

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

**PROGRAM FOR THE INSTITUTIONAL STRENGTHENING
OF MINISTRY OF FINANCE PENSION SYSTEMS**

(PR-L1158)

LOAN PROPOSAL

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ABBREVIATIONS

Caja Fiscal	[Pension fund for public employees]
DEE	Dirección de Estudios Económicos [Economic Studies Directorate]
DGJP	Dirección General de Jubilaciones y Pensiones [Retirement and Pensions Directorate]
DNCP	Dirección Nacional de Contrataciones Públicas [National Public Procurement Directorate]
DPE	Dirección de Planificación y Estudios [Planning and Studies Directorate]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
ICTs	Information and communication technologies
MTESS	Ministerio de Trabajo, Empleo y Seguridad Social [Ministry of Labor, Employment, and Social Security]
NCB	National competitive bidding
NPV	Net present value
OECD	Organisation for Economic Co-operation and Development
SCSP	Sistema de Contrataciones Públicas de Paraguay [Paraguay's Public Sector Procurement System]
SIAF	Sistema Integrado de Administración Financiera [Integrated financial management system]
SICO	Sistema de Contabilidad [Accounting system]
SICP	Sistema de Información de Contrataciones Públicas [Public procurement information system]
SIME	Sistema de mesa de entrada [document entry system]
SINARH	Sistema Integrado de Administración de Recursos Humanos [Integrated human resources management system]
SIPEN	Sistema de Pensiones No Contributivas [Noncontributory Pensions System]
SSEAF	Subsecretaria de Estado de Administración Financiera [Office of the Undersecretary for Financial Administration]
VMES	Viceministerio de Empleo y Seguridad Social [Office of the Deputy Minister for Employment and Social Security]

PROGRAM SUMMARY

PARAGUAY PROGRAM FOR THE INSTITUTIONAL STRENGTHENING OF MINISTRY OF FINANCE PENSION SYSTEMS (PR-L1158)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Paraguay			Amortization period:	24 years
Executing agency:			Disbursement period:	6 years
Ministry of Finance			Grace period:	6.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	20,600,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
			Weighted average life:	15.25 years
Total:	20,600,000	100	Approval currency:	U.S. dollar
Program at a Glance				
Program objective/description: The general objective of the program is to improve the efficiency and effectiveness of benefit administration through strengthening the institutional capacity of the pension funds administered by the Ministry of Finance. Its specific objectives are to improve: (i) the efficiency of Caja Fiscal's operational management; (ii) the effectiveness of the Noncontributory Pensions Directorate's operational management; and (iii) the efficiency of the Ministry of Finance's strategic management of pension policy.				
Special contractual conditions precedent to the first disbursement of the loan: The Ministry of Finance will demonstrate that: (i) a program coordination unit has been set up within its structure and that it has selected, at minimum, a program coordinator, procurement specialist, and fiduciary specialist, under the terms of reference agreed upon with the Bank; and (ii) the program Operating Regulations have been approved and entered into effect, under the terms agreed upon previously with the Bank, including the fiduciary management agreements, multiyear execution plan, financial plan, and execution plan (see paragraph 3.4).				
Exceptions to Bank policy: None.				
Strategic Alignment				
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 Paraguay has undergone significant socioeconomic development in the last few decades. Between 2009 and 2018, the country experienced annual economic growth averaging 4.4%, which is more than double the Latin American and Caribbean average of 2%.¹ This economic growth has been reflected in improved labor and social indicators. Over this period, open unemployment decreased from 6.7% to 5.8%, and formality rose from 17.4% to 24.3%.² Meanwhile the percentage of the population living below the poverty line fell from 43.2% to 26.4% of the total, and income inequality, as measured by the Gini coefficient, decreased from 0.53 to 0.48.³ This improvement was supported by the convergence of the economic recovery with the deployment of a series of public policies. However, major challenges remain to keeping Paraguay on track toward sustainable development.⁴ One of these challenges is its retirement and pensions system.
- 1.2 **Institutional framework.** The retirement and pensions system comprises a compulsory contributory pensions system and a noncontributory pensions system. The contributory system includes eight pension funds. The largest are the Instituto de Previsión Social (IPS) and Caja Fiscal. Together they account for 96.4% of total contributions to the retirement and pensions system.⁵ Other participants are distributed across small and sector-specific entities.⁶ The IPS is an independent and autonomous institution to which all private-sector employees are obliged to contribute. The IPS also provides coverage for health and for accident and disability risks. IPS contributions amount to 23% of salary, of which 9% is paid by the employee and 14% by the employer. Caja Fiscal is the institution managing the retirement and pensions system for public-sector employees. Contributions to Caja Fiscal come to 16% of salary. The contributory system is government backed, with the State guaranteeing to pay pensions if a social security entity has insufficient resources. In parallel, the noncontributory pension system includes a program for vulnerable older adults.⁷ Caja Fiscal and the noncontributory pension system are managed by the Ministry of Finance.
- 1.3 **The retirement and pensions system faces three major challenges.** First, Paraguay has one of the lowest rates of pension coverage in Latin America. Continuous Household Survey (EHP) data from 2017 indicate that just 21.7% of all those in work contribute to the retirement and pensions system, which is below the Latin American average (44%).⁸ Also, just 13.4% of the population age 65 and

¹ World Bank, 2019.

² Information System on Labor Markets and Social Security (IDB, 2019).

³ World Bank, 2019. Data for 2008-2017.

⁴ Paraguay: Rutas para el Desarrollo (IDB, 2018a).

⁵ Ministry of Work, Employment, and Social Security (2017).

⁶ The other institutions are Caja Municipal; Caja de Seguros Sociales de Empleados y Obreros Ferroviarios; Caja de Empleados Bancarios; Caja del Personal de la Administración Nacional de Electricidad; Fondo del Poder Legislativo, and Caja del Personal de la Itaipú Binacional. Each of these institutions is managed independently in accordance with its charter.

⁷ Law 3,728/2009.

⁸ Present and future of pensions in Latin America and the Caribbean (IDB, 2018b).

older receives a contributory pension. Coverage is uneven across income quintiles and by gender. Less than 3% of the over-65 population in the lowest income quintile receives a contributory pension, compared with 28% of the highest quintile. In terms of gender, the proportion of contributors/persons in employment in the private sector is higher among men than women (17.2% versus 14.0%). This is due, among other factors, to women being less familiar with the pension system than men.⁹ According to the 2017 longitudinal social protection survey (ELPS), 79.7% of women do not know the retirement age and 87.4% do not know the contribution rate (as against 73.4% and 80.3% of men, respectively). Low coverage is a latent cost of the retirement and pensions system for the country, given that in the years ahead the State will not be able to ignore demands from a growing percentage of the population who lack pension coverage.

- 1.4 The sustainability of the system is another challenge, mainly because both contributory and noncontributory pensions are relatively high, and the number of noncontributory pensions is rising. The IDB (2018b) notes that the retirement and pensions system is one of the most generous in the region, with average replacement rates of 98%, exceeding the regional average of 64.7%.¹⁰ The benefits under the noncontributory pension system are also among the highest in the region.¹¹ The retirement and pensions system's financial position therefore represents a threat to the public finances, as transfers of treasury resources already represent almost 1% of gross domestic product (GDP) and will continue to rise over the coming years.
- 1.5 The third challenge derives from the retirement and pensions system's limited institutional capacity. The organizational structure of the social security entities was not designed with process optimization in mind, leading to management efficiency problems. Manual processes are prevalent in most entities, giving rise to errors in benefit calculations and causing delays in granting benefits, as well as increasing transaction costs. Social security entities' regulatory and legal provisions are very heterogeneous and do not follow international best practices.¹² Lastly, there is an information deficit that hinders results monitoring and the preparation of financial reports. These factors cause efficiency and effectiveness gaps in the administration of benefits and prevent the adoption of timely corrective measures, as the costs only become apparent when the risks materialize, adversely impacting pension spending control.
- 1.6 **Weak institutional capacity represents an immediate challenge for the implementation of measures to address the first two challenges and so strengthen the retirement and pensions system.** This situation mainly arises in the pension systems managed by the Ministry of Finance (namely Caja Fiscal and the noncontributory pension system) and needs to be addressed urgently, as institutional capacity limitations are exacerbating short- and medium-term coverage and sustainability problems. In the short term, the lack of adequate mechanisms for proper benefit targeting and monitoring leads to shortcomings in terms of

⁹ Continuous Household Survey (EPH), 2017.

¹⁰ Regional average of defined benefit systems.

¹¹ Better Pensions, Better Jobs: Towards Universal Coverage in Latin America and the Caribbean (IDB, 2013).

¹² Perspectivas del mercado de trabajo y las pensiones en Paraguay (Alaimo and Tapia, 2014).

reaching people who ought to be covered (coverage objective), while at the same time, benefits “leak” to people who do not qualify, adversely affecting the system’s financial position (sustainability objective). In the medium term, the presence of benefit calculation errors and lack of information systems with which to quantify the financial position are obstacles to the implementation of policies geared toward: (i) increasing levels of coverage, and (ii) mitigating the risks to the public finances. A sound institutional structure is a fundamental pillar and a prerequisite for improving the financial position and effectiveness of the pension system. The empirical evidence supports the idea that good institutions are essential for the success of a pension system, and that a weak institutional architecture undermines public trust, raises administrative costs, and limits the government’s capacity to improve people’s general well-being.¹³ The evidence suggests that technological transformation, digitalization and process streamlining, along with the use of biometric tools, enhance the precision of beneficiary targeting (coverage) and reduce the cost of leakage to “ghost” beneficiaries (sustainability), without affecting pension program effectiveness, while delivering better services to citizens.¹⁴

- 1.7 **The weak institutional capacity of the pension systems managed by the Ministry of Finance manifests itself in the efficiency and effectiveness gaps in benefit administration.**¹⁵ This weak institutional capacity is mainly due to limitations in: (i) the efficiency of the operational management¹⁶ of Caja Fiscal (ii) the effectiveness of the operational management of the noncontributory pensions system; and (iii) the efficiency of the strategic management of the Ministry of Finance in the pensions policy area.

1. Inefficiencies in Caja Fiscal’s operational management¹⁷

- 1.8 Caja Fiscal is managed by the Retirement and Pensions Directorate (DGJP), which is administratively subordinate to the Ministry of Finance.¹⁸ Caja Fiscal administers two sectors: Civilian and noncivilian. The civilian sector comprises four programs: public administration, national teachers, university professors, and judges. Noncivilian comprises two programs: armed forces and the police force.¹⁹

¹³ Persistence of power, elites, and institutions (Acemoglu and Robinson, 2008); IDB, 2013; Alaimo and Tapia, 2014; Construyendo Gobiernos Efectivos (Kaufmann et al., 2015).

¹⁴ E-Government for Developing Countries: Opportunities and Challenges (Ndou, 2004); Geographies of E-Government in Latin America and the Caribbean (Warf, 2014); Building State Capacity: Evidence from Biometric Smartcards in India (Muralidharan et al., 2016); Wait No More: Citizens, Red Tape, and Digital Government (Roseth et al., 2018).

¹⁵ Effectiveness refers to achievement of the proposed objectives, whereas efficiency refers to achieving those objectives with the minimum possible quantity of resources. These components are reflected in low coverage rates. In 2017, just 44.2% of lower-income adults over 65 received a noncontributory pension and only 1.8% a contributory pension, whereas in countries such as Uruguay and Bolivia, the figure is over 90%. This program aims to narrow this gap by at least 1.3%.

¹⁶ Operational management refers to processes relating to administrative management and benefits. Strategic management refers to processes relating to policy planning, monitoring and evaluation.

¹⁷ See [optional link 2](#) for more information about Caja Fiscal.

¹⁸ Caja Fiscal is governed by Law 2,345/2003.

¹⁹ See [optional link 2](#) and [optional link 6](#).

Caja Fiscal has approximately 60,000 beneficiaries and ended 2018 with a deficit of 0.4% of GDP, funded by the Treasury.²⁰

- 1.9 **Caja Fiscal has problems with the efficiency of its operational management that stand in the way of the implementation of actions to enhance its sustainability.** These problems have led to errors in the granting of benefits and uncertainty over the amount of the pension awarded. There are three factors underlying these shortcomings: (i) the management model and organizational structure are not geared toward optimizing operational performance; (ii) the computer systems are showing signs of technological and functional obsolescence; and (iii) the user support center has shortcomings in the provision of information and resolution of procedures. In more detail, these problems concern the following:

a. Management and organizational structure model

- 1.10 **Caja Fiscal has a somewhat inefficient operational management model, which is reflected in its out-of-date organizational structure.** Caja Fiscal's organizational structure was not designed with the optimization of operational processes in mind, resulting in productivity and efficiency issues.²¹ Operational management is geared solely toward benefits processing and payments and does not include components allowing adequate oversight over operational, legal, and financial risks. Also, the organizational structure lacks internal oversight units able to generate the information needed to monitor the management of its activities.
- 1.11 **New technical capacities enabling adequate management are needed.** Caja Fiscal staff perform a predominantly administrative role and lack the necessary specialization to tackle more complex tasks involved in management oversight, information gathering, financial planning, and regulatory analysis.²² This is the result of the definitions of job profiles and functions getting out of date. These definitions are limited to a short description in terms of general competencies and characteristics.²³
- 1.12 **Caja Fiscal's regulatory fragmentation increases the likelihood of errors in the granting of benefits.** Navarro and Ortiz (2014) indicate that Caja Fiscal's heterogeneous regulatory framework has facilitated interpretation errors in the granting of benefits.²⁴ Many of the legal provisions regulating their functioning are old and do not address the technical requirements established in manuals of good practices. The regulatory framework is also incomplete as it does not include manuals or complementary regulatory procedures for operational, investment, actuarial, and information management issues.

²⁰ Although the deficit is low relative to that in other countries of the region (IDB, 2018b), the International Monetary Fund (IMF, 2017) reports that the implicit debt in present value terms (at 50 years) is approximately 28% of GDP.

²¹ Apoyo al Fortalecimiento Institucional de la Caja Fiscal de Paraguay (Echeñique et al., 2015); Diagnóstico Institucional de la Caja Fiscal (Grafe, 2019).

²² Grafe, 2019.

²³ Grafe, 2019.

²⁴ El sistema de pensiones de Paraguay (Navarro and Ortiz, 2014).

- 1.13 **Benefits management processes are manual and lack information-system support.** Echeñique et al. (2015) and Grafe (2019) indicate that operational processes are based on out-of-date practices, resulting in delays and errors in the granting of benefits. For example, the lack of systematization and the fact that benefits are processed and paid manually results in 90% of current benefit applications being reprocessed, 44% on account of incomplete data and/or calculation errors.²⁵ This implies longer processing times, problems assigning resources, and duplication of functions.²⁶ Furthermore, the updating of the beneficiaries registry suffers from serious shortcomings, as it is carried out manually based on notices published in the press and visits by staff to different civil registry offices.²⁷

b. Computer systems

- 1.14 **The information system supporting Caja Fiscal suffers from problems of functionality and technological obsolescence.**²⁸ Caja Fiscal has a computer management system—Jubilaciones y Pensiones (JUPE)—that is unable to provide adequate transaction support for daily operations (Grafe, 2019). For example, critical processes in granting and calculating benefits are performed manually, resulting in a risk of incomplete or inconsistent data and errors in the granting of benefits. The data currently held are defined solely for payment operations, limiting the capacity to issue qualitative and quantitative reports. JUPE also lacks reliable security systems and protocols and is not integrated with other relevant Ministry of Finance databases. Lastly, the computer programming language in which the JUPE's tools were developed and the database software used will cease to be supported in a few years' time.²⁹ The computer hardware currently being used is obsolete and lacks robust security systems.³⁰
- 1.15 **Nonexistence of systematically ordered, complete, and operational documentation of work histories in digital format.** This situation prevents work histories from being generated automatically, making it necessary to reconstruct them manually, leading to potential errors in pension estimates.³¹ The data required for benefits administration are obtained from three sources of information: (i) the Integrated Human Resources Management System (SINARH); (ii) record of past contributions; (iii) and the payrolls of the decentralized agencies. Each of these has its own problems of completeness, reliability, and security.³²

²⁵ Reprocessing takes place when a given pension application has to be analyzed multiple times because of inconsistencies in the information.

²⁶ An application takes 389 days to be analyzed and processed within Caja Fiscal. Only 10% complete this process only once (i.e. without reprocessing). Other cases need to be processed between two and five times.

²⁷ This process takes an average of 230 days to detect each case and results in the identification of average of 600 cases.

²⁸ See [optional link 3](#): Diseño de un nuevo sistema informático de gestión de la Caja Fiscal de Paraguay (Olmedo, 2019).

²⁹ The version used to manage the database will cease to be supported in 2020 and the development tool in 2022.

³⁰ Olmedo, 2019.

³¹ Grafe, 2019.

³² See [optional link 3](#).

c. User-support model

- 1.16 **Caja Fiscal's user support mechanisms are not geared towards offering better service to users.** The user support model relies on a single office that handles requests for information, benefit processing, and complaints. The main channel for user support is in person. The helpline service is in its infancy and there are no mechanisms for online procedures. There are no communication channels providing users with information on pension processing procedures and rules. There are also shortcomings in the physical facilities and IT hardware making it difficult to serve users. This also leads to problems of excessive case handling.³³ Additionally, there is no centralized user support system enabling delivery of a rapid, secure, and effective service to external and internal users. Moreover, the case-handling system does not allow beneficiaries' procedures to be identified and monitored, resulting in processing delays. There are also problems handling and consulting files on cases where benefits have already been awarded (approximately 66,200). Furthermore, the files are housed in a building that is unable to ensure minimum standards for their safekeeping, exposing records to a high risk of information loss.³⁴

2. Limited effectiveness of Noncontributory Pensions Directorate's operating processes

- 1.17 The noncontributory pension system is administratively subordinate to the Ministry of Finance's Noncontributory Pensions Directorate (DPNC) and is funded by the Treasury. The beneficiaries of the noncontributory pension system are: (i) older adults living in poverty; (ii) vulnerable indigenous persons; and (iii) veterans of the Chaco War and their heirs.³⁵
- 1.18 The noncontributory pension system has grown steadily to reach 200,000 beneficiaries in 2018, 52% more than in 2014. Pensions for older adults accounted for 95% of the total. Transfers to the noncontributory pension system came to 0.5% of GDP in 2018. According to the DPNC, the number of beneficiaries will reach 239,000 people in 2023. The IDB (2013) estimates that the percentage of adults over 65 who are not entitled to a contributory pension could reach 90% in 2050, such that the scheme's public budgetary funding requirement could be as much as 4% of GDP.³⁶
- 1.19 The effectiveness gap in the noncontributory pension system is reflected in the difficulties selecting beneficiaries and purging the registry. According to the Ministry of Finance, 32.8% of the poorest quintile of the adult population and 47.1% of the second quintile did not receive a noncontributory pension in 2017, while 6.3% of the fifth quintile did. This points to poor targeting of benefits to the most vulnerable population while allowing leakage to beneficiaries who do not meet the requirements, thus impacting the system's effectiveness. This situation mainly results from: (i) an out-of-date organizational structure and management model; (ii) a lack of information and cross-checking mechanisms in the processes of

³³ Echeñique et al., 2015.

³⁴ Between 2015 and 2019 as many as 2,386 applicants may have been denied benefits as a result of missing information.

³⁵ See [optional link 4](#) for requirements and benefits.

³⁶ IDB, 2013.

granting and monitoring benefits; and (iii) shortcomings in user support channels and provision of information to beneficiaries.

a. Organizational structure and management models

- 1.20 **The DPNC's organizational structure and management model are defined by out-of-date manuals and procedures.** The most recent update was in 2014 and its view of the processes and functions does not match the DPNC's workload and needs for effective management. The current manual takes a primarily administrative approach and does not include risk management functions. The organizational structure has also been weakened by the fact that while the number of beneficiaries of the noncontributory pension system has risen by 51.9%, its human resources have shrunk by 24.3%.³⁷ This has overwhelmed the DPNC's capacity to perform effective checks on new beneficiaries and monitor benefits granted. In 2018, fewer than 10% of beneficiaries were subject to verification of their information or monitoring of whether they were living in poverty. This work is carried out by eight staff members, who visit Paraguay's 255 municipios in person, but lack specialized training and procedure manuals for effective information cross-checks.

b. Information and cross-checking mechanisms

- 1.21 **The Noncontributory Pensions Directorate (DPNC) lacks the information systems it needs to address its beneficiary targeting and monitoring problems.** Since 2018, the DPNC has had a system called SIPEN managing the entire benefit administration process for noncontributory pensions. However, this system lacks mechanisms for automatic validation or evaluation of the process of identifying potential beneficiaries, or for checking benefits already granted. For example, in the selection and eligibility determination of a potential beneficiary, the lack of interoperable information systems and mechanisms for consulting administrative records, means that validation is performed manually, jeopardizing the correct selection of beneficiaries. Similarly, the information the DPNC has with which to check and administer the benefits granted is limited. The DPNC does not have direct access to administrative records and depends on reports of deaths by municipios or notifications by relatives to deregister beneficiaries. In 2018, it was found that a lack of timely and automated information had resulted in the noncontributory pensions system paying a total of 11,507 deceased pensioners, equivalent to US\$14.9 million in undue payments.
- 1.22 Additionally, SIPEN does not hold beneficiaries' biometric data and has no way of tackling problems of identity theft, dual identities, and data falsification in order to reduce the possibility of fraud either when adding new beneficiaries or making payments. Although the DPNC is aware of these issues, the lack of information and technological tools prevents it from detecting and dealing with them systematically.³⁸ So far it has only been possible to implement a number of preventive checks, which have not been successful at identifying and purging errors.

³⁷ Institutional diagnostic assessment of the Noncontributory Pensions Directorate (DPNC, 2019).

³⁸ DPNC, 2019.

c. User-support model

- 1.23 **The user support model has weaknesses in its channels for serving users and providing timely information.** The public is served in two ways: in person and by telephone. In-person service is offered at the office in Asunción and through agreements with municipal authorities. Although most queries are dealt with over the phone, applications by potential beneficiaries have to be made in person.³⁹ The fact that enrollment applications are carried out in person is an obstacle to the identification and selection of potential beneficiaries in situations of vulnerability, and impacts strategies for prioritization and serving older adults in the remoter parts of the country. Additionally, mechanisms for providing current and potential beneficiaries with information on the rules and procedures for processing pensions are very limited, exacerbating the risk of ineligible applications and undue payments. There are also shortcomings in the physical facilities of the public office and its computer equipment making it hard to serve the public properly.

3. Inefficiencies in the Ministry of Finance's strategic management of pensions policy.

- 1.24 The sole government agencies responsible for conducting analysis and making recommendations on the retirement and pensions system are the Ministry of Finance's Economic Studies Directorate (DEE) and the Office of the Deputy Minister for Employment and Social Security (VMESS) under the Ministry of Labor, Employment, and Social Security (MTESS). Given the fiscal repercussions of the retirement and pensions system and the importance of the systems for which the Ministry of Finance is responsible, the DEE has played the leading role in the coordination and evaluation of policies relating to the system.
- 1.25 The problems affecting the efficiency of the Ministry of Finance's strategic management are reflected in the DEE's limited capacity to perform its role giving technical advice on pension matters. This situation results in delays in responding to queries and analyzing draft legislation. Ministry of Finance data show that although the legally stipulated response time for an inquiry is two weeks, in practice it takes twice as long. This illustrates the lack of tools with which to evaluate the retirement and pensions system and propose guidelines for forward-looking reforms. This situation mainly results from: (i) poor quality and limited availability of information; (ii) lack of strategic units for adequate supervision; and (iii) lack of internal communication and accountability mechanisms.

a. Information availability and access

- 1.26 The DEE lacks information systems and mechanisms with which to generate the indicators needed to analyze the retirement and pensions system properly. There are no methodologies or protocols to support the systematic gathering of data or the exchange of information with other agencies. The principles for the regulation of pension systems developed by the OECD (2016) indicate that the availability of information is crucial for regulators and stakeholders to be able to evaluate the design and operation of the pension system.

³⁹ In 2018, 80% of the total 79,000 inquiries were made by telephone, but all the 20,000 enrollment applications were made in person.

- 1.27 Poor quality and limited availability of information hamper the creation of a formal unit within the DEE able to gather evidence and perform rigorous analysis of the effectiveness of innovative measures to expand coverage among population groups traditionally left out of the retirement and pensions system, such as women and informal workers. There is evidence that the implementation of innovative mechanisms can have a positive impact on these groups' participation in the pension system. The foregoing is relevant in Paraguay, where informal work accounts for 60% of the total and the contribution rate for women is lower than that for men.

b. Lack of strategic units for adequate supervision

- 1.28 The DEE's role includes providing the actuarial and financial projections of the retirement and pensions system's fiscal contingencies, particularly in the case of Caja Fiscal. However, it lacks a specialized unit enabling it to do so. This hinders projections of the impact of legal, demographic, and economic changes on the retirement and pensions system, undermining the DEE's capacity to respond. According to the IDB (2013), it is essential to establish an institutional minimum allowing periodic actuarial studies to evaluate the outlook for the pension system. The OECD (2016) recommends that pension plan design should be periodically reviewed in order to determine the suitability of the plan's actuarial parameters.
- 1.29 The DEE also lacks a specialized unit allowing it to implement an investment policy. This generates a series of financial risks with potential impacts for system sustainability. This situation is particularly concerning for Caja Fiscal, as it depends on the Ministry of Finance. Although there is an investment committee, it does not have mechanisms allowing it to manage reserves appropriately. Caja Fiscal's current regulations only allow it to buy Agencia Financiera de Desarrollo bonds. In 2017, 17% was invested in these bonds, with 76% in noninterest-paying deposit accounts at the Central Bank of Paraguay. The OECD (2018) says that the pension system should give clear guidance on investments, establishing levels of investment and ensuring adequate diversification.

c. Lack of communication and accountability mechanisms

- 1.30 The DEE lacks communication and accountability mechanisms regarding the actuarial position of the retirement and pensions system. This reduces the system's transparency, as the lack of communication means that the cost of changes to the various pension programs is not known to the general public. On this point, the OECD (2016) considers that pension entities should have appropriate control, communication, and structures that encourage good decision-making, transparency, and regular review. An example of accountability mechanisms is given by Barbados, where the country's pension system is legally obligated to present the results of an actuarial study in parliament, allowing the main challenges faced by public pay-as-you-go systems to be anticipated.⁴⁰
- 1.31 **Program rationale.** The challenges the retirement and pensions system faces highlight the urgent need to implement new measures to enhance the efficiency and effectiveness of the pension system. Such measures will make it possible to address the system's problems of coverage and sustainability strategically over the

⁴⁰ IDB, 2014.

medium term, improving the Ministry of Finance's capacity for economic analysis and strengthening its coordination, linkages, and policy evaluation role in relation to the retirement and pensions system. This program is aligned with the current Paraguayan government's priorities in the social security area. The Paraguayan government's Fourth Open Government Action Plan includes a commitment to review the current social security system, in response to social-security entities' deficits, which jeopardize the sustainability of the system and its ability to grant future benefits.⁴¹ The program is also aligned with the International Monetary Fund (IMF), which stresses the importance of restoring the sustainability of the pension system,⁴² and with the OECD, which identified reforms to the social safety net as a priority in its Multi-dimensional Review of Paraguay (2018).

- 1.32 **Lessons learned.** The Bank has experience designing and executing the program activities in the region, specifically from the Strengthening of Pension System Management and Information program in Chile (loan 1882/OC-CH), which promoted efficient management of the pension system; the Enhancing Management of the Social Protection System program in Uruguay (loan 2109/OC-UR) which aimed to strengthen the capacity to formulate and execute social security policies; the Program to Strengthen the Pension System in Paraguay (technical cooperation operation ATN/OC-14763-PR), which sought to produce information for the implementation of measures to increase the system's coverage, equity, efficiency, and sustainability; the Fiscal Strengthening for Inclusive Growth program in El Salvador (loan 4542/OC-ES), which pursued the institutional strengthening of the pension system to ensure its long-term sustainability; and the Digital Agenda Support Program in Paraguay (loan 4650/OC-PR), which aimed to improve the quality of public services through increased use of information and communication technologies. This accrued experience has been incorporated in Components I and II, particularly in relation to: (i) the importance of strengthening the legal framework, operational aspects, monitoring systems, and the information system of the pension system; and (ii) the fundamental importance of improving the management of contributory and noncontributory benefits through better integration, efficiency, and transparency of the information systems. Both components incorporate activities to improve operational management and the organizational structure, and to upgrade the information systems. The aforementioned projects also highlight the importance of implementing activities to strengthen the capacity to formulate and implement social security policies. Component III includes activities to strengthen the retirement and pensions system's information gathering, analysis, and policy formulation role.⁴³
- 1.33 The program applies lessons learned from two of the Bank's regional programs in a crosscutting way: (i) Network for Pensions in Latin America and the Caribbean (PLAC Network) (operation RG-T3105; technical cooperation operation ATN/OC-16485-RG); and (ii) the "Retirement Savings Laboratory" (operation RG-M1277; technical cooperation operation ATN/ME-15065-RG). The PLAC Network promotes efforts to strengthen institutional capacity and to develop

⁴¹ Government of Paraguay, 2018.

⁴² Article IV consultation report (IMF, 2019).

⁴³ See paragraph 1.41.

best practices in supervision and regulation.⁴⁴ The Retirement Savings Laboratory project has produced evidence to support the implementation of innovative mechanisms to promote participation in the pension system.⁴⁵

- 1.34 **Strategic alignment of the program.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the development challenge of social inclusion and equality through its objectives aiming to: (i) eradicate extreme poverty; (ii) create a more distributive fiscal policy; and (iii) strengthen the capacity of the State. The program is aligned with the crosscutting area of institutional capacity and rule of law through the objective of improving the institutional framework of the pension system to mitigate fiscal sustainability risks to the country's public finances. The program is aligned with the crosscutting area of gender equality and diversity as it proposes actions to strengthen the institutions responsible for identifying and reducing inequalities within the system, and give these institutions the capacities and knowledge they need to implement policies to address the inequalities identified. The program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) in relation to its indicator on government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. It is consistent with the sector priority of access to adequate and sustainable social security systems (section V, dimension 3) of the Labor Sector Framework Document (document GN-2741-7), and is consistent with the principle of strengthening the institutional capacity of the public sector as a strategy for more effective and efficient fiscal management (section V, dimension 5.1(a)) of the Fiscal Policy and Management Sector Framework Document (document GN-2831-8). The program is also consistent with the IDB Group Country Strategy with Paraguay 2019-2023 (document GN-2958), in the area of public management and institutions, which mentions the need for appropriate institutional frameworks and sufficient resources, aligned with the objectives of: (i) strengthening public management capabilities for development with emphasis on information systems and civil service capacity; (ii) improving efficiency and effectiveness in the management of public resources; and (iii) strengthening the pension system, with the emphasis on designing management and governance so as to ensure the system's financial sustainability. Lastly, the program is included in the Update of Annex III of the 2019 Operational Program Report (document GN-2948-2).
- 1.35 **Gender.** The program will promote gender equality by fostering increased involvement of women in the retirement and pensions system. The program will draw upon the lessons learned in the Retirement Savings Laboratory for the design and implementation of a pilot project to raise women's awareness of the retirement and pensions system and financial planning issues.⁴⁶
- 1.36 **Cybersecurity.** The program includes cybersecurity activities to mitigate the risks and weaknesses in the computer systems identified in the diagnostic assessment of the IT system (Olmedo, 2019), including the implementation of security protocols, data-backup mechanisms, anti-virus, network access control, use of

⁴⁴ [Red PLAC – Red de pensiones en América Latina y el Caribe.](#)

⁴⁵ [Laboratorio de Ahorro para el Retiro.](#)

⁴⁶ For more information about the pilot program, see [optional link 7.](#)

reliable hardware and monitoring mechanisms to ensure the integrity of the data stored.⁴⁷

- 1.37 **Innovation.** To improve the efficiency and effectiveness with which the Ministry of Finance administers pension systems benefits, the program will support adoption of various public management innovations. In particular: (i) applying the lessons of behavioral economics to encourage voluntary participation in the retirement and pensions system; and (ii) systematization of information and training of staff to enable predictive analysis of the pension system using big data.

B. Objectives, components, and cost

- 1.38 **Objectives.** The general objective of the program is to improve the efficiency and effectiveness of benefit administration through strengthening the institutional capacity of the pension funds administered by the Ministry of Finance. Its specific objectives are to improve: (i) the efficiency of Caja Fiscal's operational management; (ii) the effectiveness of the Noncontributory Pensions Directorate's operational management; and (iii) the efficiency of the Ministry of Finance's strategic management of pension policy. The following components have been identified:

- 1.39 **Component I: Improving the efficiency of Caja Fiscal's operational management (US\$12.5 million).** The objective is to improve operational management processes, and upgrade the information systems and user support mechanisms through the following subcomponents:

- (i) **Subcomponent I.1: Enhancing operational management processes and the organizational structure.** This subcomponent supports the incorporation of mechanisms to promote an effective organizational structure and efficient management model. The following activities will be carried out: (i) realignment of the organizational and human resources structure;⁴⁸ (ii) setting up a strategic unit in the risk area, and strengthening the internal oversight, and financial administration areas; (iii) systematizing the legal framework and developing complementary regulations; (iv) enhancing benefits management in terms of processes and implementation of mechanisms for beneficiary checks; and (v) training and change-management activities focused on improving organizational performance.
- (ii) **Subcomponent I.2: Upgrading and integration of information systems.** This subcomponent aims to strengthen IT management and support the upgrading and integration of the information systems. The following activities will be carried out: (i) design of a technology strategy for the integrated management of Caja Fiscal, including the design of a new information system architecture model; (ii) development and implementation of a new integrated IT system making information for benefit eligibility, granting, and payment

⁴⁷ For more information on cybersecurity issues, see [optional link 3](#).

⁴⁸ The program includes training and change management activities, and the hiring of consultants to build capacity in the Ministry of Finance. No hiring or redundancies among existing staff are planned.

processes available online; (iii) systematization and development of a single database of work histories; (iv) development of an intelligence system to support monitoring and steering tasks; (v) upgrading IT system technology infrastructure (hardware) and setting up an independent data center where computers are housed in physically secure conditions; (vi) user training for the new systems being developed; and (vii) preparation of a technology maintenance plan that includes obsolescence risk mitigation.

- (iii) **Subcomponent I.3: Improving user support mechanisms.** This subcomponent will improve user-care services by diversifying information channels, facilitating online procedures, and offering comprehensive information about the services offered. The following activities will be carried out: (i) diagnostic assessment of the user-care services, including an assessment of the physical infrastructure, computer equipment, and human resources; (ii) design of a new model of user care, based on the results of the activities in the preceding two subcomponents; (iii) implementation and maintenance of a mobile office equipped to cater to beneficiaries located in areas away from the country's capital; (iv) implementation of an integrated in-person, telephone, and online user support system; (v) design of the corporate image of the user support center; (vi) refurbishment of premises and IT hardware for the user support center; and (vii) user training on the new user support mechanisms.

1.40 **Component II: Improving the effectiveness of the Noncontributory Pensions Directorate's operational management (US\$3.8 million).** The objective is to improve the operational management model, benefit administration processes, and user support mechanisms by means of the following subcomponents:

- (i) **Subcomponent II.1: Improving operational management and beneficiary monitoring.** This subcomponent will improve the operational management of the Noncontributory Pensions Directorate (DPNC). The following activities will be carried out: (i) realignment of the organizational structure and human resources, including an analysis of the competencies and professional profiles required; (ii) development and implementation of an actuarial planning, financial, and risk-management model; (iii) review of the legal framework and development of complementary regulations; (iv) enhancement of general administrative processes supporting benefits management; and (v) training and change-management activities focused on improving organizational performance. Additionally, activities will be included to foster beneficiary targeting, exclusion, and purging activities; (vi) design, implementation, and data collection for a biometric registry to address the issue of identity theft; (vii) development of an online data capture system to mitigate the risk of information loss during the identification of potential beneficiaries; and (viii) updating of the targeting instruments to improve beneficiary selection.

- (ii) **Subcomponent II.2: Improving service to beneficiaries.** This subcomponent will improve, refurbish, and adapt the beneficiary-support structure. The following activities will be carried out: (i) diagnostic assessment, design, and implementation of a beneficiary-support improvement plan, including service protocols, service standards, response times, and quality indicators; (ii) design and implementation of online beneficiary enrollment and application mechanisms; (iii) design and implementation of a public communication, visibility, and access to information plan; and (iv) refurbishment of premises of the service center and providing IT hardware.

- 1.41 **Component III: Improving the effectiveness of the Ministry of Finance's strategic management of pensions policy (US\$2 million).** This component will strengthen the retirement and pensions system's policy information gathering, analysis, and formulation functions so it can be steered more consistently and operate in a more coordinated way. The following activities will be carried out: (i) development of a strategic planning model for the retirement and pensions system; (ii) design and development of an information system for system monitoring and decision-making; (iii) design and implementation of an actuarial, financial, and investment management model; (iv) development of strategies to expand contribution coverage and density (experimental pilot based on behavioral economics and new technologies for informal workers, particularly women);⁴⁹ (v) implementation of communication mechanisms for the retirement and pensions system; and (vi) training and advisory services for Ministry of Finance staff.
- 1.42 The program will also consider administration, evaluation, and auditing activities, and contingencies (US\$2.2 million).
- 1.43 **Key beneficiaries.** The beneficiaries of Component I will be at least Caja Fiscal's 59,904 beneficiaries and 242,719 contributors. The beneficiaries of Component II will be the 200,000 beneficiaries of the noncontributory pension system. The direct beneficiary of Component III will be the Ministry of Finance's Economic Studies Directorate (DEE).

C. Key results indicators

- 1.44 **Expected results.** A Results Matrix was drawn up for the purposes of measuring the impacts and results of the program's activities. These results will be monitored and evaluated as agreed with the borrower. The main expected impact is the improvement in the efficiency and effectiveness of the administration of benefits from the pension systems managed by the Ministry of Finance. Three indicators will be used to measure these impacts: (i) annual average time between filing the retirement application and resolution at Caja Fiscal; (ii) annual average time between census and notification of eligibility for a noncontributory pension; and (iii) annual percentage of the population age 65 and older in the first income quintile receiving a noncontributory pension. For specific objective 1, the following

⁴⁹ Drawing on the lessons learned from the Laboratory for Retirement Savings (LAR), the first pilot will aim to increase the participation rate among public-sector employees who do not currently contribute to the retirement and pension system. The second pilot will focus on increasing women's participation in the pension system. See [optional link 7](#).

indicators will be measured: (i) percentage of applications received that result in reprocessing; and (ii) percentage of beneficiaries served in person. For specific objective 2, the following indicators will be included: (i) percentage of noncontributory pension beneficiaries identified as receiving undue payments; and (ii) percentage of new noncontributory pension applicants identified as being at risk of identity theft. For specific objective 3, the indicators measured will be: (i) response time to applications to the Ministry of Finance incorporating an analysis of the projected fiscal impact using new actuarial models; and (ii) the percentage of fiscal impact opinions issued by the Economic Studies Directorate that include a fiscal-impact analysis based on actuarial models.

- 1.45 **Economic analysis.** An ex ante cost/benefit analysis of the program was conducted to study its economic feasibility. Over a 10-year evaluation horizon, net present value (NPV) calculated at a discount rate of 9% (the rate used by the Paraguayan national public investment system), comes to US\$4,393,321 and the internal rate of return is positive at 23%. The sensitivity analysis conducted, using Monte Carlo simulation techniques, shows the expected NPV to be positive at US\$3,459,017, positive values being obtained in over 97% of the iterations performed.⁵⁰

II. FINANCING STRUCTURE AND MAIN RISKS

A. Lending instruments

- 2.1 The total program amount, in the form of a specific investment loan, is US\$20.6 million from the Bank's Ordinary Capital. The operation will not include a local counterpart.

Table 1. Estimated program costs (US\$)⁵¹

Component	IDB	%
Component I. Improving the efficiency of Caja Fiscal's operational management	12,525,000	60.8
Subcomponent I.1: Enhancing operational management processes and organizational structure	3,108,800	15.1
Subcomponent I.2: Upgrading and integration of information systems	7,401,200	35.9
Subcomponent I.3: Improving user support mechanisms	2,015,000	9.8
Component II. Improving the effectiveness of the Noncontributory Pensions Directorate's operational management	3,846,000	18.6
Subcomponent II.1: Improving operational management and beneficiary monitoring (including impact evaluation)	2,933,000	14.24
Subcomponent II.2: Improving service to beneficiaries	913,000	4.43

⁵⁰ Using a discount rate of 12%, the estimated NPV is US\$2,866,895. See [optional link 1](#).

⁵¹ Pursuant to Bank policies, the planned amounts in the cost table include local taxes.

Component	IDB	%
Component III. Improving the effectiveness of the Ministry of Finance's strategic management of pensions policy	2,000,000	9.7
Administration and other contingent expenses	2,229,000	10.8
Administration	1,370,000	6.6
Midterm and final evaluation	200,000	1.0
External audits	200,000	1.0
Contingencies	459,000	2.2
Total	20,600,000	100

- 2.2 The disbursements will be made over a period of six⁵² years, running from the loan contract signature date, according to the disbursement schedule in Table 2.

Table 2: Disbursements (US\$)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
IDB	305,100	3,620,873	6,295,280	6,147,278	2,750,909	1,480,560
Total	305,100	3,620,873	6,295,280	6,147,278	2,750,909	1,480,560
%	1.5	17.6	30.6	29.8	13.4	7.2

B. Environmental and social safeguard risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation is classified as category "C." Since the program will not finance any large-scale physical investments (civil works), no adverse environmental impacts are foreseen.

C. Fiduciary risks

- 2.4 Based on the risk evaluation, a medium risk was identified in the processes of procurement management due to staff's limited experience with IDB policies. To mitigate this risk, the following measures are envisaged: (i) strengthening the program's fiduciary team by hiring two consultants with IDB procurement policy competencies and knowledge; (ii) training by the Bank on procurement policies; and (iii) contracting a management support firm to provide technical and fiduciary support.⁵³ A medium-level risk was also identified in the financial management processes due to the lack of an accounting and financial system in the Planning and Studies Directorate (DPE) allowing transactions to be recorded. This risk will be mitigated by purchasing an accounting and financial system.

D. Other key issues and risks

- 2.5 **Public management and governability.** A change in the Paraguayan government authorities during program execution was identified as a medium-level risk, which could reduce support for the program and cause delays to completion

⁵² The six-year disbursement period is based on the past performance of Paraguay's portfolio; the technical characteristics of the design of this program; and OVE's recommendation in 2017 to build the additional time required for approval and execution into operation design in Paraguay.

⁵³ The role of the management support firm will be defined in the program Operating Regulations.

of the loan contract. To mitigate this risk: (i) the public will be kept informed and engaged with the program activities and benefits at all times; (ii) quarterly meetings will be held to discuss the status of the program; and (iii) the Ministry of Finance was selected as the executing agency on account of its capacity and authority to play the leadership role in bringing stakeholders together and ensuring fulfillment of the activities.

- 2.6 **Development risk.** The lack of adequate technical supervision over activities concerning the upgrading of the Caja Fiscal information system, which could cause delays in the execution of Component 1, was identified as a medium-level risk. This risk will be mitigated by hiring a consulting firm to support IT management. The lack of an adequate implementation plan for the institutional changes within Caja Fiscal and the Noncontributory Pensions Directorate (DPNC), which could cause resistance to the implementation of institutional support actions, was identified as a medium risk. For this reason, change management activities and activities to keep the public informed about the benefits of the program and engaged at all times are envisaged in Components I and II.
- 2.7 **Sustainability risk.** If there is a lack of commitment to continue implementing activities to strengthen the retirement and pensions system after the program has completed, the implemented actions could suffer from sustainability problems. To mitigate this risk, the Ministry of Finance was chosen as the executing agency for the following reasons: (i) it is the institution responsible for managing Caja Fiscal and the noncontributory pension system; (ii) it has the capacity to continue implementing activities to strengthen the retirement and pensions system once the program has ended; and (iii) it is able to coordinate the various State pension agencies. As regards the sustainability of the investments in technology, the program envisages preparation of a technology maintenance plan specifying technology obsolescence risk mitigation measures.⁵⁴ Additionally, as part of the National Information and Communication Technologies Plan, the Paraguayan government is committed to maintaining the technology infrastructure of the public sector institutions.⁵⁵ Lastly, ongoing public information and engagement activities are envisaged in the program, as is the preparation of a technical note on the lessons learned.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and Executing Agency.** The borrower and executing agency is the Republic of Paraguay, through the Ministry of Finance. The program will be executed through the Financial Administration Branch (SEAF), which will set up a program coordination unit (PCU/PR-L1158) with the status of a Procurement Operating Unit, and an Administration and Finance Unit. The program coordination unit will be headed by a general coordinator, who will be responsible for program execution.

⁵⁴ See paragraph 1.39 (ii) for the specific activities.

⁵⁵ See [Presidential Decree 2,145, creating the Ministry of Information and Communication Technologies](#).

- 3.2 The program coordination unit will comprise a coordinator, a procurement specialist, and a fiduciary specialist. A detailed description of the execution arrangements will be included in the program Operating Regulations. The members of the program coordination unit will be consultants paid for by the program and/or designated staff who can receive bonuses paid by the Ministry of Finance.
- 3.3 **Program Operating Regulations.** The rules governing execution will be described in the program Operating Regulations, to be approved by the executing agency and agreed upon with the Bank. The program Operating Regulations will define, inter alia: (i) program coordination unit members, roles, and functions; (ii) areas of responsibility; (iii) fiduciary procedures; (iv) mechanisms for accountability and control of execution; and (v) coordination with other entities.
- 3.4 **Special contractual conditions precedent to the first disbursement of the loan.** The Ministry of Finance will demonstrate that: (i) a program coordination unit has been set up within its organizational structure and that it has selected, at minimum, a program coordinator, procurement specialist, and fiduciary specialist under the terms of reference agreed upon with the Bank; and (ii) the [program Operating Regulations](#) have been approved and entered into effect, under the terms agreed upon previously with the Bank, including the fiduciary management agreements, multiyear execution plan, financial plan, and execution plan. The first condition is essential for assuring the Bank that the executing agency will be ready to begin operating with an effective team. The second condition is justified because the Operating Regulations are indispensable to start putting the various activities into operation and guaranteeing effective program execution and coordination.
- 3.5 **Procurement.** The procurement of works and goods and the selection of consulting services will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), both approved in March 2011, or their subsequent updates. The Bank will verify the appropriateness of expenditure for each project to be financed. The Bank's Board of Executive Directors approved use of the framework agreement subsystems up to the national competitive bidding (NCB) threshold of US\$250,000, as well as the small procurements mechanism up to US\$50,000 (document GN-2538-11). This may vary as the Bank approves higher levels of use. The procurement plan itemizes the purchases to be implemented during execution.
- 3.6 **Disbursement flow.** The IDB will transfer the loan proceeds to an account exclusively for the program, to be opened by the Ministry of Finance. Disbursements will be made in the form of advances to cover liquidity requirements, according to the financial plan, for a period of up to 180 days. A new advance may be requested once supporting documentation has been provided for at least 80% of the funds previously disbursed. Reimbursement of payments incurred or direct payments to providers may also be made.

- 3.7 **Financial statements and external audits.** Financial statements for the project prepared on an annual basis audited by a firm of independent auditors acceptable to the Bank will be requested within 120 days after the closing date of each fiscal year or the date of last disbursement.

B. Summary of results monitoring arrangements

- 3.8 **Monitoring.** Through the program coordination unit, the executing agency will submit semiannual progress reports to the Bank stating fulfillment and progress of the indicators in the results matrix, together with the [multiyear execution plan](#) and [annual work plan](#), and the [procurement plan](#), as described in the [monitoring and evaluation plan](#), which defines the resources envisaged for monitoring and evaluation.
- 3.9 **Evaluation.** One midterm evaluation and one final evaluation of the program will be carried out, analyzing the fulfillment of the impact and results indicators listed in the Results Matrix. An impact assessment will be conducted on the effect of introducing biometrics to identify beneficiaries and cut undue payments to ineligible beneficiaries. This will be an experimental evaluation using the staged randomized design method indicated in the [monitoring and evaluation plan](#). This evaluation will provide new empirical evidence for the region on the effectiveness of using biometrics as a strategy for targeting and purging pension beneficiaries.⁵⁶

⁵⁶ For more information see [required link 2](#).

Development Effectiveness Matrix		
Summary		PR-L1158
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2958	(i) strengthening public capabilities for data processing, (ii) management of public resources, and (iii) supporting the strengthening of the retirement and pension system, with the emphasis on designing management and governance approaches that will ensure the system's financial sustainability.
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.0
3.1 Program Diagnosis		2.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note: The purpose of this note is to provide an overall assessment of the project's evaluability based on the standards described in the Evaluability Guidelines, as well as to ensure that the Board understands why scores were or were not given to the project.

This is a US\$20.6 million operation aimed at strengthening the institutional capacity of the pension schemes administered by the Ministerio de Hacienda. The Retirement and Pension System (SJP) of Paraguay faces low coverage challenges (only 13.4% of the population over 65 receives a contributory pension, less than 3% in the lowest income quintile); sustainability (which may represent a future pressure on the demands for treasury transfers); low institutional capacity (high preponderance of manual processes, with errors in processing benefits and high transaction costs); and a severe information deficit that affects decision making. The project will focus on improving the efficiency of the operational management of the Caja Fiscal (contributory pension system for public employees); improve the effectiveness of the operational management of the Non-Contributory Pensions (Pensiones No Contributivas, PNC) scheme; and in improving the efficiency of the administrative management of the Ministerio de Hacienda. The attainment of these objectives will be measured with the improvement of indicators of processing time for retirement applications, the increase in the coverage of the PNC in the lowest quintile of the income distribution; the reduction of unnecessary procedures and transactions; the strengthening of non-face-to-face assistance to beneficiaries; the reduction of undue payments and fraud; and the streamlining and improvement of the actuarial analysis capacity of the Ministerio de Hacienda.

The ex-ante economic analysis of the intervention is appropriate, with reasonable and standard assumptions for these types of projects, and with reasonable sensitivity analyzes. The net present value of the project is US\$4.4 million, and the expected internal rate of return is 23%.

The project evaluation plan proposes to carry out an intermediate evaluation and a final evaluation of the program that will document the attainment of the impact and results indicators contemplated in the results matrix. Additionally, an experimental impact evaluation is planned on the effect of the introduction of biometric tools on the identification of beneficiaries and the reduction of undue payments to ineligible beneficiaries. This evaluation will provide new empirical evidence for the region on the effectiveness of the use of biometric tools as strategy for improving targeting and for validating the pension beneficiaries' rolls.

RESULTS MATRIX

Program objective:	The general objective of the program is to improve the efficiency and effectiveness of benefit administration by strengthening the institutional capacity of the pension funds managed by the Ministry of Finance. The specific objectives are to improve: (i) the efficiency of Caja Fiscal's operational management; (ii) the effectiveness of the Noncontributory Pensions Directorate's operational management; and (iii) the efficiency of the Ministry of Finance's strategic management of pensions policy.
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EXPECTED IMPACT

Impact: Improve the efficiency and effectiveness of benefit administration						
Indicator	Unit of measure	Baseline	Baseline year	Program end	Means of verification	Comments
Annual average time between filing the retirement application and the resolution at Caja Fiscal	Business days between inputting of the application and loading of the resolution on the document entry system (SIME)	50	2019	15	Technical monitoring report ¹	
Annual average time between census and notification of eligibility for a noncontributory pension	Business days between the census and release of results in the Noncontributory Pensions System (SIPEN)	21	2019	7	SIPEN report ²	
Annual percentage of persons age 65 or older in the first income quintile receiving a noncontributory pension	Percentage	44.2%	2017	45.52%	Continuous Household Survey (EPH) ³	Persons age 65 or older in first income quintile receiving a noncontributory pension/total persons age 65 or older in first income quintile

¹ Target in accordance with Caja Fiscal process maps.

² Target in accordance with Noncontributory Pensions Directorate process maps.

³ According to Bruno (2019), discounting mobility between quintiles, better targeting would increase coverage by 3% over the baseline level, i.e. 1.32 percentage points.

EXPECTED RESULTS

Specific objective I. Improve the efficiency of Caja Fiscal's operational management						
Indicator	Unit of measure	Baseline	Baseline year	Program end	Means of verification	Comments
Annual percentage of applications received by Caja Fiscal that have to be reprocessed	Percentage	90%	2019	15%	SIME-JUPE report	Total retirement applications processed more than once/total retirement applications received
Annual percentage of beneficiaries served in person in relation to total beneficiaries served	Percentage	100%	2019	77%	Technical monitoring report ⁴	Total beneficiaries served in person/total beneficiaries served, ⁵ to be measured in year 6 of the project
Specific objective II. Improve the effectiveness of the Noncontributory Pensions Directorate's operational management						
Indicator	Unit of measure	Baseline	Baseline year	Program end	Means of verification	Comments
Annual percentage of noncontributory pension beneficiaries identified as receiving undue payments out of total active beneficiaries at year-end 2018	Percentage	5.7%	2018	6.3%	SIPEN report ⁶	Annual total beneficiaries detected receiving undue payments/total active beneficiaries at year-end 2018 ⁷
Annual percentage of new noncontributory pension applicants at risk of identity theft detected using biometric checks	Percentage	0%	2019	100%	Management report	Total new applicants detected as being at risk for identity theft/total new applicants, to be measured from year 4 of the project ⁸
Specific objective III. Improve the efficiency of the Ministry of Finance's strategic management of pensions policy						
Indicator	Unit of measure	Baseline	Baseline year	Program end	Means of verification	Comments
Annual average days for the Economic Studies Directorate (DEE) to respond to regulatory plans that contain fiscal impact projections based on actuarial models developed by the program	Business days from the time the application is entered into the system and an opinion is issued with fiscal impact report	30	2018	15	DEE technical report	To identify fiscal impact projections, only responses generated by the Actuarial Studies Unit will be considered.
Annual percentage of response opinions issued by DEE containing a fiscal impact analysis based on actuarial models developed in the program	Percentage	0%	2018	100%	DEE technical report	Fiscal impact opinions with actuarial models/fiscal impact opinions issued

⁴ The proposed target is to achieve use levels of remote channels similar to those of other countries in the region, according to Warf (2014).

⁵ Beneficiaries are classed as having been served remotely if they are served remotely (e.g. telephone or website) at least twice a year. Otherwise they are classed as having been served in person. This indicator will be measured in year 6 of the program.

⁶ According to Gelb and Clark (2013), and Muralidharan et al. (2016), the aim is to increase the capacity to detect undue payments by 11%.

⁷ Undue payments are payments made to citizens who do not meet the requirements in terms of poverty and/or falsify information to achieve eligibility (Ficha Hogar [household survey record]).

⁸ New applicants are individuals who are not registered in the databases of the Noncontributory Pensions Directorate.

EXPECTED OUTPUTS

Component I: Improving the efficiency of Caja Fiscal's operational management											
Output	Baseline	Unit of measure	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Program end	Means of verification
Output 1: New management models for Caja Fiscal implemented	0	Report	2019	0	1	2	0	0	0	3	Report approved by Caja Fiscal presenting evidence of implementation
Milestone 1.1 New institutional structure designed	0	Manual	2019	1	0	0	0	0	0	1	Process manual designed
Milestone 1.2 Management models designed	0	Document	2019	0	3	0	0	0	0	3	Document with new management model designed
Output 2: Legal framework revised	0	Report	2019	0	0	1	0	0	0	1	Report approved by Caja Fiscal presenting evidence that the legal framework has been revised
Milestone 2.1. Web application developed including compendium of laws	0	Web application	2019	0	1	0	0	0	0	1	Application approved
Milestone 2.2. Procedure standards and manuals developed	0	Manual	2019	0	2	2	0	0	0	4	Standards and manuals approved
Output 3: Benefits management processes improved	0	Report	2019	0	0	1	0	0	0	1	Report presenting evidence of new management model approved by Caja Fiscal
Milestone 3.1. Process for collection of biometric data and profile of beneficiaries designed	0	Report	2019	0	1	0	0	0	0	1	Process approved
Output 4: Integrated network-based IT system implemented	0	Software	2019	0	0	0	1	0	0	1	The software will be considered to have been implemented when it has been used by at least one user and verified to be functioning correctly

Component I: Improving the efficiency of Caja Fiscal's operational management											
Output	Baseline	Unit of measure	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Program end	Means of verification
Milestone 4.1. Information system designed	0	Report	2019	0	1	0	0	0	0	1	Design approved
Output 5: International standards certified	0	Certification	2019	0	0	0	1	0	0	1	Documents accrediting certification
Output 6: New information and communication technologies (ICTs) management model implemented	0	Report	2019	0	0	0	0	1	0	1	Caja Fiscal report presenting evidence of implementation
Milestone 6.1. ICT unit implemented	0	Report	2019	0	0	0	1	0	0	1	Report presenting evidence that the unit has been established
Output 7: User-support mechanisms improved	0	Improvement and communication plans	2019	0	0	0	1	1	0	2	Caja Fiscal report presenting evidence of implementation of the user-support model
Milestone 7.1. New user support model developed	0	Report	2019	0	0	1	0	0	0	1	Report on new user support arrangements approved
Milestone 7.2. Communication strategy implemented	0	Report	2019	0	0	1	1	0	0	2	Strategy approved
Output 8: Caja Fiscal infrastructure and physical adaptations improved	0	Certificate	2019	0	0	0	1	0	0	1	Caja Fiscal certificate of acceptance of adaptation services
Milestone 8.1. Infrastructure improvement model designed	0	Report	2019	0	1	0	0	0	0	1	Infrastructure improvement report approved

Component II: Improving the effectiveness of the Noncontributory Pensions Directorate's operational management											
Output	Baseline	Unit of measure	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Program end	Means of verification
Output 9: New management models for the noncontributory pension system implemented	0	Report	2019	0	0	1	2	0	0	3	Noncontributory Pensions Directorate (DPNC) report presenting evidence of implementation
Milestone 9.1. Organizational structure model designed	0	Report	2019	0	1	0	0	0	0	1	Report on the new organizational structure design
Milestone 9.2. Planning departments (actuarial and risk management) established	0	Departments	2019	0	2	0	0	0	0	2	Department implementation report
Output 10: DPNC benefits management processes improved	0	Report	2019	0	0	0	1	0	0	1	DPNC report with evidence that the management processes have been implemented
Milestone 10.1. Biometric registry system designed	0	Report	2019	0	1	0	0	0	0	1	System approval
Output 11: Noncontributory pensions system user support mechanisms improved	0	Report	2019	0	0	1	0	0	0	1	DPNC report with evidence that new user service model is in use
Milestone 11.1. User support model implemented	0	Report	2019	0	1	0	0	0	0	1	Report on design of new user-support arrangements completed
Output 12: Infrastructure and physical adaptations of noncontributory pensions system facilities improved	0	Certificate	2019	0	0	1	0	0	0	1	DPNC certificate of acceptance of adaptation services
Milestone 12.1. Infrastructure improvement models designed	0	Report	2019	0	1	0	0	0	0	1	Report on proposed infrastructure improvements

Component III: Improving the effectiveness of the Ministry of Finance's strategic management of pensions policy											
Output	Baseline	Unit of Measure	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Program end	Means of verification
Output 13: Pension system strategy developed	0	Report	2019	0	0	1	0	0	0	1	Ministry of Finance report submitted with evidence of implementation
Milestone 13.1. Strategic planning model implemented	0	Report	2019	0	1	0	0	0	0	1	Planning model report completed
Output 14: New management models for pensions improved ⁹	0	Report	2019	0	2	1	0	0	0	3	Ministry of Finance report submitted with evidence of implementation
Milestone 14.1. Studies on the results of pilot tests completed	0	Report	2019	0	2	0	0	0	0	2	Reports approved

⁹ Includes models of (i) retirement and pensions system supervision; (ii) investment management; and (iii) actuarial planning.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Paraguay

Name: Program for the Institutional Strengthening of Ministry of Finance Pension Systems

Project number: PR-L1158

Executing agency: Ministry of Finance

Prepared by: Fernando Glasman, Jorge Seigneur, and Jorge Luis González, fiduciary specialists

I. EXECUTIVE SUMMARY

- 1.1 The institutional assessment of fiduciary management was conducted by the Bank's fiduciary team and staff of the administrative/finance and procurement areas of the Ministry of Finance. It was supplemented with the findings of the July 2019 Institutional Capacity Assessment System (ICAS) report on the Ministry of Finance and the program's risk matrix. These fiduciary agreements were prepared on that basis.

II. THE COUNTRY'S FIDUCIARY CONTEXT

- 2.1 Overall, the country financial management systems present a medium level of development. However, these systems must be supplemented for the execution of Bank-financed projects. Specific financial reports are prepared using auxiliary accounting systems. Financial control tools such as the Integrated Financial Management System (SIAF), the Accounting System (SICO), and other subsystems enable the executing agencies to manage payment transfers to suppliers under acceptable conditions through the Central Bank of Paraguay. The integration of these systems will make it possible to prepare audited financial statements for a program or project in the SIAF in the future. Until then, parallel systems are used. External oversight is performed by private auditing firms.
- 2.2 The efficiency and transparency of the country system for public procurement has greatly improved as a result of the creation of its lead agency, the National Public Procurement Department (DNCP), which has facilitated the implementation of a procurement platform with electronic procedures such as the electronic reverse auction, a system of suppliers, and the statistical information system. For Bank-financed operations, the public procurement information system (SICP) has been used, as have the national electronic reverse auction and competitive bidding subsystems (LCO), for the amounts and categories established in the agreement governing the use of these subsystems signed by Paraguay and the Bank on 17 June 2014.

III. EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 3.1 The executing agency will be the Ministry of Finance through the Office of the Undersecretary for Financial Administration (SSEAF). A program coordination unit will be set up under the SSEAF, which will work in coordination with the project's beneficiary directorates—i.e. Caja Fiscal Directorate, Noncontributory Pensions Directorate, and Economic Studies Directorate. More details of the execution mechanism will be provided in the program Operating Regulations.
- 3.2 During preparation of the operation, the Ministry of Finance's institutional capacity was evaluated in a number of areas, such as its capacity for programming and organization as well as its execution of the activities scheduled and arranged, which include the systems used to manage its human resources, goods and services, finances, and oversight. According to the evaluation, the Ministry of Finance has technical competencies in fiduciary matters. The consolidated results of the ICAS report on the Ministry of Finance indicate that it presents a satisfactory degree of development and a low level of risk.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 4.1 The assessments performed reveal that the main opportunities for improvement involve:
- a. Implementation of a training plan for the program coordination unit team, which is responsible for program management and execution;
 - b. Implementation of the program Operating Regulations;
 - c. Design and development of the program coordination unit profiles and implementation of the recommendations set out in the ICAS report;
 - d. Strengthening the accounting and internal control areas through courses and training on the Bank's financial management policies; and
 - e. Strengthening the procurement area's knowledge of the Bank's procurement policies.
- 4.2 **Procurement management.** According to the ICAS report, the specific evaluation of executing capacity involving the goods and services administration system, showed a satisfactory degree of development and a medium level of risk. Nevertheless, in accordance with the recommendations set out in the risk matrix, the program execution unit needs to be strengthened by: (i) hiring staff with competencies in and knowledge of the IDB's procurement policies; and (ii) specific courses and workshops on the Bank's procurement policies to be provided by the IDB. Additionally, a management support and advisory firm will be engaged to provide fiduciary support.
- 4.3 **Financial management.** The fact that the SSEAF, an agency of the Ministry of Finance, does not have a finance and accounting system to facilitate the recording of program transactions has been identified as a medium-level risk. This risk will be mitigated by purchasing an accounting and financial system.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 5.1 The following agreements and requirements will be included in the special provisions:
- a. For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be applied will be the one indicated in section (b)(i) of said article. The agreed upon exchange rate will be the one prevailing on the date that the approval currency or disbursement currency is converted into the local currency of the borrower's country. To determine the equivalence of expenses incurred in local currency against the local counterpart contribution, the agreed upon exchange rate will be the one in effect at the time the Ministry of Finance, or any other person or legal entity it has designated to make payment, makes the respective payments to the contractor, vendor, or beneficiary. To determine the equivalent expense amount to be reimbursed from the loan proceeds, the agreed upon exchange rate will be the one prevailing on the date of the reimbursement request.
 - b. The program's annual financial statements will be submitted no later than 120 days after the close of the fiscal year, and the final audited financial statements no later than 120 days after the date of the final disbursement.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 The procurement policies to be applied for this loan are set forth in documents GN-2349-9 and GN-2350-9 and any future updates thereof. In addition, the Bank's Board of Executive Directors has approved the use of the electronic reverse auction and competitive bidding subsystems (document GN-2538-11) of Paraguay's Public Sector Procurement System (SCSP) (Law 2051/03). The use of other country systems approved subsequent to approval of this program will be applicable automatically.
- A. Procurement execution**
- 6.2 **Procurement of works, goods and nonconsulting services.** Contracts for works, goods, and nonconsulting services¹ subject to international competitive bidding (ICB) will be procured using the Bank's standard bidding documents. Bidding processes subject to national competitive bidding (NCB) will be conducted using national bidding documents agreed upon with the Bank. The program's sector specialist will be responsible for reviewing the technical specifications of those documents. No direct contracting is anticipated.
- 6.3 **Selection and contracting of consultants.** Consulting services will be contracted using the standard request for proposals issued by or agreed upon with the Bank. The program's sector specialist will be responsible for reviewing the terms of reference.

¹ Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) paragraph 1.1: Nonconsulting services are treated as goods.

- 6.4 **Selection of individual consultants.** The selection of individual consultants will be governed by the Bank's procurement policies set forth in document GN-2350-9 or subsequent updates.
- 6.5 **Training.** Procurement workshops will be held.
- 6.6 **Country system use.** Pursuant to document GN-2538-11 of October 2013, use of the SCSP's electronic reverse auction and competitive bidding subsystems in IDB-financed operations will apply to:
- (i) All contracts for goods and nonconsulting services eligible for use of the electronic reverse auction under the SCSP, for amounts below the threshold set by the Bank for use of the shopping method for off-the-shelf goods (i.e. US\$250,000);
 - (ii) All works contracts for amounts below the threshold set by the Bank for use of the shopping method for complex works (i.e. US\$250,000), and contracts for goods and nonconsulting services up to the threshold set by the Bank for use of the shopping method for complex goods and services (i.e. US\$50,000); and
 - (iii) Contracts for amounts equal to or greater than the aforementioned thresholds will be governed by Bank policies (document GN-2349-9 or its updates).
- 6.7 Section 1 of document GN-2349-9 will remain applicable for all contracts financed, regardless of the amount or contracting method. The operation's procurement plan and updates thereto will indicate which procurement processes are to be executed using the approved country systems.²

Table 1. Applicable procurement procedures by threshold

Procurement type	Threshold (US\$)	Method
Works	≥ 3,000	ICB
	From 250 to 3,000	NCB or shopping*
	< 250	Shopping or use of country systems**
Goods and nonconsulting services	≥ 250	ICB
	From 50 to 250	NCB or shopping* or use of country systems***
	< 50	Shopping or use of country systems****
Consulting services – consulting firm	≥ 200	Shortlist of six firms with extensive geographic representation (international and national advertising)
	< 200	Shortlist of six firms that may be national (national advertising)
Individual consulting service		3 Curricula vitae
<p>* Shopping for works, goods, or off-the-shelf services.</p> <p>** Use of country systems for complex works when competitive bidding is used.</p> <p>*** Use of country systems for complex goods and nonconsulting services when electronic reverse auctions are used.</p> <p>**** Use of country systems for complex goods and nonconsulting services.</p>		

² If the Bank validates another system or subsystem, it will become applicable for the operation, as set forth in the loan contract.

Table 2. Procurement by category

Category	Total amount (US\$)
Works	742,000
Goods	3,850,000
Nonconsulting services	842,500
Consulting firms	10,746,400
Individual consultants	3,660,100
Procurement plan total	19,841,000

- 6.8 **Procurement supervision.** All procurement processes governed by the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) will be subject to ex ante review by the Bank, taking into account the position of the Ministry of Finance on the matter. All procurement processes governed by the SCSP electronic reverse auction and competitive bidding subsystems (document GN-2538-11) will be supervised using the country system.
- 6.9 **Records and files.** Program reports will be prepared and filed using the systems, formats, and procedures specified by or agreed upon with the Bank.

VII. FIDUCIARY AGREEMENTS AND REQUIREMENTS FOR FINANCIAL EXECUTION

A. Financial management

- 7.1 **Programming and budget.** The Ministry of Finance will be responsible for the formulation and programming of the annual program budget through the program coordination unit. No difficulties in budget management or system delays that could impact program execution are anticipated.
- 7.2 **Accounting and information systems.** The country uses modified cash basis accounting; However, cash basis accounting is used for IDB-financed project accountability processes.
- 7.3 **Information systems.** The program coordination unit will have access to the SIAF. Since the country systems do not issue the reports required by the Bank, they will have to be prepared using different systems, which creates additional work for the program coordination unit.
- 7.4 **Disbursements and cash flow.** Program disbursements will typically be made through advances of funds, corroborated through the monthly submission of an itemized financial plan for up to six months, and another for a longer period, which can be used to determine the program's actual needs, as reflected in the multiyear execution plan, annual work plan, and procurement plan. The second and subsequent disbursements will be subject to justification of at least 80% of the previous advance. If requested, disbursements may also be made as direct vendor payments or reimbursements for payments made.

- 7.5 **Exchange rate.** The exchange rate agreed upon with the executing agency for accountability will be the monetization exchange rate, unless otherwise determined by the Ministry of Finance in its capacity as borrower during the loan negotiations.
- 7.6 **Internal control and internal auditing.** The ICAS report found the level of internal control to be advanced.
- 7.7 **External control and reports.** The executing agency will deliver annual program audit reports, pursuant to the terms of reference previously approved by the Bank. The program financial statements will include a cash flow statement, statement of accrued investment income, notes to these financial statements, and a statement from the executing agency program management team. The audit report will include an evaluation of the internal control system.
- 7.8 An eligible-level firm of independent auditors will be selected for the program.
- 7.9 External audit costs, estimated at US\$200,000 over six years of program execution, will be covered with loan proceeds.
- 7.10 **Financial supervision plan.** Financial supervision may be adjusted based on program execution and audit reports.

Table 3. Financial supervision plan

Nature/scope	Frequency
Ex post disbursement review	Annual
Financial audit and delivery of financial statements	Annual
Review of disbursement requests and attached reports	2 or 3 per year
Inspection visit/analysis of internal controls and control environment at the executing agency	Annual

- 7.11 **Execution mechanism.** The project will be executed through the SSEAF, which will set up a program coordination unit with procurement operations unit status, and an administration and finance unit. The program coordination unit will be headed by a general coordinator, who will be responsible for the program's execution.
- 7.12 The program coordination unit will be comprised, at minimum, of a coordinator, a procurement specialist, and a fiduciary specialist. The program Operating Regulations will contain a detailed description of the execution mechanism. The members of the program coordination unit may be consultants hired with program funds and/or staff appointed by the Ministry of Finance who will be paid with Ministry resources.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Paraguay. Loan ____/OC-PR to the Republic of Paraguay. Program for the Institutional Strengthening of Ministry of Finance Pension Systems

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program for the Institutional Strengthening of Ministry of Finance Pension Systems. Such financing will be for an amount of up to US\$20,600,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2019)

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