

## EL SALVADOR

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: US DOLLAR (USD)

## POPULATION AND GEOGRAPHY

**Area:** 21 040 km<sup>2</sup>  
**Population:** 6.378 million inhabitants (2017), an increase of 0.5% per year (2017 vs 2016)  
**Density:** 303 inhabitants / km<sup>2</sup>  
**Urban population:** 71.3% of national population  
**Urban population growth:** 1.6% (2017 vs 2016)  
**Capital city:** San Salvador (17.4% of national population)

## ECONOMIC DATA

**GDP:** 51.1 billion (current PPP international dollars), i.e. 8 006 dollars per inhabitant (2017)  
**Real GDP growth:** 2.3% (2017 vs 2016)  
**Unemployment rate:** 4.5% (2017)  
**Foreign direct investment, net inflows (FDI):** 330.9 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 15.5% of GDP (2017)  
**HDI:** 0.674 (medium), rank 121 (2017)  
**Poverty rate:** 2.2% (2016)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Following the approval of the 1983 Constitution, El Salvador was established as a unitary democratic republic with a pluralistic political system in which power is split between the executive, legislative and judicial branches (Art. 86). The president is the head of the executive power and of the Armed Forces and is elected every five years (the last elections took place in February 2019). Legislative power at the national level is vested in the National Assembly, which is composed of deputies elected every 3 years. Judicial power is entrusted to the Supreme Court of Justice, whose members are elected by the National Assembly, judicial courts and the Public Ministry. It is headed by the Republic's Attorney General who is elected every 3 years by the National Assembly.

The Constitution was the first step in El Salvador's decentralization process. It states that local governments in El Salvador are economically, technically and administratively autonomous (Art. 203). Local governments are regulated by a Municipal Code and ruled by the municipal councils, whose members are elected every 3 years (Art. 202); the last elections were held in March 2018. Municipal Councils have the legislative power to regulate local tax issues. In order to articulate the devolution of power, the Constitution also entailed the creation of the Municipal Development Institute (ISDEM) in 1987 and the Social and Economic Development Fund (FODES) in 1988. ISDEM is in charge of distributing to the municipalities the funds transferred monthly by the central government to FODES, which, from 2012, are set to correspond to 8% of the country's net current revenues. The central State is represented at the local level by 14 departments, de-concentrated entities, each headed by a governor appointed by the President.

Legislative efforts towards devolution have recently been made. In 2011, the Land Use and Territorial Development Law was passed, which requires local governments to create local development plans and provides for the creation of the National Council for Territorial Development to regulate local development – the Council was established in 2017. Moreover, the National Government's 2014-2019 five-year plan advances the need to correct territorial imbalances and further promote local development and cooperation. With this aim, the plan calls upon the National Planning Agency, the Ministry of Governance and the Corporation of Salvadorian Municipalities (COMURES) to create a National System of Cooperation for Territorial Development.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality ( <i>Municipalidad</i> )			
	Average municipal size: 24 343 inhabitants			
	262			262

**OVERALL DESCRIPTION.** El Salvador has a single-tier subnational government system, composed of municipalities (*municipios*) at the local level. In addition, there are deconcentrated entities of the central state, the departments (*departamentos*), at the intermediate level. In 2018, there were 14 departments and 262 municipalities, of which 233 have a population of 50 000 or less. The 11 most populous municipalities represent 30% of the country's total population.

**MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION.** The Constitution provides that local authorities are represented by municipal councils (*concejos municipales*), composed of the mayor, a trustee and two or more councillors depending on the size of the population (art. 202).

El Salvador's municipalities consist of a group of sub-municipal governing bodies, the cantons, which are in turn agglomerations of villages (*caseríos*). El Salvador's largest municipalities are San Salvador (1 223 000 inhabitants), Sana Ana (245 000 inhabitants), Soyapango (241 000 inhabitants) and San Miguel (241 000 inhabitants).

The Corporation of Salvadorian Municipalities (COMURES) is the key actor that promotes inter-municipal cooperation in the country. The Corporation organizes an annual National Congress of Municipalities and represents local governments in the National Council for Territorial Development. In addition, the Constitution (art. 207) and the 1986 Municipal Code (art. 12) provide for the possibility for municipalities to form specific collaborative entities to carry out public works or provide services of common interest.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local governments' responsibilities are outlined in the Municipal Code and were expanded as a result of the 2015 Code's revision. This revision also incorporated the 2011 Land Use and Territorial Development Law's requirement for local governments to elaborate and implement local development plans. Under the current legal framework, municipalities are responsible for the elaboration of such plans, for the provision of public services, for the control and regulation of individuals' activities and for the promotion of their inhabitants' activities.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Civil registration
2. Public order and safety	Public order and security; Local Police
3. Economic affairs/transport	Foster tourism; Promotion of economic activity; Capacity building and job creation; Regulation of local economic activity; Construction and operation of public transport terminals; Regulation of local transport
4. Environmental protection	Promotion of health programmes via environmental cleaning and illnesses prevention; Regulation of touristic exploitation of natural spaces; Waste management
5. Housing and community amenities	Regulation of public space use
6. Health	Health promotion, primary healthcare services
7. Recreation, culture & religion	Promotion of sports, recreation, sciences and art; Funding of sports centres and hiring of personnel; Facilities' construction and management; Organization of local fairs and festivities
8. Education	Promotion of higher education and gender equality programs
9. Social protection	Promotion and funding of social housing programmes; Planning, construction and maintenance of facilities for the provision of basic social services

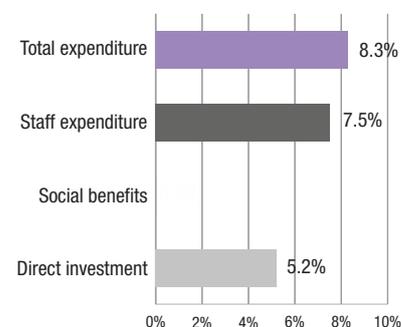
## SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: Municipalities.	SNA Other	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
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**GENERAL INTRODUCTION.** The main law regulating fiscal activity in El Salvador is the 2000 Fiscal Code (*Código Tributario*). At the local level, Article 204 of the Constitution provides that local governments regulate local tax and tariffs and elaborate local budgets. Such fiscal responsibilities are regulated by the General Municipal Fiscal Law (LGTM), the Municipal Code and the law regulating the Social and Economic Development Fund (FODES). Municipalities' capacity to contract debt is regulated under the Municipal Debt Act.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>151</b>	<b>2.0%</b>	<b>100%</b>	
<b>Incl. current expenditure</b>	<b>150</b>	<b>2.0%</b>	<b>99.6%</b>	
Staff expenditure	64	0.8%	42.2%	
Intermediate consumption	38	0.5%	25.2%	
Social expenditure	0	0.0%	0.0%	
Subsidies and current transfers	6	0.1%	3.8%	
Financial charges	14	0.2%	9.2%	
Others	29	0.4%	19.2%	
<b>Incl. capital expenditure</b>	<b>1</b>	<b>0.0%</b>	<b>0.6%</b>	
Capital transfers				
Direct investment (or GFCF)	1	0.0%	0.6%	



**EXPENDITURE.** Municipal expenditures are mainly devoted to basic daily operational expenditures. This is particularly true for small towns with a narrower tax base and fewer resources. According to the IDB 2017 report on the state of finances in the region, although the share of Salvadorian local government expenditure in public expenditure declined from 9.6% to 8.3% between 2015 and 2016, these levels remain within the Central American average, reflecting the country's fiscal decentralization process.

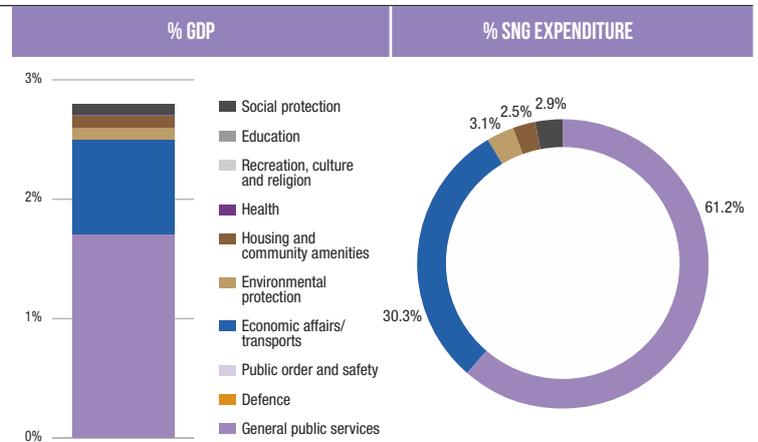
**DIRECT INVESTMENT.** According to available data, only 0.6% of subnational governments expenditure is spent on capital expenditure, which corresponds to approximately 0.01% of GDP and 5.2% of total public investment.

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## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

More than 60% of the expenses of sub-national governments are devoted to general public services. The remaining third is mainly dedicated to Economic Affairs and the transport sector (road infrastructure in particular), with very little intervention by municipalities in sectors such as health, environment, water and electricity.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>243</b>	<b>3.2%</b>	<b>12.3%</b>	
Tax revenue	28	0.4%	2.0%	11.4%
Grants and subsidies	119	1.5%		48.9%
Tariffs and fees	0	0.0%		0.0%
Property income	0	0.0%		0.0%
Other revenues	96	1.3%		39.7%

**OVERALL DESCRIPTION.** The sources of revenue of the sub-national administration are defined in the Municipal Code (art. 63) as including local taxes, royalties, licences, special contributions, interest earned on municipal credits, proceeds from the provision of services, grants and loans, revenue from municipal assets and the amount allocated to the FODES which corresponds to the municipality. In order to regulate the transfers to be distributed by FODES, the FODES Act was introduced in 1988. Since then, the law has been amended to increase the fixed share of national revenues to be transferred to local authorities from an initial 1% to 8% today.

The main sources of revenue for municipalities are transfers, followed by fees, licenses and local taxes. The ability to generate revenue varies considerably from one municipality to another. According to an analysis of Salvadorian municipal finances conducted in 2016, over the period 2006–2015, transfers accounted for an average of 55% of local revenues. 97% of these transfers were made by the Salvadorian government, 90% of which were made by FODES.

Finally, under the General Municipal Fiscal Law, municipal councils are responsible for creating, modifying or eliminating sources of tax revenue, which include local taxes, municipal service fees and special contributions.

**TAX REVENUE.** The General Municipal Fiscal Law specifies that local authorities are responsible for regulating local taxes, royalties, licences and special contributions, which together constitute municipal taxation (art. 1). Local taxes are defined as taxes levied by the local government without having to provide a particular service in exchange (art. 13). They apply to the regulation of commercial economic activity (bars, hotels, rural activities, industry), lotteries, road management and billboards, as well as the provision of certain other private services.

In 2016, property taxes represented the largest source of local tax revenue, accounting for 94.2% of local tax revenues and 10.7% of total local revenues but only 0.3% of GDP. The second source of tax revenue is sales tax, which represents 5.8% of local tax and 0.7% of total local revenue.

**GRANTS AND SUBSIDIES.** In 2016, grants represent 49% of SNG income, of which transfers from FODES are the key element. The amount to be transferred to each municipality is determined according to population, poverty and territorial extension criteria and its use is conditioned. According to the 2012 amendment to the FODES law, municipalities can use up to 25% of the funds allocated for current expenditure and up to 75% for development projects, which means that 25% of FODES funds are classified as current grants and 75% as capital grants. However, current municipal deficits lead local governments to use more than 25% of transfers to cover their current expenses. In addition, ISDEM reports that funds are not transferred in a timely manner by the central government, contributing to municipalities increasing their receivables and falling behind in the payment of their debts.

**OTHER REVENUES.** The main source of additional revenue for local governments are sales of goods and services (namely charges for the provision of some municipal services that are not categorized as fees, followed by premiums and fees related to non-life insurance and fines, penalties and forfeits. Municipal fees are generated through the provision of an individualized service to a citizen (General Municipal Fiscal Law, Art 14.). These fees may be charged by Salvadorian municipalities for access to public spaces, public lightning, sanitation and waste management, paving and municipal administrative services, such as the

issuance of identity documents, visas or birth certificates. Finally, special contributions are defined as an extraordinary source of revenue for local governments derived from public works or specific activities carried out for the profit of the municipality (General Municipal Fiscal Code, Art. 6).

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2017	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>625</b>	<b>5.3%</b>	<b>7.4%</b>	<b>100%</b>
Financial debt*	464	4.0%	7.0%	74.3%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** Local borrowing is regulated by the 2005 Municipal Borrowing Act (*Ley Regulatoria de Endeudamiento Público Municipal*). Municipalities are allowed to contract debt to finance income-generating activities or to invest in social or economic infrastructure as part of local development plans. The Ministry of Finance, through the National Tax Office, maintains a municipal debt register and categorizes it biannually. The Local debt level is set at a maximum debt-to-operational income ratio of 1.7. Municipalities may also contract short term debt with the approval of the municipal council and up to a limit of 0.6 times municipalities' operating income. If the municipality fails to service its debt obligations, the Ministry of Finance can intervene and service this debt by debiting it from the municipality's share of FODES. Local governments are required to submit an annual report stating the current state of contracted debt to the National Tax Office, which must then submit an annual report on municipal indebtedness to the Legislative Assembly.

**DEBT.** According to the 2017 National Tax Office report, municipal debt increased by 2.3% over the previous year. The report also indicates that municipal debt has followed this upward trend since 2012. Members of the National Assembly, the National Tax Office, and several mayors, including the newly elected Mayor of San Salvador, have expressed concern about the trend in municipal debt levels. In 2016, local government debt accounted for 5.3% of GDP and 7.4% of general government debt. It is made up of financial debt (around 74% of total outstanding debt) and other accounts payable i.e. debt to suppliers and arrears (26%). In 2016, loans accounted for 93% of financial debt and bonds the remaining part (7%).



Lead responsible: UCLG  
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[www.sng-wofi.org](http://www.sng-wofi.org)

**Socio-economic indicators:** World Bank // UNDP // UN DESA // ILO.

**Fiscal data:** World Bank Statistics // IMF-GFS // OECD Revenue Statistics

**Other sources of information:** IDB (2017) IDB Panorama de las finanzas locales en América Central // Ministerio de Hacienda, Evolución de la Descentralización y desarrollo local en El Salvador, Boletín Presupuestario n°3 Julio - Septiembre 2010 // J. Alfaro, A. Díaz Fuentes (2016) Análisis de las finanzas públicas de El Salvador // Ministerio de Hacienda (2017), Informe anual sobre la situación del endeudamiento público municipal.