



Project Proposal for

EL SALVADOR

June 2025

Component: Spending

Module: SM-II: Managing Public Finances



PROJECT SUMMARY

COUNTRY: El Salvador

LEAD DEPARTMENT: FAD

REGION: WHD

PLANNED DATES: FY26-27

PROJECT MANAGERS: Lorena Rivero del Paso (Public Financial Management, FADM2, Lead)

ESTIMATED BUDGET \$288,900

BUDGET FOR ENDORSEMENT: \$288,900

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ACRONYMS

CAPTAC-DR	IMF's Regional Technical Assistance Center for Central America, Panama and the Dominican Republic
CD	Capacity development
EFF	IMF's Extended Fund Facility
FAD	IMF's Fiscal Affairs Department
FTE	Fiscal Transparency Evaluation
GovTech	Government technology (digitalization of public services)
GPFP	IMF's Global Partnership for Public Finance
MEFP	Memorandum of Economic and Financial Policies
PFM	Public financial management
PIM	Public investment management
PIMA	Public investment management assessment
STX	Short-term expert

I. PROJECT PURPOSE

Country request and relevance/importance

During the Spring Meeting of 2025, authorities of El Salvador requested technical assistance from the Fiscal Affairs Department (FAD) to advance structural reforms critical to meeting the objectives of the Extended Fund Facility (EFF) approved in 2025, which places strong emphasis on improving public financial management (PFM) to support fiscal sustainability and transparency. Several structural benchmarks depend on institutional and digital improvements in core PFM areas. Improvements to the institutional capacities for PFM, including the macrofiscal framework, public investment, budgeting and treasury functions, are necessary to increase transparency, address arrears, and enable the government's capacity to deliver on its policy objectives. The success of these reforms hinges on addressing gaps in the digital PFM ecosystem, which remains a binding constraint on implementation.

Description of Modules

A capacity development (CD) program would be implemented to support El Salvador in meeting the commitments under the EFF approved in 2025, with a focus on structural benchmarks requiring assistance from the FAD. Priority areas include managing fiscal risks from state-owned enterprises, strengthening public investment management (PIM)—particularly regulatory frameworks and pre-investment evaluation—enhancing budgeting practices, and improving treasury operations to control arrears and bolster transparency and reporting. Progress on several PFM reforms outlined in the Memorandum of Economic and Financial Policies (MEFP) has stalled, largely due to constraints in the digital PFM ecosystem. In response, the authorities have requested targeted support to reinvigorate these reform efforts.

The MEFP also foresees the request of a fiscal transparency evaluation, which according to discussions would take place in the first semester of 2026.

The estimated budget for this project is \$288,900 and endorsement is requested for the full amount through FY27.

II. BACKGROUND

Macro-fiscal situation

El Salvador has recovered well from the pandemic, supported by robust remittances and buoyant tourism flows, amid a sharp improvement in the country's security situation. Inflation has fallen and the external imbalances have narrowed more recently, consistent with a gradual improvement in public finances and favorable terms of trade. Despite recent progress, El Salvador's macroeconomic imbalances remain significant, stemming from high fiscal deficits and debt, as well as low external and financial buffers, in the context of dollarization.

The IMF Executive Board approved a new 40-month arrangement under the EFF for El Salvador. The program aims to ensure conditions are in place to boost El Salvador's growth prospects and resilience by strengthening public finances, rebuilding external and financial buffers, and improving governance and transparency. Bitcoin risks are also being addressed, however gaps in accountability of public corporations have come to light with the adoption of Bitcoin that need to be addressed.

Country engagement and alignment to reform priorities

Under the proposed capacity development (CD) engagement, support will focus on helping the authorities address key reform priorities to strengthen fiscal transparency, rebuild governance frameworks, and modernize PFM. Technical assistance will prioritize restoring credibility in fiscal reporting through the adoption of international standards, improving the comprehensiveness and quality of budget documentation, strengthening public investment management and developing a roadmap for fiscal transparency. Support will also target modernization of the digital PFM ecosystem to enhance expenditure control and payment prioritization. These reforms aim to improve fiscal discipline, increase public accountability, and strengthen the institutions needed to underpin sustainable fiscal consolidation.

IMF priority areas / cross-cutting themes

Digital Money (IMF Priority) is covered in this project as it touches on the aspects of adoption of Bitcoin, including fiscal risks created by the state-owned enterprise managing the crypto wallet.

The project includes an important component of GovTech (FAD cross-cutting theme) as it will support the authorities in strategically revamping the digital PFM modernization efforts that have stalled.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to El Salvador in the area of managing public finances. FAD CD will support improvements within the strategic objectives presented in Table 1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Spending	SM-II: Managing Public Finances	• Frameworks to Build Sustainable Fiscal Institutions and Frameworks • Improve Fiscal Transparency and Reporting • Strengthen Macroeconomic Frameworks

A. SM-II: Managing Public Finances

Scope

This project will support El Salvador in strengthening its macrofiscal and PIM capacities, while addressing critical weaknesses in the digital PFM ecosystem. These areas will also be supplemented with follow up support from the IMF's Regional Technical Assistance Center for Central America, Panama and the Dominican Republic (CAPTAC-DR), while maintaining complementarity with other development partners. The project will also assist the authorities in advancing fiscal transparency through the development and implementation of a reform roadmap based on a Fiscal Transparency Evaluation (FTE), aimed at aligning practices with international standards and supporting sustained improvements.

Program Objectives

The focus will be on reinforcing the institutional and analytical foundations for fiscal policy, improving the appraisal and monitoring of public investments, and enhancing the identification and management of fiscal risks. In parallel, the project will prioritize targeted support to reignite the modernization of digital PFM components that currently constrain the effective implementation of reforms.

Expected Results (outcomes)

The authorities will strengthen the public investment portfolio evaluation and prioritization; and have a strategy to modernize the digital ecosystem for PFM. Additionally, authorities will have a strategic roadmap to improve fiscal transparency based on the FTE.

Project proposals typically cover only one to two years of CD activities, which are expected to contribute to the achievement of the objectives outlined in the sections above. The objectives of this Global Public Finance Partnership (GPFP) project may require extended and ongoing support to be fully and sustainably realized. Therefore, progress reports will serve to monitor advancement towards these objectives, and it may be necessary to adjust or broaden project workplans to better facilitate the achievement of these goals.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

The project activities build on previous engagement with the country, particularly PIMA (2019), transparency of COVID resources (2020), and quality of spending (2021). Additionally, this project will support the authorities in delivering on their EFF program structural benchmarks and commitments under the MEFP. In particular, the Macroeconomic Department of the Ministry of Finance in charge of monitoring the program has requested support to strengthen their organization and capacity.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert (STX) work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.

Short-term expert (STX) visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of PFM.

C. Coordination / Cooperation

Partner	Coordination Type	Coordination Area	Frequency
IMF's Western Hemisphere Department country team	FAD coordinates regularly with the country team, particularly for the implementation of the EFF structural benchmarks and surveillance.	Priorities and recommendations	Regular
CAPTAC-DR	HQ Technical assistance proposed under this project will also be complemented by CAPTAC-DR's PFM long-term expert and STX support.	Implementation of roadmap	Regular
Other development partners	El Salvador is recipient of technical support from other development partners, particularly Inter-American Development Bank (IADB), the European Union and the World Bank. Constant communication cross-feeds our actions and avoids overlaps.	Coordination of other support, for example the IADB is supporting the authorities in drafting the new Fiscal Responsibility and Sustainability Law, and the World Bank will formalize a lending operation that will also link to the IMF EFF program priorities.	Quarterly

V. RISK ASSESSMENT AND MITIGATION

Category/Module	Description	Risk Assessment	Mitigation Measures
EXTERNAL CLIMATE/CONDITIONS			
SM II - Managing Public Finance	N/A	N/A	N/A
POLITICAL SUPPORT			
SM II - Managing Public Finance	The finalization of the current SAFI II project has already been in the works for a decade. Political support is required to carry the project forward to conclusion.	Very High	The mission will provide a thorough technical analysis and convey the relevance to the new authorities.
MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT			
SM II - Managing Public Finance	N/A	N/A	N/A
RESOURCE ADEQUACY			
SM II - Managing Public Finance	The development of the software requires investment.	High	The development partners of the country will need to coordinate to help finance the finalization of the project.
OTHER RISKS			
SM II - Managing Public Finance	N/A	N/A	N/A

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY26	FY27	FY28	FY29	Grand Total
SM-II: Managing Public Finance					
HQ led CD mission	1	1	-	-	2
STX visits	1	1	-	-	2
Staff visits	-	-	-	-	-
Workshops (inc. during HQ and remote CD)	-	-	-	-	-
Total	2	2	-	-	4

Note: Hybrid delivery was chosen for the first STX visit, and virtual delivery for the second visit. The first HQ mission will include a staff visit to receive an update on the status of the different components that will be worked on for PFM.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
SM-II: Managing Public Finances		
Q1/FY26	Field-Based work - FB	HQ Mission Modularization of FMIS Functions and Staff visit for PFM update
Q2/FY26	Hybrid	Public Investment Management Stock Take from PIMA and review of rules and regulations (STX-Hybrid)

VII. PROGRAM FINANCIALS

Module	FY26	FY27	TOTAL (USD)
Direct Delivery			
SM-II: Managing Public Finances	\$137,700	\$132,300	\$270,000
Trust Fund Management Fee (7%)	\$9,639	\$9,261	\$18,900
TOTAL	\$147,339	\$141,561	\$288,900

Note: The estimated budget for this project is \$288,900 and endorsement is requested for the full amount through FY27. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK

A. SM-II: Managing Public Finances

Objective: Frameworks to Build Sustainable Fiscal Institutions and Frameworks - FIF	
Outcome(s)	Indicator(s)
Strengthened capacity to plan, implement and sustain digitalization	Completed diagnostic of PFM digital solutions
Objective: Improve Fiscal Transparency and Reporting - FTR	
Outcome(s)	Indicator(s)
Comprehensive, timely, and high quality fiscal reports	Strengthened completeness, timeliness and consistency of annual financial statements
Objective: Strengthen Macroeconomic Frameworks - SMF	
Outcome(s)	Indicator(s)
Strengthened medium-term fiscal frameworks	Improved comprehensiveness of macrofiscal forecasts
Strengthened identification, monitoring, and management of fiscal risks	Strengthened effectiveness of management and reporting public corporation's fiscal risks including quasi-fiscal activities