

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PARAGUAY**

**PROGRAM TO SUPPORT THE TRANSPARENCY AGENDA IN PARAGUAY**

**(PR-L1161)**

**LOAN PROPOSAL**

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Proposed resolution

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Annex II	Policy Matrix
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1.	<a href="#">Policy letter</a>
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<b>OPTIONAL</b>	
1.	<a href="#">Technical assistance on transparency and integrity in Paraguay</a>
2.	<a href="#">Literature review of sector knowledge</a>
3.	<a href="#">Sector diagnostic assessments and reports for Paraguay</a>
4.	<a href="#">Main international instruments on transparency and integrity</a>
5.	<a href="#">Paraguay: Una mirada a la corrupción y a la transparencia</a>

## ABBREVIATIONS

AML/CFT	Anti-money Laundering/Countering the Financing of Terrorism
CSO	Civil society organization
DEM	Development Effectiveness Matrix
DNCP	Dirección Nacional de Contrataciones Públicas [National Public Contracting Directorate]
ECG	Evaluation Cooperation Group
FATF	Financial Action Task Force
GAFILAT	Grupo de Acción Financiera de Latinoamérica [Financial Action Task Force of Latin America]
GAFISUD	Grupo de Acción Financiera de Sudamérica [Financial Action Task Force for South America]
LIBOR	London Interbank Offered Rate
OECD	Organisation for Economic Co-operation and Development
PBP	Programmatic policy-based loan
PEP	Politically exposed person(s)
SENAC	Secretaría Nacional Anticorrupción [National Anticorruption Secretariat]
SEPRELAD	Secretaría para Prevención del Lavado de Activos [Secretariat for the Prevention of Asset Laundering]
SICP	Sistema de Información de las Contrataciones Públicas [Public Procurement Information System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]

## PROGRAM SUMMARY

### PARAGUAY PROGRAM TO SUPPORT THE TRANSPARENCY AGENDA IN PARAGUAY (PR-L1161)

Financial Terms and Conditions					
Borrower			Flexible Financing Facility <sup>(a)</sup>		
Republic of Paraguay			Amortization period:	20 years	
Executing agency			Disbursement period:	2 years	
Ministry of Finance, through the Debt Policy Directorate			Grace period:	5.5 years <sup>(b)</sup>	
Source	Amount (US\$)	%	Interest rate:	LIBOR-based	
IDB (Ordinary Capital):	90 million	100	Credit fee:	(c)	
			Inspection and supervision fee:	(c)	
Total:	90 million	100	Weighted average life:	12.57 years	
			Approval currency:	United States dollar	
Program at a Glance					
<b>Program objective/description:</b> The program's objective is to contribute to greater transparency in Paraguay by improving efficiency: (i) in access to public information; (ii) in the management of public resources; and (iii) in financial supervision.  This operation is the first of two consecutive operations that are technically linked, but independently financed under the programmatic policy-based loan (PBP) modality.					
<b>Special contractual clauses precedent to first disbursement of the financing:</b> The disbursement of the sole tranche is subject to compliance with the policy reform conditions established in the policy matrix (Annex II), the <a href="#">policy letter</a> , and the conditions set forth in the loan contract (see paragraph 3.4).					
<b>Exceptions to Bank policies:</b> None.					
Strategic Alignment					
<b>Challenges:</b> <sup>(d)</sup>		SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(e)</sup>		GD	<input type="checkbox"/>	CC	<input type="checkbox"/>
				IC	<input checked="" type="checkbox"/>

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

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

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

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

## I. PROGRAM DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.**<sup>1</sup> Paraguay ended 2018 with real GDP growth of 3.7%, compared to 5% in 2017. In 2018, inflation was 3.2%, below the target established by the central bank (4.0±2%) and lower than the rate posted the previous year (4.5%). The central government deficit was 1.3% of GDP, in line with the cap set in the Fiscal Responsibility Law (1.5% of GDP), albeit above the 2017 value (1.1% of GDP). Real GDP growth is expected to be 3.2% in 2019, whereas growth in the medium term should be close to 4%. Nevertheless, the Paraguayan economy is vulnerable to external shocks, such as the macroeconomic volatility of regional trading partners and fluctuations in commodity prices. Recent IDB analyses<sup>2</sup> show that structural challenges in public management and institutions, productive diversification, infrastructure, and human capital must be overcome to sustain the rapid growth of recent years.
- 1.2 The IDB's 2019 Latin American and Caribbean Macroeconomic Report states that improved technical capacity in the public sector, coupled with increased transparency, would reduce uncertainty and lay the groundwork for both more investment and efficient service delivery. According to this IDB report, the benefits of this approach would support a more vibrant economy while at the same time help the poor, who must use a larger share of their income than the rich to pay for infrastructure services.
- 1.3 **Country efforts to improve transparency.** Paraguay is making a sustained effort to adopt and implement a legislative and institutional framework on transparency and integrity, in line with the main international standards and best practices to which it has adhered in recent years in this area.<sup>3</sup> The government transposed this resolve into its National Development Plan 2030, including the objective of promoting efficient and transparent public management as a crosscutting policy based on three pillars: (i) poverty reduction and social development; (ii) economic and inclusive growth; and (iii) Paraguay's proper integration into the world.<sup>4</sup> The plan states that transparent public management involves reducing corruption by clarifying rules, improving the State's transparency and control mechanisms, and increasing beneficiary and user participation in monitoring the programs of the various levels of government.
- 1.4 Some of these efforts that have already undertaken include: (i) the approval in 2014 of Law 5,282, providing citizens with free access to public information and government transparency, as well as the creation of transparency units in the various public agencies; (ii) the development in 2016 of a National Corruption Prevention Plan (Decree 4,900) and

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<sup>1</sup> [Paraguay: Rutas para el Desarrollo](#), IDB 2018.

<sup>2</sup> Almeida, E., Bastos, F., Quijada, A., and Acevedo, M. (2018). [Paraguay: Rutas para el Desarrollo](#). Inter-American Development Bank. IDB Monograph 575.

<sup>3</sup> The country is a party to the Inter-American Convention against Corruption of the Organization of American States, the United Nations Convention against Corruption, and the Open Government Partnership. In addition, it is a member of the Financial Action Task Force (FATF) through the Financial Action Task Force of Latin America (GAFILAT). It is also part of working groups within the Organisation for Economic Co-operation and Development (OECD) and other international initiatives, such as the Global Initiative for Fiscal Transparency, the Open Contracting Partnership, and the Inter-American Government Procurement Network.

<sup>4</sup> Each pillar contains strategic areas that will benefit from greater transparency, either directly or indirectly: education, health, social safety nets, employment, infrastructure, international connectivity, urban center improvements, security, energy, forestry and environmental production, and the digital agenda. See [National Development Plan 2030](#).

the implementation of budgetary data and open data portals; and (iii) the establishment of control and coordination institutions, such as the National Anticorruption Secretariat (SENAC)<sup>5</sup> and the National Transparency Team.<sup>6</sup>

- 1.5 With respect to the management of public resources, the National Public Contracting Directorate (DNCP) was established as the technical agency tasked with formulating general policies on government procurement to which the country's agencies, entities, and municipalities must adhere.<sup>7</sup> Among its many functions, the DNCP manages the electronic portal that centralizes information on the processes for the procurement of goods and the contracting of public works and services,<sup>8</sup> administers the supplier registry, and runs an advanced statistical information system.<sup>9</sup>
- 1.6 As concerns the specific issues of financial transparency, recent progress includes a law that eliminates bearer shares,<sup>10</sup> as well as its regulations for registering end beneficiaries,<sup>11</sup> and the establishment of overall coordination and the creation of an interagency committee to improve the sharing of information among supervisory agencies.<sup>12</sup> Through the Secretariat for the Prevention of Asset Laundering (SEPRELAD), the government recently submitted to the Congress of the Republic an ambitious package of legal reforms to strengthen the framework for the prevention and sanctioning of illicit financial flows. This package includes reforms to the criminal code that would specify the penalties for bribery, the establishment of a register of end beneficiaries, and the adoption of processes for the seizure of assets obtained through corruption.<sup>13</sup>
- 1.7 As is apparent from this description of policy actions, the legal and institutional reforms that the Paraguayan government is putting forward to strengthen transparency in the public sector are a step in the right direction in terms of content and alignment with the applicable international transparency and integrity standards.
- 1.8 **The problem and its causes.** The perception of corruption in the public sector is high in Paraguay. According to the Transparency International Index, Paraguay scored 29 points, which is below the average of 35 points scored by countries in the region as a whole and much lower than the average of OECD countries, which scored 68 points on average.<sup>14</sup> In terms of the incidence and control of corruption in public management,<sup>15</sup> Paraguay ranked below Latin America and the Caribbean in 2017 with a score of -0.72, compared to -0.28, and much lower than the OECD, with an average score of 1.25. The recent Report of the Expert Advisory Group on Anti-Corruption, Transparency, and Integrity in Latin America

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<sup>5</sup> Decree 10,144/2012, as amended by Decree 1843/2019.

<sup>6</sup> Decree 4,719/2016.

<sup>7</sup> Government Contracting Law 2,051/03, amended by Law 3,439/07.

<sup>8</sup> [Paraguayan government procurement portal](https://www.quecompramos.gov.py). The portal has a search engine for easy lookup of open calls for tender by different categories (procedure type, contracting authority, title, etc.).

<sup>9</sup> The open data system provides multiple statistics and displays information of interest.

See <https://www.quecompramos.gov.py/> and <https://www.contrataciones.gov.py/dncp/sie.html>.

<sup>10</sup> Law 5,895 of 2017.

<sup>11</sup> Decree 9,043 of 2018, implementing regulations for Law 5,895.

<sup>12</sup> Decree 7,949 of 2017.

<sup>13</sup> [Draft laws presented by the Executive Branch to counter organized crime](#).

<sup>14</sup> Transparency International, Corruption Perceptions Index, 2018. Scale from 0 (highly corrupt) to 100 (very clean).

<sup>15</sup> World Bank Worldwide Governance Indicators: Corruption control measured on a scale from -2.5 (weak) to 2.5 (strong).

and the Caribbean (Expert Group) states the importance of having, first and foremost, legal and regulatory measures that are in line with standards stemming from the global and regional initiatives to which states adhere in order to ensure the effectiveness of reforms and their sustainability.<sup>16</sup>

- 1.9 Weaknesses persist in the legal and institutional transparency framework, contributing to the country's underperformance in the following areas: (i) poor efficiency in access to public information; (ii) limited efficiency in public resource use; and (iii) poor efficiency in the financial sector. The problems in these three areas are caused by a wide range of factors, including the lack or technical deficiency of standards and regulations that result in discretion in their use or that limit the effective availability of information, restricting access for various users (officials, oversight bodies, citizens and civil society organizations, and the private sector).<sup>17</sup>
- 1.10 The weakness of regulatory frameworks deprives public officials of information for establishing more efficient and effective public policies and overseeing the other areas of government, while citizens and civil society organizations need information to participate in matters of public interest, stand up for their rights, and exercise social control; the private sector, in turn, does not have the information it needs to decide where and in which sectors to invest. Below are specific details of the problems that this operation will address.
- 1.11 **Lack of access to information as a limiting factor to social participation and accountability.** The Open Government Partnership is an initiative that promotes the implementation of concrete commitments on transparency, integrity, social participation, and the use of technologies for greater openness and accountability.<sup>18</sup> In that regard, a robust access to information and transparency system is a prerequisite for achieving such aspirations. As part of consultations with civil society on the development of the Fourth Action Plan 2018-2020, a number of problems that restrict access to information were identified at the sector level, leading to concrete commitments within the scope of the government's executive branch.<sup>19</sup> Obstacles include a low level of social control over public management due to poor accountability in executive branch units, which do not report on their performance in a uniform and understandable format. This led to Commitment 22 of the Open Government Plan, adopted through Decree 1,341/2019, to adopt a mandatory accountability manual for use by the public sector.
- 1.12 The Right to Information Rating, which measures seven main variables of an access to information regime, gave Paraguay 66 points on a 150-point scale in 2018, whereas the Open Data Barometer gave the country a score of 34 points in 2017, well below the Latin

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<sup>16</sup> Report of the Expert Advisory Group on Anti-Corruption, Transparency, and Integrity in Latin America and the Caribbean. Engel, Eduardo; Ferreira Rubio, Delia; Kaufmann, Daniel; Lara Yaffar, Armando; Londoño Saldarriaga, Jorge; Noveck, Beth Simone; Pieth, Mark; Rose-Ackerman, Susan. IDB, November 2018.

<sup>17</sup> See Carter Center, [Access to Information Legislation Implementation Assessment Tool for Paraguay, 2017](#); see also [Open Government Partnership, Plan 2016-2018, Template for Compliance with Commitment 1 on Access to Public Information](#).

<sup>18</sup> An open government is one that promotes a citizen-focused relationship in order to secure greater social collaboration and participation in matters of public interest, better accountability processes, and efficient, effective, and transparent public services. Countries commit to concrete open government solutions outlined in voluntary action plans that are developed in a participatory manner in consultation with civil society and that must be implemented within two years.

<sup>19</sup> Paraguay just adopted its [Fourth Action Plan](#) through Decree 1,341/2019. It includes commitments in areas such as health, education, budget, water, and publication of databases in open formats.



America and Caribbean region's average of 43.5. The aforementioned Carter Center assessment<sup>20</sup> refers to the lack of internal regulations with processes and timelines that would facilitate more efficient processing of requests for access to public information and mechanisms to ensure the publication of information in user-friendly formats.

- 1.13 **Lack of transparency as an obstacle to greater efficiency in the use of public resources.** With regard to budget transparency, the Open Budget Index of the International Budget Partnership for 2017 shows that Paraguay provides the public with limited budget information, giving the country a score of 43. This ranking compares unfavorably with the Latin America and Caribbean region average of 50 and is below the OECD average of 68. In keeping with the index's findings, the 2016 Public Spending and Accountability Report pointed out shortcomings in public access to fiscal information,<sup>21</sup> such as the absence of a draft budget summary for the lay public.
- 1.14 The government procurement system has room for improvement in terms of its transparency and effectiveness so as to comply even further with applicable international standards.<sup>22</sup> The current system is not transactional (i.e. does not allow for electronic bidding) and has no templates with general bidding conditions to accelerate document preparation in response to procurement processes. The implementation of a post-contract award follow-up module is also pending. Both reforms are in the pilot phase, having made much progress.<sup>23</sup>
- 1.15 **Financial transparency.** The partial implementation of specific Financial Action Task Force (FATF) recommendations prevents valuable financial information from being available. The International Standards on Anti-asset Laundering, Countering the Financing of Terrorism, and Countering Proliferation of Arms of Mass Destruction in Paraguay (AML/CFT/CPF) (the Standards), issued by the FATF, are the guiding principles in this regard. The Basel Institute's Anti-asset Laundering Index gave Paraguay one of the highest AML ratings in 2018, with medium-high risk and a score of 6.79 (on a scale of 0-10, where 10 represents the highest risk).
- 1.16 Compliance with the FATF Standards is assessed through a peer review or mutual evaluation. According to the current FATF methodology, countries must demonstrate both technical compliance and the effectiveness of their regime for the prevention and sanctioning of asset laundering and terrorism financing. Technical compliance essentially means that local laws and regulations must be consistent with the requirements of the FATF Standards from a formal perspective. Evaluating the effectiveness of a country's AML/CFT regime is as important as evaluating technical compliance. This evaluation looks at the degree to which the outcomes defined in the Standards have been achieved. When the mutual evaluation reveals that the country has strategic deficiencies in technical

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<sup>20</sup> See note 21.

<sup>21</sup> [Public Spending and Accountability Report](#), paragraph 9.1, page 61.

<sup>22</sup> See OECD (2015) [Recommendation of the Council on Public Procurement](#).

<sup>23</sup> See Diagnostic Report on Open Data in Government Procurement, OAS, March 2017, and DNCP Resolutions No. 4633/2018 and 4190/2018. In Paraguay, the DNCP manages information until a contract is signed. During contract execution, the information is managed through the Administrative and Financial Information System.

compliance and effectiveness, the jurisdiction can be listed as non-compliant on FATF lists.<sup>24</sup>

- 1.17 The negative consequences of the FATF “blacklist” for failure to comply with recommendations have been confirmed by a number of studies, including one conducted by the IDB. This study draws a connection between countries’ inclusion on the blacklist and the capital inflows and outflows of the Latin American banking system, with a special focus on Paraguay. It shows that flow tapered at the time of the event and that this effect disappeared as soon as the country was removed from the blacklist.<sup>25</sup>
- 1.18 In 2009, the mutual evaluation of the Financial Action Task Force for South America (GAFISUD)<sup>26</sup> reported the need to improve the asset laundering prevention system. In February 2012, the FATF amended the Standards by issuing an updated version of the 40 recommendations. One of the main changes to the recommendations is the adoption of a risk-based approach in order to take effective action and measures with a view to properly mitigating the dangers of AML/CFT. The new regime, more demanding than the previous one, requires countries to have an institutional framework, laws, regulations, and processes that enable them to access better quality information on financial operations and the parties responsible for such operations in order to correctly identify, evaluate, and understand such risks and to focus on improving the system’s effectiveness.
- 1.19 Effectiveness aims to evaluate the appropriateness of the implementation of FATF recommendations and identifies the degree to which a country achieves a defined set of results essential for a solid AML/CFT system. Therefore, the focus of the effectiveness evaluation will be measured based on the extent to which the legal and institutional framework produces the expected results.<sup>27</sup>
- 1.20 In the specific case of Paraguay, despite the efforts made, there continue to be regulatory gaps with respect to the FATF recommendations and there is still room for improvement in interinstitutional coordination for promoting better regime effectiveness. This includes updates to the risk prevention and mitigation system for client due diligence by regulated financial and nonfinancial institutions, as well as standards that ensure the effectiveness of the regime on politically exposed persons (PEPs)<sup>28</sup> and end beneficiaries.<sup>29</sup>
- 1.21 **Consequences of the lack of transparency.** There is considerable academic evidence that corruption and the lack of transparency have adverse impacts on countries’ growth—

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<sup>24</sup> The FATF holds a series of plenary meetings throughout the year during which the results of mutual evaluations are analyzed and decisions are made on a jurisdiction’s inclusion on a list, among other issues. Once the decision is made, a public statement is released. Based on the statement, FATF countries must take special measures with respect to their regulated institutions as concerns the listed jurisdictions. The most recent plenary meeting was in June 2019, and the results are outlined in the following [statement](#).

<sup>25</sup> Donato Masciandaro, *Is the Anti Money Laundering Compliance Convenient? International Capital Flows and Stigma Effect in Latin America: The Case of Paraguay*, IDB, September 2013.

<sup>26</sup> See the following reports: GAFISUD, (3rd round), 3 December 2008, and GAFISUD, *Informe de Avance de la Evaluación Mutua de Paraguay. Seguimiento Intensificado* (2009). GAFISUD is now GAFILAT.

<sup>27</sup> [Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems](#). Produced by the FATF, 2013.

<sup>28</sup> For example, these standards do not establish general rules as to who should be considered a foreign PEP, a national PEP, or a PEP from an international organization.

<sup>29</sup> For example, there is no general rule for identifying end beneficiaries in trusts. The current law allows the bearer up to 10% share capital. There are also no rules or mechanisms for preventing the use of nominee directors or shareholders.

especially low-income countries—and on human development.<sup>30</sup> These data are consistent with those provided by Transparency International's Global Corruption Barometer, which shows, inter alia, how corruption affects the poorest sectors. One of the first studies on the subject warned of potential negative macroeconomic consequences on the basis of the relationship between indicators of honesty and bureaucratic efficiency and economic growth.<sup>31</sup> There is also evidence that the lack of transparency affects economic growth and private-sector development, as it generates an ineffective allocation of public expenditure, making goods and services more expensive<sup>32</sup> and encouraging tax evasion.<sup>33</sup> Other studies, in turn, show that countries with better access to information systems have better transparency indicators.<sup>34</sup>

- 1.22 One IDB study shows a strong correlation between the ratings issued by the big three credit rating agencies (Standard and Poor's, Moody's, and Fitch) and the three commonly used corruption indicators<sup>35</sup> that slow private innovation and productivity,<sup>36</sup> reducing economic growth overall.<sup>37</sup> Some authors, such as Zak and Knack, state that there is a positive correlation between people's trust, investment, and economic growth,<sup>38</sup> whereas others, like Rothstein and Eek, note the negative correlation between corruption and trust.<sup>39</sup>
- 1.23 The evidence also acknowledges the negative effects of the lack of transparency on private investment, including infrastructure, where integrity issues resulted in disruptive consequences for the region's countries.<sup>40</sup> A similar situation applies to the financial sector, where countries' failure to comply with the effective implementation of FATF Standards leads to negative reputational and economic consequences, especially a

<sup>30</sup> Ugur M. and N. Dasgupta, [Evidence on the economic growth impacts of corruption in low-income countries and beyond: Systematic review](#), EPPI-Centre, Social Science Research Unit, Institute of Education, University of London (August 2011). See also S. Akcay, *Corruption and Human Development*, 26(1) *Cato Journal* 29, 29-48 (2006).

<sup>31</sup> Mauro, P. *The Effects of Corruption on Growth, Investment, and Government Expenditure*, IMF Working Paper WP/96/98 (1996).

<sup>32</sup> [Issues Paper on Corruption and Economic Growth](#), G20 Anti-corruption Working Group/OECD, p. 2 (2013).

<sup>33</sup> Vito Tanzi and Hamid Davoodi, *Corruption, Public Investment, and Growth*, IMF Working Paper WP/97/139; see also: (i) Nawaz, F. [Exploring the Relationships between Corruption and Tax Revenue](#), Transparency International; and (ii) Gupta, S., H. Davoodi, and R. Alonso-Terme, [Does Corruption Affect Income Inequality and Poverty?](#), IMF Working Paper 98/76 (May 1998).

<sup>34</sup> Roumeen Islan, *Do More Transparent Governments Govern Better?*, World Bank Working Papers. Martin Alessandro, Bruno Cardinale, Carlos Scartascini and Jeronimo Torrealday, *Transparency and Trust in Government: Evidence from a Survey Experiment*, IDB-WP-962.

<sup>35</sup> Panizza, U. [The Use of Corruption Indicators in Sovereign Ratings](#), IDB Technical Note IDB-TN-1318 (Oct. 2017).

<sup>36</sup> Lambsdorff, J. (2003), *How Corruption Affects Productivity*, *Kyklos* 56(4): 457-474; (iv) De Rosa, D., Gooroochurn, N., and Gorg, H. (2010), *Corruption and Productivity*, Working Paper 5348, Washington D.C.: World Bank.

<sup>37</sup> For a detailed analysis on the negative economic consequences of corruption, see *Corruption: Costs and Mitigating Strategies*, IMF Staff Discussion Note, International Monetary Fund SDN/16/05 (May 2016), available at <http://www.imf.org/external/pubs/ft/sdn/2016/sdn1605.pdf>. See also: (i) OECD (2013), *The rationale for fighting corruption*, Background Brief, Paris: OECD; and (ii) Sumanjeet, R. (2015), *Institutions, Transparency, and Economic Growth*, *Emerging Economy Studies* 1(2): pages 188-210.

<sup>38</sup> Zak, P.J. and S. Knack, *Trust and Growth*, 111(470) *Economic Journal* 295-321 (2001).

<sup>39</sup> Rothstein B. and D. Eek, *Political Corruption and Social Trust: An Experimental Approach*, 21(1) *Rationality and Society*, pages 81-112 (2009).

<sup>40</sup> de Michele, Roberto, Joan Prats, and Isaias Losada, *Effects of Corruption on Public-Private Partnership Contracts: Consequences of a Zero-tolerance Approach*. Discussion Paper, IDB-DP-625.

reduction in payments from abroad.<sup>41</sup> Foreign direct investment is also affected when there is no positive correlation with governance indicators, such as rule of law, corruption control, and regulatory quality.<sup>42</sup>

- 1.24 Various theories explain how to promote transparency, integrity, and corruption control.<sup>43</sup> However, there is a consensus that transparency and a solid supervision and accountability system are the best ways of preventing this problem. One of the most influential approaches is that of such authors as Robert Klitgaard, who recommend combating corruption with a combination of measures comprising the adoption of rules and systems that limit discretion and provide access to public information.<sup>44</sup> Klitgaard argues that corruption is deep-seated when the authority conferred on public officials is exercised with discretion, without transparency, and with no effective accountability mechanism. That is why Klitgaard proposes greater accountability through the adoption of technically sound rules and systems that facilitate access to public information.
- 1.25 **Intervention strategy.** The Paraguayan government has asked the Bank to support its transparency agenda through a programmatic series of support for policy reforms, with two individual and consecutive operations, in accordance with Policy-based Loans: Guidelines for Preparation and Implementation, Update (document CS-3633-2). The selected instrument is appropriate because substantive reforms will continue after the first operation, enabling closer Bank technical support.
- 1.26 Broadly speaking, this operation presents a reform plan that, in the first operation, promotes legal and regulatory reform measures and, in the second, promotes greater emphasis on implementing the measures adopted in the first. This plan is consistent with the main international instruments on transparency and integrity to which Paraguay has adhered, which not only aim to ensure technical compliance, also known as formal compliance, with policies, but also require the adoption of measures for effective implementation. In addition, the adopted approach seeks to strengthen the implementation of policies on transparency and integrity through the use of information technology.
- 1.27 **The Bank's experience in the country and sector, and lessons learned.** Various policy measures included in this operation are closely linked to the Bank's portfolio in the country as concerns transparency. The IDB is a strategic partner in the identification, development, and adoption of these measures as well as others to which the Paraguayan government is committed, as described below. The Bank has supported and collaborated closely with Paraguay in strengthening the institutional capacity of the public

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<sup>41</sup> Collin, Matthew, Samantha Cook, and Kimmo Soramäki, *The Impact of Anti-Money Laundering Regulation on Payment Flows: Evidence from SWIFT Data*. Center for Global Development, Working Paper 445, December 2016.

<sup>42</sup> Chêne, Marie, [\*Consecuencias de la Corrupción en Términos de Crecimiento y Desigualdad\*](#). Transparency International Anti-Corruption Helpdesk (15 March 2014), page 3. See also: (i) B. Javorcick and S. J. Wei, *Corruption and cross-border investment in emerging markets: Firm-level evidence*, 28(4) *Journal of International Money and Finance* (2009); and (ii) for an analysis on how foreign anti-bribery laws affect foreign direct investment, see Cuervo-Cazurra, *The Effectiveness of Laws against Bribery Abroad*, 39(4) *Journal of International Business Studies* 634-651 (2007).

<sup>43</sup> One of the first analytical works to promote the analysis of the availability of information and the quality of regulations ordering administrative decision-making is that of S. Rose Ackerman entitled *Corruption: A Study in Political Economy* (Academic Press 1978). Ackerman proposes analyzing the various administrative decision-making models (hierarchical, fragmented, sequential, etc.) and identifying opportunities for corruption, in respect of both public servants and private individuals, based on the design of the decision-making process.

<sup>44</sup> Klitgaard, Robert (1988), *Controlling Corruption*, Buenos Aires, South America, 1994.

administration. The Bank's collaboration under this program consists of dialogue, technical assistance, and support for various key measures included in this first operation and in the second operation.

- 1.28 The Bank supports the transparency agenda with technical assistance and analytical work through technical cooperation for the following: Support to the Transparency Strategy of Paraguay (operation ATN/AA-16580-PR); Strengthening the Integrity of Financial Systems (operation ATN/AA-15291-RG); Support to the Strengthening of Public Enterprises Oversight and Transparency (operation ATN/AA-15928-PR); and Innovations to Improve the Transparency and Efficiency of Public Investment Systems (operation ATN/AA-15682-RG). During the preparation of this operation, new technical cooperation was prepared and approved for Paraguay to support the transparency and integrity agenda (operation ATN/OC-17502-PR).
- 1.29 These technical cooperation operations (paragraph 1.28) target a variety of actions related to Paraguay's transparency and integrity agenda. Such support includes preparation, technical dialogue, and the promotion of measures proposed in the policy matrix for this operation, under its various components.
- 1.30 With respect to the component on strengthening access to information and open government policies, the IDB has provided continuous support to the SENAC by preparing drafts of the Secretariat's organic law and the Public Ethics Law of the Technical Secretariat for Planning, updating the regulation of the multisectoral open government forum, and producing a diagnostic assessment with recommendations for drawing up a roadmap to strengthen transparency and integrity in the country.
- 1.31 As for the component for strengthening transparency in the use of public resources, support is provided to the Directorate of Public Investment Systems through the implementation of the Investment Map Platform in order to centralize information on the physical and financial progress of multiyear execution plans. Exchanges of technical studies that supported the Program to Support Transparency and Integrity Reforms in Argentina (operations 4244/OC-AR and 4796/OCR-AR) also took place as regards regulatory and system reforms to procurement processes based on the use of information technology to enhance transparency in the procurement system.
- 1.32 Regarding the component on strengthening financial transparency, support is provided to SEPRELAD through an analysis of compliance with the regulatory framework for the prevention of asset laundering and terrorism financing in nonfinancial sectors and cooperatives and through specific recommendations for the implementation of measures applicable to end beneficiaries and PEPs. All these measures are compliant with the FATF Standards, as spelled out in the policy matrix (Annex II).
- 1.33 In terms of technical dialogue, the Bank added Paraguay to the Network for Regional Dialogue on Open Government Policies in 2014, organizing a meeting jointly with the Technical Planning Secretariat in Asunción in 2015. In 2018, Paraguay joined the IDB-OECD Integrity Network, in which experiences are shared and discussions are held on issues related to transparency and integrity. The Paraguayan government has already been invited to the Integrity Network meeting scheduled for 2019, an invitation that its delegation is expected to accept. The theme of this meeting is integrity and infrastructure. The IDB also invited the Paraguayan government to take part in a panel "Mandates for Change: Anticorruption and Latin America's New Leaders," organized jointly by Inter-American Dialogue and the Bank. The Paraguayan government was represented by



the Minister of Finance, who talked about the reform agenda that the country is carrying out in that regard. The IDB is an observer on the GAFILAT, a regional body of the FATF in whose evaluation process Paraguay participates. This makes it possible to directly monitoring progress in this process, maintaining regular dialogue, and anticipating events related to the financial transparency agenda, including possible gaps in the pending reform.

- 1.34 This operation is part of efforts to promote the transparency agenda that the Paraguay is developing with the IDB. Bank support to that end is focused on three strategic areas: (i) Productive Paraguay: Transparency and Financing (operation 4401/OC-PR); (ii) the fiscal operations of the Public Finance for Sustainable Development Program (operations 4667/OC-PR and 4671/OC-PR); and (iii) the Digital Agenda Support Program (operation 4650/OC-PR).
- 1.35 This operation also includes the Bank's lessons learned and good practices in the sector and region, particularly those associated with: (i) Chile's Integrity and Transparency Agenda Support Program (operations 3617/OC-CH and 3748/OC-CH); (ii) the Program to Support Transparency and Integrity Reforms in Argentina (operations 4244/OC-AR and 4796/OC-AR); (iii) Bolivia's Transparency and Anticorruption Program (operation 2216/BL-BO); and (iv) Honduras's Program of Support for the Implementation of the Comprehensive Civic Coexistence and Public Safety Policy (operation 2745/BL-HO). Also taken into account was the recently approved Public Finance for Sustainable Development Program (operation 4667/OC-PR), which contains elements associated with fiscal transparency that complement those of the present operation.
- 1.36 The main lesson learned from these operations, which were taken into account in preparing this operation and the measures of Component 4, include the importance of aligning transparency and integrity reforms with international standards and initiatives to which countries adhere for the various areas covered in this operation.<sup>45</sup> Compliance with such standards requires regulatory frameworks and regulations that are more solid technical footing, with a view to ensuring better implementation. Special attention is placed on standards with an evaluation or follow-up mechanism, such as those of the FATF or OECD on fiscal transparency, since a negative evaluation can lead to negative reputational and economic consequences for the jurisdiction, as explained in this document.
- 1.37 Another lesson considered in the preparation of this operation and the measures of Component 2 is the importance of moving ahead with the digitalization of information systems. The following must also be considered in designing loans for policy reforms: (i) an appropriate sequence of reforms that taking into account the capacity of the institutions involved and a logical framework for progressively advancing reforms that combines regulatory developments with improved technical capacity; and (ii) the slated reforms must incorporate the interests and capacity of the implementing agencies in order to improve their effectiveness.<sup>46</sup> In that sense, it is worth nothing the Bank's experience in other countries where the implementation of better integrity rules and the use of

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<sup>45</sup> See [Principales Instrumentos Internacionales de Transparencia e Integridad](#), which contains a list of the main international standards on transparency and integrity, their respective monitoring mechanisms, and the levels of adherence by IDB member countries.

<sup>46</sup> Among others, see Santiso, Carlos, Jorge von Horoch, and Juan Cruz Vieyra (2014), [Improving Lives through Better Government: Promoting Effective, Efficient, and Open Governments in Latin America and the Caribbean](#).

technology have not only produced favorable results in relation to the use of public resources, but have also improved opportunities for businesses to offer goods and services competitively.<sup>47</sup>

- 1.38 This operation also takes into account recent research (see [sector diagnostic assessments and reports in Paraguay](#)) on transparency and integrity, with considerable focus on the effective identification and implementation of public policies of this type. Special focus was placed on the idea of targeted transparency, rather than general access to information approaches. The concept of targeted transparency differs from other transparency policies in that its implementation entails the expectation of concrete results in the short and medium term related to, for example, the improvement of a specific public service.<sup>48</sup>
- 1.39 **Coordination with other international organizations.** During the preparation of this operation and throughout program execution, special emphasis was placed on coordination with other multilateral organizations that collaborate with Paraguay and the country's transparency and integrity agenda. These include the World Bank (specifically for Components 2 and 3 through World Bank work on access to information and open data), the U.S. Treasury (for Component 4 through its work on financial transparency supporting complementary efforts to combat terrorist financing activities), and the International Monetary Fund (for Component 4 through complementary support for integrity issues in the customs sector).
- 1.40 **Strategic alignment.** The program is aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the development challenge of low productivity and innovation by using digital information technologies to undertake actions aimed at preventing corruption, thereby ensuring that institutions are more transparent, efficient, and effective, especially in the areas of public procurement, financial supervision, and the use of public resources. The program is also aligned with the crosscutting theme of institutional capacity and rule of law, specifically government effectiveness and the rule of law, included among the Regional Context Indicators, Development Objectives 12 and 13.<sup>49</sup> The program will also contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6), through: (i) government agencies benefited by projects that strengthen technological and management instruments to improve public service delivery; (ii) strengthened public records; (iii) strengthened accountability institutions; and (iv) enacted business environment reforms. It is also aligned with the Sector Strategy Institutions for Growth and Social Welfare (document GN-2587-2) in terms of the efforts to combat corruption and promote transparency, including institutional strengthening to improve government processes and transparency. In addition, the operation is aligned with the strategic objective to strengthen public management capabilities set forth in the IDB Group Country Strategy with Paraguay 2019-2023 (document GN-2958), particularly as concerns strengthening coordination

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<sup>47</sup> See *La tecnología al servicio del combate contra la corrupción. El ejemplo de Bolivia*, by Zapata, Martín, Ricardo Céspedes, and Nicolás Dassen, Technical Note IDB-TN-826, and *Conflicto de intereses: desafíos y oportunidades para implementar un sistema efectivo*, by de Michele, Roberto and Nicolás Dassen, Discussion Paper IDB-DP-626.

<sup>48</sup> Accordingly, see *Open Government and Targeted Transparency: Trends and Challenges for Latin America and the Caribbean* by Dassen, Nicolás and Juan Cruz Vieyra, editors, IDB 2016.

<sup>49</sup> The Update to the Institutional Strategy refers to the limited capacity of the public sector and the public function to provide services, fight corruption, and enforce the rule of law.

between the entities responsible for the transparency mechanism and improving the management of public resources. Lastly, the operation is included in Update of Annex III of the 2019 Operational Program Report (document GN-2948-2).

## **B. Objectives, components, and cost**

- 1.41 The program's objective is to contribute to greater transparency in Paraguay by improving efficiency: (i) in access to public information; (ii) in the management of public resources; and (iii) in financial supervision. This operation is structured into four components, as described below.
- 1.42 **Component 1. Macroeconomic stability.** This component's objective is to maintain a macroeconomic context consistent with the program objectives as established in the policy matrix and in the [policy letter](#).
- 1.43 **Component 2. Strengthening access to information and open government policies.** This component's objective is to contribute to greater efficiency in access to public information by citizens and economic actors by: (i) adopting the Fourth Action Plan on Open Government; (ii) adopting regulations on access to public information in order to process access to information requests submitted to the Ministry of Finance; and (iii) adopting an accountability manual for agencies of the executive branch, which will also be presented to the Open Government Partnership. The aim of the second operation is to make headway on actions to promote the implementation of the regulatory measures adopted in this first operation. To that end, the respective trigger mechanisms will be: (i) compliance with at least 40% of the 30 commitments in the Fourth Action Plan on Open Government of the Republic of Paraguay within the scope of the executive branch; (ii) the drafting and adoption of a report on the access to information requests received, specifying the number and outcome of such requests; and (iii) the adoption of an accountability manual by at least four executive branch agencies.
- 1.44 **Component 3. Strengthening transparency in the use of public resources.** This component's objective is to strengthen efficiency in the management of public resources, with a focus on public investment and goods and services procurement and contracting projects by: (i) incorporating the obligation to periodically inform the Directorate of Public Investment Systems of government agencies and entities that carry out projects on physical and financial progress, as per the commitment made in their multiyear execution plans; (ii) adopting an electronic bidding module to generate bidding requirements and conditions in public procurement processes for goods; (iii) adopting a mandatory contract monitoring system in the Public Procurement Information System (SICP) for the contracting authorities of the executive branch governed by the Public Procurement Act; and (iv) adopting a transparency and accountability system that publishes the budget in accessible formats and in language that is easily understood by citizens (Citizen Budget). In the second operation, the triggering milestones will be, respectively: (i) the adoption of a resolution that regulates the methods, deadlines, and procedures for sending information to the Public Investment System Directorate; (ii) the preparation of a DNCP report acknowledging that electronic bidding is being used in at least 25% of executive branch agencies and entities; (iii) the implementation of the contract monitoring module in at least 25% of executive branch contracting authorities governed by the Public Contracting Act; and (iv) the implementation of the Citizen Budget project through its publication on the Ministry of Finance website.



- 1.45 **Component 4. Strengthening financial transparency.** The objective of this component is to enhance efficiency in financial supervision and reduce transaction costs by adopting measures aligned with the relevant FATF recommendations. This will be accomplished by: (i) preparation of a preliminary draft law to update the risk prevention and mitigation system for asset laundering activities; (ii) preparation of a preliminary draft law to adopt a legal regime for the identification and registration of end beneficiaries, in accordance with FATF recommendations 24 and 25; (iii) preparation of a draft resolution to identify and manage risks associated with clients and end beneficiaries who are politically exposed persons (PEPs), in accordance with FATF recommendations 12 and 22; and (iv) creation of a Board of Supervisors for Regulated Institutions under the Anti-money Laundering (AML)/Countering the Financing of Terrorism (CFT)/Countering Proliferation of Arms of Mass Destruction (CFP) System in Paraguay (Board of Supervisors) with the aim of strengthening the implementation of the relevant international best practices, and ensuring their effectiveness. The aim of the second operation is to make headway on draft legislation in parliament, and on drafting regulations for information systems and interagency coordination at the administrative level. To that end, the respective triggering milestones will be: (i) the submission to Congress of a law that updates the system for preventing and mitigating risks involved in acts performed for the purpose of asset laundering; (ii) the submission to Congress of the draft law for the identification and registration of end beneficiaries, in accordance with FATF recommendations 24 and 25; (iii) the adoption of a system that generates information for regulated institutions regarding the criteria and context applicable to PEPs; and (iv) preparation of an annual report by the chairperson of the Board of Supervisors outlining the general policy agreements reached as a result of the Board's work.
- 1.46 **Beneficiaries.** The program's end beneficiaries will be citizens, civil society organizations, public officials, oversight bodies, and economic agents who interact with the public sector, specifically persons who rely on policies on access to public information and transparency for appropriate participation and social control and who benefit from public works and goods procured by the government, as well as government service providers and those subject to financial regulations. The operation's users are officials who work in agencies where the program outputs will be implemented, such as national public procurement and contracting agencies and units, offices that provide access to public information, officials in charge of audits, and other regulatory and oversight bodies, such as SEPRELAD, which will also benefit from the operation owing to the potential of carrying out its work more efficiently and effectively.
- C. Key results indicators**
- 1.47 **Outcomes.** The results matrix will be used to measure the outcomes of the program's policy actions and reforms. The progress made on these indicators will be outlined in progress reports prepared by the executing agency. The expected outcomes of the operation are: (i) improved efficiency in access to public information, measured by the responses to requests provided by the public information access office; (ii) improved efficiency in the management of public resources, measured by the use of the public procurement and monitoring module, the publication of inquiries on bidding conditions, and the number of days between the time a project is submitted and its approval; and (iii) efficiency in financial supervision, measured by reports of suspicious operations brought before the courts. The operation will take a conservative approach to measuring the effects, focusing on their measurement in terms of outcomes rather than impacts.

- 1.48 **Economic analysis.** Based on the recommendations of the Bank's Office of Evaluation and Oversight in its 2011 review on the evaluability of Bank projects and on the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (ECG, which consists of the independent evaluation offices of multilateral development banks),<sup>50</sup> set out in paragraph 1.3 of the Review of the Development Effectiveness Matrix (DEM) for Sovereign-guaranteed and Non-sovereign-guaranteed Operations (document GN-2489-5), which states, inter alia, that an efficiency analysis on the use of financial resources need not be included.<sup>51</sup> It was determined that no economic analysis would be performed for this type of loan, as reported to the Bank's Board. Since this loan operation does not include an economic analysis, the latter is not considered in measuring this program's DEM evaluability score.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The selection of the PBP modality is consistent with the Paraguayan government's interest in receiving Bank support to carry out sector policy reforms and institutional changes in the short and medium term. This operation is structured as a programmatic PBP that calls for two individual and consecutive operations, in accordance with Policy-Based Loans: Guidelines for Preparation and Implementation (document CS-3633-2).<sup>52</sup> The rationale for this programmatic modality is: (i) the need to provide the necessary timeframes for implementing complex reforms that require medium-term actions; (ii) the different timeframes for the implementation of each one; (iii) the relevance of evaluating the progress of the triggering mechanisms based on the knowledge gained; and (iv) the support and continuity of policy dialogue in the country. **Dimensioning.** This loan is for up to US\$90 million, financed from the Bank's Ordinary Capital and disbursed in a single tranche. The net financing needs for 2019 are estimated to be US\$600 million (1.5% of GDP). This operation would represent close to 12% of the public sector's gross financing needs for 2019 and around 50% of financing with multilateral and bilateral agencies. The operation is justified pursuant to the criterion of any shortfall in financing caused by sector policy reforms and/or institutional changes to be carried out within the framework of the operation, as established in paragraph 3.27(a) of Policy-Based Loans: Guidelines for Preparation and Implementation (document CS-3633-1).

### B. Environmental and social risks

- 2.3 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require classification. The policy changes effected as part of this operation will not have direct or significant effects on the country's environment or natural resources.

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<sup>50</sup> Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

<sup>51</sup> According to the ECG, PBPs must be evaluated based on relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since PBP dimensioning is based on a country's financing gap, separately from the project benefits.

<sup>52</sup> This instrument consists of a series of individual consecutive operations, each with its own loan contract.

## C. Fiduciary risks

- 2.4 There are no fiduciary risks associated with the operation. On one hand, a financial instrument that does not entail procurement is being used. On the other, the resources from this operation will go directly to the single treasury account to cover financing needs, for which the executing agency has the necessary financial management instruments and control systems. The resources will be disbursed once the policy measures established in the loan contract have been completed.

## D. Other key risks and themes

- 2.5 **Public management and governance risk.** The involvement of multiple actors in the execution of Components 2 and 3 has been identified as a medium-level risk, which may require greater coordination and communication between them. To mitigate this risk, the Bank approved technical cooperation through which the project team will work closely with the various executing agencies, including the Ministry of Finance, the SENAC, SEPRELAD, the Technical Secretariat for Planning, and the *Abogacía del Estado* [Legal Department of the Finance Ministry], among others. This work, as well as the contribution to the study, is channeled through the following technical cooperation operations: Support to the Transparency Strategy (ATN/AA-16580-PR); Strengthening the Integrity of Financial Systems (ATN/AA-15291-RG); and Strengthening of Public Enterprises Oversight and Transparency (ATN/AA-15928-PR). Another technical cooperation operation, Supporting the Integrity Agenda in Paraguay (ATN/OC-17502-PR), was recently approved. All of these technical cooperation operations include dissemination elements, such as workshops and publications.
- 2.6 As described in paragraphs 1.28, 1.34, and 1.35 regarding the set of technical cooperation operations directly and indirectly related to the support provided under this operation, there are robust technical dialogue channels with the Ministry of Finance and with the other entities involved in measures related to this operation, such as the SENAC and the DNPC, that will serve as a mechanism for managing any risks of this type that may arise. In addition, measure 4.4 of Component 4 establishing the creation of a Board of Supervisors provides an additional channel in relation to the themes of this component, aside from the one that exists with SEPRELAD. Throughout program execution, the Ministry of Finance will be presented with options to promote awareness of the reforms among the general public and the dissemination of the program themes.
- 2.7 **Reputational risk.** A medium-level risk identified is the country's performance with respect to the transparency indicators applicable to the measures to be supported through this operation that could affect the executing agency's and/or the Bank's image. As a mitigating measure, the Paraguayan government made a political commitment to according priority to future legal reforms for preventing asset laundering. Among other measures in this direction, a package of relevant reforms was submitted to Congress in December 2018. From that point forward, the Ministry of Finance and other agencies have periodically attended technical sessions in the legislative branch to move the reforms forward. Furthermore, the results of the GAFILAT mutual evaluation process that will begin in late 2019 will also give impetus to the integrity agenda supported by the program.<sup>53</sup> Regarding issues linked to the financial transparency agenda associated with this risk, the technical cooperation operations mentioned in this operation for Paraguay comprise specific activities to support the promotion of policy measures required by the FATF.

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<sup>53</sup> See [Paraguay Prioriza La Ley Contra Financiación del Terrorismo de Cara a GAFI](#).

- 2.8 **Sustainability.** Most of the measures proposed in this operation are part of international commitments assumed by the State. These include the country's adherence to the aforementioned FATF Standards, the principles of open government, and international instruments, such as the Inter-American Convention against Corruption and the United Nations Convention against Corruption. As stated in the preceding paragraph and in paragraphs 1.16, 1.17, 1.18, and 1.19, the ongoing compliance evaluations are additional indicators that the country will closely monitor on the agenda throughout the program, and surely beyond, once the evaluation reports are adopted. These evaluation mechanisms are also intended to identify possible reform gaps warranting attention and potential support. The first indicator of relevance in this process is that a number of the transparency and integrity reforms that the executive branch is coordinating with the legislative branch are underpinned by the fulfillment of these commitments. The Bank will provide the country with technical cooperation support (see paragraph 1.28) and step up technical dialogue with the aim of adopting measures that remain pending, including closing gaps beyond this operation, such as a comprehensive reform of the integrity system or providing more support for the implementation of the FATF recommendations. Accordingly, in addition to other actions, special emphasis will be placed on coordination with other international organizations focused on supporting reforms of this kind, as described in paragraph 1.39.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Paraguay and the executing agency will be the Ministry of Finance, through the Debt Policy Directorate.
- 3.2 The executing agency will be responsible for: (i) coordinating with the organizations in charge of the actions set out in this operation in all relevant aspects (including the Ministry of Finance, the National Public Procurement Directorate, the Directorate General of Budget of the Ministry of Finance, the Anti-Corruption Directorate of the Ministry of Finance, the SENAC, SEPRELAD, and the Directorate General of Open Government of the Technical Secretariat for Planning Economic and Social Development); (ii) providing evidence that the policy commitments have been fulfilled and any other program-related evidence that the Bank needs in order to approve the respective disbursement; and (iii) once the program disbursement has been secured, collecting the information from the performance indicators used to evaluate the program outcomes. The executing agency will use the institutional means available to it for effective coordination between public agencies on the policy measures included in this operation. It will also collaborate with the Bank on the necessary coordination with other agencies involved in the measures included under this operation.
- 3.3 **Interagency coordination.** Responsibility for coordinating compliance with the measures of this program lies with the Ministry of Finance, which will coordinate program implementation through the Debt Policy Directorate. For AML/CFT matters, strategic coordination will take place between the Ministry of Finance, SEPRELAD, and the Board of Supervisors. Other necessary measures for managing this operation linked to interagency coordination are detailed in paragraphs 2.5 and 2.6. These measures are associated with the technical cooperation operations mentioned in this document, especially ATN/AA-116580-PR and ATN/OC-17502-PR. In addition to the actions arising from these technical cooperation operations are those that might be considered

appropriate to promote throughout the program or those stemming from the reforms that the country adopts by its decision in connection with the transparency and integrity agendas.

- 3.4 **Special contractual clauses precedent to the sole disbursement of financing.** The disbursement of the sole tranche is subject to compliance with the policy reform conditions, as established in the policy matrix (Annex II), the [policy letter](#), and the conditions set forth in the loan contract.

**B. Summary of results monitoring arrangements**

- 3.5 **Monitoring.** The program's implementation will be monitored by the Ministry of Finance's Debt Policy Directorate. The borrower and the Bank will hold semiannual meetings to review compliance with the requisite conditions. To that end, a [monitoring and evaluation plan](#) was developed to monitor the outcomes. The instruments comprising this plan are as follows: (i) policy matrix (Annex II); (ii) [means of verification matrix](#); and (iii) results matrix (Annex III). These instruments set the key parameters for evaluation and oversight of program outcomes. The executing agency will be responsible for monitoring and following up on the outcomes of the operation in order to duly inform the Bank.
- 3.6 **Evaluation.** The program proposes that a quasi-experimental impact assessment be conducted on the effects of implementing the electronic bidding and contract monitoring modules. The design will offer a robust strategy for identifying program allocation in the achievement of outcome indicators 2.1 and 2.2 of the results matrix. To this end, the evaluation will use 10,000 public procurement processes as a basis. These processes were carried out by 307 different government entities that have at least one operational contracting unit in charge of managing procurement, from receipt of contract requirements to contract signature. The rest of the outcome indicators that focus on financial and information transparency will be evaluated using the before-and-after comparison method (see the [monitoring and evaluation plan](#)).
- 3.7 The international literature and experience reviewed suggest that the previously noted policy actions (and their corresponding output indicators in the results matrix) supported as part of this operation contribute to the expected program outcomes. In particular, there is evidence that legislative measures that guarantee access to public information and open data increase responses to requests for information received by the national public administration and that establishing electronic systems for the management of public works contracts, through legal provisions, ensures their increased use for the execution of public works expenditure. For more information, see the [monitoring and evaluation plan](#) and [literature review of sector knowledge](#), which offers a list of recent academic literature that analyzes the correlation between access to information, transparency, and increased integrity.

#### **IV. POLICY LETTER**

- 4.1 **Policy letter.** The Bank and the Paraguayan government agreed on the policy commitments to be supported under this program. They are set out in the policy matrix (Annex II), the means of verification matrix, and the results matrix (Annex III). The [policy letter](#) ratifies the government's commitment to the objectives and actions envisaged for the entire programmatic operation.

Development Effectiveness Matrix		
Summary		PR-L1161
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Public registries strengthened (#)* -Accountability institutions strengthened (#)* -Business environment reforms enacted (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2958	Strengthen public management capabilities
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.4
3.1 Program Diagnosis		1.4
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		8.6
5.1 Monitoring Mechanisms		1.1
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB’s involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes  Supporting the Integrity Agenda in Paraguay (ATN/OC-17502-PR) and Support to the Transparency Strategy of Paraguay (ATN/AA-16580-PR)

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

**Evaluability Assessment Note:**

*The main objective of the operation is to contribute to greater transparency in Paraguay.*

*In order to achieve this goal, this loan defines an approach on three specific areas in which the project intervenes. The focus of the first area is the improvement on the efficacy of access to public information. The second area is the improvement in the efficiency in public resources management. The third area is the improvement in the efficacy in financial supervision in the country.*

*Each of these areas defines a component. Additionally, the project includes a description of the regulatory gaps regarding the FATF recommendations and efficiency gaps in public resources management.*

*The project does not provide for an economic analysis based on the exception provided for this type of loan.*

*The monitoring is based on reports from the Minister of Finance. The monitoring and evaluation plan includes an impact evaluation of the effects of implementing the e-bidding and contract tracking modules. The impact evaluation relies on a quasi-experimental methodology (Difference in Difference) that will allow robust evidence to be generated in the effect of the results 2.1 and 2.2 of the Result Matrix (MR). The remaining results not reached by the impact evaluation will be measured by the before and after method.*

*There are two risks classified as medium. The risks identified in the program are related to coordination and communication problems of the multiple actors involved, and the reputational risk due to the country's performance on transparency indicators. Therefore, the approval of a technical cooperation to support aspects of coordination and communication of the transparency agenda, the prioritization and advance in key legal reforms, and the promotion of the GAFILAT assessment, among others, will be implemented as part of the mitigation efforts.*

## POLICY MATRIX

<b>Program objective:</b>	The program's objective is to contribute to greater transparency in Paraguay by improving efficiency: (i) in access to public information; (ii) in the management of public resources; and (iii) in financial supervision.
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Components/ Policy objectives	Policy conditions Programmatic I	Status of Compliance with conditions Programmatic I*	Trigger mechanisms Programmatic II
<b>Component 1: Macroeconomic stability</b>			
Macroeconomic stability	1.1 Maintenance of a macroeconomic context consistent with the program objectives as established in this policy matrix	Fulfilled	1.1 Maintenance of a macroeconomic context consistent with the program objectives as established in this policy matrix
<b>Component 2: Strengthening access to information and open government policies</b>			
Contribute to greater efficiency in access to public information by citizens and economic actors	2.1 Adoption of the Fourth Action Plan on Open Government to be presented to the Open Government Partnership	Fulfilled (2019 Q1)	2.1 Compliance with at least 40% of the 30 commitments in the Fourth Action Plan on Open Government of the Republic of Paraguay within the scope of the executive branch
	2.2 Adoption of regulations on access to public information for processing access to information requests filed with the Ministry of Finance	Fulfilled (2019 Q1)	2.2 Drafting and adoption of a report on the access to information requests received, specifying the number and outcome of such requests
	2.3 Adoption of an accountability manual for executive branch agencies	Pending (2019 Q3)	2.3 Adoption of the accountability manual by at least four executive branch agencies
<b>Component 3: Strengthening transparency in the use of public resources</b>			
Strengthen efficiency in the management of public resources, with a focus on public investment and goods and services procurement and contracting projects	3.1 Incorporation of the obligation to periodically inform the Directorate of Public Investment Systems of government agencies and entities that carry out projects on the physical and financial progress committed to in its multiyear execution plan	Fulfilled (2019 Q1)	3.1 Adoption of a resolution that regulates the methods, deadlines, and procedures for sending information to the Public Investment System Directorate



Components/ Policy objectives	Policy conditions Programmatic I	Status of Compliance with conditions Programmatic I*	Trigger mechanisms Programmatic II
	3.2 Adoption of an electronic bidding module to generate bidding requirements and conditions in public procurement processes for goods	Pending (2019 Q3)	3.2 Preparation of a National Public Contracting Directorate [DNCP] report stating that electronic bidding is used by at least 25% of executive branch agencies and entities
	3.3 Adoption of a mandatory contract follow-up system in the Public Procurement Information System for the contracting authorities of the executive branch governed by the Public Procurement Law	Pending (2019 Q4)	3.3 Implementation of the contract follow-up module in at least 25% of the contracting authorities of the executive branch governed by the Public Procurement Law
	3.4 Adoption of a transparency and accountability system that publishes the budget in accessible formats and in language that is easily understood by citizens (Citizen Budget)	Fulfilled (2019 Q4)	3.4 Implementation of the Citizen Budget project through its publication on the Ministry of Finance website
<b>Component 4: Strengthening of financial transparency</b>			
Enhance efficiency in financial supervision and reduce transaction costs by adopting measures aligned with the relevant FATF recommendations	4.1. Preparation of a preliminary draft law to update the risk prevention and mitigation system for asset laundering activities	Fulfilled (2018 Q4)	4.1 Submission to Congress of the draft law that updates the system for preventing and mitigating risks involved in acts performed for the purpose of asset laundering
	4.2. Preparation of a preliminary draft law to adopt a legal regime for the identification and registration of end beneficiaries, in accordance with FATF recommendations 24 and 25	Fulfilled (2019 Q1)	4.2 Submission to Congress of the draft law for the identification and registration of end beneficiaries, in accordance with FATF recommendations 24 and 25
	4.3. Preparation of a draft resolution to identify and manage risks associated with clients and end beneficiaries who are politically exposed persons, in accordance with FATF recommendations 12 and 22	Fulfilled (2019 Q2)	4.3 Adoption of a system that generates information for regulated institutions regarding the criteria and context applicable to politically exposed persons



Components/ Policy objectives	Policy conditions Programmatic I	Status of Compliance with conditions Programmatic I*	Trigger mechanisms Programmatic II
	4.4. Creation of a Board of Supervisors for Regulated Institutions under the Anti-money Laundering (AML)/Countering the Financing of Terrorism (CFT)/Countering Proliferation of Arms of Mass Destruction (CFP) System in Paraguay (Board of Supervisors) with the aim of strengthening the implementation of the relevant international best practices, and ensuring their effectiveness	Fulfilled (2019 Q2)	4.4 Preparation of an annual report by the chairperson of the Board of Supervisors outlining the general policy agreements reached as a result of the Board's work

## RESULTS MATRIX

<b>Program objective:</b>	The program's objective is to contribute to greater transparency in Paraguay by improving efficiency: (i) in access to public information; (ii) in the management of public resources; and (iii) in financial supervision.
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### EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
<b>Outcome 1: Efficient access to public information</b>										
1.1. Percentage of responses to requests submitted to the Ministry of Finance's Access to Public Information Office resolved favorably relative to the number of requests received	Requests for access to public information resolved favorably/total requests for access to public information	70%	2018	75%	75%	80%	85%	85%	Paraguay's <a href="#">One-stop Access to Public Information Portal</a>	Before-and-after comparison method. Regarding the baseline: According to official statistics, 704 requests were received, 613 of which were resolved favorably. The progress made by Argentina (which was able to increase the percentage of such requests that were resolved favorably from 81.2% in 2015 to 91.7% <sup>1</sup> in 2018) was used as a point of reference.
<b>Outcome 2: Efficient management of public resources</b>										
2.1. Percentage of Paraguay's central government agencies using electronic bidding for procurement activities/total central government agencies and entities that conduct procurement activities	Government agencies and entities using electronic bidding/total government agencies and entities	4%	2019	20%	30%	40%	50%	50%	DNCP report	Difference-in-differences method (with random sample)  Government agencies and entities are those covered by Article 1 of Law 2,051

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
2.2 Percentage of central government agencies covered by Law 2,051 using the public contract management module/total central govt. agencies that conduct procurement activities	Govt. agencies and entities using the public contract management module/total govt. agencies and entities that conduct procurement activities	10%	2019	20%	30%	40%	50%	50%	DNCP report	Difference-in-differences method (with random sample)  The govt. agencies and entities are those covered by Article 1 of Law 2,051.
2.3 Percentage of govt. agencies and entities that publish inquiries from potential bidders regarding their bidding requirements and conditions	Govt. agencies and entities that publish inquiries/all govt. agencies and entities	4%	2019	20%	40%	60%	80%	80%	National Public Contracting Directorate [DNCP] report	Before-and-after comparison method  The govt. agencies and entities are those covered by Article 1 of Law 2,051.
2.4. Average number of days between submission and approval of National Public Investment System [SNIP] projects in the Ministry of Finance	Simple average of the number of days between the creation and approval date for each project	4.3	2018	3.3	3	2.5	2	2	SNIP annual reports, Ministry of Finance	Before-and-after comparison method.  If the project is approved the same day, it is counted as one day.
<b>Outcome 3: Efficient financial supervision</b>										
3.1 Percentage of suspicious operation reports (SORs) from banks brought before the courts	Number of SORs from banks brought before the courts/total number of SORs received from banks	3%	2018	5%	7%	9%	11%	11%	SEPRELAD	Before-and-after comparison method

### OUTPUTS

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final Target	Means of verification	Comments
Component 2. Strengthening access to information and open government policies									
2.1. Fourth Action Plan on Open Government adopted	Document (plan)	0	1	0	0	0	1	Copy of the plan published in the Official Gazette of the Republic of Paraguay, Law 1,341/2019	This Fourth Action Plan on Open Government for Paraguay consists of 38 specific commitments for the country's gradual alignment with the principles of the Open Government Partnership, which the country joined in 2011.
2.2. Regulations on Access to Public Information, No. 38/2019, adopted	Regulations	0	1	0	0	0	1	Copy of Regulations 38/2019 published by the Ministry of Finance's Anti-Corruption Directorate	These regulations also support further implementation of the Open Government Plan 2018-2020, particularly with respect to the processing of access-to-information requests filed with the Ministry of Finance.
2.3. Accountability manual for agencies of the executive branch adopted	Document (manual)	0	1	0	0	0	1	Copy of the manual published in the Official Gazette of the Republic of Paraguay	This decree will further the implementation of commitment 22 of the Open Government Plan 2018-2020 for Paraguay through the adoption of a mandatory accountability manual to be used by government.
Component 3. Strengthening transparency in the use of public resources									
3.1. Incorporation under the Budget Law of the obligation to periodically inform the Directorate of the Public Investment System of govt. agencies and entities that execute projects on the physical and financial progress committed to in its multiyear execution plan adopted	Specific article incorporated into Budget Law	0	1	0	0	0	1	Copy of the publication of Art. 63, Law No. 6,258, of the 2019 National General Budget in the Official Gazette of the Republic of Paraguay	This article sets out the obligation for executing agencies of the State to provide information on their degree of physical and financial execution.

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final Target	Means of verification	Comments
3.2. Electronic bidding module for generating bidding requirements and conditions in public procurement processes for goods adopted	Software module	0	1	0	0	0	1	Copy of DNCP resolution	This module will spell out the performance parameters of the open and electronic public procurement mechanism of the DNCP, as well as the conditions that bidders must meet in the public procurement of goods. The module will be considered implemented when at least one user uses the software and confirms that it is working properly.
3.3. Public Procurement Information System's contract management system adopted	Software system	0	1	0	0	0	1	Copy of DNCP resolution	This system will connect the public procurement system with the SNIP project database, in order to integrate DNCP contractual information with information on the physical and financial monitoring of projects managed by the SNIP. The aim will be to conduct a comprehensive monitoring of projects, from bidding to project close. The system will be considered implemented when at least one user uses the software and confirms that it is working properly.
3.4. Transparency and accountability regime adopted	Resolution	0	1	0	0	0	1	Copy Min. of Finance Resolution 259/2019	The purpose of this budget transparency regime is to disclose budget information to citizens and to generate tools that will enable citizens to provide feedback on budget execution.

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final Target	Means of verification	Comments
<b>Component 4. Strengthening of financial transparency</b>									
4.1. Preliminary draft law to update the risk prevention and mitigation system prepared	Preliminary draft law	0	0	1	0	0	1	Copy of note by the Secretariat for the Prevention of Asset Laundering [SEPRELAD] attaching the preliminary draft law	This preliminary draft law aims to improve interagency coordination of the authorities responsible for combating money and asset laundering (mainly SEPRELAD). This is to promote increased effectiveness of the anti-money laundering (AML)/countering the financing of terrorism (CFT) regime in the country, especially with respect to risk prevention and mitigation, for improved compliance with FATF recommendations in that regard.
4.2. Preliminary draft law to adopt a legal regime for the identification and registration of end beneficiaries prepared	Preliminary draft law	0	0	0	1	0	1	Copy of SEPRELAD note attaching the preliminary draft law	This preliminary draft law aims to improve interinstitutional coordination of authorities responsible for combating money and property laundering (mainly SEPRELAD). This is to promote increased effectiveness of the AML/CFT regime in the country, especially with respect to the identification of final beneficiaries, for improved compliance with FATF recommendations in that regard.
4.3. Draft resolution for the identification and management of risks associated with clients and end beneficiaries who are politically exposed persons (PEPs) prepared	Draft resolution	0	0	0	0	1	1	Copy of SEPRELAD note attaching draft resolution	This draft resolution aims to improve interinstitutional coordination of the authorities responsible for combating money and asset laundering (mainly SEPRELAD). This is to promote increased effectiveness of the AML/CFT regime in the country, especially with respect to the identification and management of risks associated with PEPs, for improved compliance with FATF recommendations in that regard.

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final Target	Means of verification	Comments
4.4. Board of Supervisors for Regulated Institutions, components of the AML/CFT/Countering Proliferation of Arms of Mass Destruction (CFP) created	Board of Supervisors decree	0	0	0	1	0	1	Copy of the publication of Decree 1,548/2019 in the Official Gazette of the Republic of Paraguay	This preliminary draft law aims to improve interagency coordination of the authorities responsible for combating money and asset laundering (mainly SEPRELAD). This is to promote increased effectiveness of the AML/CFT regime in the country, especially with respect to the supervision of regulated institutions, for improved compliance with FATF recommendations in that regard.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Paraguay. Loan \_\_\_\_/OC-PR to the Republic of Paraguay  
Program to Support the Transparency Agenda in Paraguay

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support the Transparency Agenda in Paraguay. Such financing will be for an amount of up to US\$90,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2019)