AID TEMPLATE (PATH: PROJECT PAGE MASTER)

NONCAPITAL PROJECT PAPER (PROP)

Proj. No. 519-0171 (2)

17p

I. PROJECT IDENT

1. PROJECT TITLE

NATIONAL CADASTRE

PD-AAA-802-B1

2. PROJECT NO. (M.O. 1026.2) 519-11-790-171

3. RECIPIENT (specify)

☒ COUNTRY EL SALVADOR

☐ REGIONAL ☐ INTERREGIONAL

4. LIFE OF PROJECT

BEGINS FY 75

ENDS FY 76

5. SUBMISSION

☒ ORIGINAL 4/10/75 DATE

☐ REV. NO. DATE

CONTR./PASA NO.

II. FUNDING ($000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL $	C. PERSONNEL (1) $	C. PERSONNEL (2) MM	D. PARTICIPANTS (1) $	D. PARTICIPANTS (2) MM	E. COMMODITIES $	F. OTHER COSTS $	G. PASA/CONTR. (1) $	G. PASA/CONTR. (2) MM	H. LOCAL EXCHANGE CURRENCY RATE: $ US ___ (U.S. OWNED) (1) U.S. GRANT LOAN	(2) COOP COUNTRY (A) JOINT	(2) COOP COUNTRY (B) BUDGET
1. PRECEDING FY ACTUAL FY												
2. OPEN FY	55							55	11			
3. BUDGET FY	138							138	33			
4. BUDGET +1 FY												
5. BUDGET +2 FY												
6. BUDGET +3 FY												
7. ALL SUBSEQ. FY												
8. GRAND TOTAL	193							193	44			

9. OTHER DONOR CONTRIBUTIONS —

(A) NAME OF DONOR	(B) KIND OF GOODS/SERVICES	(C) AMOUNT

III. ORIGINATING OFFICE CLEARANCE

	TITLE	DATE
1. DRAFTER P. T. Cox	Program Officer	4/10/75
2. CLEARANCE OFFICER A. Goldstein	Acting Director	4/10/75

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

2. CLEARANCES

BUR/OFF	SIGNATURE	DATE	BUR/OFF	SIGNATURE	DATE

3. APPROVAL AAs OR OFFICE DIRECTORS

SIGNATURE DATE

TITLE

4. APPROVAL A/AID (See M.O. 1025.1 VI C)

SIGNATURE DATE

ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

A. PROJECT GOAL

1. Goal Statement: Completion of a survey of physical resources and establishment of a viable, functioning system for identification of property, its ownership, valuation, and registration and for maintenance and use of data to achieve higher tax revenues as well as other developmental objectives.

2. Relationship of Goal to AID's Congressional Mandate: See Annex A.

3. Summary of Linkages

Achievement of the Goal is virtually assured if our assumptions are correct and the project purpose is attained, because the new GOES administration to be elected in 1977 cannot afford to abandon the National Cadastre if it is functioning more or less effectively and generating increasing revenue; that is, the administration cannot afford to forego the actual and potential revenue increases. On the other hand, if the program is not functioning and beginning to produce additional revenue, it is likely to be abandoned or given a low priority by the new administration, because it is complex and costly.

The cadastre program presently enjoys a high priority and ample budget. The factors which limit its effectiveness are internal and may be summarized as the lack of coordination, managerial and technical know-how, and (perhaps most important) confidence on the part of the government in their own ability to get the program together. The outputs necessary to make the system function adequately are coordinated data flow between agencies, updated valuation procedures, a training program for valuation personnel, and a system to maintain data current and systematic use of cadastral data by Tax Office. Given the resources which are available all of these outputs can be produced within the government if someone shows them how, and the proposed advisory team should be able to do that.

4. Measurements of Goal Achievement: The goal will be achieved when the National Cadastre is completed in the area programmed, the total system is functioning effectively to produce at least $6,000,000 annually in additional revenue, and cadastral data is being maintained current and utilized to plan and carry out development programs and projects.

5. Assumptions of Goal Achievement: Assuming achievement of the project purpose, the goal will be attained within the present decade if there are no radical changes in El Salvador's economic and political situation. The principal incentive of the Government in assigning a high priority and significant amount of resources to the National Cadastre is its revenue potential. The world-wide inflation and energy crisis have so affected the country's economy that the Government must avail itself of every feasible means of raising its level of internal revenue in the years ahead. Barring something like a major petroleum discovery there seems little likelihood that the Government's fiscal situation will improve much within the time frame we are considering. While a major political upheaval is not beyond possibility, there are no grounds for predicting one at this time.

B. THE PROJECT PURPOSE

1. Statement of the Purpose: To remove internal obstacles to effective implementation of the National Cadastre and give the program sufficient impetus to provide reasonable assurance that it will be completed, maintained and used by succeeding GOES administrations.

2. Conditions Expected at the End of the Project: If the project ends successfully in CY 1976 the major political parties and candidates in the March, 1977 election will be convinced that the National Cadastre is a feasible means of attaining necessary ends, and they will be openly committed to completing and maintaining it. The new National Assembly (elected in 1976) will have approved an adequate ($1.5 to $2 million) budget for the cadastre program in CY 1977.

3. Basic Assumptions for Accomplishment of the Project Purpose: The present Government has made the fundamental assumption that the National Cadastre program is a politically feasible means of producing additional revenue. They do not anticipate that the larger property-holders will join to exert effective opposition to the program or resistance to payment of the higher taxes which will result. The Government's assumption could be mistaken, but they are gambling much more on it than we propose to. USAID has made the further assumption that there will be no major shakeup in the present GOES administration which would seriously disrupt the program. The recent resignation of the Minister of Finance and resulting personnel changes in the Ministry may have influenced the resignation of an experienced technician who headed the office responsible for property valuation; however, there were no other evident ill effects, and officials presently associated with the program, from the Minister down, appear fully committed to it. Given the broad distribution of responsibility within the program and the relatively short duration of the proposed technical assistance project, USAID feels reasonably safe in its assumption that any further changes will not have serious effects.

C. PROJECT OUTPUTS

1. Outputs:

a. Coordinated flow of data between GOES entities involved.

b. Continuous valuation training program established in Ministry of Finance.

c. Updated valuation manual and procedures, including quality controls.

d. Improved system for maintaining cadastral data current in completed areas.

e. Systematic use of cadastral data by Tax Office.

2. Output Indicators:

a. Maximum backlog of two weeks' workload at any step in the process.

b. Basic course given to all valuation personnel and advanced and refresher courses being held on a regularly scheduled basis.

c. Valuation manual and procedures completed and published; provision made for continuous revision as required.

d. Random checks show data reasonably complete and current; few discrepancies between tax declarations and property and ownership identifications in Tax Office.

e. Significant increase in newly declared properties and higher declared values.

3. Basic Assumptions Related to Outputs:

a. It is assumed that the GOES is able and willing to adhere to reasonable commitments regarding actions necessary to implement the program.

b. Personnel named by the GOES to fill key positions which are presently or may become vacant will be sufficiently competent and committed to carrying out the program.

D. PROJECT INPUTS

1. Inputs:

a. AID will provide the following technical advisory personnel under Internal Revenue Service PASA.

1) Team Leader (General Cadastre Technician)

2) Valuation Advisor

3) Organization and Methods Advisor

4) Data Systems Analyst

b. The GOES will provide a budget of $4 to $5 million for the National Cadastre for the two-year period CY 1975 and 1976.

2. Implementation Schedule:

a. AID will provide technical services according to the following schedule.

	FY 75		FY 76		FY 77
Position	Services	Financing	Services	Financing	Services
Team Leader	1 mm	$30,000 (6 mm)	12 mm	$56,000 (13 mm)	6 mm
Val. Adv.	-	$25,000 (5 mm)	11 mm	$44,000 (12 mm)	6 mm
O&M Adv.	-	-	4 mm	$18,000 (4 mm)	-
Syst. Analyst	-	-	4 mm	$20,000 (4 mm)	-
TOTALS	1 mm	$55,000 (11mm)	31 mm	$138,000 (33 mm)	12 mm

b. GOES CY 75 budget is now at $2.1 million and may go up to $2.5 million. A similar amount is to be budgeted for CY 76.

3. Basic Assumptions Related to Inputs:

a. GOES is prepared to make reasonable commitments regarding actions and resources required to carry out the program. These commitments, to be incorporated in the initial Project Agreement, include the following:

1) filling of positions budgeted for but currently vacant; 2) raising qualifications and salaries for valuation technicians; 3) assignment of qualified personnel as valuation instructors; 4) provision for prompt inclusion of cadastral data in tax ledgers on a systematic basis. The GOES has informally indicated willingness to undertake these commitments and has already implemented in large measure the recommendations made by an exploratory AID technical assistance team in 1974.

b. AID funds will be available to continue services of two technical advisors through CY 1976, if required. Under favorable conditions the project could be concluded in June, 1976, but there is likelihood of some slippage in AID inputs and GOES actions which would require its continuation for up to six months after the end of the FY.

E. RATIONALE

1. Background of the National Cadastre (See Annex B for explanation of related net worth tax system)

The National Cadastre was begun in the 1960s and received some contract technical assistance from USAID through the then active Public Administration Division. The valuation procedures now being used are basically those that were instituted at that time, and a number of the valuation technicians who were trained by the AID contractor are still with the program. An early loan request did not satisfy AID requirements, and the GOES subsequently reduced the priority of the program, though it continued to function at a very low level.

In 1970 the Government decided that the cadastre should be accelerated, requested grant technical assistance from USAID, and later revived the loan request. Neither request was considered favorably. In 1971 the GOES increased the budget for the program, providing for new positions, equipment and supplies and scheduling expanded field activities. Since that time the program has received substantial support from the Government. In 1974 the loan request was again revived, and USAID responded by calling in TDY technicians to examine the program and make recommendations. Their report pointed out a number of internal problems in implementation of the program and indicated the clear need of expert technical assistance, but it was inconclusive with respect to the possibility of developing a loanable project. USAID called in another consultant in March, 1975. His report confirmed the need for technical assistance and

established that the present Government is determined to push the program forward with or without external financial resources. Given the willingness and ability of the GOES to provide required resources for the program, at this time it does not appear that a future loan is warranted.

2. Current Status of the National Cadastre

At the end of CY 1974 approximately 55,000 properties had been completed in the departments of Ahuachapán, Sonsonate and Santa Ana, with some 81,000 additional properties at various stages in the valuation process. Cadastral data and values have not been transmitted to property owners in the completed areas. There is no systematic use of data for tax purposes, though it is being used on a hit or miss basis. Reluctance of the Ministry of Hacienda to apply cadastral values for determination of liability under the net worth tax is attributed to uncertain quality of valuations and the fact that data and values have not been maintained current in many instances. However, field activities in the departments mentioned have apparently stimulated an increase in self-declarations and higher declared values by property owners, relative to other departments.

A number of positive actions have been taken by the GOES to accelerate the cadastre and increase its effectiveness. Several were undertaken as a direct result of suggestions made by AID TDY technicians in 1974. Following is a partial list:

a. A new cadastral law was enacted and has been continuously amended to enhance its administration and close loopholes.

b. A National Cadastral Commission has been established, composed of the Ministers of Finance, Justice, Public Works, and Agriculture with the head of the national planning council (CONAPLAN) as executive secretary. The Commission meets twice monthly.

c. Subordinate to the Commission a working committee has been formed of Directors General and other representatives of the organizations actually engaged in the program. This committee is chaired by a representative of CONAPLAN and is responsible for carrying out the mandates of the Commission. Together with the Commission it has made notable progress in improving coordination among the agencies involved. (The lack of coordination was the principal obstacle to implementation noted by the AID team in 1974.)

d. A budget of $2.1 million was established for CY 1975 and another $1.1 million is to be made available if required. Each agency participating in the program has a separate budget designated for cadastre activities.

e. The 1975 budget included provision for 250 additional employees in the Cadastre Division of the Ministry of Hacienda, bringing the total number of authorized positions to 415.

f. The Ministry of Justice has begun the indexing of all property owners. A task force is at work in the nine existing departmental registry offices compiling the index, and offices are being established in the five remaining departments.

g. A coordinated program has begun to operate in the three departments nearing completion for maintaining data current.

h. Work is now in progress in the Departments of La Libertad and La Paz, and the program for CY 1975 includes initial work in the metropolitan area of San Salvador. The urban areas of Nuevo San Salvador (Santa Tecla) has been completed.

i. Plans are underway for informal notification to property owners of the boundaries and values of their property, though the amendment to the cadastral law requiring formal notification is still pending in the Assembly.

j. Mapping and identification of ownership in the entire Program area have been largely completed by the Geographic Institute.

USAID believes that there is ample evidence to establish that the present Government will continue to give its full support to the program and is extraordinarily willing to accept and act upon advisory recommendations for management and technical improvements. The one crucial area in which the GOES has not yet fully demonstrated its serious intent is the use of the cadastral system to bring in new revenue from previously undeclared or underdeclared properties. This is, of course, the most difficult step in the process for the government, and the point at which many similar programs have broken down. The reason given by the government for its slowness in taking this last step is the presently dubious quality of valuation and maintenance under the program. Any massive effort to increase revenue from the completed areas at the present time might result in a large number of property owenrs contesting valuations, reveal numerous unrecorded changes in ownership, etc. It is the Government's fear that in such an event the system for adjudicating these disputes would be swamped and the entire cadastre program discredited.

While USAID does not fully share the Government's fears on this score, we believe they are genuine and that there is some foundation for them. A principal objective of the proposed technical assistance is to strengthen the valuation and maintenance phases of the program and assure that the work already done provides an adequate basis for increasing revenue. Though corollary benefits of the cadastre may prove equally or more significant over the long term, the Government's primary reason for pushing it now is immediate fiscal necessity. Some lingering fear of political consequences may play a part in the current reluctance to make full fiscal use of the cadastre, but we are persuaded that the present administration has faced the political issue and made its decision to go after the revenue.

3. <u>Reasons for Proposing the Project</u>

This project is proposed because: the goal to which it is directed is consistent with priority objectives of both the U.S. and Salvadoran Governments; the GOES has demonstrated convincingly that it can and will make effective use of the proposed assistance; AID is uniquely qualified to provide the assistance; the potential benefits of the Cadastre Program far outweigh the minimal cost of AID inputs; and our participation could well be the determining factor in its success; the project can be concluded in a short period of time with a good chance of achieving both the purpose and goal.

F. COURSE OF ACTION

1. Implementation Plan

(Note: The following schedule of actions is illustrative and subject to substantial revision as dictated by availability of short-term advisory personnel and further detailed planning to be carried out by the Team Leader and GOES working committee.)

a. Allotment of funds, signing of ProAg, arrangements for assignment of PASA Team Leader to arrive by June 1, 1975. (April through May, 75)

b. Review and revision with GOES agencies of detailed workplan through CY 1976 and program budget for CY 76. (June and July, 75)

c. Prepare materials, train instructors and initiate basic valuation courses. (August through October, 1975)

d. Update valuation manual and procedures; publish. (October through March, 76)

e. Determine quality of data in completed areas and initiate measures as required to assure adequacy for tax purposes. (August through October, 75)

f. Develop and install improved data maintenance system in completed areas. (August 75 - February 76)

g. Prepare advanced and refresher valuation courses; initiate courses and quality control measures for valuation. (Jan through March, 76)

h. Analyze interministerial data flow, document design and data storage, initiating efficiency measures as required. (Sep 75 through Jan 76)

i. Develop system for massive flow of valuation and ownership data into tax office; study intraministerial documents and data handling, initiating improvements as necessary. (Oct 75 through April 76)

j. Review and revise workplan; extend through CY 77 and prepare CY 77 budget. (May through June, 76)

k. Review functioning of new and revised systems procedures, training courses, etc., making adjustments. (May through Dec, 76)

l. Revise CY 77 workplan as required and prepare recommendations for post-project implementation by GOES. (November through December, 76)

2. Considerations Relevant to Project Implementation

a. Commitments by GOES to be incorporated in Project Agreement - The FY 1975 Project Agreement will include general commitments regarding the filling of vacant positions, raising qualifications and salary schedules for valuation personnel, designation of qualified personnel as instructors, release employees to attend valuation courses, support for the advisory team, and inclusion of cadastral data in the tax registries on a systematic basis. The ProAg will also provide for joint development of a program implementation plan to be approved by USAID and by the National Cadastral Commission or the Working Committee. Any significant deviation from the plan which becomes necessary or advisable will require written concurrence of the parties. If the plan is not being followed and agreement cannot be reached on its amendment, AID or the GOES may terminate the Project Agreement. GOES commitments will be negotiated and spelled out in detail in the preparation of the implementation plan. ProAg provisions such as those just described are often somewhat hollow, but because of the heavy reliance the government is placing on the advisory services to be provided, USAID believes they can carry some real weight in this project.

b. Availability of Advisory Personnel - The Team Leader proposed by I.R.S. is fully familiar with the National Cadastre and has the confidence of key program personnel, having maintained contact with Central American cadastre programs over a number of years. He is expected to be available for assignment in June. There may be some dealy in assignment of a Valuation Advisor, and if I.R.S. cannot provide a qualified candidate within a reasonable time, USAID may be obliged to go to a personal services contract. No problem is foreseen with respect to short-term advisors.

LOGICAL FRAMEWORK MATRIX – PROP WORKSHEET

Objectively Verifiable Indicators	Important Assumptions
A.2. Measurement of Goal Achievement 1) National Cadastre completed and maintained in area programmed. 2) Increased annual revenue attributable to cadastre of at least $6 million. 3) Cadastral data being used by GOES to plan and carry out programs to improve land use and tenure patterns.	A.3. *(as related to goal)* No radical change in political or economic situation.
B.2. End of Project Status 1) Major political parties and candidates in 1977 election convinced that cadastre is feasible and necessary and openly committed to completing it. 2) Adequate budget (approximately $2 million) for cadastre in CY 1977 approved by National Assembly.	B.3. *(as related to purpose)* 1) Larger property holders will not exert effective opposition to slow or halt program. 2) No major shakeup in present GOES administration which would seriously disrupt program.
C.2. Output Indicators 1) Maximum backlog of 2 weeks' workload at any step in process. 2) Basic course given all valuation personnel and advanced and refresher courses held on scheduled basis. 3) Valuation manual and procedures completed and published. 4) Checks show data reasonably complete and current; few discrepancies between tax declarations and Tax Office records. 5) Significant increase in newly declared properties and higher declared values.	C.3. *(as related to outputs)* 1) GOES is able and willing to adhere to reasonable commitments regarding actions necessary to implement program. 2) Personnel named by GOES to fill key positions will be sufficiently competent and committed to carrying out the program.
D.2. Budget/Schedule 1) Services FY 75, 1 mm and financing $30,000; services FY 76, 12 mm and financing $56,000; services FY 77, 6 mm. 2) FY 75, $25,000; services FY 76, 12 mm and financing $44,000; services FY 77, 6 mm. 3) Services FY 76, 4 mm and financing $18,000. 4) Services FY 76, 4 mm and financing $20,000.	D.3. *(as related to inputs)* 1) GOES is prepared to make reasonable commitments regarding actions and resources required to carry out the program. 2) Funds available to continue services of 2 advisors through FY 76 if required to complete project.

ANNEX A

Relationship of the Cadastre in El Salvador to the Congressional Mandate

Effective planning for orderly land settlement, secure tenure, and agrarian transformation requires the identification of the physical resources available in the rural sector. El Salvador, a country characterized by minifundia-latifundia, must, if it is to increase agricultural productivity and income of the rural poor in the traditional sector, make agrarian transformation a priority. Successful agrarian reform requires, among other things, a detailed inventory of geographic features of the topology, information on relative land values, records to determine legal ownership of properties, and organized institutions that can assess, over time, relative values of alternative properties that might become available for land redistribution. The Government of El Salvador, in the recently passed Ley de Arrendamiento, in its initial effort at land redistribution during the late 1960's with ICR and, more recently in its request to AID for a major loan aimed at land resettlement and credit programs[1/], has indicated willingness to take steps to improve both the incomes and the productivity of the rural poor in El Salvador which comprise approximately 60% of the national population.

The GOES has invested considerable resources during the past few years in a cadastral survey whose completion will have, among others, the dual benefits of (1) marshalling of self-help resources through improved property tax declarations and collections, and (2) providing the statistical base and institutional capability, to generate the types of data to more effectively undertake a program of purchasing land and redistributing it in economic units to the rural poor.

It has been pointed out in the economics literature that properly executed land redistribution constitutes a powerful instrument for rural income equilization and output growth. Yet sweeping land redistribution with little real compensation to owners may be out of the question politically in circumstances where more limited land redistribution with full payment to landowners is a realistic policy option. This clearly appears to fit the Salvadoran case. Land owner opposition is certain to be mitigated when the prospects for compensation are good. The potential for raising output through land distribution provides the opportunity for a "capitalist land reform" which would improve worker income while fully compensating former owners. William Cline points out[2/] that the central thrust of arguments in support of this contention is that the large estates underutilize their available land resources while at the same time the latifundio-minifundio landholding structure compresses excess labor into very small properties and into an underemployed landless labor force. Poor utilization of land on large farms results from various factors including land monopoly and monopsony over labor in large estates; the holding of land as a portfolio asset rather than for production; and the fact that production

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1/ See Memorandum from Edwin A. Anderson, Director, USAID/El Salvador, to the Development Assistance Executive Committee titled INTERIM REPORT ON THE PROPOSED SMALL FARMER TENURE AND PRODUCTION PROGRAM, February 24, 1975, for a review of the land transformation program proposed by the GOES.

2/ William Cline, AID/CM/otr-73-237.

for owner consumption provides small farms with greater market certainty than large estates.

Any program of land purchase and redistribution must be based upon (1) statistically significant knowledge as to the availability of land by fertility classification and potential use; and (2) standardized procedures and host-country facility to evaluate relative land values over time. The timely completion of the cadastral survey in El Salvador will provide much of the basic data required to implement more effectively government sponsored land redistribution programs.

Among the critical bottlenecks in potentially implementing a land redistribution program at the present time are lack of knowledge as to a) relative and absolute prices of differing qualities of land, b) supply characteristics of land by classification, and c) legal documentation on land ownership. The cadastre will be of assistance in providing data in all of these areas.

Mr. Wade Gregory, economist with USDA, in a paper written after consultation in El Salvador recently made the following points on the importance of land redistribution for the country.

> "There is no doubt that small farmers must have sufficient security of tenure to permit them to harvest any crop they plant. Although farmers now appear to have at least this amount of security, it still is not very much, and existing terms of tenure make it very difficult or impossible for small farmers without their own land to get ahead...In the long run, less would probably be paid if the land were purchased rather than rented, for it is believed that rents are "too high" and that other aspects of the rental discourage rather than encourage the land to be used in the most productive way."

Gregory further comments:

> "The existing tenure system probably is a deterrent to non-land owning farmers for using purchased inputs to the same degree they would if they owned the land..."

It thus appears that land redistribution is a necessary, if not sufficient, condition to insure improved small farmer productivity in El Salvador, and speedy completion of the cadastre will provide much of the data base required for successful land reform.

It would seem in the interest of the Congressional Mandate target rural poor that the USG should assist the GOES in completion of a cadastre which will provide the data base for any subsequent land transformation programs. Indeed, the modest U.S. assistance requested is minimal in comparison with the substantial self-help resources already invested by the GOES in the program.

The cadastre not only provides a data base for implementing any agrarian transformation activities, it should also be directly productive in the generation of increasing revenues for the central government. Property taxes are widely used in underdeveloped countries and have much to recommend them. An effective tax stimulates optimal use of land for production - to say nothing of the important increase of production for the market - and rates may be adjusted to penalize, for example, luxury housing. While in many countries politically powerful landowners resist changes necessary to keep valuations and rates abreast of price levels, a government committed to increasing revenues from net worth taxes and stimulating the production of hitherto idle lands (or its sale and redistribution if the tax is sufficiently progressive), can use the concept of a property tax to encourage economic development of the rural sector and to redistribute land away from underutilized latifundia to intensively cultivated family farms. A physical inventory of resources, such as the one being undertaken in the cadastre in El Salvador, built-in institutional capability to value property on the basis of potential productivity, and political commitment to reaching the rural poor may be powerful vehicles for income redistribution. Without basic data provided by a cadastre, many such programs are almost impossible to efficiently implement.

Thus, in addition to the very important task of providing the inventory base for decision-making in planning for the agricultural sector, the cadastre may well be a vehicle for marshalling self-help resources for the GOES. While it is clear that the extent to which a cadastre generates revenue depends upon the political decisions of the government (and at the point of implementation the will to promulgate policies utilizing the results of a cadastre often flags), the USG should be concerned with providing whatever assistance it can to countries who wish to pursue the institutionalization of land inventory and planning so that, if the host government finds opportunity to utilize the results of a cadastral for land reform or revenue programs, it can do so. This is especially important at this point in El Salvador, where an enormous amount of resources and effort have already been devoted to such a geographic inventory, and this technical assistance package would be a minimum contribution of the AID in accelerating its completion.

Revenue Impact

It must be reiterated that revenue response to the cadastral depends upon a host of factors, including, among others, the political "will"; the tax rate and base established by the Legislature; extent to which the threat of the compulsory valuation creates voluntary compliance; and enforcement. Nevertheless, some estimates of potential revenue benefits have been made, including the following revenue impact on the net worth tax which were estimated by the Chief of the Cadastral Division of the Direct Tax Office. The estimates were made following valuations of one municipality (San Francisco, Manéndez) where statistics were gathered and tabulated.

After first year	₡ 3.65 million
After second year	₡ 10.35 million
After third year	₡ 15.08 million
After fourth year	₡ 15.33 million

An estimate of continuing tax income to the GOES from the cadastral and tax improvement program submitted to an earlier Capital Assistance Development Committee were:

First year	₡	625,000
Second year	₡	2,000,000
Third year	₡	6,250,000
Fourth year	₡	12,500,000
Fifth year	₡	15,000,000

Further, Economist Clark Joel (USAID/ROCAP) has estimated that the cadastral project would bring approximately ₡15,000,000 ($6,000,000) in revenues.

In addition to the direct revenue effects on the net worth tax, additional revenue benefits may take the form of increased inheritence tax collections as well as providing a vehicle for municipal property tax assessment on properties valued at less than ₡25,000. (Impuesto de Vialidad, Serie D.)

Non-Revenue Benefits

The GOES has recently classified rural land by potential use from the very fertile (Class I) to that which is not productive for agricultural or forest use (Class VIII). These classifications could be part of the basis on which the GOES may make decisions regarding the purchase and [illegible] properties for the rural poor. The cadastre will permit identification of those lands that might be available for resettlement, and can provide information necessary to undertake whatever land tax program the GOES might deem appropriate to encourage intensive cultivation of large landholdings, of the purchase and [illegible] land to the rural poor.

Among the most important benefits of the [illegible] the development of a sound basis upon which loans to both large and small [illegible] may be made with land pledged as collateral. In general, small [illegible] from credit if they do not own their land, or are [illegible] for credit due to a land rent structure which discourages [illegible] property.

The most common form of land [illegible] is the arrendamiento procedure - the renting of land by the tenant. [illegible] legal relationship existed between the landlord and tenant [illegible] amount of rent to be paid during a single season. The [illegible] landlord and tenant had been one in which the tenant had no [illegible] to claim allowances for any investments to improve productivity of the [illegible] no appeal against increased rents. Conversely, the landlord had no legal [illegible] against misuse of his land, and often doubtful legal grounds for [illegible]. The tenant under these circumstances wishes to reap a harvest as quickly as possible and in doing so had little thought for conservation policies [illegible] that he worked. The landlord, wishing to obtain an [illegible] in the short-run, had

little protection against long-run damage for erosion and land neglect resulting from the arrendamiento procedure. If land transformation is undertaken in El Salvador, the cadastral information will not only be useful in identifying and valuation of lands for resettlement, but it can also serve as a basis on which credit can be extended to the rural poor who would purchase the small farms. The data in El Salvador clearly shows that credit availability is not only a positive function of the size of the farm, but also to the form of land tenancy*. Ownership of property creates not only the ability to successfully borrow for capital improvements, but also the incentive for taking advantage of capital improvements and technical assistance to increase per hectare productivity.

In short, the benfits of the cadastral survey extend far beyond the traditional goal of increasing state revenues. Revenues will probably be increased, and this in itself justifies the assistance. However, the utilization of the data derived from the cadastre and the institutional base for valuation thereby created can provide a modus operandi for undertaking more rational planning of any future agrarian transformation programs aimed at improving the productivity of the rural poor.

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* See earlier cited memorandum Development Assistance Advisory Committee for discussion and data on this point.

ANNEX B

NET WORTH TAX SYSTEM - EL SALVADOR

El Salvador is the only Latin American country that does not have a real property or real estate tax system. There are, however, four tax systems in El Salvador that use real property and/or real estate values as part of the base for the levy of a tax. These are:

1. Impuesto de Vialidad Serie A
2. Impuesto sobre Sucesiones
3. Impuesto sobre Donaciones
4. Impuesto de Alcabala

The most important of these is the "Impuesto de Vialidad Serie A", which is an "in personam" tax on the total net worth of a person (or "Sociedad"), which is applied at progressive rates starting at a base of ₡25,000 (U.S. $10,000).

The basic characteristics of the "Vialidad" tax system are:

1. It is based on voluntary declarations.

2. Declarations are submitted each year.

3. Declarations are based on a self assessment of net worth.

4. Any person who considers that his total net worth is less ₡25,000 does not have to file a declaration.

For many years, the Ministry of Finance has considered that the "Vialidad" tax can provide the government with the greatest potential for generating additional tax revenues, provided that equitable and realistic property values can be applied to the tax system by means of a "fiscal cadaster". This consideration is based primarily on the fact that self declared property values are "as a general rule" considerably lower than the true market value. This fact is, of course, demonstrated by experience. For many years, the declared property values have been reviewed by auditors and adjusted upward when they are considered to be too low. However, even though certain guides and standards were used by the auditors, there was no way for determining whether the "adjusted" values were correct, or uniform in application.

Obviously this situation can be improved by means of a "fiscal" cadaster provided that the necessary administrative mechanism is established to:

1. Relate taxpayer declarations from one year to the next
2. Identify taxpayers who are property owners
3. Identify "declared" properties
4. Identify "property owners" who are potential taxpayers

This requires: (i) a personal identification number that is common between taxpayers and property owners; and (ii) a property identification number that is common

between tax records and a-l other records related to a property, i.e. property "deeds" (which relate the property to the property owner); cadastral records (which identify the property) and property valuation records (which provide part of the net worth tax base).

The establishment, and maintenance, of such an administrative mechanism requires a rigid control of all of the component parts, i.e. tax declarations, cadastral records, valuation records, registered deeds and tax bills. It also requires administrative and/or legal provisions which operate to insure that properties are registered. Neither of these requirements are fully met at present.

The Government is convinced that given the technical assistance they have requested it is possible to achieve an adequate degree of control over the component parts of the administrative aparatus. This opinion is concurred in by an I.R.S. cadaster technician who recently completed a study of the system.

There is no legal requirement that owners register property and no present plan for establishing such a requirement. Nevertheless most taxable property is registered by its owners to assure their title, in order to mortgage it, etc. In addition, many unregistered properties are declared under the "vialidad" tax system, particularly in areas where cadastral field activities have taken place. It is considered probable that if the National Cadaster becomes fully functional means will be found to oblige registration of taxable properties.