



2022 Final Donor Report  
Support for the Design and Implementation of a Property Tax  
ES-T1298

Basic Information

|                     |   |            |  |
|---------------------|---|------------|--|
| Approval Year       | : 2019  | Region     | : CID  |
| Team Leader         | : Calderon Ramirez, Ana Cristina  | Country    | : El Salvador                                      |
| Taxonomy            | : Client Support  | Department | : IFD  |
| Fund                | : INS,ORC-INS   | Sector     | : RM - Fiscal Policy For Sustainability And Growth |
| Approval Number     | : ATN/OC-17732-ES   | Sub Sector | : FIS  |
| Execution Agency    | : US-IDB  |            |  |
| Execution Status    | : Closed  |            |  |
| Operation Objective | : The objective is to strengthen the capacities of the Ministry of Finance to design, implement and coordinate an Property Tax. The TC will support two components: (i) Advice on the design of a property tax, (ii) Institutional Strengthening of the MH for the approval and management of the Property Tax. |            |  |

Financial Information

|                                      |              |             |                              |
|--------------------------------------|--------------|-------------|------------------------------|
| ES-T1298                             |              |             |                              |
| ATN/OC-17732-ES:ORC                  | Original     | Current     | % of Current Amount Financed |
| Amount Financed                      | \$100,000.00 | \$82,309.65 |                              |
| Disbursed Amount                     | N/A          | \$82,309.65 | 100.00 %                     |
| Commitments not yet disbursed Amount | N/A          | -           | 0.00 %                       |
| Available Amount                     | N/A          | -           | 0.00 %                       |
| Final Disbursement Date              | Nov 22, 2022 |             |                              |

Status Update

The program to support the design and Implementation of the Property Tax was approved for \$100,000 and began its execution in December 2019. This TC was designed and managed at the request of the Government of El Salvador, through the ministry of Finance. Initially, the current administration planned to implement a property tax. However, its onset coincided with the COVID-19 pandemic, which, given the social, economic, and public finance effects, implied, in certain cases, the prioritization of public actions and interventions based on social needs, as well as the delay of policies that were still in the study stage. In addition to this, at the beginning of the current administration there was a high turnover in the main managers of the Tax Administration, in particular, the General Directorate of Internal Taxes (DGII), which made it difficult to continue some interventions regarding tax matters. Considering this challenging context, the design and implementation of a property tax were considered at some point as key matters as part of the measures related to increasing the country’s revenues, which were required in the face of a fiscal adjustment situation. In addition, the Executive was interested in finding an alternative mechanism for financing municipalities, to replace the transfers made from the Central Government (FODES), which during the COVID-19 pandemic were interrupted and carried out irregularly. In 2021, a workshop was held with the support of high-level consultants, who presented the conditions required for the implementation of a property tax, as well as international good practices. As a result of this, a proposal was prepared with the technical considerations to make the implementation of the property tax, which would allow continuing with the preparation of the draft law and other activities of socialization and consensus building. This proposal was delivered to the Ministry of finance (both for its management and technical teams). IDB requested that the Ministry of Finance establishes a focal point (i.e. Director of Economic and Fiscal Policy), to create an inter-institutional technical team to carry out the necessary actions for the design and implementation of the property tax ( action plan, draft of the bill, socialization, and consensus among the various actors, among others). Although the delegation of the Director of Economic and Fiscal Policy as the focal point between MF and IDB to deal with actions related to the property tax was successful, the creation of the technical team was not achieved. Subsequently, the government's strategy changed, focusing efforts on strengthening the Tax Administration to improve collection through the implementation of an Anti-Evasion Plan, which in turn considered a new Tax Amnesty Law (according to the MF, With this, US\$131.3 million of the tax debt was recovered, during approximately 2 months of its validity), leaving the design and implementation of the property tax off the economic and political agendas. Additionally, the absence of a property tax has been part of the government's strategy to attract investment. Both aspects stopped the actions planned within the CT.

**Advance in the Achievement of Outcome and Outputs**

**Advance in the Achievement of Outcome**

**1 . Enhancement of fiscal sustainability and promotion of local public investment through the adoption of a Property Tax**

In order for property taxation to enhance fiscal sustainability it needs to cover three main aspects: (i) realizing the importance of changing the tax system regarding property; (ii) the tax policy reforms that must adjust tax base definitions and tax rate structures, along with making appropriate policy decisions linked to valuation standards, appeals, collection and enforcement; and (iii) The tax administrative reforms must focus on improving tax base coverage, valuation, and collection, along with taxpayer services. To achieve the purpose of this TC, it was possible to focus on the first step of these components. Ensuring that the government has the awareness of the importance of implementing a property tax, as well as the opportunities that it could bring to improve efficiency, increase revenue and decrease inequality. In addition, a plan was created along with roadmap explaining each of the steps that are needed to design and implement it in El Salvador. Unfortunately, due to the pandemic, the government changed decided not to increase taxes, as it was decided in many other countries in the region. Thus, the prioritization of the topic did not allow it for final implementation. However, most of the documents were in place for example the cost-benefit of it, the awareness of its importance; the roadmap including the organizational changes needed to do it. It is relevant to report that these outputs are ready as soon as political will and national priorities are in place to move forward to implement this reform.

**Advances in Execution**

**1. Design of a Property Tax**

**Component Cost: \$64,000**

| Output Indicator                     | Indicator Detail   | Unit Of Measure | Baseline | Baseline Year | Means Of Verification | Theme                     | Year      | P     | P(A)  | A     |
|--------------------------------------|--|-----------------|----------|---------------|-----------------------|---------------------------|-----------|-------|-------|-------|
| 1.1 <sup>s</sup> Strategies designed | Overall implementation strategy for the property tax (INS) | Strategies (#)  | 0        | 2019          | Consultancy report    | Institutional Development | Physical  |       |       |       |
|                                      |  |                 |          |               |                       |                           | 2019      | 0     | 0     | 0     |
|                                      |  |                 |          |               |                       |                           | 2020      | 0     | 0     | 0     |
|                                      |  |                 |          |               |                       |                           | 2021      | 1     | 1     | 1     |
|                                      |  |                 |          |               |                       |                           | 2022      | 0     | 0     | 0     |
|                                      |  |                 |          |               |                       |                           | EOP 2022  | 1     | 1     | 1     |
|                                      |  |                 |          |               |                       |                           | Financial |       |       |       |
|                                      |  |                 |          |               |                       |                           | 2019      | 0     | 0     | 0     |
|                                      |  |                 |          |               |                       |                           | 2020      | 0     | 0     | 0     |
|                                      |  |                 |          |               |                       |                           | 2021      | 12000 | 6120  | 6120  |
|                                      |  |                 |          |               |                       |                           | 2022      | 0     | 5880  | 11940 |
|                                      |  |                 |          |               |                       |                           | EOP 2022  | 12000 | 12000 | 18060 |

**Advances In Execution:** A matrix with recommendations for the design and implementation of the property tax in El Salvador was prepared with the support of the TC. This exercise was a deliverable as part of the Property Tax Workshop held in March 2021. The matrix was a co-creation exercise with international experts and technical counterparts (DGII).

| Output Indicator                                       | Indicator Detail   | Unit Of Measure | Baseline | Baseline Year | Means Of Verification | Theme                     | Year      | P     | P(A)  | A    |
|--|--|-----------------|----------|---------------|-----------------------|---------------------------|-----------|-------|-------|------|
| 1.2 <sup>s</sup> Diagnostics and assessments completed | Report describing institutional strengthening requirements for the Ministry of Finance (INS) | Diagnostics (#) | 0        | 2019          | Consultancy report    | Institutional Development | Physical  |       |       |      |
|  |  |                 |          |               |                       |                           | 2019      | 0     | 0     | 0    |
|  |  |                 |          |               |                       |                           | 2020      | 0     | 0     | 0    |
|  |  |                 |          |               |                       |                           | 2021      | 1     | 1     | 1    |
|  |  |                 |          |               |                       |                           | 2022      | 0     | 0     | 0    |
|  |  |                 |          |               |                       |                           | EOP 2022  | 1     | 1     | 1    |
|  |  |                 |          |               |                       |                           | Financial |       |       |      |
|  |  |                 |          |               |                       |                           | 2019      | 0     | 0     | 0    |
|  |  |                 |          |               |                       |                           | 2020      | 0     | 0     | 0    |
|  |  |                 |          |               |                       |                           | 2021      | 10000 | 10000 | 6500 |
|  |  |                 |          |               |                       |                           | 2022      | 0     | 3500  | 0    |
|  |  |                 |          |               |                       |                           | EOP 2022  | 10000 | 10000 | 6500 |

**Advances In Execution:** The initial conditions for the implementation of a property tax in El Salvador were presented to the Internal Taxes Directorate as part of the Property Tax Workshop held in March 2021. The consultant's report includes a roadmap for its implementation.

| Output Indicator                                   | Indicator Detail   | Unit Of Measure | Baseline | Baseline Year | Means Of Verification | Theme                     | Year   | P     | P(A)  | A |
|--|--|-----------------|----------|---------------|-----------------------|---------------------------|--|-------|-------|---|
| 1.3 <sup>s</sup> Regulatory frameworks implemented | Proposal for amendments to laws related to municipal finance (INS) | Frameworks (#)  | 0        | 2019          | Consultancy report    | Institutional Development | Physical   |       |       |   |
|  |  |                 |          |               |                       |                           | 2019   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2020   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2021   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2022   | 1     | 1     | 1 |
|  |  |                 |          |               |                       |                           | EOP 2022   | 1     | 1     | 1 |
|  |  |                 |          |               |                       |                           | Financial  |       |       |   |
|  |  |                 |          |               |                       |                           | 2019   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2020   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2021   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2022   | 15000 | 15000 | 0 |
|  |  |                 |          |               |                       |                           | EOP 2022   | 15000 | 15000 | 0 |
|  |  |                 |          |               |                       |                           | Advances In Execution: A document establishing the main gaps and the proposal for amendments to laws related to municipal finance was prepared. The document will serve as input for a future property tax reform that covers municipalities in the country. |       |       |   |

| Output Indicator                       | Indicator Detail                                     | Unit Of Measure | Baseline | Baseline Year | Means Of Verification | Theme                     | Year   | P     | P(A)  | A |
|--|--|-----------------|----------|---------------|-----------------------|---------------------------|--|-------|-------|---|
| 1.4 <sup>5</sup> Legislation developed | Draft law for the creation of the property tax (INS) | Bills (#)       | 0        | 2019          | Draft Bill            | Institutional Development | Physical   |       |       |   |
|  |  |                 |          |               |                       |                           | 2019   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2020   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2021   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2022   | 1     | 1     | 0 |
|  |  |                 |          |               |                       |                           | EOP 2022   | 1     | 1     | 0 |
|  |  |                 |          |               |                       |                           | Financial  |       |       |   |
|  |  |                 |          |               |                       |                           | 2019   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2020   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2021   | 0     | 0     | 0 |
|  |  |                 |          |               |                       |                           | 2022   | 13000 | 13000 | 0 |
|  |  |                 |          |               |                       |                           | EOP 2022   | 13000 | 13000 | 0 |
|  |  |                 |          |               |                       |                           | Advances In Execution: Due to the government's change of priorities and the need to include this as part of the National Assembly approval agenda I to be later on implemented, this product was not achieved. |       |       |   |

| Output Indicator                     | Indicator Detail  | Unit Of Measure | Baseline | Baseline Year | Means Of Verification | Theme                     | Year      | P     | P(A)  | A     |
|--------------------------------------|---|-----------------|----------|---------------|-----------------------|---------------------------|-----------|-------|-------|-------|
| 1.5 <sup>s</sup> Workshops organized | Two events to discuss the design and implementation of the property tax (INS) | Workshops (#)   | 0        | 2019          | Report of the event   | Institutional Development | Physical  |       |       |       |
|                                      |   |                 |          |               |                       |                           | 2019      | 0     | 0     | 0     |
|                                      |   |                 |          |               |                       |                           | 2020      | 1     | 1     | 0     |
|                                      |   |                 |          |               |                       |                           | 2021      | 1     | 1     | 1     |
|                                      |   |                 |          |               |                       |                           | 2022      | 1     | 1     | 1     |
|                                      |   |                 |          |               |                       |                           | EOP 2022  | 3     | 2     | 2     |
|                                      |   |                 |          |               |                       |                           | Financial |       |       |       |
|                                      |   |                 |          |               |                       |                           | 2019      | 0     | 0     | 0     |
|                                      |   |                 |          |               |                       |                           | 2020      | 0     | 0     | 0     |
|                                      |   |                 |          |               |                       |                           | 2021      | 14000 | 7500  | 7500  |
|                                      |   |                 |          |               |                       |                           | 2022      | 0     | 6500  | 17740 |
|                                      |   |                 |          |               |                       |                           | EOP 2022  | 14000 | 14000 | 25240 |

**Advances In Execution:** A Property Tax Workshop was held in March 2021 to bring Ministry of Finance officials up to date on the most recent developments in property taxation and work on a roadmap to implement such a tax in El Salvador. The Workshop included top-level international experts, specialists from the IDB Fiscal Sector, and the relevant authorities from the MOF. In addition in 2022, it was possible to bring officials from El Salvador to Guatemala for training on soft skills and to create awareness of the importance of creating property tax as part of a plan to increase the country’s revenue. The training was provided in partnership this the IMF.

**2. Institutional strengthening of MOF for the approval and management of the property tax**

**Component Cost: \$36,000**

| Output Indicator   | Indicator Detail   | Unit Of Measure | Baseline | Baseline Year | Means Of Verification | Theme                     | Year      | P        | P(A)     | A        |
|--|--|-----------------|----------|---------------|-----------------------|---------------------------|-----------|----------|----------|----------|
| 2.1 <sup>5</sup> Institutional development plan designed   | Institutional strengthening plan for supporting the property tax (INS) | Plans (#)       | 0        | 2019          | Consultancy report    | Institutional Development | Physical  |          |          |          |
|  |  |                 |          |               |                       |                           | 2019      | 0        | 0        | 0        |
|  |  |                 |          |               |                       |                           | 2020      | 0        | 0        | 0        |
|  |  |                 |          |               |                       |                           | 2021      | 1        | 1        | 1        |
|  |  |                 |          |               |                       |                           | 2022      | 1        | 1        | 1        |
|  |  |                 |          |               |                       |                           | EOP 2022  | 2        | 2        | 2        |
|  |  |                 |          |               |                       |                           | Financial |          |          |          |
|  |  |                 |          |               |                       |                           | 2019      | 0        | 0        | 0        |
|  |  |                 |          |               |                       |                           | 2020      | 6147.88  | 6147.88  | 6147.88  |
|  |  |                 |          |               |                       |                           | 2021      | 18000    | 18000    | 18861.77 |
|  |  |                 |          |               |                       |                           | 2022      | 11852.12 | 10990.35 | 7500     |
|  |  |                 |          |               |                       |                           | EOP 2022  | 36000    | 36000    | 32509.65 |
| Advances In Execution: In 2022, a draft plan was elaborated in order to have in place the organizational architecture needed to move forward and implement in the near future a property tax |  |                 |          |               |                       |                           |           |          |          |          |