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(PAGE SHEET)

CAPITAL PROJECT PAPER (PROP) PD-AAA-802-D1

PAGE 1 of 8 PAGES

I. PROJECT IDENTIFICATION

1. PROJECT TITLE: NATIONAL CADASTRE

APPENDIX ATTACHED: ☒ YES ☐ NO 27p.

2. PROJECT NO. (M.O. 1095.2): 519-11-790-171

3. RECIPIENT (COUNTRY): ☒ COUNTRY EL SALVADOR ☐ REGIONAL ☐ INTERREGIONAL

4. LIFE OF PROJECT: BEGINS FY 76 ENDS FY 77

5. SUBMISSION: ☐ ORIGINAL ☒ REV. NO. 1 DATE 8/15/75

CONTR./PASA NO.

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

A. FUNDING BY LOCAL 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. PROJECTION ACTUAL FY												
2. DEBT FY 76	109						1	108	29			
3. BUDGET FY 76	31							31	7			
4. BUDGET FY 77	126						1	125	34			
5. BUDGET NEXT FY												
6. BUDGET NEXT FY												
7. ALL SUBSQ. FY												
8. GRAND TOTAL	266						2	264	70			

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 FR HRH	Program Officer	8/15/75
2. CLEARANCE OFFICER: E. A. Anderson FR HRH	Director	8/15/75

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: To increase tax revenues.

2. Other Objectives which will be Furthered by Achievement of the Project Purpose:

Establishment of the National Cadaster will fulfill one of the necessary preconditions for any extensive and effective program which the Government might undertake to improve the pattern of land tenure in the country. It will provide a continuously maintained inventory of the nation's land resources which is essential for planning and management of their use to achieve developmental objectives (GOES sincerity in this area has been demonstrated by the recently approved IRTA legislation for the carrying out of the new GOES Agrarian Transformation Program). For a more detailed presentation of corollary benefits as related to AID's Congressional Mandate, see Annex A.

3. Summary of Linkages

The revenue goal will be realized through the direct effect of the Cadaster on annual taxes which will be collected on presently undeclared or underdeclared properties. The identification of properties, higher valuations, and compulsory registration will significantly increase revenue from sales, gift and inheritance taxes on real property. In addition, previously untaxed personal and corporate income will be identified through the cadaster.

The Cadaster program presently enjoys a high priority and ample budget. The factors which prevent its extension and establishment as a continuing source of higher revenues are primarily internal and may be summarized as the lack of coordination, managerial and technical know-how, and confidence on the part of the government in its own ability to overcome these obstacles without outside assistance. With four Ministries and the Planning Council involved in the program, there is a clear need for competent technical and managerial guidance from a source which is not identified with any agency of the Government and can thus be respected by all of those that have a role in the program.

The outputs necessary to permit the Cadaster to function adequately as a fiscal tool are coordinated data flow between agencies, improved valuation procedures, trained valuation personnel, a system to maintain data current, and a system for applying the data to collect taxes as prescribed by the Cadastral Law. These deficiencies in the program can all be remedied by the Government with the help of the advisory services that have been requested, and USAID has been given the most convincing assurances that they will be overcome and the Cadaster made an effective producer of increased revenue if our assistance is forthcoming.

4. Measurements of Goal Achievement: The goal will be achieved if total revenue from the net worth tax (of which real property now constitutes the basis for approximately 67%) increases from $8 million in 1974 to $12 million in 1977 and $15.5 million in 1979. Similar percentage increases in revenue from sales,

gift and inheritance taxes (which totalled $3.7 million in 1974) would also be expected.

5. Assumptions of Goal Achievement: It is assumed that no radical change will take place in the country's economic or political situation before the goal is achieved.

B. THE PROJECT PURPOSE

1. Statement of the Purpose: To establish a National Cadaster system.

2. Conditions Expected at the End of the Project:

a. Initial cadastral survey will be completed in at least three fourths of the geographic area of the country, including the areas of highest property value.

b. In the completed areas maintenance offices will be established and functioning effectively to maintain data current.

c. Data bank in Ministry of Finance will be functioning effectively for storage and retrieval of data from the Fiscal Cadaster Department, Cartographic Institute and Property Registry.

d. Fiscal Cadaster Department will be at or near full authorized staffing of 412 personnel all of whom will be trained or attending training courses in property valuation or administrative aspects of the valuation system.

e. Net worth taxes for 1977 in the completed areas will have been collected (or in process of appeal) based on cadastral values of taxable properties.

3. Basic Assumptions for Accomplishment of the Project Purpose: The present Government has made the fundamental assumption that the National Cadaster 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 shake up in the present GOES administration which would seriously disrupt the program.

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.

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; i.e., no more than 10% discrepancies between tax declarations and property and ownership identifications in Tax Office.

3. Basic Assumptions Related to Outputs:

a. Technical assistance team leader and valuation advisor are at work by September-October, 1975, and competent short-term advisors are available as required.

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. AID will provide other cost financing in support of the IRS/PASA advisory team (operational travel and training materials).

c. The GOES will provide budgetary resources for the National Cadaster of not less than $2 million per year during the life of the project.

2. Implementation Schedule

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

Position	FY 76 Services	FY 76 Financing	5th Quarter Services	5th Quarter Financing	FY 77 Services	FY 77 Financing
Team Leader	12 mm	$ 49,000	3 mm	$ 15,000	15 mm	$ 62,000
Valuation Adv.	9 mm	29,000	3 mm	12,000	15 mm	49,000
O&M Advisor	4 mm	15,000	1 mm	4,000	2 mm	7,000
Systems Analyst	4 mm	15,000			2 mm	7,000
Totals	29 mm	108,000	7 mm	31,000	34 mm	125,000

b. AID will provide other cost financing (i.e. operational travel and training materials)according to the following schedule:

FY 76	5th Quarter	FY 77
$1,000	—	$1,000

c. GOES CY 75 budget is $2.074 million and similar or larger amounts are to be budgeted for 1976 and 1977.

3. Basic Assumptions Related to Inputs

a. Because of the high priority assigned to the program by the GOES, the Government will minimize bureaucratic obstacles to implementation of the budget.

b. AID funds will be available and authorized to provide technical assistance as scheduled.

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 were 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 Cadaster

a. 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. Valuation of properties has begun in the department of La Libertad and is to be initiated in the capital city in the latter half of CY 1975. Tax receipts from property owners in the departments which are completed or in process are rising, though the cadastral values are not yet being systematically applied to collect taxes. One owner is appealing a bill for $800,000.in current and back taxes, which the Government expects to collect.

b. The Cadastral Law is presently before the legislature for amendments to close loopholes and make it more readily administrable. While the law is in effect and entirely workable in its present form, some of its important provisions (those relating to mandatory registration of title transfers and uniform collection of taxes based on cadastral values) are applicable only to areas which have been declared "cadastral zones". The Government does not plan to declare a cadastral zone until the principal technical problems in the cadastral system have been resolved and the proposed amendments to the law enacted.

c. A number of actions have been taken by the GOES to accelerate the cadaster and increase its effectiveness. Several were undertaken as a direct result of recommendations made by AID TDY advisors in 1974. Following is a partial list.

(1) A Natinnal 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.

(2) 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.)

(3) A budget of $2,074,000 was established for CY 1975 and another $1.1 million is to be made available if required. Since 1969 the Cartographic Institute and the Fiscal Cadaster Division have had a separate budget designated for cadaster activities. In 1975 the Supreme Court made funds available from its budget for property indexing. (See Cadastral Budget, Statistical Annex C.)

(4) The 1975 budget included provision for 250 additional employees in the Fiscal Cadaster Department of the Ministry of Hacienda, bringing the total number of authorized positions to 412.

(5) 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.

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

(7) A program is underway for notification to property owners of the boundaries and values of their property.

(8) Mapping and identification of ownership in most of the country have been completed by the Geographic Institute.

d. The high priority assigned the Cadaster Program by the GOES, the heavy investment being made in it, and the absolute necessity of additional revenue, leave no doubt that the present Government fully intends to complete the program and take the difficult steps required to realize its revenue potential.

3. Reasons for Proposing the Project

a. The goal is consistent with priority objectives of both the U.S. and Salvadoran Governments. Without a real increase in domestic revenue the Government's program for giving greater opportunity to the poorest majority (e.g. the new agrarian transformation program) will become ever more dependent on external revenue sources. This trend would accelerate deterioration of the country's balance of payments (severely affected by worldwide inflation and increased energy costs) and lead to the curtailing or abandonment of domestic social and economic programs.

b. The GOES has demonstrated convincingly that it can and will make effective use of the proposed assistance.

c. AID is uniquely qualified to provide the required assistance in a

timely and effective manner.

d. Without AID assistance now, the Government's entire investment in the cadaster program could well be lost, and with it a rare opportunity to establish a more equitable tax structure.

e. The cost of the assistance to be provided by AID is insignificant compared to the potential benefits.

F. COURSE OF ACTION

1. Implementation Plan: (See Annex D)

2. Considerations Relevant to Project Implementation

a. The initial Project Agreement will include general commitments by the GOES 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 and support for the advisory team. The ProAg will also provide for joint development of a program implementation plan to be approved by USAID and by the National Cadastral Commission. 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. If the program is to be sufficiently advanced to insure its viability following the election of a new President in 1977, it is essential that AID's technical advisory personnel be on the job no later than September-October, 1975. Budgets have been calculated on the assumption that personnel would be provided through an I.R.S. PASA. The use of a consulting firm would involvedmuch higher costs and unacceptable delay.

c. The prospects for significant involvement of women in the program are excellent. In the Cartographic Institute 66 of the employees of the cadastral division are women, most of whom are cartographic technicians working with sophisticated equipment and techniques. The Director General of the Direct Tax Office is the highest ranking woman in the Salvadoran Government and the country's most widely recognized leader in the drive for equal opportunity for women. As the Fiscal Cadaster Division of her Directorate is brought up to its authorized level of staffing she is sure to insist upon a strong affirmative action program for employment and assignment, as appropriate, of female valuation and maintenance personnel.

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, Menéndez) 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 resale of 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, or the purchase and resale of underutilized land to the rural poor.

Among the most important benefits of the cadastre may be the development of a sound basis upon which loans to both large and small farmers may be made with land pledged as collateral. In general, small farmers are either precluded from credit if they do not own their land, or are discouraged from applying for credit due to a land rent structure which discourages reinvestment in non-owned property.

The most common form of land tenancy for the rural poor is the arrendamiento procedure - the renting of land by the tenant. Until recently, no specific legal relationship existed between the landlord and tenant except for the amount of rent to be paid during a single season. The historic relationship between landlord and tenant had been one in which the tenant had no guarantee nor right to claim allowances for any investments to improve productivity of the soil, and no appeal against increased rents. Conversely, the landlord had no legal protection against misuse of his land, and often doubtful legal grounds for evicting a tenant. The tenant under these circumstances wishes to reap a harvest as quickly as possible and in doing so had little thought for conservation policies in terms of the land that he worked. The landlord, wishing to obtain as high rent as possible 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

[illegible]

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

1. Impuesto de Vialidad Parcial
2. Impuesto sobre Naturaleza
3. Impuesto sobre Donaciones
4. Impuesto de [illegible]

The most important of these is the "[illegible]" which is an "in personam" tax on the total net worth of a [illegible] which is applied at progressive rates starting at a base of [illegible]

The basic characteristics of the "Vialidad" [illegible]

1. It is based on voluntary declarations.
2. Declarations are submitted each year.
3. Declarations are based on a self [illegible]
4. Any person who considers that his [illegible] does not have to file a declaration.

For many years, the Ministry of Finance [illegible] "Vialidad" tax can provide the government with the greatest [illegible] additional tax revenues, provided that equitable and [illegible] applied to the tax system by means of a "[illegible]". [illegible] primarily on the fact that self declared property values are [illegible] considerably lower than the true market value. [illegible] by experience. For many years, the declared property [illegible] and adjusted upward when they are considered to be [illegible] certain guides and standards were used by the [illegible] determining whether the "adjusted" values were [illegible]

Obviously this situation can be [illegible] provided that the necessary administrative [illegible]

1. Relate taxpayer declarations [illegible]
2. Identify taxpayers who [illegible]
3. Identify "declared" properties
4. Identify "property owners" [illegible]

This requires: (1) a personal [illegible] between taxpayers and property owners, and (2) a [illegible] that is common

between tax records and a-1 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 apparatus. This opinion is concurred in by an I.R.S. cadaster technician who recently completed a study of the system.

There is currently no legal requirement that owners register property, however, the Cadastral Law is presently before the legislature for amendments to close loopholes and make it more readily administrable. In addition, most taxable property is registered by its owners to assure their title, in order to mortgage it, etc. It should also be noted that many unregistered properties are declared under the "vialidad" tax system, particularly in areas where cadastral field activities have taken place. Therefore, it is considered probable that an amended cadastral law together with a fully functional cadaster will result in development of the means to oblige registration of taxable properties.

STATISTICAL TABLES

ANNEX C

I. **Cadastral Budget**

U.S. Dollars

	Cartographic Institute	Fiscal Cadaster Division	Total
1969	$ 280,000	$ 37,600	$ 317,600
1970	260,400	44,330	304,730
1971	455,000	120,000	575,000
1972	392,000	120,000	512,000
1973	538,000	424,000	962,000
1974	828,000	462,000	1,290,000
1975	1,274,000	800,000	2,074,000
*1976	1,278,000	810,000	2,088,000

* Projected

Figures are approximate through 1974. Extracted for cadastral activities from the Directorates budgets. In 1974, the budget was changed to show cadastral activities as a separate budget item for each respective Ministry.

Not shown are cadastral activities budgeted for the Supreme Court in the 1975 budget for property indexing.

II. **Tax Performance in El Salvador**

Last Five Years in Millions of U. S. Dollars

	Direct Tax	Indirect Tax	Customs	Total
1970	25.9	34.5	45.4	105.8
1971	28.0	41.0	42.6	111.6
1972	31.3	45.8	43.6	122.0
1973	36.0	51.0	59.0	146.0
1974	47.5	43.6	74.5	165.6

Direct Tax

	Vialidad (Net Worth)	Sucesiones (Inheritance)	Donaciones (Gift)	Alcabala (Property Sales)	Rentas (Income)	Total
1970	7.0	1.3	.4	1.0	15.8	25.5
1971	6.6	1.4	.4	1.1	18.2	27.7
1972	6.7	1.1	.3	1.3	14.8	34.2
1973	7.4	2.7	.4	1.8	25.0	37.3
1974	8.0	1.4	.3	2.0	32.0	43.7
*1975	8.5	4.0	.5	2.5	33.6	

* Projected by Ministry of Hacienda

Note difference in direct tax totals.
First table indicates year end collections.
Second table indicates charges and credits after audit.

III. Tax Rates on Property Valuations

1. Vialidad (Net Worth)

U.S. Dollars	
Less than $10,000	None
10,000 - 20,000	0.10
20,000 - 40,000	$20 plus 0.15 of the excess over 20,000
40,000 -120,000	50 plus 0.35 " " " " 40,000
120,000 -240,000	330 " 0.60 " " " " 120,000
240,000 -400,000	1,050 " 1.00 " " " " 240,000
400,000 -800,000	2,650 " 1.25 " " " " 400,000
More than 800,000	7,648 " 1.40 " " " " 800,000

2. Sucesiones and Donaciones (Inheritance and Gift)
The rate is progressive from 1.60% to 50.00% depending on the relationship of the Grantee to the Grantor and the value of the property.

3. Alcabala (Property Sales Tax) 1.00%.

IV. **Estimated Cost versus Benefits**

Net worth tax projections with cadastral values included in the tax registers starting in CY 76

1974	actual tax in $ U.S. millions	8.0
1975	projected by Ministry of Hacienda	8.5
1976	projected including cadastral values	9.1
1977	" " " "	12.0
1978	" " " "	14.5
1979	" " " "	15.5

The budget for cadastral activities in the fiscal cadastral department and the national cartographic institute is expected to be at the approximate level of the 1975 budget of $2.074 million until the project starts reducing to the maintenance level in mid 1978 or early 1979.

The expected annual increase in the net worth tax using cadastral values should exceed budget expenditures for cadastral activities by at least $400,000 in CY 1977 and by approximately $2,500,000 in CY 1978. Revenues will continue to increase as the annual cost of the program is reduced to maintenance level.

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ANNEX D

IMPLEMENTATION FOR NATIONAL CADASTER PROJECT 1/
(FY 1976 - FY 1977)

Activity	Target Date	Action Agent
1. Allotment of Funds		USAID
a. Sign Project Agreement	August-Sept.	USAID/GOES
b. Mobilize team leader	September	USAID
2. Approval of Detailed Work Plan	September	USAID/GOES
3. Prepare logistics for team leader's arrival	October	GOES
4. Team leader arrives at post	November	USAID
5. Orientation meeting for team leader with Cad. Commission	November	USAID-T/GOES
6. Orientation meeting for team leader with Committee of Director Grls.	November	USAID-T/GOES
7. Review work plan through CY 75 and CY 76. Revise as necessary. Review CY 76 budget	Nov., Dec.	USAID-T/GOES
8. Initiate higher qualification requirements and pay for valuation personnel	November	GOES
9. Mobilize valuation technician	November	USAID
10. Prepare logistics for valuation technician arrival	November	GOES
11. Valuation technician arrives at post	December	USAID
12. Begin recruitment of valuation personnel to fill vacant positions	Dec. onward	GOES
13. Prepare training materials, train instructors and initiate basic valuation course	Dec. 75, March, 76	USAID-T

AID 1020-1A (7-71) (NARRATIVE DESCRIPTION)

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Activity	Target Date	Action Agent
14. Furnish employees for basic training when and as designated by team leader and valuation technician.	Dec. ongoing	GOES
15. Name training officer	January 1976	GOES
16. Designate employees, recommended by the valuation technician, to assist in the continuous training program	January 1976	GOES
17. Initiate work on updating procedures and valuations manuals	January 1976	USAID-T/GOES
18. Mobilize Organizations and Methods technician	December 1975	USAID
19. Organization and Methods technician arrives at post	January 1976	USAID
20. Investigate quality of data in the completed areas and initiate measures to assure accuracy for tax purposes	Dec. 1975-Feb. 1976	USAID-T/GOES
21. Investigate data management, flow and quality at the inter-ministerial level. Identify problem areas, proposed solutions	Jan.-April 1976	USAID-T
22. Review maintenance programs and procedures. Revise if necessary.	January 1976	USAID-T/GOES
23. Review administrative claims procedures, Revise if necessary	Feb.-March 1976	USAID-T/GOES
24. Organize cadastral maintenance office in the Departments as field operations warrant	March ongoing	GOES
25. Review organization of fiscal cadastral office. Reorganize if necessary	April, May 1976	USAID-T/GOES

AID 1020-1A (7-71) (NARRATIVE DESCRIPTION)

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Activity	Target Date	Action Agent
26. Prepare advance and refresher valuation course, initiate course and quality control measures	April onward	USAID-T/GOES
27. Mobilize data systems technician	May	USAID
28. Data systems technician arrives at post	June	USAID
29. Organization and Methods technician departs post	June	USAID
30. Develop and install improved data flow and maintenance system at inter and intra ministerial level	June-September	USAID-T/GOES
31. Complete, consolidate and print procedures and valuations manuals with provisions for future up-dating of changes in approaches, cost and valuation data	June-Aug., 1976	USAID-T/GOES
32. Review and revise work plan as needed for CY 76, CY 77	July-Aug., 1976	USAID /GOES
33. Prepare CY 77 budget	Sept.-Nov. 1976	GOES
34. Data systems technician departs post	October 1976	USAID
35. Review of new and revised systems, training and quality, taking necessary corrective actions	Oct.-Dec., 1976	USAID-T/GOES
36. Begin final report and prepare recommendations for post project implementation and maintenance	Jan.-March 1977	USAID-T
37. Valuation technician departs post	January 1977	USAID

Activity	Target Date	Action Agent
38. Finish final report and recommendations	Feb.-March 1977	USAID
39. Team leader departs post	March 1977	USAID

1/ This is a proposed implementation plan which was formulated as a result of initial discussions between TDY technical advisors and Mission staff with GOES officials. However, it may be subject to revision as dictated by the availability of short-term advisory personnel and further detailed planning to be carried out by the team leader and GOES the working committee.

ANNEX E

Pertinent Articles of the 1974 Cadaster Law, as amended, which address questions raised by the DAEC.

TITULO V

ASPECTO JURIDICO

Art. 22 - El aspecto jurídico del catastro tiene por finalidad garantizar la propiedad o posesión de los inmuebles, por medio de una adecuada organización del Registro de la Propiedad Raíz e Hipotecas.

Art. 23 - Las oficinas del Registro de la Propiedad Raíz e Hipotecas y el Instituto Geográfico Nacional, a medida que el desarrollo del catastro lo permita, formarán los índices que fueren necesarios de acuerdo con las fichas catastrales. Estos índices se llevarán simultáneamente con el índice alfabético de propietarios.

Art. 24 - Las fichas catastrales servirán de base para la reorganización del sistema del Registro de la Propiedad Raíz e Hipotecas.

Art. 25 - Todo Registrador de la Propiedad Raíz e Hipotecas, para inscribir cualquier título en que se reconozca, transfiera o cancele el dominio sobre un inmueble situado en una zona catastrada, deberá exigir los datos contenidos en la ficha catastral correspondiente o constancia del Instituto Geográfico Nacional o de la Oficina de Mantenimiento respectiva, de no estar clasificado.

Dichos datos se consignarán en los asientos del Registro y de la misma manera se procederá para inscribir a favor de herederos, legatarios, donatarios por causa de muerte o de tercera persona, derechos sobre bienes raíces situados en una zona catastrada y procedentes de una sucesión.

TITLE V

LEGAL ASPECT

Art. 22 - The purpose of the legal aspect of the cadaster is to guarantee the property or tenure of real property through an adequate organization of property registration deeds and mortgages.

Art. 23 - The Registry Office (Ministry of Finance) and the National Geographic Institute, as development of the Cadaster permits, will formulate the necessary indexes in accordance with cadastral records. These indexes will be maintained simultaneously with the alphabetical index of landowners.

Art. 24 - The cadastral file will serve as a base for the reorganization of the system for the registration of deeds and mortgages.

Art. 25 - Every registry office must require, before registration of any title which recognizes, transfers or cancels the ownership of property located in a cadastral zone, the corresponding cadastral data, or if not on record, the corresponding information from the National Geographic Institute or Records Maintenance.

Said data will be filed with the Registry Office and in the same manner the rights of real property located in a cadastral zone will be registered in favor of heirs, beneficiaries and recipients of inheritances in case of death or of third persons, as result of a succession.

Los datos a que se refieren los incisos que antecedon, se verificarán con los que consten en la ficha catastral que del mismo inmueble tenga el REgistro de la Propiedad Raíz e Hipotecas.

Art. 26 - Siempre que se presenten a inscripción al Registro de la Propiedad Raíz e Hipotecas, documentos en que se describen bienes cuya relación no concuerde con sus antecedentes inscritos, el Registrador se abstendrá de inscribirlos hasta que se resuelva la diferencia, ya sea rectificando el Instituto Geoggáfico Nacional la correspondiente ficha catastral, o presentando el interesado la certificación de la sentencia judicial ejecutoriada correspondiente.

Art. 27 - Cuando no pudiere inscribirse en el Registro un instrumento por no concordar con su antecedente inscrito, podrá rectificarse por el notario o autoridad que lo hubiere autorizado haciendo constar en la rectificación la ficha catastral de su antecedente inscrito.

Art. 43 - Para los efectos del catastro, la respectiva Oficina Departamental de Mantenimiento, deberá notificar a los propietarios o poseedores de los inmuebles comprendidos en las zonas catastrales o catastradas, las mensuras o valúos efectuados en dichos bienes, así como las inscripciones del REgistro de la Propiedad Raíz que amparen sus inmuebles, cuando las hubiere.

Los interesados que no estuvieren conformes con la mensura, inscripción o el valúo atribuidos a un inmueble, podrán impugnarlos por escrito ante la Oficina de Mantenimiento correspondiente, expresando las razones en que funden su inconformidad, dentro de los quince días contados desde el siguiente al de la notificación respectiva, la cual se hará por escrito. El documento que contenga la notificación se remitirá

The data to which the preceding paragraphs refer, will be verified with the data in the corresponding property cadastral record on file in the Registry Office.

Art. 26 - Whenever a request to register a property is received by the Registry's Office by means of documents which do not coincide with documents previously registered, the Registrar will abstain from registering it until the differences are resolved, in that the National Geographic Institute may correct the cadastral record, or the party concerned in case of conflict may present a certificate ~~of an executed~~ of an executed judicial resolution.

Art. 27 - If a document cannot be registered because it does not agree with previous records, it may be rectified by the notary or official who authorized it making reference in the amendment of the data contained in the previously registered Cadastral Record.

Art. 43 - For cadastral purposes, the Departmental Maintenance Office will notify owners of properties in cadastral zones of measurements or valuations carried out of said properties, as well as the records in the REgistry's Office, if these exist, which confirm the title.

Those parties who do not agree with the measurements, registration, or the value adcribed to a property, may appeal in writing to the corresponding Maintenance Office indicating the reasons for their appeal, within sixteen days from the date of the written notification. The notification document will be sent by certified mail, through the municipality or the District Commissioner and its delivery shall be verified in the manner

por correo certificado o por medio del Alcalde Municipal o del Comisionado Cantonal y su entrega se comprobará de la manera establecidaden el inciso segundo del Art. 15.

Recibido el escrito de impugnación, será remitido con un informe dentro del tercer día, al Instituto Geográfico Nacional, si se tratare de mensuras; al Registro de la Propiedad Raíz e Hipotecas, si se tratare de inscripciones o a la Dirección General de Contribuciones Directas, si se tratare de valúos. Estas oficinas resolverán el recurso tomado en cuenta las razones en que se fund su inconformidad el recurrente, los informes que solicitare y demás documentos que se tuvieren.

Art. 44 - Transcurrido el término concedido para la impugnación, sin que se hubiere recurrido, o pronunciada la resolución a que se refiere el inciso final del artículo anterior, se procederá a emitir la ficha catastral.

TITULO IV

ASPECTO FISCAL

Art. 20 - La Dirección General de Contribuciones Directas ordenará el valúo de cada uno de los inmuebles comprendidos en las zonas catastratles, valuaciones que se harán siguiendo los sistemas y procedimientos, que determine el Departamento del Catastro Fiscal de dicha Dirección.

Art. 21 - Valuado un inmueble por la Dirección General de Contribuciones Directas, dicha oficina enviará la información necesaria al Centro de Cómputo o de Procesamiento de datos del Ministerio de Hacienda para hacerse constar en el tanto de la ficha catastral correspondiente a la Dirección General mencionada y en el destinado al

prescribed in the second paragraph of ARt. 15.

Once the written appeal is received, it will be submitted with a report, within three days, to the National Geographic Institute if it is related to measurements, to the Registrar's Office if related to registrations, or to the Director General of Direct Taxes if related to valuations. Those offices will resolve the appeal taking into consideration the basic reasons of the appellant's disagreement; the reports requested by him, and other available documents.

Art. 44 - Once the period of time allowed for appeal is elapsed, and the interested party has not filed, or once the resolution stated in the last paragraph of the previous article has been pronounced, the final cadastral file will be issued.

TITLE IV

FISCAL ASPECT

The Directorate General of Direct Taxes will order the valuation of each real property located in cadastral zones, and these valuations will be carried out following the systems and procedures determined by the Fiscal Cadaster Department of said Directorate.

Art. 21 - Once the valuation of a property has been carried out by the Directorate General of Direct Taxes, said office will submit the necessary information to the Computer Center or to the Data Processing Center of the Finance Ministry in order to register said information in the Directorate General copy of the Cadastral File ~~xxxxxxxxxxx~~ and send a corresponding

propietario o poseedor del inmueble. Este valúo será incorporado por la misma Dirección General en los dictamenes periciales, para los efectos fiscales.

copy to the owner or holder of the property. This valuation will be incorporated by the Directorate General in the appropriate fiscal statements.

AID 1020-28 (1-72)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 76 to FY 77
Total U. S. Funding
Date Prepared: 8/15/75

Project Title & Number: NATIONAL CADASTRE - 519-11-790-171

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: Increase Tax Revenues.	Measures of Goal Achievement: 1) Total revenue from net worth tax (of which real property now constitutes the basis for approximately 67%) increased from $8 million in 1974 to $12 million in 1977 and $15.5 million in 1979. 2) Similar percentage increases in revenue from sales, gift and inheritance taxes by 1979.	1) Ministry of Finance monthly computer reports. 2) Other GOES official publications. 3) International Organizations' reports such as IMF.	Assumptions for achieving goal targets: 1) No radical change in country's economic or political situation before goal is achieved.
Project Purpose: To establish a National Cadaster system.	Conditions that will indicate purpose has been achieved: End of project status. 1) Initial cadastral survey completed in at least three-fourths of geographic area of the country. 2) Maintenance offices established and functioning in completed areas. 3) Ministry of Finance data bank functioning. 4) Authorized number of staff (412) working and/or training in Fiscal Cadaster Department. 5) Net worth taxes for 1977 collected or in process of appeal in completed areas.	1) Project progress reports. 2) On-site verification. 3) Ministry of Finance staffing reports. 4) GOES records. 5) Project evaluations by advisory team and mission project manager.	Assumptions for achieving 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. 3) GOES is able and willing to adhere to reasonable commitments regarding actions necessary to implement program.
Outputs: 1) Coordinated flow of data between GOES entities involved. 2) Continuous valuation training program established in Ministry of Finance. 3) Updated valuation manual and procedures. 4) Improved system for maintaining cadastral data current in completed areas. 5) Use of cadastral data by tax office systematized.	Magnitude of Outputs: 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. (Cont'd on next page)	1) On-site inspections and advisors' reports. 2) GOES training plan and progress reports. 3) Official GOES publications. 4) Inspections/project evaluations. 5) Official records.	Assumptions for achieving 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. 3) Technical advisors on board no later than early October, and short term advisors available on timely basis.
Inputs: AID 1) Team Leader (General Cadastre Technic.) 2) Valuation Advisor 3) Organization & Methods Advisor 4) Data Systems Analyst GOES Budget of not less than $2 million per year during life of the project.	Implementation Target (Type and Quantity) AID 1) FY 76 12 mm & financing $49,000; 5th Q 3 mm at $15,000; and FY 77 15 mm at $62,000. 2) FY 76 9 mm at $29,000; 5th Q 3 mm at $12,000 and FY 77 15 mm at $49,000. 3) FY 76 4 mm at $15,000; 5th Q 1 mm $4,000; & FY 77 2 mm at $7,000. 4) Other cost financing for operational travel & training materials; $1,000 each year FY 76 and 77. GOES: Operating budget during life of project.	1) AID official documents. 2) GOES approved national budget.	Assumptions for providing 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.

Magnitude of Dispute (Cont'd)

5) Significant increase in [illegible] declared [illegible] and higher declared values.