

## FISCAL MANAGEMENT STRENGTHENING AND MODERNIZATION PROGRAM

(PR-0115)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Paraguay	
<b>Executing agency:</b>	The Ministry of Finance acting through the Subsecretariats of State for Financial Management (SSEAF) and for Taxation (SSET), the latter in particular acting through the National Customs Office (DGA).	
<b>Amount and source of funding:</b>	IDB: (OC)	US\$6.0 million
	Local counterpart:	US\$2.7 million
	Total:	US\$8.7 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	3 years
	Disbursement period:	3 years 6 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency: (OC)	Basket of currencies
<b>Objectives:</b>	<p>The general objective of the program is to support the ongoing process of State modernization in Paraguay by strengthening the Subsecretariats of State for Financial Management and for Taxation and the National Customs Office (agencies responsible for fiscal management). This will help to increase revenue collection and enhance the efficiency of public resource management.</p> <p>The program's specific objectives for all fiscal management agencies are: (i) to help improve the framework of rules and regulations under which such agencies operate; (ii) to improve their organizational structures; (iii) to optimize their internal processes and procedures, and set up management control systems; and (iv) to provide training for staff. For the SSET and the DGA there are also the following additional objectives: (i) to increase the coverage and productivity of their inspection functions; (ii) to broaden the active taxpayer base; and (iii) to integrate the taxation and customs administration information systems.</p>	

**Description:** To achieve these specific objectives, a program has been designed consisting of the following three subprograms: 1. Strengthening of the National Tax Administration; 2. Strengthening of Customs Administration; and 3. Strengthening of Financial Management. Each subprogram has its own annual targets and indicators to facilitate monitoring and appraisal of its execution and impact.

A steering committee will be set up to ensure proper coordination and supervision of the program, which covers all fiscal management agencies. The members of this committee, headed by the Finance Minister, will be the Subsecretaries of State of the SSET, and the SSEAF, and the Director of the DGA. A program executing unit (PEU) will be set up to assist the steering committee with these tasks, to ensure proper technical and administrative execution.

**The Bank's  
country and  
sector strategy:**

The Bank's action in Paraguay is focused on five strategic areas: (i) reform of the State, which is intended to enhance efficiency in the delivery of public services and to strengthen governance; (ii) reform of the financial sector, to improve its functioning and support capital market development; (iii) modernization of the productive apparatus, in order to enhance economic efficiency; (iv) support for social sectors, to promote their development; and (v) support for the rural sector, to reduce poverty and improve living standards, particularly for the most needy. The proposed program is consistent with that strategy and is expected to contribute to advancing the State reform process by strengthening institutional capacity and modernizing fiscal management agencies, so that they can perform their basic functions efficiently, effectively, and with transparency. This in turn is expected to contribute to fiscal stability, a prerequisite for the country's economic and social development.

The program is also expected to help strengthen an area with a significant bearing on good governance, namely efficient public resource management (revenue collection, budgetary and financial management), by fostering predictability in management, eliminating arbitrariness and providing better service to the public through information and assistance programs and dissemination of information on procedures, rights, and obligations.

**Environmental  
and social  
review:**

The program was reviewed by the Committee on Environment and Social Impact (CESI). It has been determined that the program will not give rise to negative environmental impacts but will have direct positive social impacts. In accordance with CESI recommendations, the customs administrations subprogram includes staff training in enforcement oversight of regulations governing trade in endangered species and objects that are part of the cultural heritage, as established in national laws and international treaties (paragraphs 2.35 and 4.4).

**Benefits:** The program will directly support the economic stabilization process in Paraguay by improving fiscal management, which will help reduce fiscal imbalances.

The operation will also help broaden the active taxpayer base and reduce tax and export duty evasion, thus enhancing the effectiveness and equity of government fiscal policy by improving tax revenue collection mainly through better tax enforcement and supervision of large taxpayers, without the need to increase taxes and tariffs.

The program is also expected to help improve the public image of the tax and customs administrations, by promoting a series of actions to assist the taxpayer, including dissemination activities and improvements in import and export procedures, which are expected to produce higher levels of voluntary tax compliance.

Lastly, the program is expected to contribute to greater transparency and help reduce corruption in fiscal management, through the introduction of controls and anti-corruption measures. Activities in this direction will afford greater credibility to public management and make it possible to obtain higher levels of tax revenue (paragraph 4.7).

**Risks:** The success of the program will depend on significant improvements in the organizational and functional structure of fiscal management agencies, and this will clearly depend on the political will of the Government of Paraguay. The Minister of Finance, with the support of the Vice Ministers of the SSET and SSEAF, and the Directors DGA, has given the program a top-priority rating and given it his full endorsement. The fact that approval for new funding commitments is contingent on achieving tangible progress will also help to mitigate the potential risk of a lack of political support (paragraphs 3.10 and 3.11).

Another potential risk is resistance to change on the part of some SSET, DGA and SSEAF staff members. In order to minimize this risk, the program includes organizational development together with training components and activities. These will seek, among other things, to explain and underpin the need for, and nature of the organizational and functional changes to be introduced, while also making staff at different levels of the fiscal management agencies feel that they are participants in the institutional strengthening process. Apart from this, dissemination activities are envisaged with a view to keeping staff at all levels involved and informed of the goals and achievements of the program's sequential targets.

**Special contractual clauses:**

- a. Conditions precedent to the first disbursement: (i) formation of the program steering committee (paragraph 3.6); (ii) creation of the PEU and the hiring and/or assignment of staff to serve on it (paragraph 3.6); (iii) the hiring and/or assignment of area technical coordinators (paragraph 3.7); and (iv) presentation of the AOP for the first year of the program (paragraph 3.12).
- b. Special contractual conditions for execution: (i) presentation of AOPs for the second and third years of the program, within sixty days before the end of the previous year (paragraph 3.12); and (ii) annual report on the performance indicators for each subprogram 30 days before the end of each year. If the relevant performance indicators are considered unsatisfactory, no further funding will be committed for the subprogram concerned (paragraph 3.16).
- c. As a special contractual condition, it is recommended that expenses in an amount up to US\$200,000 be recognized as chargeable to the local counterpart funding (paragraph 3.20).

**Poverty-targeting and social sector classification:**

This operation does not qualify as a poverty reducing project, as described in the indicative targets for the Bank's activity contained in the report on the Bank's Eighth Replenishment (Document AB-1704). Nonetheless, the project is expected to enhance social equity, by broadening the active taxpayers base and reducing levels of evasion, thereby allowing more resources to be collected for investment.

**Procurement:**

The procurement of goods and the hiring of consulting services will be carried out in accordance with Bank procedures. International competitive bidding will be used for contracts valued at the equivalent of US\$250,000 or more, in the case of goods and US\$200,000 or more, in the case of services.

## I. REFERENCE FRAMEWORK

### A. Fiscal framework

1.1 The economic slowdown in Paraguay in recent years and its rigid public spending structure have led to a deterioration in public finances, raising the need to make adjustments to restore fiscal balance.<sup>1</sup>

1.2 The nonfinancial public-sector displays a positive but declining fiscal balance, equivalent to 1.2% of GDP in 1997 and 0.1% in 1998. If public-sector companies are excluded, and only the results of central government administration and decentralized bodies are considered, the balance is even worse, at 0.5% of GDP in 1997 and - 0.2% in 1998. When central government administration alone is considered, the situation is less favorable still, with deficits of around 1.4% of GDP in 1997 and 1.0% in 1998. The deficit for central government administration estimated for 1999 is 2.4% of GDP (see Table 1).

TABLE 1: FISCAL INDICATORS BY YEAR					
Indicators	1995	1996	1997	1998	1999
Fiscal deficit (% of GDP)	0.28	0.79	1.44	0.97	2.4 <sup>1</sup>
Tax burden (% of GDP)	11.18	10.42	10.67	10.51	9.75

Source: IMF-IDB  
1. Estimate

1.3 On the other hand, the “quasi-fiscal” deficit, or the deficit not recorded in fiscal accounts arising from the cost of providing financial assistance for bank bailouts, plus net interest and accrued but unpaid interest of the nonfinancial public sector, has been at significant levels during the last three years: 6.1% of GDP in 1997; 4.4% in 1998; and 7.6% up to July 1999.<sup>2</sup>

1.4 In this context, insufficient generation of tax revenue combines with a rigid spending structure to impose major constraints on fiscal accounts. In 1999, total revenue collected came to just 72% of the targets set out in the national budget, and the tax burden for that year was down by 0.8% of GDP compared to the 1998 figure, thereby aggravating the declining trend seen since 1995.<sup>3</sup> Finally, tax revenues in the first two months of 2000 were 18.2% lower in real terms than in the same period a year earlier. As regards the rigid structure of public expenditure, the

<sup>1</sup> GDP has fallen steadily since 1996. In 1999, 62% of the executed central government budget involved rigid expenditures, including wages, retirement and other pensions, and debt service.

<sup>2</sup> The higher quasi-fiscal deficit results from the delayed effects of the banking crisis of May 1995, not only in terms of financial assistance but also the monetary policy cost, measured in terms of net interest payments. According to IMF estimates, the cost of bank aid plus the financial balance of the Central Bank of Paraguay represented 2.5% and 2.0% of GDP in 1997 and 1998, respectively.

<sup>3</sup> In the regional context, Paraguay has lower taxes than most countries of the region. ECLAC statistics show that the tax burden in Paraguay is well below the Latin American average (13.4%).

wage component exceeded revenue collected by 96% during the first two months of 2000.

- 1.5 This situation has led to a worsening of the cumulative fiscal deficit for first two months of the current year, which was 539% above the level recorded for the equivalent period in 1999. This is particularly worrying since revenue and expenditure targets for the year 2000 have been set 24% and 5% above those of 1999, respectively. This fiscal scenario underscores the need to provide support for actions to strengthen the country's fiscal management; hence the present document.

## **B. Reform of the State**

- 1.6 The Paraguayan government program for 1999-2003 gives high priority to State reform, viewing it as a way to achieve the most effective institutional environment to resume the country's economic and social development. The program envisages the development of a rule-based State, acting as regulator and promoter of economic and social relations. To achieve this, the functions and attributions of State structures need to be redefined, and many of them should be delegated to departmental and municipal agencies (see Table 2).

**Table 2: State reform goals in the 1999-2003 government program**

- |    |   |
|----|---|
| 1. | Abandonment of the centralized and entrepreneurial State model;   |
| 2. | A State that fully respects the Constitution, laws and the rights of individuals;   |
| 3. | Observance of economic stability;   |
| 4. | Maintenance of the regulatory function at the national level, while transferring competencies, resources and decision-making power from the national to the departmental and local level; |
| 5. | Encouragement of citizen participation in identifying, executing and controlling actions aimed at satisfying basic needs;   |
| 6. | Rational use of scarce public resources, in response to social demand;  |
| 7. | An efficient public sector based on a culture of public service; and  |
| 8. | The fight against and elimination of corruption, impunity, piracy and money laundering.   |

- 1.7 Among its strategic areas of reform, the program sets out the following objectives for public finances: (i) reorganize public expenditure to give greater importance to investment, human resource training and development, and domestic order; (ii) reduce evasion in order to increase tax revenue and eliminate distortions in the economy; (iii) achieve greater tax equity; (iv) keep borrowing under control; (v) improve citizen control over public finances; (vi) contribute to price stability and competition; (vii) progressively and verifiably reduce the share of current expenditure in the national budget.
- 1.8 The goals of the program for public administration include the following: (i) to devise and implement a public-policy management system that reduces discretionary action, aimed at programming, budgeting, managing and controlling public resources; (ii) to set up a civil service system that makes it possible to rationalize human resources destined for public service and ensure efficient service

delivery; and (iii) to simplify and rationalize, and give greater transparency to procedures, eliminating unnecessary red tape.

- 1.9 In order to press ahead with the reform agenda and reverse the fiscal scenario described above, the Paraguayan government has sought the Bank's assistance to sustain the process of strengthening and modernizing public administration in the fields of taxation and finance. The Bank has experience in Paraguay with previous operations in these areas, which have been identified by the government as strategic for State reform. These are referred to below.

## C. Tax and financial management: progress achieved and outstanding issues

### 1. Tax administration

- 1.10 The Tax Reform Act passed in January 1992 (Law 125/91) lays the foundations for the current taxation framework.<sup>4</sup> The current system includes taxes on income, capital, consumption, deeds and documents, and foreign trade. The main bulk of tax revenue comes from value added tax (VAT) which accounts on average for about 41% of total revenue,<sup>5</sup> followed by foreign trade duties (21%) and income and profits tax (20%) (see Table 3).

Table No. 3: Tax revenue as a % of GDP						
Revenue by type of tax	1995	1996	1997	1998	1999	% Share
<b>Income tax</b>	2.24	2.22	2.05	1.91	2.04	20%
Domestic income tax	1.74	1.79	1.63	1.42	2.00	
Other income tax	0.50	0.43	0.43	0.45	0.04	
<b>VAT</b>	4.33	4.09	4.54	4.34	4.08	41%
Domestic VAT	1.92	1.93	2.08	1.89	2.53	
Customs VAT	2.41	2.16	2.46	2.45	1.55	
<b>Selective consumption tax (SCT)</b>	1.20	1.38	1.30	1.28	1.27	12%
Domestic SCT	0.89	1.07	0.85	0.61	0.61	
Customs SCT	0.31	0.31	0.45	0.67	0.66	
<b>Tax on deeds and documents</b>	0.37	0.34	0.36	0.32	0.28	3%
Customs duty	2.70	2.15	2.22	2.16	1.56	21%
Other	0.34	0.23	0.20	0.50	0.52	3%
<b>Total revenue</b>	11.18	10.41	10.67	10.51	9.75	100%

Source: SSET and IMF

- 1.11 The 1992 reform also changed structure of tax administration in Paraguay, from an organization based on tax types to the present Subsecretariat of State for Taxation (SSET), which is organized by functions. This structural change helped to generate higher revenue until 1995, and led to a partial streamlining of domestic tax administration procedures. At the present time the SSET consists of six general offices (revenue collection, supervision, support, planning, large taxpayers and

<sup>4</sup> The main objectives of the 1992 reform were to simplify the tax system, achieve tighter control over large taxpayers and increase the tax burden. The existing tax system involving over 20 taxable items was reduced to a system of just seven taxes; the large taxpayers office and tax collection system were set up; and the tax burden was raised from 8.5% of GDP in late 1991 to 11.2% in 1995.

<sup>5</sup> VAT revenue is shared almost equally between domestic VAT (48%) and VAT charged on imports (52%).

customs), together with advisory and administrative areas which report directly to the Subsecretary of State for Taxation.

1.12 Despite the initial achievements of the 1992 reform, these have not been sustained, as Table 4 shows. The SSET is currently facing serious organizational and operational problems, which are reflected in low and falling tax revenues, significant levels of evasion and inefficient management.

1.13 The low levels of tax revenue collected are the result of domestic factors such as inadequate human, financial and logistic resources in tax administration, together with external factors such as the business cycle and the excessive number of allowances and exemptions contained in current tax legislation.

1.14 These factors, together with the non-existence of strategic or master plans (even for the short term) suggesting the chance of improved tax administration in the future, underscore the urgency of initiating an institutional strengthening program to at least partly reverse the existing deficiencies. In this context, support is needed to implement organizational and procedural adjustments, together with a system of internal management control with the capacity to cover all SSET offices and departments.

1.15 The most serious specific problems faced by domestic tax administration in Paraguay are as follows: (i) deficient regulation for supervising the main taxes; (ii) deficient organizational structure, where functions overlap and the integration of operational areas gets obstructed; (iii) shortcomings in the system of collecting taxes through the bank network; (iv) ineffective and outdated information systems; (v) lack of modern inspection strategies that prioritize audit actions according to economic sector and the economic importance of the taxpayer; (vi) shortcomings in human resource management and inadequate training activity; and (vii) lack of external communication policies and a virtual non-existence of public assistance programs.

**Table 4: SSET management indicators**

*Revenue collection*

- The tax burden fell from 11.2% of GDP in 1995 to 9.75% in 1999.
- The IMF estimated VAT evasion at 40% in 1999.

*Domestic taxation and customs administration*

- The total adjustment to taxable bases resulting from inspection activities, amounts to less than 0.5% of total revenue collected.
- Updating the current account of 90% of taxpayers is over six months behind.
- Routine activities, such as processing applications for tax allowances and closing balances, can take up to one year and involve as many as 30 administrative agencies.
- 26% of taxpayers included in the large-taxpayer registry are inactive or make only a minor contribution to total revenue collected.
- The number of audits carried out by the National Customs Office fell from 53 in 1995 to just eight in 1998. No audits were carried out in 1999.



1.16 In the customs sphere, an agreement was signed in 1991 with the French customs service to set up the "SOFIA" computer system, in order to streamline processes and reduce merchandise clearance times by partially automating customs procedures. However, as Table 5 shows, only eight out of a total of 13 customs services have so far installed this system. Another part of the effort to streamline customs procedures involved

authorizing the operation of private sector merchandise warehouses, and representatives of the Paraguayan customs service were assigned to the main transshipment ports for goods destined for Paraguay, namely Iquique, Montevideo, Santos and Paranaguá. An International Operational Intelligence Agency (IOIA) has also been set up in the customs service, and this is collaborating in the exchange of confidential customs information with other countries.

Table 5. Customs Administrations with and without the SOFIA computer system installed	
<i>Customs with the SOFIA informatics system installed</i>	
•	Customs in the capital city
•	Kanonikof ports and warehouses (PAKSA)
•	Customs at Puerto Falcón
•	Customs sub-administration at Chaco-i container terminal
•	Silvio Petirosi International Airport
•	Customs at Guaraní International Airport
•	Customs at Ciudad del Este
•	Customs at Encarnación
<i>Customs without the SOFIA informatics system installed</i>	
•	Customs at Villeta
•	Customs at Pedro Juan Caballero
•	Customs at Saltos de Guairá
•	Customs at Concepción
•	Customs at Mariscal Estigarribia

1.17 Unfortunately, no other steps have been taken to modernize Paraguay's customs system; reasons include a lack of political will to undertake customs reform, a lack of readiness for change in the institution itself, the scarcity of economic and financial resources, frequent changes of customs directors, inadequate human resource training, and areas of corruption in certain units.

1.18 The main problems facing the Paraguayan customs system today are as follows: (i) a legal framework governing the customs system that is outdated with respect to the demands of current international trade, trade agreements and treaties and modern technological requirements; (ii) deficient organizational structure; (iii) complex customs procedures that delay merchandise clearance and increase the costs of customs operations, together with weaknesses in merchandise valuation processes and in the enforcement of rules of origin; (iv) only partial implementation of the SOFIA computer system, and underutilization of its installed capacity (the system only covers imports, and has been implemented in just eight out of 13 customs services); (v) deficient supervision, problems with border controls and a general lack of control over customs compliance where a blind eye is turned to contraband and fraud; and (vi) non-existent human resource policies and inadequate training.

## **2. Financial management**

- 1.19 The financial management modernization process started in 1991, with development of the Integrated financial information system (IFIS). This aimed to integrate and rationalize the functions of a variety of areas under a central computerized management system, in order to eliminate the duplication of functions and records, provide adequate information for decision-taking, and afford greater transparency to the budgetary process.
- 1.20 Starting in 1996, the government adopted a wider-ranging integrated state resource management system (ISRMS), covering financial, human and material resources. The basic operation of the financial management system was redesigned under this framework, and a new information technology product was developed, namely the integrated financial management system (IFMS). The IFMS, which has the same goals as the IFIS but operates in a much more decentralized way in the executive agencies of public expenditure, is in the final stages of installation in all central government entities, with successful results so far.
- 1.21 One of the main impediments to effective financial management during the last few years has been the absence of a modern and comprehensive legal framework, to enable this area to be viewed as a set of interrelated and interdependent systems operating under the principles of regulatory centralization and operational decentralization. This has led to many government reforms in this area being funded out of the annual budget.
- 1.22 In response to this situation, the Financial Management Act (Law 1535) came into force on 20 December 1999, the bill for which was drafted with Bank assistance. This legislation provides general regulations on budget, public investment, treasury, public credit and debt, accountancy and control systems, and will help provide the legal basis needed to continue with the reform process. It represents a significant step forward in consolidating the reforms undertaken in the financial management field. The law's detailed regulations were issued by the government in Decree 8127, dated 30 March 2000, and cover all aspects of the systems mentioned, including basic rules and administrative procedures.
- 1.23 Despite progress made so far, there are still serious shortcomings in the domain of the Subsecretariat of State for Financial Management (SSEAF), which prevent its respective offices from carrying out their functions efficiently. The main problems include: (i) different financial management between the different decentralized bodies in the public sector (including regional governments), resulting in a lack of consolidated and reliable information for decision-making and varying interpretations of financial concepts; (ii) a lack of computerized communication links with regional governments which would allow a more integrated form of financial management; (iii) an unacceptably low execution level in projects financed by public borrowing, and a lack of feedback on their results; (iv) non-

existent information and control of the assets of public institutions;<sup>6</sup> and (v) a system for paying incomes to retirees and other pensioners that is both obsolete and complicated, as well as susceptible to irregular procedures.

- 1.24 Apart from that, there are new requirements imposed by the Financial Management Act, especially in the budgetary area, which need to be implemented – in particular, a system of zero-base budgeting and departmental regionalization of the budget. A number of adjustments will also probably have to be made to the conceptual and operational scheme of the IFMS.

#### **D. The Bank's strategy and experience**

##### **1. The Bank's strategy in the country**

- 1.25 The Bank's action in Paraguay is focused on five strategic areas: (i) reform of the State – aiming to enhance efficiency in the delivery of public services and to strengthen governance; (ii) reform of the financial sector – to improve its functioning and support capital market development; (iii) modernization of the productive apparatus – with the aim of enhancing efficiency in the economy; (iv) support for social sectors – to foster their development; and (v) support for the rural sector – with a view to reducing poverty and improving the population's living standards, particularly among the most needy. The proposed program is consistent with that strategy and is expected to make a specific contribution to advancing the State reform process by strengthening institutional capacities and modernizing fiscal management agencies, thereby ensuring efficiency, efficacy and transparency in the fulfillment of their basic functions. This in turn is expected to contribute to fiscal stability, which is a prerequisite for promoting the country's economic and social development.
- 1.26 The program is also expected to help strengthen an area of importance for good governance, namely efficient public resource management (revenue collection, budgetary and financial management), by encouraging foresight in management, eliminating discretionary action and providing better service to citizens through information and assistance programs, and by publicizing procedures, entitlements and duties.

##### **2. The Bank's strategy for the sector**

- 1.27 The Bank has mainly supported state reform in Paraguay through the sector investment program (SIP), with loans 727/OC-PR and 728/OC-PR amounting in

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<sup>6</sup> It is estimated that under 25% of central government bodies keep proper records of their tangible and real-estate assets.

total to US\$81.5 million.<sup>7</sup> The program, whose objective is to lay the foundations for sustained growth and improved living conditions among the Paraguayan people, was approved in December 1992, and included 66 specific goals covering a multitude of economic sectors and activities. The program as a whole was split into six subprograms as follows: (i) reforms to the regulatory framework for investment; (ii) trade reform; (iii) privatization of public companies; (iv) fiscal reform; (v) reform of the financial sector; and (vi) reform of the social security system.

- 1.28 After seven years of the sector investment program execution, during which time four government administrations have come and gone, the Executive Board of the Bank approved the third and final disbursement of the operation for the amount of US\$20 million on 26 April 2000, thereby bringing the program to a final conclusion, with 63 of the 66 targets met. The following results were achieved: (i) maintenance of macroeconomic equilibrium throughout the 1990s; (ii) a new charter for the Central Bank; (iii) a new Banks and Financial Institutions Act; (iv) a new system of financial management, and for administering tax revenues and State assets; (v) privatization of five public companies; (vi) the opening up of the Paraguayan economy to foreign trade; (vii) the creation of an intellectual property register; (viii) a new law on patents and authors' rights; (ix) legal regulations approved for capital market development; (x) the elimination of rediscount and second-tier operations by the Central Bank; (xi) the closure of all first-tier public-sector banks except for the Banco Nacional de Fomento (BNF); (xii) the creation and development of the life insurance market; and (xiii) nine bilateral investment agreements signed with countries from America and Europe.
- 1.29 In the fiscal domain, projects involving Bank assistance have accompanied and contributed to reforms in tax and financial legislation and regulations and, to a lesser extent, management strengthening in fiscal management agencies. The goals of the SIP fiscal reform subprogram, with an allocated budget of US\$2.3 million, were as follows: (i) to support tax reform, especially relating to large taxpayers and tax collection systems using the bank network; and (ii) to boost the reform of State financial management, with a view to facilitating efficient administration of public-sector resources.
- 1.30 In the taxation area the program specifically helped to simplify the number of taxes and draft regulations for the resulting legislation. A variety of activities were also undertaken to modify the structure of the SSET, support VAT implementation, set up a large taxpayers office, and finance a number of studies to serve as the basis for reform. In the financial area, support was also provided for IFIS deconcentration in central government bodies, a system for managing public borrowing was designed and implemented, the bank network was used for paying the public-sector payroll,

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<sup>7</sup> The following technical cooperation agreements were also approved: ATN/SF-3472-PR and ATN/SF-3474-PR, Support for Priority Areas of the Public Sector (Phases I and II), which served as a basis for reform in the areas of tax administration and financial management.

and computer equipment was purchased to support IFIS expansion. Finally, support was provided in drafting the financial management bill which was subsequently passed as Law 1535.

### **3. Medium and long-term strategy for the fiscal sector**

- 1.31 Projects supported by the Bank in this sector have aimed to optimize the fiscal management system in Paraguay at the regulatory and administrative management levels. The ultimate goal of the Bank's actions in the fiscal domain is to achieve a simple, transparent and effective tax system, and to establish a procedural and regulatory framework conducive to efficient public expenditure management.
- 1.32 The present operation seeks to resume and press ahead with the process of modernizing fiscal management in Paraguay, consolidating the partial achievements attained so far, by supporting an improved regulatory framework in the taxation area, including regulations on invoices for VAT administration purposes (this is the tax with highest revenue impact), and improved public expenditure management arising from implementation of the Financial Management Act. The program is also expected to enter areas not covered by previous Bank programs, such as development of information systems for oversight and inspection tasks, internal control systems and organizational improvements in the taxation area, and implementation of the integrated financial management system at the regional government level.
- 1.33 The medium- and long-term strategy anticipates that efforts to support central tax and financial administrative management will eventually extend to decentralized levels including regional governments and municipalities. This aim should accompany the decentralization efforts that have been proposed by the Paraguayan authorities, as part of the State reform process. Accordingly, the Bank's operational program with Paraguay for the year 2001 includes an operation to support departmental and municipal strengthening for decentralization.

### **E. Conceptualization of the program**

- 1.34 The problems faced by the fiscal administration agencies (SSET, DGA and SSEAF) call for a program of institutional strengthening and modernization, including improvements to the three main areas of action: regulatory framework, organizational development and management control.
- 1.35 In the regulatory area, the program will support measures to facilitate efficient financial and tax management, including support for the design and regulation of a future personal income tax, where appropriate.
- 1.36 In the organizational development sphere, the program will seek to improve the structure of the SSET, DGA and SSEAF, by working to optimize all internal processes, in the case of SSET and DGA; by consolidating achievements already

attained in this area by the SSEAF; and by optimizing procedures carried out by each of the units in the respective Subsecretariats.

- 1.37 In the management control area, the program will mainly entail development of planning capacity in the spheres of the Subsecretariats and the DGA, and control capacity for their internal operations. To that end, the program will foster management by results, with the various organizational units and their respective managerial and directorship levels adopting annual management plans (AMP).
- 1.38 Finally, the program design has taken account of the following lessons learned by the Bank in the course of similar institutional strengthening programs, including projects carried out previously in Paraguay: (i) the inclusion of quantifiable and clearly observable indicators for monitoring the various components; (ii) linking funding commitments to the attainment of feasible targets, as a way of ensuring permanent political and institutional support for the program; and (iii) the use of information technology systems and computer equipment as a tool of reform rather than as an end in itself (limiting equipment and systems development to what is strictly necessary).

## **II. THE PROGRAM**

### **A. Objectives**

- 2.1 The general objective of the program is to support the ongoing process of State modernization in Paraguay by strengthening the Subsecretariats of State for Financial Management and Taxation as well as the National customs office (agencies responsible for fiscal management); this should will help to increase tax revenue and enhance the efficiency of public resource management.
- 2.2 The program's specific objectives for all fiscal management agencies are: (i) to help improve the framework of norms and regulations in which such agencies operate; (ii) to improve their organizational structures; (iii) to optimize their internal processes and procedures, and set up management control systems; and (iv) to train their staff. For the SSET and the DGA there are also the following additional objectives: (i) to increase the coverage and productivity of their inspection functions; (ii) to broaden the active taxpayer base; and (iii) to integrate the information systems of taxation and customs administration.

### **B. Targets**

- 2.3 The program's targets and a its monitoring and success indicators will be as follows:
- 2.4 Domestic tax and customs administration: (i) an increase in tax revenues from 9.7% to 12% of GDP by the end of the program; (ii) operating costs of internal tax and customs administration to be no more than 4.5% of total revenue collected by the end of the program; (iii) an increase in the coverage and economic yield of inspection programs; (iv) adoption of measures to facilitate control of VAT and the granting of tax credits (e.g. improvements to billing systems); (v) incorporation of all customs processes into the SOFIA computer system; (vi) use of management control systems developed by the program; (vii) integration of the domestic taxation and customs information systems.
- 2.5 Financial management: (i) expansion of the IFMS to all decentralized bodies and departmental governments; (ii) operation of the public credit management system; (iii) operation of the goods and services management system; (iv) improved administration of incomes paid to retirees and other pensioners, including payment through the bank network and the implementation of modern record-keeping and control systems; and (v) training activities and results of human resource management.
- 2.6 A series of quantifiable indicators will be used to measure progress in executing the activities, and their impact on fiscal administration (see paragraph 3.10).

**C. Description**

- 2.7 To achieve the specific objectives of the operation, a program has been devised consisting of three subprograms: 1. Strengthening of National Tax Administration; 2. Strengthening of Customs Administration; and 3. Strengthening of Financial Management.

**1. Strengthening of National Tax administration (US\$2,983, 000)**

- 2.8 The objective of this subprogram is to support the SSET in modernizing its regulatory framework, organizational structure and national tax management capacity. Activities will be carried out for this purpose under the following components:

**a. Tax regulations**

- 2.9 The objective of this component is to set up a regulatory framework to help reduce the distortions that exist in the Paraguayan tax system, and to broaden the active taxpayer base. The expected result includes implementation of a new tax regulatory framework, together with improved procedures for the repayment of tax credits and control of the invoice printing.
- 2.10 The component will include the following activities: (i) review of resolutions and decrees relating to the reimbursement of tax credits; (ii) extension of bank guarantee periods on tax credits to exporters; (iii) change in procedures for printing invoices, for VAT control purposes; and (iv) support in designing and regulating a future personal income tax.

**b. Organizational development**

- 2.11 The objectives of this component are: (i) to improve the organizational structure of the general offices dealing with large taxpayers, revenue, planning, inspection and support; and (ii) to encourage the simplification and optimization of all their processes and internal procedures. Expected results are: (i) the adoption, where appropriate, of a new organizational structure and functions for the different offices; (ii) integration of the different operational areas responsible for tax collection and control of liabilities, through effective communication and timely provision of information; and (iii) implementation of a management control system.
- 2.12 The component will include the following activities: (i) review of current SSET staffing at the management and operational levels, in order to determine the extent to which staff are suited to their functions and fit their respective job specifications; (ii) updating of existing organizational and operational manuals and preparation of procedural manuals; (iii) creation of an internal control unit; (iv) creation of special units within the general revenue office specializing in administration of the single tax and the Tax on Agricultural Activities (ITAGRO); (v) reorganization of the



support office so as to target its actions on information technology support tasks; (vi) strengthening of the economics studies and statistics departments of the general planning office; (vii) strengthening and restructuring of SSET offices throughout the country, particularly in departmental capitals; (viii) creation of special units for dealing with taxpayer queries, and the design of public information programs to publicize relevant aspects of the tax system; and (ix) development of a management control system for the five general offices and the advisory areas responsible for administering domestic taxes.

**c. Revenue collection and liability control**

- 2.13 The objectives of this component are: (i) to simplify all processes and procedures relating to tax collection and the control of tax liabilities; and (ii) to optimize data capture and processing. The main expected result is a substantial reduction in the time taken to bring medium and small-scale taxpayers' current accounts up to date. These should be no more than one month behind, by the end of first-year of execution of the subprogram, and no more than 15 days by the end of the second year.
- 2.14 The component will include the following activities: (i) develop consistent methodologies for the selection and permanent screening and updating of the universes of large and medium-scale taxpayers; (ii) optimize the use of the single taxpayer account; (iii) improve the system of tax revenue collection through the banking system; (iv) review and redesign current tax declaration forms; and (v) implement a system for controlling and monitoring record files.

**d. Information technology**

- 2.15 The objective of this component is to re-engineer the existing information subsystems and develop new information modules to support the functioning of the various general offices. The expected result is an integrated, streamlined and modern tax information system, that is capable of processing and updating information in short periods of time. This will lead to greater efficiency in the functions of planning, revenue collection and tax control.
- 2.16 The component will include the following activities: (i) implementation and extension of information systems to the main departmental capitals; (ii) implementation of systems audit and security mechanisms to protect data integrity; (iii) development of support modules for the inspection and control of printing presses; and (iv) completion of interconnection with DGA information systems and with those of other public agencies through the metropolitan network.

**e. Inspection**

- 2.17 The objectives of this component are: (i) to increase the coverage of inspection activity in terms of frequency and the number of taxpayers audited; (ii) to increase

the economic yield of inspection programs; and (iii) to automate and optimize the programming and monitoring of cases selected for audit. The expected results are: (i) implementation of efficient systems, techniques and procedures for the selection, planning and execution of inspection tasks; and (ii) an increase in the inspection of large taxpayers to cover more than 75% of the relevant universe.

- 2.18 The component will include the following activities: (i) implementation of a system for controlling self-declaration; (ii) design and implementation of an automated system for control of withholding agents; (iii) design and improvement of procedures to streamline the permanent oversight of taxpayers (e.g. the blocking of taxpayer records); (iv) development of systematic quarterly and yearly action plans so as to set quantitative targets for inspection tasks and achievement monitoring; (v) training for inspection office staff in methodologies of analyzing taxpayers by economic sector and type of tax, as well as in modern audit techniques.

#### **f. Training**

- 2.19 The objectives of this component are: (i) to develop strategic planning capacity in the various general offices; (ii) to optimize human resource management capacity at managerial levels; (iii) to improve the technical level of tax staff at the managerial and operational levels; and (iv) to help enhance their productivity, as well as that of administrative support staff. The main expected results include training, for at least 75% of managerial and operational staff, in aspects of planning, organization and methods, use of tax information systems, and on specific technical issues such as legislation, inspection, audit and taxpayer assistance.
- 2.20 The component will include the following activities: (i) design and implementation of a training policy consisting of annual training and education programs linked to permanent staff assessment systems and career promotion processes; (ii) courses and seminars aimed at strengthening planning, management and oversight capacities among SSET managerial staff; (iii) courses and seminars on leadership, communication, teamwork, and human resource management in general; and (iv) staff participation in courses and seminars abroad, and the organization of short-term internships for the purpose of studying tax administrations elsewhere in the region that have made clear progress in specific areas of tax administration. Most training activities will consist of on-the-job training, provided by consultants participating in the program within each component. The content of training activities will be consistent with the sequence of activities of the subprogram.

#### **2. Strengthening of customs administration (US\$1,419,000)**

- 2.21 The objective of this subprogram is to help the National Customs Office modernize its regulatory framework and provide assistance in organizational restructuring, upgrading the technical capacity of its human resources and strengthening its

capacity in the administration of external taxes. The following components will be executed to that end:

**a. Customs regulations**

- 2.22 The objective of this component is to update the legal framework of the customs service, so as to adapt it to the emerging challenges and requirements of international trade practice and bring it in line with the regional trade agreements signed by Paraguay. The expected result of the component is to complete the drafting of a new customs code with its regulations concluded and reviewed.
- 2.23 The component will include the following activities: (i) drafting of a bill to adapt the Paraguayan customs code to current international trade requirements, as well as to regional regulations, treaties signed by the country and new technologies; (ii) preparation of a regulatory decree for the full application of the proposed customs code; and (iii) regulation of border inspection.

**b. Organizational development and human resource management**

- 2.24 The objectives of this component are: (i) to set up a new structure for the DGA that is capable of fulfilling the functions of a modern customs service; (ii) to improve human resource management; and (iii) to raise the ethical standards of the organization. The expected results are: (i) a customs service that enables the country to compete successfully in international trade; and (ii) help in setting up a staff career structure.
- 2.25 The component will include the following activities: (i) design and implementation of a new organizational structure including specifications of functions, posts and staff profiles; (ii) preparation of function manuals; and (iii) adoption of a human resource policy involving performance-related promotion.

**c. Rationalization of processes**

- 2.26 The objective of this component is to simplify customs processes. The results envisaged include a reduction in the costs and time taken for merchandise to clear customs, thereby enhancing the country's competitiveness in international trade.
- 2.27 The component will include the following activities: (i) re-engineering of all customs procedures and redesign of forms to make possible the application of new technologies; and (ii) the publishing of procedural manuals.

**d. Valuation**

- 2.28 The objective of this component is to strengthen the customs service valuation unit so as to eliminate distortions in declared values (over- and under-invoicing). The expected results are a reduction in tax evasion and increased revenue collection.

- 2.29 The component will include the following activities: (i) adaptation of the valuation system to allow full application of GATT Article VII; (ii) strengthening of technical capacity in the central unit of the valuation service and also in local units; (iii) preparation of a risk analysis program to enhance inspection work; and (iv) creation of a technical library (web pages and intranet).

**e. Audit of customs administration**

- 2.30 The objective of this component is to improve auditing in the customs control and management areas, in order to tighten up on the inspection of foreign trade agents, reduce corruption, combat contraband and fraud, and reduce tax evasion. The expected outcome is to achieve oversight of all trade agents within two years and increase external tax revenue.
- 2.31 The component will include the following activities: (i) preparation of annual inspection programs with previously projected targets; (ii) establishment of a taxpayer selection policy aimed at achieving tighter control; (iii) establishment of an data analysis and processing unit to make auditing more efficient; (iv) design and implementation of risk assessment programs to improve “a posteriori” controls; and (v) implementation of a laboratory to support correct merchandise recognition.

**f. Information technology**

- 2.32 The objective of this component is to fully extend the SOFIA informatics system to every custom unit in the country, in order to automate all customs processes and thereby improve the efficiency of the service, limit discretionary action and reduce levels of corruption. These objectives are expected to be achieved within two years.
- 2.33 The component will include the following activities: (i) incorporation of the following areas, among others, into the SOFIA system: the export regime, special and suspensive customs regimes, and the treatment of guarantees, fiscal credits and value control; (ii) measures to interconnect three additional customs units into the system;<sup>8</sup> (iii) incorporation of remaining customs and trade agents into the system;<sup>9</sup> and (iv) preparation of operating manuals.

**g. Training**

- 2.34 The objectives of this component are: (i) to develop management capacity in the top echelons of the institution; (ii) to improve management capacity in the different customs areas; (iii) to upgrade the managerial and technical-operational level of

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<sup>8</sup> The following customs services will be interconnected under this program: Pedro Juan Caballero, Saltos de Guairá, and Mariscal Estigarribia. This will fulfill the target of 11 customs services, which require the SOFIA computer system because of their activity level.

<sup>9</sup> Customs agents are authorized by the Customs Authority to carry out merchandise dispatch procedures on behalf of a principal in the private sector.

customs staff; (iv) to enhance the productivity of technical and administrative staff; and (v) to reduce corruption by improving compliance with ethical standards set by the institution.

- 2.35 The component will include the following activities: (i) preparation of annual training plans and programs related to the requirements of the different customs units; (ii) courses and seminars to develop capacities for planning, leadership, oversight and management at the managerial levels of the customs service (directors, managers and regional administrators); (iii) courses on: tariff classifications; valuation; merchandise recognition; rules of origin; import and export restrictions established in local laws and in international treaties prohibiting trade in endangered species or items of cultural heritage; intellectual property standards; inspection of travelers' luggage; legislation and regulations on customs-related matters; audit of customs administration; (iv) support courses in the areas of computing, dealing with the public and languages; and (v) cost-free participation by staff in courses and seminars given by the World Customs Organization (WCO), and internships in foreign customs services.

### **3. Strengthening of financial management (US\$1,853,000)**

- 2.36 The purpose of this subprogram is to support the SSEAF in consolidating reforms carried out under the program so far, by putting into practice a uniform and comprehensive public-sector financial management system, and strengthening the following areas within its brief: public debt, goods and services management, and incomes paid to retirees and other pensioners. The following components will be executed for this purpose:

#### **a. Strengthening and expansion of the IFMS**

- 2.37 The objective of this component is to consolidate the operation of the integrated financial management system (IFMS) by adapting and reviewing the processes of budget, treasury and accountancy in the sphere of central government, and extension of the system to regional governments and decentralized bodies. The main expected results include: (i) a budgetary system adapted to existing legal requirements; (ii) a national treasury that manages fiscal resources more efficiently; and (iii) the IFMS installed in decentralized bodies and regional governments.
- 2.38 The component will include the following activities: (i) establishment of short-, medium- and long-term budgetary planning mechanisms; (ii) updating of the budgetary drafting process, including definition of methodologies and procedures to implement the zero-base budgeting technique, and draft the budget by departments; (iii) establishment of budgetary appraisal mechanisms; (iv) updating of treasury instruments; (v) adaptation and updating of account plans; (vi) preparation of administrative manuals; (vii) expansion of the IFMS to decentralized agencies funded by the national treasury; (viii) support for developing a national

communications network with regional governments; (ix) development of information technology applications complementary to the central IFMS for dissemination to regional governments; (x) updating of informatics infrastructure; and (xi) training.

**b. Development of public credit system**

- 2.39 The objective of this component is to develop mechanisms to ensure an adequate pace of execution in projects financed out of public credit, both among the executive units and in terms of effective monitoring by the SSEAF. The main expected results are: (i) dissemination of reliable and timely information on the speed of execution of projects financed by public credit; and (ii) executive units capable of monitoring and adequately informing on their projects' state of progress.
- 2.40 The component will include the following activities: (i) preparation of directives, systems and procedures for the use of public credit; (ii) design of methodologies for preparing, executing, evaluating and monitoring programs; (iii) strengthening of debt recording and control processes; (iv) design of strategies to support institutional project execution units; (v) computer link between the DMAS and the IFMS;<sup>10</sup> and (vi) training.

**c. Establishment of a goods and services management system (IGSMS)**

- 2.41 The objective of this component is to set up a framework to regulate the administration of State-owned goods and services, and to implement an efficient management system. The expected results are: (i) a legislative bill dealing with these topics; and (ii) an IGSMS for the integrated management of movable and real-estate assets owned by public-sector bodies.
- 2.42 The component will include the following activities: (i) preparation of a bill for the management of State goods and services; (ii) development of a goods cataloging, procurement, inventory and storage system; (iii) implementation of the system in public administration entities; (iv) informatics equipment; and (v) training.

**d. Support for the administration of incomes paid to retirees and other pensioners.**

- 2.43 The objective of this component is to modernize the system for administering incomes paid to retirees and other pensioners; this is obsolete and suffers from a high degree of administrative complexity and gives rise to irregularities in records and payments. The expected results are: (i) reorganization of the retirement and

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<sup>10</sup> The debt management and administration system (DMAS) was developed by UNCTAD to record and manage private, multilateral and bilateral public-sector debt.

pensions office; (ii) a screened database of retirees and other pensioners; (iii) a modern and transparent information technology system; and (iv) a payments system guaranteeing reliability and efficiency.

- 2.44 The component will include the following activities: (i) execution of an administrative audit; (ii) organizational and procedural study of the retirement and pensions office; (iii) implementation of a new organizational structure and redesigned functions; (iv) simplification of processes and procedures; (v) updating of databases; (vi) definition of source documents for retirement and other pension procedures; (vii) implementation of a payment system through the bank network; (viii) support in the area of informatics infrastructure; and (ix) training.

#### **4. Management and administration (US\$362,000)**

- 2.45 The management and administration expenses of the program relate to the hiring of consulting services and the procurement of the minimum necessary equipment to set up the program's executive unit (PEU), within the Finance Ministry.
- 2.46 Specifically, funding is expected to be provided for the following managerial and administrative expenses: (i) the PEU team, consisting of four consultants as follows: a general program coordinator, a finance and management specialist, a purchase and procurement specialist; an accounts clerk and a secretary, all to be hired under terms of reference previously agreed with the Bank. The expenses of the PEU team will be financed out of program resources (IDB and local counterpart funding).

#### **5. Concurrent costs (US\$674,700)**

- 2.47 The concurrent costs of the program relate to: (i) up to US\$554,700 needed to finance a Project Preparation and Execution Facility (PROPEF) operation. This was requested by the executing agency during the analysis mission in order to make a start on meeting the conditions precedent to the operation, and to organize and initiate execution; and (ii) up to US\$120,000 needed to hire external firms to carry out the annual program audits.

#### **D. Cost and financing modality**

- 2.48 The total cost of the operation has been estimated at US\$8,745,000. Bank funding is expected to amount to the equivalent of US\$6 million, from a basket of currencies from the Ordinary Capital. The Paraguayan government is expected to provide the balance, equivalent to US\$2,745,000. For the development and execution of the operation, the program envisages funding for consulting services to support institutional strengthening, training activities and procurement of informatics equipment. The program's consolidated budget is set out below, while detailed budgets for each subprogram are contained in the program's technical files.

Consolidated budget by component (in US\$ thousands)				
Budgetary category	IDB/OC	Local counterpart	Total	%
<b>1. Administrative strengthening, domestic taxation</b>	<b>2,124</b>	<b>859</b>	<b>2,983</b>	<b>34.1</b>
1. Consulting services	1,165	447	1,612	18.4
2. Equipment	685	311	996	11.4
3. Training	274	101	375	4.3
<b>2. Administrative strengthening, customs</b>	<b>1,016</b>	<b>403</b>	<b>1,419</b>	<b>16.2</b>
1. Consulting services	200	51	251	2.9
2. Equipment	586	267	853	9.8
3. Training	230	85	315	3.6
<b>3. Financial management strengthening</b>	<b>1,304</b>	<b>549</b>	<b>1,853</b>	<b>21.2</b>
1. Consulting services	727	336	1,063	12.2
2. Equipment	504	186	690	7.9
3. Training	73	27	100	1.1
<b>4. Management and administration</b>	<b>226</b>	<b>136</b>	<b>362</b>	<b>4.1</b>
1. Consulting services	216	136	352	4.0
2. Equipment	10	0	10	0.1
<b>5. Concurrent costs</b>	<b>674</b>	<b>0</b>	<b>674</b>	<b>7.7</b>
1. PROPEF	554	0	554	6.3
2. Program audit	120	0	120	1.4
<b>Contingencies</b>	<b>596</b>	<b>124</b>	<b>720</b>	<b>8.2</b>
<b>Subtotal</b>	<b>5,940</b>	<b>2,071</b>	<b>8,011</b>	<b>91.6</b>
<b>Financial costs</b>	<b>60</b>	<b>674</b>	<b>734</b>	<b>8.4</b>
1. Interest	0	611	611	7.0
2. Credit fee	0	63	63	0.7
3. Inspection and supervision (FIV)	60	0	60	0.7
<b>General total</b>	<b>6,000</b>	<b>2,745</b>	<b>8,745</b>	<b>100</b>
<b>%</b>	<b>69</b>	<b>31</b>	<b>100</b>	

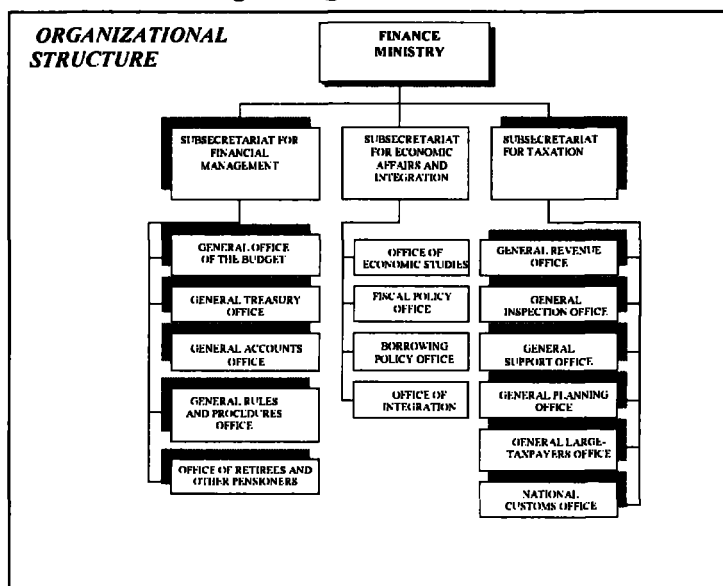


### III. PROGRAM EXECUTION

#### A. The borrower and the executing agency

3.1 The borrower in this program will be the Republic of Paraguay and the executing agency will be the Ministry of Finance, acting through the offices of the Subsecretariats of State for Financial Management and Taxation, the latter in particular operating through the National customs office.

3.2 The administration of national taxes is one of the functions of the Finance Ministry, whose organizational structure includes the Subsecretariat of State for Taxation (SSET). The SSET, set up under Law 109/91 has the job of enforcing and



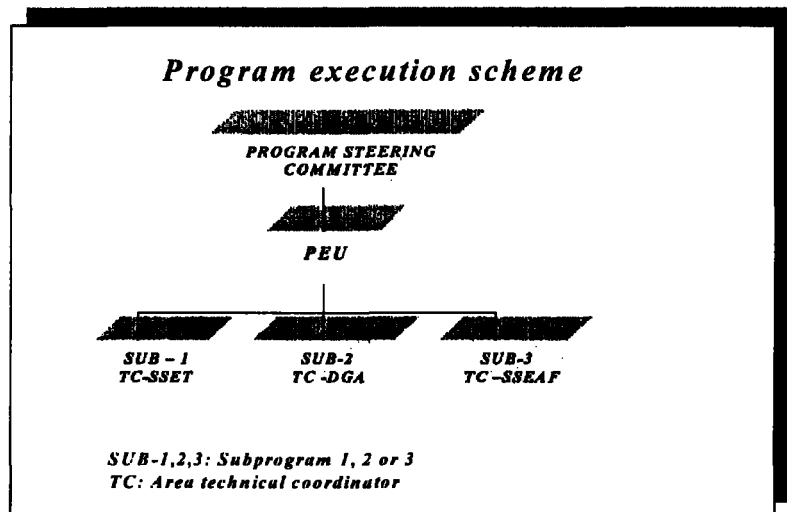
administering all legal provisions relating to the reception and inspection of both domestic and external taxes. For this purpose, as described above, it is structurally divided into six general offices each with their own advisory and administrative areas (see paragraph 1.11). The SSET has three levels of authority, the Subsecretary of State, the directors general and heads of department, with a total staff of 2,361, distributed as follows: 33% in the general revenue office; 13% in the general inspection office; 3% in the support office; 1% in the planning office; 7% in the general large-taxpayer office; 34% in the National Customs Office; and 8% in the Subsecretariat itself. The total budget of the SSET for 1999 amounted to 110,008 million guaraní.

3.3 The Subsecretariat of State for Financial Management (SSEAF) is the Finance Ministry unit which, under Law 109/91, is responsible for State financial management, covering budget, treasury and accountancy. In each of these areas, the SSEAF has a general office in charge of coordinating the regulations, systems and processes that comprise it (general offices of budget, treasury and accounting). The SSEAF also has a general rules and procedures office that oversees organizational matters, systems and methods; and it has a retirement and pensions office in charge of everything relating to payments to retirees and war veterans. The public-sector debt is also managed by the SSEAF through its public credit unit. The SSEAF has a total staff of 588.

- 3.4 The legal framework governing public-sector staff working at the Finance Ministry, as well as all other public administration staff, is currently under review. In this connection, the government has submitted a bill to congress, whose main purpose is to amend Law 200, which governs the public function, and make the legal relationship between the State and its staff more flexible. Among other things, passage of this bill would open up the possibility of modernizing the civil service and establishing a more flexible hiring system, as well as eliminating established rights and obligations that are not compatible with public-sector rationalization and reform. As far as the program is concerned, this process should help consolidate its human resource effort. The program is expected to help set up a career structure in the SSET, by adopting a new organizational and functional structure with a performance-related staff promotion policy.

## B. Program execution and administration

- 3.5 The task of overseeing the operation will be in the hands of a steering committee presided over by the Finance Minister and consisting of the Subsecretaries of State for Financial Management and Taxation and the director general of the customs service.<sup>11</sup>



- 3.6 In order to ensure adequate technical and administrative execution, a program executive unit (PEU) will be set up under the steering committee. The PEU will support program management and coordinate the activities to be carried out in each of the three subprograms. To fulfill its functions, the PEU will consist of a general coordinator, a purchase and procurement specialist, a finance and management specialist; an accounts clerk; and an executive secretary. **The following conditions precedent to disbursement of funds will apply: (i) the steering committee will have been established; and (ii) the PEU will have been set up, the general coordinator and purchase and procurement specialist both hired, and full-time appointments made for the rest of its staff in accordance with the profiles and terms of reference previously agreed with**

<sup>11</sup> The composition of the program steering committee is designed exclusively to allow for more streamlined program execution and ensure an even rate of progress in its three subprograms. The makeup of the committee will respect the hierarchical structure of the SSET, for which reason the DGA is one of its members.

**the Bank.** The terms of reference of PEU members are set out in the program's technical files.

- 3.7 The SSEAF, SSET and DGA will each appoint and/or hire technical coordinators responsible for supporting the PEU in running the activities in the respective subprograms (area technical coordinators). **As a condition precedent to disbursements, evidence will be provided that the SSEAF, the SSET, and the DGA have hired or appointed on a full-time basis the area technical coordinators responsible for coordinating their respective subprograms.** These coordinators will satisfy the job profile requirements and terms of reference previously agreed with the Bank, and will be appointed exclusively to support the program. The terms of reference for area technical coordinators are contained in the program's technical files.

**1. Program executive unit (PEU)**

- 3.8 The PEU, set up within the Finance Ministry will be responsible for program administration, and carry out the following main functions:

- a. Preparation of annual operating plans (AOP) for execution, and program progress reports.
- b. Opening and maintenance of separate bank accounts specifically for administering the proceeds of Bank and local counterpart funding;
- c. Obtaining the counterpart resources and dealing with requests for disbursement of funds in accordance with Bank procedures (including setting up and replenishing the revolving fund).
- d. Maintenance of a file containing support documentation for disbursement requests presented to the Bank.
- e. Preparation of program accounts for audit, and selection a firm of auditors to carry out the corresponding annual audit.
- f. Choosing a panel of consultants with help from the respective area technical coordinator (SSET, SSEAF, and DGA), and/or calling for proposals for professional services to be hired for in relation to program activities.
- g. Presentation, for the Bank's no objection, of the panel or proposed short lists of consulting firms, including the terms of reference and timetable for carrying out the activities and the anticipated cost in each case.
- h. Procurement and hiring of goods and services envisaged for executing the program;

- i. Paying for consulting services and/or goods procured for the program, and maintaining a record of program consultants and the corresponding financial receipts for subsequent recording and auditing by the entity responsible, as stipulated in the proposed loan contract.
- j. Coordination of execution of the subprograms; and
- k. Coordination with the Bank on activities relating to program execution, responding in a timely fashion to the corresponding Bank requirements.

## **C. Operational procedures**

### **1. Execution of subprograms**

- 3.9 The hiring of consulting services and the procurement of goods envisaged in the program, will originate from the terms of reference and/or technical specifications already drawn up and agreed with the Bank. The terms of reference for consulting services for the three subprograms, and the corresponding specifications, are included in the program's technical files.
- 3.10 Given the nature of the program, which aims to create a new management-by-results culture and support changes in service provision, the mechanism for executing the three subprograms has been designed so that the changes can be sustained over time, with annual performance indicators established for that purpose (paragraph 3.16). Continuity of funding for the activities proposed in each subprogram will depend on satisfactory results in the annual assessments, and on a sequence of tangible progress being made. Annex III-1 contains a table showing the proposed performance indicators.
- 3.11 The program will also support the preparation of annual management plans (AMP) for the offices and units dependent on each Subsecretariat. The AMPs will include targets and management commitments for each office or unit, and, where appropriate, will indicate how the performance indicators defined for the program are to be incorporated. In order to fully monitor the goals and objectives defined in each AMP, these will be reviewed every month by the director general and the Subsecretary of State responsible for the corresponding area, so as to identify progress and take the necessary steps to ensure full compliance. The cycle for preparing the AMPs will coincide with the program's respective annual operating plan (AOP).

### **2. Annual Operating Plans (AOP)**

- 3.12 In order to ensure adequate operational scheduling for the program, the PEU will define and prepare annual operating plans (AOP), assisted by the area technical coordinators. The AOPs will consist of a report or plan of activities for the calendar year, including: (i) projection of the number of activities to be carried out, the

corresponding execution timetable and respective costs; (ii) the program's aims and targets for the period; and (iii) financing needs for the period, indicating the most important milestones in the goals being pursued. **A condition precedent to disbursement of funds is that the AOP for the first year of execution will have been presented.** The AOPs for the second and third years of execution should be presented to the Bank within sixty days of the end of the preceding execution year. **As a special contractual condition for program execution, the executing agency is required to submit to the Bank the AOPs for years 2 and 3.**

#### **D. Monitoring and evaluation**

- 3.13 The success indicators defined in the logical framework will be used for monitoring and evaluating the program; fulfillment of the targets set in the AOPs will also be evaluated. Annex III- 2 contains the program's logical framework.

##### **1. Inspection and supervision**

- 3.14 The monitoring of each subprogram and general program oversight, based on the annual operating plans, are the responsibility of the PEU. Periodic meetings will be held for this purpose.
- 3.15 Throughout the execution period, six-monthly progress reports will be submitted to the Bank within sixty days following the end of the respective period. Each report will include a description of progress made in relation to the AOP, together with the results achieved on the program's performance and success indicators, explanations of deviations from established benchmarks and possible planning adjustments for the following six months.
- 3.16 From the IDB standpoint, supervision of program execution will be in the hands of the Bank's representation in Paraguay, supported by technical oversight missions organized by the project team. A joint evaluation meeting will be held each year between the program steering committee, the PEU, and the Bank's project team. Discussion at this meeting will focus on fulfillment of the program's operating plan for the previous year. The performance indicators for each subprogram will also be assessed, in order to determine continuity of support and the anticipated flow of funds; and the following year's AOP will be defined on the basis of a draft plan updated each year by the PEU. Funding can be reallocated between subprograms as necessary, as a result of these annual assessments. **As a special contractual condition for program execution, the executing agency, acting through the PEU, is required to report to the Bank on the performance indicators agreed for each subprogram 30 days before the end of the current execution year.**

##### **2. Audit and control**

- 3.17 During the program execution period, the borrower is required to file audited financial accounts of the program, not later than 120 days after the end of the

corresponding accounting year. These financial accounts will be audited by an independent firm of public accountants acceptable to the Bank. The costs of such audits will be met out of the proceeds of Bank funding.

### **3. Ex post evaluation**

- 3.18 In accordance with Bank policies, the executing agency was consulted about the possibility of carrying out an ex post assessment of the program, but the response was negative. Nevertheless, the Bank team will ensure that, during program execution, the executing agency will receive a series of reports (AOPs, consultancy reports, specific evaluations, progress reports) plus the results of monitoring the logical framework indicators, to enable the Bank to make an ex post evaluation, if considered appropriate.

#### **E. Procurement of goods and services**

- 3.19 The procurement of goods and the hiring of consulting services will be carried out in accordance with Bank procedures. When the value of goods to be acquired is equal to or greater than US\$250,000, or when the value of services to be hired is equal to or greater than US\$200,000, procurement will be by international public bidding. The procurement table is included as Annex III-3.

#### **F. Recognition of expenses**

- 3.20 During the analysis mission, the Finance Ministry authorities asked the Bank to recognize up to US\$200,000 worth of expenses against the program's local counterpart funding, in order to make progress in complying with the conditions precedent to the operation, and also initiate the execution process. Expenses would be incurred as from 1 April 2000, and until the date on which the Executive Board of the Bank approves the program loan, always providing these two dates are not more than 18 months apart. Given that the expenses to be recognized form part of the program design and will be carried out in accordance with the terms of reference and specifications agreed with the authorities during the analysis mission, and given that the procurement procedures to be applied are substantially similar to those of the Bank, the project team recommends such expenses be recognized.

#### **G. Revolving fund**

- 3.21 A revolving fund will be established for program execution, using a special bank account opened in the name of the program. Given the considerable number of hirings and simultaneous payments to be made according to a schedule of critical deadlines, it is proposed to establish a revolving fund for up to 10% of the Bank's contribution, in order to ensure adequate availability of resources for executing the program. This is also a technical cooperation loan.

**H. Period of execution and disbursement timetable.**

- 3.22 The program's execution period will be three years, with the deadline for final disbursement of the operation set at three years and six months, both periods being measured from the date on which the loan contract comes into force. The disbursement schedule for each subprogram is shown below.

<b>Disbursement timetable by year of execution in US\$ thousands</b>				
<b>Source of funding by component</b>	<b>Total</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3 and 6 months</b>
<b>Strengthening of domestic tax administration</b>	2,983	1,422	896	665
1. IDB	2,124	984	654	486
2. Counterpart	859	438	242	179
<b>Strengthening of DGA</b>	1,419	797	433	189
1. IDB	1,016	587	299	130
2. Counterpart	403	210	134	59
<b>Strengthening of SSEAF</b>	1,853	901	729	223
1. IDB	1,304	609	532	163
2. Counterpart	549	292	197	60
<b>Program management and administration</b>	362	127	117	118
1. IDB	226	82	72	72
2. Counterpart	136	45	45	46
<b>Current costs</b>	674	594	40	40
1. IDB	674	594	40	40
2. Counterpart	0	0	0	0
<b>Contingencies</b>	720	239	240	241
1. IDB	596	198	199	199
2. Counterpart	124	41	41	42
<b>Financial expenses</b>	734	115	244	375
1. IDB	60	20	20	20
2. Counterpart	674	95	224	355
<b>Total</b>	8,745	4,195	2,699	1,851
1. IDB	6,000	3,074	1,816	1,110
2. Counterpart	2,745	1,121	883	741

#### **IV. VIABILITY, BENEFITS AND RISKS**

##### **A. Institutional and financial viability of the program**

- 4.1 The program has been designed strictly in accordance with the mission and functions in the competency of the executing agency. Thus, all activities to be carried out are consistent with the tasks that correspond to the different offices and units of the Finance Ministry Subsecretariats. Moreover, the content and scope of program activities, have been designed with active participation from, and consultation with the staff that will take part in executing the components in their respective offices and units, having verified their capacity to direct and monitor execution of the operation. In this way, the program has the necessary "ownership" to guarantee a good level of acceptance and implementation.
- 4.2 The two Finance Ministry Subsecretariats involved in executing the operation have also been recipients of previous IDB technical assistance projects, so both have staff that are familiar with the execution and administration of this type of operation, which will make it easier to execute the program. Nonetheless, during program analysis it was found necessary to strengthen the proposed program executive unit. As this mainly consists of staff from the executing agency assigned full-time to the operation, an individual consultant of international standing and wide-ranging administrative and technical experience in this type of operation will be brought on to its management team to oversee its functional efficiency and operational coordination.
- 4.3 The financial viability of the program has been assessed in the light of the capacity of the Finance Ministry to make available the necessary counterpart resources for executing the operation. Finance ministry budgetary forecasts for the current tax year, and for the following two (2001-2002), include additional resources to provide for the counterpart funds in accordance with the disbursement timetable, amounting to US\$2,745,000 over three years, of which US\$674,000 is expected to be earmarked for interest payments and other financial expenses of the proposed loan.

##### **B. Environmental and social impact**

- 4.4 The program was reviewed by the Bank's Environment and Social Impact Committee (CESI) at its meeting of 20 December 1999, where it was decided that the program would not result in negative environmental impacts, but would have a direct positive social impact. In accordance with CESI recommendations, the customs administration subprogram includes staff training in areas related to the enforcement of restrictions on trade in endangered species and cultural heritage assets, as established in local laws and international treaties.



## **C. Benefits**

- 4.5 The program will directly support the process of economic stabilization in Paraguay by enhancing fiscal management, which in turn will help to reduce fiscal imbalance.
- 4.6 The operation will also help to broaden the base of active taxpayers and reduce evasion of taxes and foreign trade duties; this will increase the effectiveness and equity of government fiscal policy by making it possible to increase tax revenue mainly through better inspection of, and fuller compliance by large taxpayers, without the need to raise tax and tariff rates. The program is also expected to help improve the public image of the tax and customs administrations, by promoting a series of activities involving taxpayer assistance, diffusion, and improvements in import and export procedures; these should result in higher levels of voluntary tax compliance.
- 4.7 Lastly, the program will help increase transparency and reduce corruption in fiscal management, by adopting control mechanisms and implementing anti-corruption practices. Program activities to this end are expected to enhance the credibility of public administration and lead to higher revenue collection. Table 6 shows the main actions of the program in support of greater transparency.

**Table 6. The program's contribution to greater transparency in fiscal administration**

- Establishment of an internal audit unit in the SSET.
- Establishment of taxpayer assistance units, including mechanisms for hearing complaints.
- Implementation of external communication mechanisms for publicizing the work of the SSET (budgetary execution, inspection activities, etc.).
- Establishment of monitoring procedures for scheduling, executing and evaluating inspection activities.
- Implementation of systems audit and security mechanisms to protect data integrity and ensure transparency in automated procedures.
- Elimination of discretionary behavior in customs administrations, by incorporating all import and export procedures into the SOFIA computer system.
- Implementation of random systems for selecting merchandise (imports) for inspection, based on risk analysis programs.

## **D. Risks**

- 4.8 The success of the program will depend on significant improvements being made in the organizational and functional structure of fiscal management agencies, and this will clearly depend on the political will of the Government of Paraguay. The Minister of Finance, backed by the Subsecretaries of State at the SSET and SSEAF, and the DGA director, have all given the program a top-priority rating and shown full support for it. The fact that approval for new funding commitments is contingent on achieving tangible progress will also help to mitigate the potential risk of a lack of political support (paragraphs 3.10 and 3.11).
- 4.9 Another potential risk is resistance to change on the part of some SSET, DGA and SSEAF staff members. In order to minimize this, the program includes organizational development together with training components and activities. These will seek, among other things, to explain and underpin the need for, and nature of the organizational and functional changes to be introduced, while also making staff

at different levels of the fiscal management agencies feel that they are participants in the institutional strengthening process. Apart from this, diffusion activities are envisaged to keep staff at all levels up-to-date and involved as regards the goals and achievements of the program's sequential targets, while also keeping the taxpayer informed on the progress of reforms in sector.

- 4.10 Furthermore, implementation of the program might be delayed as a result of political changes, particularly deriving from the process currently underway to choose the Vice President of Republic, the election for which is scheduled for August this year. This risk ought to be mitigated by preventive measures taken to initiate the operation using funds from the Project Preparation and Execution Facility (PROPEF), and with resources the executing agency has already committed that would be recognized once the corresponding loan contract comes into effect (paragraph 3.20).
- 4.11 Lastly, failure to pass the bill to amend Law 200 (Public Service Act) would pose a risk for the medium term since it hinders the deepening of the incremental improvements that the program would be introducing to develop a professional career path. With the passage of the reform bill, the program activities in support of the new organizational structures with descriptions of functions, positions, and professional profiles as well as the human resources policy on performance-based promotion will make it possible to carry out a rationalization and reform of the public sector. At the present time, the Ministry of Finance is in charge of coordinating the integrated human resources management system, which centralizes information on public servants, standardization of payment system (through the banking network) and computerization of pension records and procedures.

**PERFORMANCE INDICATORS TO BE EVALUATED FOR EACH SUBPROGRAM**

<b><u>I. ADMINISTRATION – DOMESTIC TAXES</u></b>		<b><u>II. TAX ADMINISTRATION - CUSTOMS</u></b>		<b><u>III. FINANCIAL MANAGEMENT</u></b>	
<b>INDICATOR</b>	<b>EXPECTED COMPLIANCE</b>	<b>INDICATOR</b>	<b>EXPECTED COMPLIANCE</b>	<b>INDICATOR</b>	<b>EXPECTED COMPLIANCE</b>
Annual plans prepared with specific targets for inspection to measure the degree of achievement.	<i>First Year</i>	New organizational structure designed containing descriptions of functions, posts and staff profiles.	<i>First Year</i>	Short-, medium- and long-term budgetary planning mechanisms established.	<i>First Year</i>
Plans of medium and small-scale projects more than one month out of the ground.	<i>First Year</i>	Rules of origin units set up and operating.	<i>First Year</i>	Budgetary evaluation mechanisms implemented.	<i>First Year</i>
Planning and monitoring record	<i>First Year</i>	Customs processes and forms simplified and redesigned to allow new technology to be applied.	<i>First Year</i>	Directives, systems and procedures in force for the administration of public credit.	<i>First Year</i>
Systems interconnected with other public agencies, in order to improve the effectiveness of the process.	<i>First Year</i>	Central and local units (6) of the evaluation service organized, with the technical capacity to implement a new valuations system.	<i>First Year</i>	Goods and services management bill drafted and submitted to congress.	<i>First Year</i>
Control system implemented.	<i>First Year</i>	Export regime, plus special and suspensive customs regimes incorporated into the "SOFIA" system.	<i>First Year</i>	New organization and functions established for the retirement and pensions office.	<i>First Year</i>
System for VAT control implemented.	<i>Second Year</i>	Customs services at Pedro Juan Caballero, Saltos del Guaira, and Mariscal Estigarribia interconnected under the SOFIA system.	<i>First Year</i>	IFMS administrative manuals prepared.	<i>Second Year</i>
Dealing with taxpayer complaints to publicize tax issues and improve the process.	<i>Second Year</i>	New customs code regulated.	<i>Second Year</i>	Debt recording and control processes effective and up-to-date.	<i>Second Year</i>
Control system implemented through the bank network and public credit.	<i>Second Year</i>	Management control system implemented.	<i>Second Year</i>	Methodology designed for the preparing, executing, evaluating and monitoring programs financed with public credit.	<i>Second Year</i>

**PERFORMANCE INDICATORS TO BE EVALUATED FOR EACH SUBPROGRAM**

<b><u>I. ADMINISTRATION – DOMESTIC TAXES</u></b>		<b><u>II. TAX ADMINISTRATION – CUSTOMS</u></b>		<b><u>III. FINANCIAL MANAGEMENT</u></b>	
<b>INDICATOR</b>	<b>EXPECTED COMPLIANCE</b>	<b>INDICATOR</b>	<b>EXPECTED COMPLIANCE</b>	<b>INDICATOR</b>	<b>EXPECTED COMPLIANCE</b>
Manuals developed to support tax collection and control printing	Second Year	Manuals and procedures implemented for the different GCB units.	Second Year	IGSMS implemented in public administration agencies.	Second Year
Measures implemented to control self-declarations.	Second Year	Risk analysis program implemented to enhance inspection work.	Second Year	Simplified processes designed and implemented; including retirement and other pensions paid through the bank network.	Second Year
Organizational structure and functions of the various general offices of the GCB	Third Year	Laboratory for the chemical analysis of merchandise set up and operating.	Second Year	IFMS implemented in decentralized bodies.	Third Year
Measures in charge of tax collection and customs duties integrated in terms of communication and timely information.	Third Year	Annual inspection programs containing previously projected targets fulfilled.	Third Year	IFMS informatics applications developed and implemented for regional governments.	Third Year
Measures extended and implemented in the four main departmental offices	Third Year	400 trade agents (customs agents, transport operators, warehouse operators and banks) incorporated into the SOFLA system.	Third Year	Training program executed for SSEAF staff and IFMS users.	Third Year
Measures to ensure security mechanisms and safeguard data integrity.	Third Year	Training program executed for 450 GCB staff.	Third Year		
Measures implemented in methodologies and procedures by economic sector and in modern audit techniques.	Third Year				

**LOGICAL FRAMEWORK  
STRENGTHENING OF FISCAL MANAGEMENT (PR-0115)**

PTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
to fiscal balance, as well as greater efficiency in public administration.	<ul style="list-style-type: none"> <li>To increase the tax burden to 12% of GDP by the end of the program, in accordance with government targets.</li> <li>Greater transparency and control of tax functions and less discretion in fiscal management processes.</li> </ul>	<ul style="list-style-type: none"> <li>Official publication of fiscal statistics.</li> <li>Surveys of satisfaction levels among taxpayers and users of the customs system.</li> </ul>	Political will to press ahead with administrative reforms and systems and procedures of the program.
e efficiency of domestic tax, customs and administration, in terms of broadening of the tax in tax collection and greater transparency and e management of public resources.	<ul style="list-style-type: none"> <li>Increase in the number of active taxpayers as compared to 1999.</li> <li>Operating cost of domestic tax and customs administration to be no more than 4.5% of revenue collected by the end of the program.</li> <li>New tax regulation to improve mechanisms for repaying tax credits and controlling invoice printing.</li> <li>Adoption of a new functional organic structure, simplification and optimization of all processes and procedures, and a performance-related human resource management policy in all SSET offices.</li> <li>Reduction of time taken to update current accounts of medium and small-scale taxpayers.</li> <li>Integrated tax information system capable of processing information rapidly, leading to greater efficiency in the planning, collection and control of taxes.</li> <li>Increase in the coverage of inspection activity, in terms of frequency and the number of taxpayers audited.</li> <li>Updated legal framework for the customs service.</li> </ul>	<ul style="list-style-type: none"> <li>Finance Ministry decrees and resolutions.</li> <li>Periodic program monitoring reports.</li> <li>Results of SSET and SSEAF budgetary execution.</li> <li>Financial reports.</li> <li>Reports on the results of tax and customs administration control systems.</li> </ul>	<p>Maintenance of political availability of human resources and adequate technical assistance implementing the program.</p> <p>Resistance to organizational change to be overcome.</p>

PTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>• Greater efficiency in the inspection of trade agents.</li> <li>• Extension of the SOFIA computer system to all customs services in the country.</li> <li>• Preparation and implementation of annual training programs in the SSET and GCB areas.</li> <li>• IFMS extended to and implemented in regional governments and decentralized bodies of the nonfinancial public sector.</li> <li>• Public credit system reviewed, optimized and computerized.</li> <li>• Goods management system designed and implemented, including regulatory framework.</li> <li>• Retirement and other pension administration processes and systems reviewed and optimized.</li> </ul>		
<p><b>AMS</b></p> <p>ening of domestic tax administration.</p> <p>tations.</p>	<ul style="list-style-type: none"> <li>• Review of resolutions and decrees relating to the repayment of tax credits (month 18).</li> <li>• Extension of bank guarantee periods on tax credits to exporters (month 18).</li> <li>• Modification of the invoice printing system for VAT control purposes (month 18).</li> <li>• Support for the design and regulation of a future personal income tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Ministry decrees and resolutions.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of po for implementing t</li> <li>• The SSET has the financial resources technical assistance out the program.</li> <li>• Existence and avai qualified consultin</li> <li>• Resistance to chan</li> </ul>
<p>tional development</p>	<ul style="list-style-type: none"> <li>• Adoption of new organizational structures and functions in the different offices (month 30).</li> <li>• Integration of the different operational areas responsible for tax collection and control of liabilities, in terms of effective communication and timely delivery of information (month 27).</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Ministry decrees and resolutions.</li> <li>• Organization chart and tax administration procedural manuals.</li> </ul>	

PTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>• Implementation of a management control system (month 12).</li> <li>• Special unit for dealing with taxpayer queries, and design of programs to publicize relevant tax issues (month 18).</li> </ul>	<ul style="list-style-type: none"> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> <li>• Annual management operating plans of SSET offices.</li> </ul>	
ection and control of liabilities	<ul style="list-style-type: none"> <li>• Time needed to update medium and small-scale taxpayer current accounts reduced to longer than 1 month (month 12), and no longer than 15 days (month 24).</li> <li>• More effective system for collecting taxes through the bank network (month 12).</li> <li>• Review and redesign of sworn declaration forms (month 18).</li> <li>• Implementation of system for the control and monitoring of record files (month 12).</li> </ul>	<ul style="list-style-type: none"> <li>• Statistics on revenue collection from medium and small-scale taxpayers, and through the bank network.</li> <li>• New forms for making sworn declarations.</li> <li>• Reports on the resolution of complaint files.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> <li>• Annual management operating plans of the SSET offices of revenue, large taxpayers and support.</li> </ul>	
ion technology	<ul style="list-style-type: none"> <li>• Implementation and extension of information systems to the four main departmental capitals (month 36).</li> <li>• Implementation of audit systems and security mechanisms to protect data integrity (month 25).</li> <li>• Development of support modules for inspection activity and for the control of printing presses (month 24).</li> <li>• Interconnection with GCB information systems and those of other public bodies through the metropolitan network (month 12).</li> </ul>	<ul style="list-style-type: none"> <li>• Reports on tax collection from departmental capitals.</li> <li>• Reports from systems auditors.</li> <li>• Online access to GCB information.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> <li>• Annual management operating plans of the SSET general support office.</li> </ul>	

OBJECTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
For inspection work	<ul style="list-style-type: none"> <li>• Implementation of a system for controlling self-declaration (month 18).</li> <li>• Development and implementation of an automated system for controlling withholding agents (month 18).</li> <li>• Design and improvement of procedures for streamlining the permanent control of taxpayers (month 12).</li> <li>• Preparation of systematic quarterly and annual action plans with quantitative targets, for inspection activities and achievement monitoring (month 12).</li> <li>• All auditors of the GCB trained in methodologies for analyzing taxpayers by economic sector and tax type, and in modern audit techniques (month 30).</li> </ul>	<ul style="list-style-type: none"> <li>• Reports on data matching with external bodies.</li> <li>• Procedural manuals of the general inspection office.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> <li>• Annual management operating plans of the GCB.</li> </ul>	
	<ul style="list-style-type: none"> <li>• Training for at least 75% of managerial and operational staff in aspects of planning, organization and methods, use of tax information systems, and specific technical issues such as: legislation, inspection and audit and taxpayer assistance (month 36).</li> </ul>	<ul style="list-style-type: none"> <li>• List of registration and participation by staff on courses and seminars.</li> <li>• Review of technical content of courses and seminars.</li> <li>• Evaluation of the training received by participants.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	
Strengthening the customs regulations	<ul style="list-style-type: none"> <li>• New customs code bill (month 15).</li> <li>• Regulation of customs code (month 20).</li> </ul>	<ul style="list-style-type: none"> <li>• Document relating to customs code bill, and note of its dispatch to congress.</li> <li>• Regulatory decree.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Political will and in part of the authorities to update the customs code to the timely manner.</li> </ul>



BRIEF SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Organizational development and human resource management	<ul style="list-style-type: none"> <li>• Design of new organizational structure including descriptions of functions, posts and staff profiles (month 6).</li> <li>• Management control system implemented (month 15).</li> <li>• Rules of origin unit set up and operating (month 8).</li> <li>• Function manual (month 12).</li> <li>• Administrative career structure proposal, including rules on staff recruitment, selection and promotion (month 12).</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Ministry decree and resolutions.</li> <li>• Organization chart and operational manuals of customs administration.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	
Simplification of processes	<ul style="list-style-type: none"> <li>• Simplification of all customs processes, and the redesign of forms for applying new technology (month 12); and</li> <li>• Preparation of procedural manuals (month 18).</li> </ul>	<ul style="list-style-type: none"> <li>• Corresponding internal regulations.</li> <li>• Procedural manuals.</li> <li>• New forms.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	
Valuation	<ul style="list-style-type: none"> <li>• Valuation system implemented so as to allow full application of GATT Article VII (month 8);</li> <li>• Central and local units (6) of valuation service, technically equipped to apply a new valuation system (month 7).</li> <li>• Risk-analysis program to improve inspection activities implemented (month 15).</li> <li>• Technical library (web pages and intranet), operating (month 6).</li> </ul>	<ul style="list-style-type: none"> <li>• Corresponding legal provisions.</li> <li>• Review of statistics on valuation adjustment and its effect on revenue.</li> <li>• Access to web page.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	

PTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
customs administration	<ul style="list-style-type: none"> <li>• Annual inspection programs with previously projected targets prepared in months 2, 12 and 24.</li> <li>• Policies for selecting taxpayers for inspection (month 12).</li> <li>• Data analysis and processing unit established in the management audit area (month 12).</li> <li>• Risk assessment programs developed to improve "<i>a posteriori</i>" controls (month 12).</li> <li>• Laboratory for the chemical analysis of merchandise installed and operating (month 13).</li> </ul>	<ul style="list-style-type: none"> <li>• Annual inspection plans.</li> <li>• Policy document on selecting taxpayers for inspection.</li> <li>• Inspection visits.</li> <li>• Six month progress reports.</li> <li>• Annual operating plans.</li> </ul>	
on technology	<ul style="list-style-type: none"> <li>• Export regime, and special and suspensive customs regimes all incorporated into the "SOFIA" system (month 12).</li> <li>• Treatment of guarantees, fiscal credits and value control all incorporated into the SOFIA system (month 18).</li> <li>• Customs units at Pedro Juan Caballero, Saltos del Guaira, and Mariscal Estigarribia interconnected in the SOFIA system (month 12).</li> <li>• 400 trade agents (customs agents, transport operators, warehouse operators and banks) incorporated into the SOFIA system (month 36).</li> <li>• Technical-operational manuals for running the SOFIA system (month 18).</li> </ul>	<ul style="list-style-type: none"> <li>• Reports from systems auditors.</li> <li>• Verification of online connection.</li> <li>• Technical and operational manuals.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	

PTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>• Annual training programs prepared by month 2, 12 and 24.</li> <li>• 3 courses (1 per year) to develop planning, leadership, oversight and management capacity among managerial staff in the customs service (48 staff).</li> <li>• 24 courses (8 each year) on tariff classification, valuation, merchandise recognition, rules of origin, inspection of travelers luggage, laws and regulations relating to customs issues, audit of customs work (450 staff).</li> <li>• 12 courses (3 each year) to provide general support for operating computer systems, dealing with the public and languages (300 staff).</li> <li>• Participation by 15 staff (5 each year) in courses and seminars given by the World Customs Organization (WCO), and six internships for staff in foreign customs services (2 per year).</li> </ul>	<ul style="list-style-type: none"> <li>• List of registration and participation by staff on courses.</li> <li>• Technical content of training activities.</li> <li>• Evaluation of training received by participants.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	
<p>ing of the SSEAF</p> <p>ent and expansion of the IFMS</p>	<ul style="list-style-type: none"> <li>• Short, medium and long-term budgetary planning mechanisms established (month 5).</li> <li>• Budget drafting process updated (month 5).</li> <li>• Budgetary evaluation mechanisms implemented (month 12).</li> <li>• Treasury instruments modernized (month 6).</li> <li>• Accounting plans updated (month 6).</li> <li>• Administrative manuals prepared (month 18);</li> <li>• IFMS implemented in decentralized agencies (month 30).</li> <li>• National communications network implemented (month 30).</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Ministry resolutions.</li> <li>• Budget drafting manuals prepared and approved.</li> <li>• Evaluation manuals prepared and approved.</li> <li>• Manuals approved.</li> <li>• On-site review.</li> <li>• Report on training activities.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate coordination of departmental government authorities.</li> <li>• Regulation of the Financial Management Act.</li> </ul>

BRIEF SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>• Computer applications for regional governments developed and implemented (month 30).</li> <li>• Information technology infrastructure upgraded (month 6); and</li> <li>• SSEAF staff and IFMS users trained (month 30).</li> </ul>		
Development of public credit system	<ul style="list-style-type: none"> <li>• Directives, systems and procedures developed (month 6).</li> <li>• Methodologies designed for program preparation, execution, evaluation and monitoring (month 12).</li> <li>• Processes of debt recording and control strengthened (month 14).</li> <li>• Strategy developed to support institutional project executive units (month 12).</li> <li>• DMAS-IFMS link operating (month 6).</li> <li>• Staff trained (month 12).</li> </ul>	<ul style="list-style-type: none"> <li>• Manuals approved.</li> <li>• On-site review.</li> <li>• Training reports.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate regulation of Financial Management</li> <li>• UNCTAD support for development of a D interface.</li> </ul>
Development of goods and services management system	<ul style="list-style-type: none"> <li>• Goods and services management bill drafted and submitted to congress (month 6).</li> <li>• System implemented for cataloging, procurement, inventory and storage of goods (month 12).</li> <li>• IGSMIS implemented in public administration agencies (month 15).</li> <li>• Informatics infrastructure strengthened (month 12).</li> <li>• staff training (month 12).</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative bill and note of dispatch to congress.</li> <li>• On-site review.</li> <li>• Training reports.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Timely dispatch of</li> </ul>

PTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
for the administration of incomes paid to and other pensioners	<ul style="list-style-type: none"> <li>• Management audit carried out (month 3).</li> <li>• Processes and organization analyzed (month 6).</li> <li>• New organization and functions implemented in the retirement and pensions office (month 6).</li> <li>• Simplified processes designed and implemented (month 15).</li> <li>• Databases updated (month 12).</li> <li>• Payments made through the banking network (month 15).</li> <li>• Procedural source documents identified (month 6).</li> <li>• Information technology infrastructure modernized (Month 12).</li> <li>• Staff trained (month 15).</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Ministry resolution.</li> <li>• Audit report</li> <li>• On-site review.</li> <li>• Training reports.</li> <li>• Six-month progress reports.</li> <li>• Annual operating plans.</li> </ul>	

**PROGRAM TO STRENGTHEN FISCAL MANAGEMENT (PR-0115)**  
**PROCUREMENT PLAN**

COMPONENTS AND ACTIVITIES	Amount US\$ x 1000	Type of bidding	Estimated date
<b>1. STRENGTHENING OF SSET</b>			
(i) Tax regulations			
-Consulting services			
*Various consultants (6 months)	30	SPP	2000
(ii) Organizational development			
-Consulting services			
*Specialist firm/organization	445	ICP	2000
(iii) Tax collection and control of liabilities			
-Consulting services			
*Specialist firm/organization	252	ICP 1	2000
(iv) Information technology			
-Purchase of office hardware and software (+ training)	996	ICB	2000
-Consulting services			
Consultant expert in tax information systems	117	ICP 1	
*Individual consultants domestic tax info. systems dev. (9)	608	SPP	2000
(v) Inspection			
-Consulting services			
*Individual consultants (2)	156	ICP 1	
(vi) Training			
-Consulting services			
*Individual consultants (1)	78	ICP 1	2000
-Teaching material	75	SPP	2000-2003
-Courses and workshops (45)	300	CPN	2000-2003
<b>SUBTOTAL COMPONENT 1</b>	<b>3057</b>		
<b>2. STRENGTHENING OF DGA</b>			
(i) Customs regulations			
-Consulting services			
*Individual consultants (1)	16	SPP	2000
(ii) Organizational development and human resource management			
-Consulting services			
Individual consultants (3)	44	SPP	2000
(iii) Re-engineering of processes			
-Consulting services			
*Individual consultants (1)	20	SPP	2000
(iv) Valuation			
-Consulting services			
*Individual consultants (1)	21	SPP	2000
(v) Customs administration audit			
-Consulting services			
*Individual consultants (2)	36	SPP	2000

**PROGRAM TO STRENGTHEN FISCAL MANAGEMENT (PR-0115)**  
**PROCUREMENT PLAN**

COMPONENTS AND ACTIVITIES	Amount US\$ x 1000	Type of bidding	Estimated date
(vi) Information technology			
-Consulting services			
*Individual consultants: Information systems experts (4)	78	SPP	2000
-Purchase of office hardware and software (+ training)	618	LPI	2000
-Purchase of laboratory equipment	75	LPN	2001
-Purchase of X-ray machines (4)	160	LPN	2001
(vii) Training			
-Consulting services			
*Individual consultants (1)	12	CPN	2000-2002
-Teaching material	50	SPP	2000-2003
-Courses and workshops (45)	243	CPN	2000-2003
SUBTOTAL COMPONENT 2	1373		
<b>3. STRENGTHENING OF FINANCIAL MANAGEMENT</b>			
(i) Strengthening and expansion of the IFMS			
-Consulting services			
Consult. Budgetary programming	58.5	SPP	2000
Consult. Departmentalized budget	58.5	SPP	2000
Consult. Budgetary evaluation and control	58.5	SPP	2000
Consult. Treasury (2 consultants)	30	SPP	2000
Consult. Accountancy	15	SPP	2000
Consult. IFMS Informatics (2 consultants)	30	SPP	2000
Consult. Organization and methods (2 consultants)	36	SPP	2000
Consult. Regional governments and municipios (5 consultants)	150	SPP	2000
Consult. Communications	48	SPP	2000
Systems engineer (2 consultants)	72	SPP	2000
(ii) Development of public credit system			
-Consulting services			
Consult. Public credit informatics systems (2 consultants)	30	SPP	2000
(iii) Development of goods and services management system (IGSMS)			
-Consulting services			
Consult. Regulatory framework	21	SPP	2000
Consult. Goods and services management system	18	SPP	2000
Consult. Informatics systems	30	SPP	2000
(iv) Retirement and Pension system			
-Consulting services			
Management audit consulting firm	70	LCP	2000
Informatics systems consultant	17.5	SPP	2001
(v) General categories			
-Consulting services			
Program coordinator	255	SPP	2000
Various consultants	125	SPP	2001
-Computer equipment			
Computer equipment first purchase	600	LPN	2000
Computer equipment second purchase	90	LPN	2001
-Training			
Training material, courses and workshops I	20	SPP	2000

**PROGRAM TO STRENGTHEN FISCAL MANAGEMENT (PR-0115)**  
**PROCUREMENT PLAN**

COMPONENTS AND ACTIVITIES	Amount US\$ x 1000	Type of bidding	Estimated date
Training material, courses and workshops II	40	SPP	2001
Training material, courses and workshops III	40	SPP	2002
- Other Items	120		
SUBTOTAL COMPONENT 3	2033		
PROGRAM TOTAL	6463		

1. This service will be procured as a single package through a consulting firm and/or specialized agency.

SPP = Standard IDB Procurement Procedure (individual consultants)

LCP = Local call for proposals - Consulting firms, for amounts under US\$200,000

ICP = International call for proposals - Consulting firms, for amounts above US\$200,000

ICB = International competitive bidding, for amounts above US\$250,000



**PROPOSED RESOLUTION**

**PARAGUAY. LOAN FOR TECHNICAL COOPERATION /OC-PR  
TO THE REPUBLIC OF PARAGUAY  
(Fiscal Administration Strengthening and Modernization Program)**

**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 a Fiscal Administration Strengthening and Modernization Program. Such financing will be for the amount of up to six million dollars (US\$6,000,000), or its equivalent in other currencies, except that of that of the Republic of Paraguay, which are part of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.