Directorate (DGP) did not comply with the administrative and functional reform agreed with the MOF and developed by FPEMP, in coordination with the DGP staff. The Program submitted the reform proposal to the Vice Minister of Finance, and expects that he will get the DGP in compliance with the previous agreements. Additionally, the DINAFI failed to comply with the budget subsystem development, causing a delay in the deployment of the new budget system, postponed for January 2018. |
| Implement a fully operational treasury single account | The DINAFI has not complied with the development of the budget module components that are necessary to continue developing the treasury subsystem that will fully implement the advanced TSA. Nevertheless, they committed themselves with USAID to deliver the budget system no later than September 1, 2017. |
| Develop and implement the SAFI II | The DGCG with FPEMP support finished the consolidation use cases design for the Public Accounting Subsystem and uploaded it in the Tuleap software for development. The DINAFI failed in the schedule to develop the budget subsystem, causing a delay in the public expenditure reform deployment, now scheduled for January 1, 2018. |
| Develop and implement an E-Procurement System | The UNAC team with the support of FPEMP staff finished the development of the " <i>libre gestion</i> " module and began the preparatory activities for its deployment. UNAC, with FPEMP support, trained 204 officials from eight GOES entities that will be part of the pilot that will take place during the next quarter. The implementation of the PAAC continued during the quarter. |
| Increase tax revenues by 2% of GDP by 2015 | The MOF continues to implement the recommendations FPEMP made to improve tax control capacities. During the quarter, with FPEMP support the DGII continues moving forward with the activities designed to fight tax evasion. So far more than \$120 million has been collected. |
| Develop new scenarios for private sector and civil society participation in fiscal matters and new transparency and accountability | The MOF has full control of the fiscal transparency portal. The old portal was turned off. |

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| practices | |
| Successfully implement current and future tax reforms | The MOF continued reviewing the FPEMP tax reform proposal. The Minister of Finance submitted the Tax Bill initiative to the President of the Republic. On March 2016 the President submitted the tax reform proposal to the National Assembly who will give its resolution by August 2016. |

FPEMP's Progress Report – Performance Indicators

Finally, this report presents FPEMP/DAI progress towards achieving the Program results:

| FPEMP result | FPEMP progress |
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| COMPONENT A | |
| 1. At least twenty-five Public Sector Institutions using multi-year Results-Oriented Budgets by the end of the project | The Program supported the design of budget programs at the Ministry of Economy (11 institutions), Ministry of Agriculture (4 institutions) and the Ministry of Health (36 institutions). The programs were submitted and are being reviewed by the Ministries. These programs are the basic input for the budget formulation that was originally schedule to be deployed on 2017, but due to the delay of DINAFI it has been postponed for 2018. |
| 2. Treasury enabled to make electronic payments on behalf of GOES entities by the end of the project | The Program already developed 42% of the Treasury system, but is still waiting for DINAFI to release the Budget modules components necessary to continue the development of the treasury subsystem. During the quarter, the COP continued addressing this issue with the Vice Minister of Finance and the MOF authorities, who promised to release the information by mid-April. Nevertheless, they did not met their commitment, and during June a meeting between USAID and the MOF will be held to solve this issue. |
| 3. A strengthened MOF Budget-Planning Unit by increasing the knowledge and IT resources of each unit | During the previous quarters, the Program supported the DGP by delivering study tours to learn about budget planning, budget execution and budget monitoring and evaluation. |
| 4. Six hundred MOF personnel trained in modern expenditure system management techniques by the end of the project | During the life of the Program, FPEMP has provided training on Programmatic Budget system, ROB, budget monitoring and evaluation, TSA, IPSAS, E-procurement systems and public expenditure transparency practices and accountability to more than 700 MOF employees. |
| 5. Support the MOF in the migration from SAFI to SAFI II | The Program continues the development of the accounting subsystem. By the end of the quarter, the Program has completed more than 40% of the Accounting Subsystem, and the Budget Subsystem has been developed at a level of 42%. Additionally, the Program |

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| | finished the development of the public account registration matrices. |
| 6. Introduce and promote implementation of IPSAS | During the quarter FPEMP delivered training on the IPSAS 11, 12, 16, 17, 21, 2731 and 32, the training was attended by 162 GOES officials of to the Ministries of Finance, Foreign Affairs, Defense, Interior, Justice, Education, Health, Public Works, Environment, Labor, Economy, Agriculture and Tourism, the National Assembly, Presidency, Supreme Court, Audit Court, Supreme Elections Court, Civil Service Supreme Court, Government Ethic Court, Institute of Public Information, Attorney General, Attorney General for Human Rights Protection and the national hospitals. |
| 7. A functional web-based Public Expenditure Tracking System available to the public. | The Program finished supporting the fiscal transparency portal stabilization and now the MOF has full control of it. In the quarter, the MOF requested support to improve the data loaded in the system. |
| COMPONENT B | |
| 8. Up-to-date, consistent and clean Taxpayer Current Account (with modern database management guidelines) | The Program completed the cleaning of a total of 21,523 taxpayer current accounts and supported the GOES institutionalization of the taxpayer current account cleaning. Since mid-January, the MOF has performed this cleaning as part of its regular operations. Additionally, the Program worked in coordination with the DGII in the development of the use cases of the e-filing that will be developed. |
| 9. Up-to-date, consistent and clean Taxpayer Registration System (with modern database management guidelines) | The Program completed the cleaning of a total of 7,730 taxpayer's registration accounts and supported the GOES institutionalization of the taxpayer registration system cleaning. Since mid-January, the MOF has performed the cleaning as part of its regular operations. |
| 10. Up-to-date, consistent and updated Case Selection Management System (with modern database management guidelines) | The Program continues to develop the CSMS II. The development of the UAAP and contact center is finished and is in the process of deployment. The IT requirements validation of the TAIIA use cases was finished. |
| 11. An automated functional system, which reconciles the taxpayer database on a periodic basis | The Program began the development of the use cases of the e-filing system. |
| 12. No less than 300 MOF personnel trained to | The tax reform proposal developed by FPEMP |

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| <p>effectively apply the fiscal reforms in order to generate the expected additional income</p> | <p>was submitted to the Presidency as a tax bill initiative. If it is approved by the Congress, the Program will support its dissemination and training.</p> |
| <p>13. Provide technical support in the strengthening of the Large Taxpayer Unit areas of income tax and transfer pricing audit techniques</p> | <p>In previous quarters, FPEMP supported the creation of the new large taxpayer office, the front and back office for the large taxpayers, the kiosk system and the strengthening of the audit skills of the large taxpayer office. The Program is now supporting the implementation of tax administration tax control strengthening activities. Additionally, the Program included a large reform on the transfer pricing regulation within the tax reform bill. The new regulation would provide stronger statutory power to the large tax payers transfer pricing unit.</p> |
| <p>COMPONENT C</p> | |
| <p>14. No less than 60 private sector actors, at all levels, assisted to better understand the new fiscal reforms passed in December 2011</p> | <p>During the Program’s third quarter, FPEMP provided support to DGII in the training of the year 2011 fiscal reforms to 1,114 taxpayers. No additional training has been provided. However, if Congress approves the FPEMP tax reform proposal, the Program will support its dissemination and training.</p> |
| <p>15. Effective promotion leading to the establishment of a public-private commission by Salvadoran actors, with the goal of monitoring on yearly basis the approved budget versus actual GOES expenditures</p> | <p>The Program, in coordination with the German and Spanish cooperation, delivered a conference on the Fiscal Sustainability White Paper to the Salvadoran civil society and the GOES authorities. Eight-five (85) people coming from the largest Salvadoran economic corporations, universities, think tanks, MOF Directors, GOES Economic Commission, the President of the Audit Court and Treasury Commission of El Salvador National Assembly attended to this event. Additionally, USAID/El Salvador Mission Director Larry Sacks, German Ambassador Heinrich Haupt and Spanish Ambassador Francisco Rabena gave a speech about how important it is for El Salvador to have a fiscal agreement. This was an important step towards the creation of a Salvadoran Fiscal Pact that includes the public sector, private sector and civil society.</p> |

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| <p>16. Development of a Fiscal Transparency Policy with the MOF and GOES</p> | <p>The Program passed total control of the fiscal transparency portal to the MOF. The Program is now working with the PFGL in the development of the municipalities' fiscal transparency portal and the data loading software.</p> |
| <p>17. A functional, state of the art in-house training program to provide MOF personnel with continuous up-to-date techniques and technical knowledge</p> | <p>The Program supported the implementation of the human resources system based on competencies and the implementation of the computer lab.</p> |
| <p>18. GOES assisted and facilitated discussions with the private sector in forging a new fiscal pact to increase resources to address the pressing social and economic needs of the country</p> | <p>The Program, in coordination with Spanish and German cooperation, presented the Fiscal Sustainability Recommendations White Paper to civil society.</p> |