

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

SUPPORT FOR THE NATIONAL MSME PLAN: BUSINESS DEVELOPMENT SERVICES TO BOOST THE PRODUCTIVITY OF PARAGUAYAN BUSINESSES

(PR-L1165)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Juan Pablo Ventura (CTI/CPR), Project Team Leader; Gabriel Casaburi (CTI/CAR), Alternate Project Team Leader; Gustavo Crespi (CTI/CPE); José Miguel Benavente (CTI/CCH); Fernando Glasman and Jorge Luis González (VPC/FMP); Alonso Chaverri-Suárez (LEG/SGO); Claudia Piras (SCL/GDI); Claudia Hernández (CSD/CCS); Emily Kelly (IFD/CTI); and Gustavo Baruj and Ximena Moya (consultants).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROGRAM SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problem addressed, and rationale	1
B.	Objectives, components and cost	9
C.	Key results indicators	14
II.	FINANCING STRUCTURE AND MAIN RISKS	15
A.	Financing instruments	15
B.	Environmental and social safeguard risks.....	16
C.	Other key risks and issues.....	16
III.	IMPLEMENTATION AND MANAGEMENT PLAN	17
A.	Summary of implementation arrangements	17
B.	Summary of arrangements for monitoring results	18

APPENDICES

Proposed resolution

ANNEXES	
Annex I	Summary Development Effectiveness Matrix
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

REQUIRED LINKS	
1.	Multiyear execution plan/annual work plan
2.	Monitoring and evaluation plan
3.	Procurement plan

OPTIONAL LINKS	
1.	Program economic analysis
2.	Program Operating Regulations
3.	Safeguard policy filter and safeguard screening form

ABBREVIATIONS

CORFO	Corporación de Fomento de la Producción
ICB	International competitive bidding
IMF	International Monetary Fund
IPB Survey	Encuesta de Innovación de Empresas Paraguayas [Innovation in Paraguayan Businesses Survey]
LIBOR	London Interbank Offered Rate
MIC	Ministerio de Industria y Comercio [Ministry of Industry and Commerce]
MSB	Microenterprise and small business
MSMEs	Micro, small, and medium-sized enterprises
NMP Plan	National Micro, Small, and Medium-sized Enterprise Plan
PEU	Program execution unit
SCSP	Sistema de Contrataciones Públicas de Paraguay [Paraguayan Public Sector Procurement System]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SMEs	Small and medium-sized enterprises

PROGRAM SUMMARY
PARAGUAY
SUPPORT FOR THE NATIONAL MSME PLAN:
BUSINESS DEVELOPMENT SERVICES TO BOOST THE PRODUCTIVITY
OF PARAGUAYAN BUSINESSES
(PR-L1165)

Financial Terms and Conditions				
Borrower:		Flexible Financing Facility ^(a)		
Republic of Paraguay		Amortization period:	24 years	
Executing agency:		Disbursement period:	6 years	
The borrower, through the Ministry of Industry and Commerce		Grace period:	6.5 years ^(b)	
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	15 million	100	Credit fee:	^(c)
			Inspection and supervision fee:	^(c)
			Weighted average life:	15.11 years
Total:	15 million	100	Approval currency:	U.S. dollar
Program at a Glance				
<p>Program objective/description: The program's general objective is to help raise the productivity of micro, small, and medium-sized enterprises (MSMEs). Its specific objectives are to: (i) increase training and technical assistance opportunities for MSMEs by providing them with business development services; and (ii) enhance the innovation potential of MSMEs by providing them with sector technology services.</p>				
<p>Special contractual conditions precedent to the first disbursement of the loan: The borrower will demonstrate to the Bank's satisfaction that: (i) the program Operating Regulations have been approved and entered into effect under the terms previously agreed upon with the Bank; and (ii) the executing agency has hired or appointed, under the terms agreed upon with the Bank, the staff of the program execution unit, to include, at minimum, a general program coordinator, a financial specialist, a procurement specialist, and a legal specialist responsible for contracts (paragraph 3.5).</p>				
<p>Special contractual conditions for Component 3: Prior to executing the scholarship-related activities described in Component 3 of the program, the borrower will have presented evidence, to the Bank's satisfaction, that the subexecuting agreement between the executing agency and the Ministry of Finance for awarding post-graduate training scholarships to individuals in the areas of MSME development and policy, has been signed and entered into effect, under the terms agreed upon previously with the Bank (paragraph 3.6).</p>				
Exceptions to Bank policies: None				
<p>Challenges:^(d) SI <input type="checkbox"/> PI <input checked="" type="checkbox"/> EI <input type="checkbox"/></p>				
<p>Crosscutting themes:^(e) GD <input type="checkbox"/> CC <input checked="" type="checkbox"/> IC <input checked="" type="checkbox"/></p>				

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

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

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

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 Paraguay has one of the region's most dynamic economies and a solid macroeconomic position.¹ The 4.4% average increase in gross domestic product (GDP) during the last decade was more than double the average for Latin America. Between 2010 and 2019, per capita GDP increased by 26%, from US\$4,343 to US\$5,451 (based on data of Paraguay's Central Bank). This recent economic growth, however, has been insufficient to close the productivity gap between the Paraguayan economy and the developed world. Total factor productivity of the Paraguayan economy is currently 45% that of the United States economy—a figure comparable to twenty years ago.² As a result of external and climate shocks, GDP failed to grow in 2019, accounting for a 3.4% drop in GDP from the previous year. Owing to the COVID-19 pandemic, the economy is projected to contract by up to 5% in 2020, according to International Monetary Fund (IMF) projections, but should reactivate in 2021 with potential grow of more than 5%. These projections, however, are sensitive to developments associated with the pandemic and its economic and social impacts, both in Paraguay and its trading partners. Specifically, micro, small, and medium-sized enterprises (MSMEs) have posted a significant decrease in sales, underscoring the negative impact of the factors indicated in this section (paragraphs 1.3 through 1.15). The heterogeneous structure of the Paraguayan economy, as reflected by the wide disparity in productivity between businesses of various sizes, is a serious issue that will need to be addressed in order to close the productivity gap and recover growth under more challenging external conditions.
- 1.2 There is a gap in labor productivity³ between Paraguayan businesses and international benchmarks, both in the aggregate and between segments. The productivity of Paraguayan businesses compared to businesses in the United States is 0.34,⁴ whereas the difference in productivity between microenterprises and large corporates is 8.41 in Paraguay, compared to 1.21 in the United Kingdom; 1.78 in Chile; and 4.05 in Mexico.⁵ MSMEs account for a large share of businesses (97%) and 61% of employment. However, consistent with their low productivity, MSME invoicing rates are low (10%).⁶
- 1.3 **Problems addressed and causal factors.** The main problem to be addressed is the low productivity of Paraguayan MSMEs.⁷ Paraguay's ability to achieve the goals set out in the National Development Plan 2030 is affected by the gap between the developed countries and the countries of Latin American and the

¹ IMF. Paraguay: 2017 Article IV Consultation-Staff Report, July 2017.

² Penn World Table 9.0.

³ Measured as the ratio of annual sales to the number of employees. This metric is applied at the corporate level in the absence of data required to determine factor productivity.

⁴ Source: National Economic Census (CNE) 2011 and Survey of Business Owner and Self-employed Persons, United States Census, 2012.

⁵ Sector note on Competitiveness and Innovation: Towards an Inclusive Innovation System, IDB, 2014. In terms of size, the ranges in Paraguay are: microenterprises (1 to 10 employees); SMEs (10 to 50 employees); and large corporates (more than 50 employees), National Economic Census 2011.

⁶ National MSME Plan, based on data of the 2011 National Economic Census data.

⁷ For purposes of the program, the definition of the term MSME is the definition set forth in [Law 4,457/2012](#), and as businesses are defined under [Law 5,669/2016](#).

Caribbean, especially those related to the strategic priority of inclusive economic growth.⁸ The main factors underlying the phenomenon of generalized low productivity and the significant gap between MSMEs and large corporates include the former's limited access to technical assistance services, business training, and their low investment in innovation. Other relevant factors include to the institutional framework that guides public policies and institutional capacity to implement them.

- 1.4 **Low level of investment in technical assistance and business training services.** Paraguay has the lowest rate of participation in the region (0.2%) in technology extension programs based on business development services.⁹ Aside from Bolivia, participation rates of neighboring countries exceeded Paraguay's by almost 10 times (Uruguay, 3%, Argentina 2.4%, Chile 1.8%).¹⁰ During preparation of the National Micro, Small, and Medium-sized Enterprise Plan (NMP Plan),¹¹ two areas related to these services were identified that presented the most difficulties for MSMEs: (i) business training; and (ii) technical assistance.
- 1.5 **Business training.** The MSMEs and organizations consulted indicated that training for middle management is insufficient and there is no entrepreneurial training.¹² These constraints affect decisions regarding production, commercialization, and financing. For small and medium-sized enterprises (SMEs), the lack of educational services in these areas forces them to develop internal training mechanisms.
- 1.6 **Technical Assistance.** Oftentimes, companies do not use technical assistance services due to their high costs, distrust of service providers, and lack of knowledge of mechanisms to access the technical assistance market.¹³ Among entrepreneurs and startups, most of the demand is for support services to improve the marketing of their business. Nevertheless, they report that the supply of such services is inadequate.
- 1.7 These phenomena not only impact MSMEs but also entrepreneurs: local evidence suggests that 35% of the latter either do not have or are unaware of tools to support business startups, and 34% say that the lack of training is the second leading

⁸ With a view to making headway on the strategic priority of inclusive growth, the 2030 National Development Plan points to, *inter alia*, strategies for competitiveness and innovation, regional expansion, and product diversification.

⁹ Business development services will assist MSME to improve their performance, they include: training, technical assistance, technology transfers, marketing, mentoring, quality.

¹⁰ Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation, IDB, 2014.

¹¹ A total of 40 businesses and startups participated in six focus groups. The participants were selected at random from the National MSME Registry of the Ministry of Industry and Commerce (MIC) (3,945 enterprises from the entire country and spanning all sectors, representing 2% of the total). Meetings were held with leading financial institutions, support organizations, and universities.

¹² According to the 2016 Innovation in Paraguayan Businesses Survey [EIEP] 2016 (IPB Survey), 8.7% of innovative enterprises invest in training, which is low compared to rates of its neighboring countries, i.e. Argentina, 51.8%; Brazil, 62.8%; and Uruguay, 35.9%. Summary Report of the 2015 UNESCO Institute of Statistics Innovation Data Collection.

¹³ According to the 2016 IPB Survey, 6.4% of innovative enterprises contract technical assistance, which is low compared to the rates of its neighboring countries, i.e. Argentina, 14.7%; Brazil, 15.6%; and Uruguay 12.2%. Summary Report of the 2015 UNESCO Institute of Statistics Innovation Data Collection.

cause of business failure.¹⁴ There are examples of supportive policies in the region that offer mentoring and specialized services that target product and process innovation.¹⁵

- 1.8 The low levels of investment in business development services are associated with information and coordination failures in these markets. Businesses are unfamiliar with the mechanisms used to access such services and their providers do not tailor their products to the needs of specific market segments. Moreover, companies point to the lack of forums and institutions to facilitate linkages between the parties.¹⁶
- 1.9 **Low level of MSME linkage with underdeveloped technology service offerings.** Companies demonstrate a limited capacity to innovate¹⁷ and there are significant differences between large (54%), medium-sized (38%), and small enterprises (11%).¹⁸ A full 93% of the total investment in innovation activities is for the procurement of equipment and machinery.¹⁹ Experience in more developed countries shows that the companies that innovate most achieve this by associating with other businesses and institutions (e.g. research centers and technology institutes) in their sector.²⁰
- 1.10 Paraguayan businesses have few linkages compared to innovators (100% of which have linkages) and non-innovators (5.4% have them). The level of linkages/partnerships²¹ with sources of knowledge is low: consultants (15.3%), universities (6.2%), laboratories/research and development enterprises (4.7%), and public agencies (3.9%).²² Collaboration data gleaned from surveys on innovation in Latin America show that Paraguay is below the regional average (13% versus 22%) in terms of collaboration with universities,

¹⁴ Annual entrepreneurial survey (2019); Association of Paraguayan Entrepreneurs. The Guidelines for Collecting, Reporting, and Using Data on Innovation (Oslo Manual) defines innovative activities as "all scientific, technological, organizational, financial and commercial activities which are, or are intended to, lead to the implementation of innovations."

¹⁵ Seed Capital Program, Corporación de Fomento de la Producción (CORFO), Chile.

¹⁶ IPB Survey, 2016; and NMP Plan, 2018.

¹⁷ The Global Competitiveness Report 2018, highlights this deficiency, ranking Paraguay 119th out of 140 countries in innovative business capacity at the global level. Argentina is ranked 54th; Brazil, 40th; Chile, 53rd; and Uruguay, 70th. Global Competitiveness Index, [World Economic Forum](#) 2017-2018. According to the harmonized database of Latin American Innovation Surveys, the density of regional SMEs that invest in innovation in Paraguay is below the Latin American and Caribbean region average (17% in research and development and 38% in technology adoption).

¹⁸ General Statistics, Surveys and Census Department, National Council for Science and Technology, IDB (2017), National Survey of Innovative Activities 2014 to 2016. The average gap in Latin America and the Caribbean is less: 63% large and 40% SMEs (Latin American Innovation Surveys database 2019).

¹⁹ Paraguayan Survey of Business Innovation (IPB Survey) 2016.

²⁰ See [Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation](#). IDB, 2014.

²¹ The links to entities with sources of knowledge take many forms, such as joint ventures with other organizations, licensing of technology, technical assistance provided by public institutions or technical assistance with universities for research projects. Machikita and Ueki, Innovation in Linked and Non-linked Firms: Effects of Variety of Linkages in East Asia (2010).

²² IPB Survey 2016.

scientific/technological institutes, and organizations that support innovation.²³ This can also be observed in the World Economic Forum's Global Competitiveness Index, which ranks Paraguay 124th out of 140 countries (Argentina 109th, Brazil 62nd, Uruguay 105th).

- 1.11 MSMEs and entrepreneurs surveyed said that they seek out technology on their own, as there are no facilitators to match their needs with support services or peer groups, and only a few private institutions or companies that provide or facilitate access to applied research, technology, or networking forums.
- 1.12 These issues are observed at the level of productive sectors, where low levels of innovation, research, and development have been identified, the presence of interface institutions is minimal, coordination and planning processes are weak, and no mechanisms are in place to improve the quality of procedures and products.
- 1.13 Different sources point to a number of information and coordination failures at both the level of knowledge and the talent market, as businesses report access barriers and inadequate offerings, respectively, and the supply does not appear to accommodate their needs.
- 1.14 **Challenges to women's participation in business.** Although Paraguay does not collect statistics on women's participation in business, the [Enterprise Surveys 2017](#) show that women's participation in managerial roles is slightly below the regional average (19.6% versus 21.4%). A disparity is observed between businesses that launch new products on the market (an innovation-related indicator) based on the gender of the company's general manager: 55% for companies with a male general manager compared to 48% for companies with a female general manager. Nevertheless, information sources will need to be improved in order to better understand these challenges.
- 1.15 **The MSME sector and the challenge of climate change.** The low levels of technical assistance and business training in the MSME sector also affects environmental and sustainability considerations, and further exacerbate MSMEs' climate change mitigation and adaptation actions to counteract the phenomenon's adverse effects. The [Third National Communication of Paraguay to the United Nations Framework Convention on Climate Change](#) and the [Second Semiannual Update of the Report of Paraguay on Climate Change](#) contain aggregated information on emissions and mitigation measures (at the sector and subsector levels), but there are no data or indicators by business size. Similarly, since agriculture is the country's greatest contributor to climate change (associated with land use and change in land use), mitigation and adaptation studies have focused on those sectors. Consequently, there is little information regarding the contribution of MSMEs to climate change and that sector's impact. This results in a lack of clear strategies and effective measures for a very key sector of the Paraguayan economy, since the formal and periodic production of data is another area that requires improvement.

²³ This includes surveys in Argentina, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay. The cooperation of SME market agents in Paraguay is slightly higher than the regional average (46% versus 43%).

- 1.16 **Initial strengthening of the policy framework and regulations for the sector.**
The Paraguayan government revised the regulatory framework of MSME promotion policies with two laws: Law 4,457 (MSME Act²⁴) and Law 5,669 (Law for Promotion of Entrepreneurial Culture),²⁵ which tasked the Ministry of Industry and Commerce (MIC) with the steering role in and responsibility for these areas. Enacted in 2012, Law 4,457 created the Office of the Deputy Minister of MSMEs and noted the need for a NMP Plan. Law 5,669 subsequently created the National Office for Entrepreneurship, a subagency of the Office of the Deputy Minister of MSMEs. Under the new institutional structure, MIC began to strengthen the institutional structure and develop a regulatory framework to promote the improvement of MSME productivity.
- 1.17 Despite these advances, Paraguay ranks 120th out of 137 countries with respect to the time required to start a business.²⁶ MSMEs report a lack of information on procedures, bureaucratic burden of registries and other formalization procedures, high tax costs for new businesses, and slow, expensive, and centralized technical procedures.²⁷
- 1.18 In 2017, the Paraguayan government sought Bank support to prepare the National MSME Plan,²⁸ which follows the guidelines of the 2030 NDP Plan. Its formulation provided an organizing instrument for sector policy, validated the aforementioned deficiencies in the MSME sector, and proposed a public policy designed to: (i) improve productivity; (ii) facilitate technological modernization; and (iii) improve the regulatory framework's contribution to productivity.²⁹ Moreover, the NDP Plan identified challenges in two areas that impact the quality of policy and smaller businesses: (i) the regular collection of information and analysis of the MSME sector and (ii) advanced (graduate-level) human capital training in public policy for the sector and MSME management.³⁰
- 1.19 After extensive consultation with the sector, the government validated the NDP Plan and requested support from the Bank to implement actions aimed at boosting MSME productivity, especially in view of the challenges the sector will face during the post COVID-19 recovery period, which underscores the importance of that support.

²⁴ [The Ministry of Industry and Commerce](#) is the responsible authority.

²⁵ Created by [Law 5,669/2016 for Promotion of Entrepreneurial Culture](#). It was formally established in 2018 by a resolution of the Ministry of Industry and Commerce resolution.

²⁶ Global Competitiveness Report 2018, World Economic Forum.

²⁷ See footnote 10.

²⁸ This activity, financed with funds of the Bank's Country Office-Paraguay, covered: (i) analysis of information from the 2011 Economic Census, the Permanent Household Survey, and the IPB Survey (2017); (ii) consultations with businesses, enterprises, public institutions, financial institutions, and business associations; and (iii) workshops with public officials (MIC and the Office of the Deputy Minister of MSMEs).

²⁹ [NDP Plan, MIC-IDB \(2018\)](#).

³⁰ MIC does not have a unit to analyze the context of the MSME policy. Moreover, there are no graduate-level programs in the country for productive sector development or MSME policy, only a graduate degree for managing family-owned businesses.

- 1.20 The Bank is currently financing operations to improve access to financing and develop innovation (loans 3354/OC-PR-1, -2, and -3, totaling US\$30 million; and loan 3602/OC-PR for US\$10 million³¹), which predate the NDP Plan but are consistent with its guidelines.³² These are, however, crosscutting initiatives, and no significant initiatives specifically intended to improve MSME productivity have been implemented.
- 1.21 **Bank experience and lessons learned.** The Bank has supported similar programs in Paraguay and neighboring countries in recent years.³³ The following projects/programs are being implemented in Paraguay: (i) the Paraguayan Business Innovation Project (loan 3602/OC-PR), executed by the National Science and Technology Council, provides cofinancing to innovative individual or group projects (paragraph 1.20); (ii) the Investment Promotion Program (loan 3131/OC-PR for US\$10 million³⁴); and (iii) Support for Business Development Services to Paraguayan Exporting Companies II (loan 3865/OC-PR for US\$10 million³⁵), focused on the development of suppliers to attract investment and the coordination unit approach for export supply chains; and (iv) the Program for the Financing of Paraguayan SMEs (loans 3354/OC-PR-1, -2, and -3 (paragraph 1.20), which promotes financing for the SME market segment (all three of which are currently being executed by MIC). The following programs are also being satisfactorily executed: in Argentina, loans for the MSME Competitiveness Support Program (loan 2923/OC-AR for US\$50 million) and the Conditional Credit Line for Investment Projects (CCLIP) General Technological Innovation Program (CCLIP AR-X1015 for US\$750 million); and in Uruguay, loans for the Innovation Program for Productive Development (loan 3315/OC-UR for US\$40 million), and the Business Innovation and Entrepreneurship Project (loan 4329/OC-UR for US\$25 million). In the case of Chile, business development centers for MSME based on the Small Business Development Centers of the United States, were successfully established with Chilean government funding and the resulting lessons learned were included in this operation.
- 1.22 The following lessons learned from the projects described above were taken into account in the design of this program: (i) civil society and the private sector should be included in the design and implementation of MSME policy; several focus groups with MSMEs and entrepreneurs were held during the design phase, and organizations associated with MSMEs will be invited to operate the centers; (ii) governance should be clear and simple regarding roles and responsibilities; the program will coordinate MIC responsibilities with the functions of civil society

³¹ Approved by the Bank's Board of Executive Directors in 2015. Both of these operations are currently in execution.

³² In the first case, the operation provides funds through a credit line for MSME managed by Agencia Financiera de Desarrollo, a second-tier public agency; in the second, the Paraguayan Business Innovation Program (PROINNOVA) supports MSME by providing nonreimbursable financing for individual innovative projects of up to US\$120,000 or group projects of up to US\$250,000.

³³ For a description of these initiatives see: [¿Cómo repensar el desarrollo productivo? Políticas e instituciones sólidas para la transformación económica](#); and [La política de innovación en América latina y el Caribe. Nuevos caminos](#).

³⁴ Approved by the Bank's Board of Executive Directors in 2013; execution will be complete in November 2020.

³⁵ Approved by the Bank's Board of Executive Directors in 2016; first disbursement issued in August 2019.

organizations during execution; (iii) the use of competitive procedures for allocating resources and cofinancing will improve the quality of the proposals; accordingly, the selection of Productivity Centers and Sector Technology Centers (Sector Technology Centers) will be made through public competitive bidding, as will the selection of beneficiaries of nonreimbursable contributions, and projects to develop supply chains; (iv) monitoring beneficiaries has a positive impact on the allocation of funds and improves designs and incentives; the program will have an online management platform for centers and beneficiaries, as well as a mechanism for program execution unit visits to beneficiaries; and (v) the integrated production and management of data is a key tool for transparency and decision-making; the management platform will provide access to timely and quality information.³⁶ With specific regard to Paraguay, together with the above-mentioned lessons learned, the Bank's experience in the region has led it to conclude that the new support instruments need to be underpinned with development actions to ensure that potential beneficiaries and bidders fully understand the offerings and are able to prepare better quality proposals; this fact points to the need for close and recurring support mechanisms for potential beneficiaries and bidders.

- 1.23 Recent studies of MSME support programs show that they effectively improved labor productivity, sales, and employment. This is particularly true for evaluations of programs in Mexico (Nacional Financiera, Bancomext, Consejo Nacional de Ciencia y Tecnología (CONACYT), the Ministry of Labor and Social Security, and other programs of the Ministry of the Economy); Chile (Servicio Nacional de Capacitación y Empleo, CORFO, PROCHILE, Fondo Nacional de Desarrollo Tecnológico y Productivo); Colombia (Fondo Colombiano de Modernización y Desarrollo Tecnológico); and Peru (Employee and Management Training for the SME Program (BONOPYME), Guarantee Program for MSMEs (PROMIPYME), and Centros de Innovación Productiva y Transferencia Tecnológica), which show significant outcomes and impacts.³⁷ A quasi-experimental assessment of CORFO's technical assistance fund identified positive effects in terms of a 20%-increase in sales, a 9% increase in wages, and 16% increase in labor productivity measured as output per employee.³⁸ The CORFO-Associated Development Program joint evaluation resulted in a 7% increase in sales and an 8% increase in wages.³⁹
- 1.24 The impact assessment of the Argentina's SME Credit Access and Competitiveness Program (1884/OC-AR),⁴⁰ confirmed that its support improved the competitiveness of the MSMEs through positive impacts on employment, exports, business survival, and wages. The findings confirmed that the resolution of coordination failures and information asymmetries support this type of program and result in efficiency gains for MSMEs. Lastly, the impact assessment of the Support Program for Enterprise Restructuring (Argentina, loan 989/OC-AR), based on

³⁶ Project Completion Report. Enterprise Development for SMEs (loan 1349/OC-PR); Asistencias técnicas y competitividad de las MiPyMEs: Evidencia para Argentina, Castillo, Figal, Maffioli, and Ohaco. IDB 2016.

³⁷ Acevedo, G. and H. Tan, 2010.

³⁸ Tan, 2011.

³⁹ Tan, 2011.

⁴⁰ [Asistencia técnicas y competitividad de las MIPYME, evidencia para Argentina](#); Castillo, Figal Garone, Maffioli, and Ohaco; IDB, 2016.

- cofinancing of technical assistance services to promote innovation, had a positive impact on wages and the number and quality of jobs.⁴¹
- 1.25 As regards the network of MSME support centers, between 2016 and 2018, the Entrepreneurial Development Program in the Territories (led by the Servicio de Cooperación Técnica)⁴² resulted in a 26% increase in the sales of beneficiary businesses, and an increase in the efficiency of the network of centers (measured as the ratio of the increase in sales to network operating costs) from 0.79 in 2016, to 3.04 in 2018.⁴³
- 1.26 Regarding entrepreneurship, the most recent impact evaluations are for the Start Up Peru Program and Colombia's Entrepreneurship Program. The impact evaluation of the latter found that entrepreneurship programs that focused on providing entrepreneurs with mentors, access to contacts, and market access increased their sales by 2.4 times, compared to nonbeneficiaries in similar projects, and increased the number of new contracts to four.⁴⁴ The evaluation of the first five generations of the Start-up Peru Program shows that it contributed to business survival (23% greater likelihood of remaining active) and growth (increase in sales of 2.1 times) of the startups, as well as a the creation of more quality jobs (1.6 more employees and 2.1 more full-time positions) and higher wages (38% increase for beneficiary businesses).⁴⁵
- 1.27 **Coordination with other programs.** The preparation and implementation of this program will be coordinated with MIC-executed programs (paragraph 1.21), regarding complementary support activities for MSME and the program for Access to Financing for Investments in Paraguay's Agriculture Sector (loan 4885/OC-PR), through beneficiaries and sectors eligible for financing. The work with supplier networks could represent financing opportunities for IDB Invest to improve linkages between MSMEs and large companies. Regarding IDB Lab, the activities of the Ñandutí Project "Open Innovation in Paraguay" (operation ATN/ME-17739-PR) will be coordinated to provide MSMEs with access to the open innovation platform financed by that operation. In addition, a subexecution agreement will be entered into with the BECAL Scholarship Program⁴⁶ (loan 3491/OC-PR) and the program "Strengthening the National Don Carlos Antonio López Scholarship Program for Postgraduate Studies Abroad" (loan 4895/OC-PR) (paragraph 1.38).

⁴¹ [Innovation Policy and Employment. Evidence from an Impact Evaluation in Argentina](#). Castillo, Maffioli, Rojo, and Stucchi. IDB 2011.

⁴² This program established 51 centers distributed throughout the country. It assisted 20,766 businesses and created a network of 580 strategic partners.

⁴³ See: [Informe Final de Evaluación. Evaluación de Programas Gubernamentales](#).

⁴⁴ González-Urbe and Reyes, 2019.

⁴⁵ Goni and Reyes, 2019.

⁴⁶ BECAL is a public program that awards scholarships for postgraduate-level studies. Since 2015, BECAL has awarded 1,531 scholarships in specialty fields, and master's and doctoral programs. BECAL will provide the program with services for: (i) the selection of postgraduate education service providers in the area of MSME policy and development; (ii) the invitation and selection of students; and (iii) the monitoring of the students. This program will prepare the technical specifications for the postgraduate-level studies, and approve the selection of service providers and students. See paragraph 3.6 regarding the special contractual condition for execution.

- 1.28 **Strategic alignment.** This program is consistent with the second update to the Institutional Strategy (document AB-3190-2) through the challenges of productivity and innovation, since the program seeks to increase the availability of business development services for MSMEs, expand access to technical assistance and business training, and promote innovation by supporting access to technology-related services; the crosscutting themes of institutional capacity and rule of law, since the program will support the strengthening of the regulatory framework and the capacity of government agencies to administer policies that support MSMEs; and climate change and environmental sustainability, through the implementation of an indicator-based monitoring system under Component 3 (paragraph 1.38). In accordance with the [joint methodology of the multilateral development banks for tracking climate change adaptation finance](#), 1.89% of the proceeds of this operation will be invested in climate change mitigation and adaptation activities. These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals by year-end 2020. Similarly, the program contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12), through the indicator: *Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery*.
- 1.29 The program is consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), which emphasizes the need to increase private investment in innovation. It is aligned with the Sector Strategy Institutions for Growth and Social Welfare (document GN-2587-2) and the Strategy on Social Policy for Equity and Productivity (document GN-2588-4). Lastly, the operation is included in the Update of Annex III of the 2020 Operational Program Report (document GN-2991-3).
- 1.30 **Gender considerations.** The program will help generate evidence and data on the participation of women as entrepreneurs and businesswomen (paragraph 1.38), identify designs that encourage their participation, and include actions to support public policy development in this area.⁴⁷

B. Objectives, components and cost

- 1.31 The program's general objective is to help raise the productivity of MSMEs. Its specific objectives are to: (i) increase training and technical assistance opportunities for MSMEs by providing them with business development services; and (ii) enhance the innovation potential of MSMEs by providing them with sector technology services. These objectives will be achieved through the following components:
- 1.32 **Component 1. Support for MSME business development service offerings (US\$8 million).** The objective of this component is to increase the offerings of business development services for MSME. The following activities will be financed: (i) creation of Productivity Centers to provide technical assistance services to MSMEs; and (ii) nonreimbursable financing for business training and specific technical assistance.

⁴⁷ The Gender and Diversity Sector Framework Document (document GN-2800-8), IDB, 2017. This challenge is addressed by Component 3.

- 1.33 **Subcomponent 1.1. Productivity Centers (US\$7.8 million).** The objective of this component is to help enhance business development service offerings for Paraguayan MSMEs⁴⁸ by forming a national network of Productivity Centers. These are organizations that promote MSME growth and productivity gains, primarily through business development services such as technical assistance and training. These centers will be private-sector entities⁴⁹ and the network will be coordinated by the Office of the Deputy Minister of MSMEs. Nonreimbursable financing of up to US\$1.5 million will be available to cofinance projects for organizing and operating eight Productivity Centers for a period of five years. The selected Productivity Centers will provide a counterpart contribution equal to 30% of total cost of each center.⁵⁰ The centers will be selected through competitive processes that are in keeping with general criteria used in prior MSME experiences, including: (a) experience working with MSMEs (with an emphasis on women entrepreneurs and businesswomen); (b) financial and operating capacity; (c) partnerships with agents associated with the MSME sector; and (d) territorial coverage.⁵¹ Each of the centers will be comprised of a specialized technical team and have an annual budget to finance its team, as well as operating and administration costs.⁵² The centers will follow an preestablished and standardized intervention program. It will be based on good practices that have been established in similar programs in the hemisphere.⁵³ The centers will support MSMEs in preparing a diagnostic assessment and identifying and implementing a productivity improvement plan.⁵⁴ The centers will coordinate the training and territorial integration activities developed by the MIC's Office of the Deputy Minister of MSMEs. They will also facilitate the participation of women entrepreneurs and businesswomen, promoting the adoption of clean technologies in the implementation phase of the program. In view of this pioneering arrangement for the country, and in keeping with the lessons learned in other countries of the region, awareness-raising and training activities will be held on the operating methodology and processes of these types of centers with interested organizations. Each center will receive funds to refurbish its facilities (e.g. wiring,

⁴⁸ Businesses with less than fifty employees that are formally registered with the Government Revenue Service will be eligible.

⁴⁹ In the sense that they will belong to business entities, nongovernmental organizations, technology centers, and universities. See Table 1.

⁵⁰ Four centers will be located in Asunción and another four throughout the rest of the country. The location will be determined on the basis of technical considerations, including the numbers of MSMEs in the area and the presence of eligible institutions with experience supporting MSMEs and business ventures.

⁵¹ The minimum eligibility criteria are: a duly organized legal entity with a corporate purpose and activities related to productive or technology development, in operation for no less than seven years.

⁵² The minimum staffing structure of a Productivity Center includes: a director; six advisors; two executive assistants, and an administrative employee. The estimated annual budget of a center is US\$300,000. The specific criteria are set forth in the [program Operating Regulations](#).

⁵³ Their operating arrangement will be similar to the Business Centers in Chile which, in turn, are based on the Small Business Development Centers of the United States Small Business Administration. This arrangement has also been successfully implemented in other countries of the region. The methodology is based on providing standardized services to MSME by small business experts with the aim of supporting their growth and development, with clear goals and rigorous monitoring and evaluation mechanisms.

⁵⁴ The projects for enhancing productivity will not exceed one year and will focus on increasing sales, employment, and/or investment. Each MSME will be directly supported by a technical expert assigned to the center (international data suggests that one technical expert annually assists between 110 beneficiaries (United States) and 70 beneficiaries (Chile).

painting, and air-conditioning) and form a working group to provide and manage services.

- 1.34 **Subcomponent 1.2. Nonreimbursable financing for MSMEs (US\$200,000).** This subcomponent will help facilitate MSME access to technical assistance with specific limitations.⁵⁵ The proceeds of this subcomponent will be used to grant nonreimbursable financing to MSMEs that have already received assistance from a Productivity Center, but nevertheless require additional funds to accelerate the growth of their business. These grants are not to exceed US\$5,000 per beneficiary and will require counterpart funding of up to 50% from the MSME. Such funding may be used to finance services that the Productivity Centers do not provide due to their specialized nature, such as applied development and product design, adoption or incorporation of new technologies (including information and communication technologies), promotion of clean technology, and design and development of innovative marketing mechanisms. The Productivity Centers will submit MSME requests for nonreimbursable financing to the program execution unit (PEU), which will in turn consider the requests and sign agreements with the businesses selected. Nonreimbursable funds will be distributed in the order received. The mechanisms for allocating funds and how they work will be established in the program Operating Regulations.
- 1.35 **Component 2. Support for MSME innovation in productive sectors⁵⁶ (US\$4.9 million).** The objective of this component is to enhance coordination for MSME innovation in productive sectors. The activities financed are expected to promote collaborative innovation in group of sectors by developing MSME suppliers and incorporating innovation and technology in businesses in those sectors.
- 1.36 **Subcomponent 2.1. Sector Technology Centers (US\$3.9 million).** This subcomponent will promote MSME⁵⁷ collaboration in innovation in productive sectors.⁵⁸ This subcomponent is expected to cofinance the establishment of three private Sector Technology Centers⁵⁹ to help improve innovation-related activities in at least three such sectors. These are private institutions that provide technology services and support for productive innovation and will form part of a network coordinated by the Office of the Deputy Minister of MSMEs. They will provide specialized service offerings to support innovation, technology transfer (including the promotion of clean technology),⁶⁰ and applied research. The Sector Technology Centers will support these sectors with projects that include technical assistance, training, testing and analysis, innovation, and globalization services.

⁵⁵ Eligibility is limited to individuals or legal entities who have started or intend to start a business or entrepreneurial activity in Paraguay within the last two years (Law 5,669 for the Promotion of Entrepreneurial Culture).

⁵⁶ This component will apply MIC work experiences from the supply chain round tables that were held with Bank support (Program to Support Paraguayan Exports I and II (loans 1916/BL-PR and 3865/OC-PR).

⁵⁷ Eligible businesses with have less than 50 employees and be formally registered with the Government Revenue Service.

⁵⁸ A number of export-oriented productive sectors in the Paraguayan economy received support within the framework of the program "Support for Business Development Services to Paraguayan Exporting Companies" (loan 3865/OC-PR).

⁵⁹ In the sense that they will belong to the organizations selected. See Table 1.

⁶⁰ Workshops with staff of the centers and the Office of the Deputy Minister of MSMEs will promote clean technologies.

The program will conduct competitive bidding processes to offer sector institutions nonreimbursable cofinancing of up to US\$1.8 million to build and or strengthen these centers.⁶¹ The winning organizations will be required to provide counterpart funding of up to 30% of the total cost of each center.⁶² Organizations eligible to be Sector Technology Centers include business associations, technology centers, universities, educational institutions, and/or technical assistance organizations. Sector Technology Center selection criteria will include: (a) work experience in specific productive sectors (with priority for work experience with women entrepreneurs and businesswomen); (b) technical and financial capacity; (c) partnerships with sector agents or others involved in its development; and (d) territorial coverage.^{63,64}

- 1.37 **Subcomponent 2.2. Supplier development (US\$1 million).** This subcomponent aims to increase the levels of MSME innovation with a view to their integration and strengthening, as well as the consolidation of supply chains by cofinancing joint innovation-related activities to develop suppliers. Up to US\$350,000 in nonreimbursable financing will be provided to support projects that would implement and/or facilitate the certification of technical and/or quality standards, design and implement processes or other entities that work between the companies and the platforms to manage them, joint training activities, and new product development of anchor firms and suppliers. The businesses participating in the projects will cover 50% of the total cost in counterpart funding. Supplier development projects will be submitted to the PEU through the Sector Technology Centers, which in turn must have the support of supply chain anchor firms.⁶⁵ The operating arrangements of these activities are described in the program Operating Regulations.

⁶¹ The minimum structure of an Sector Technology Center includes: a director, three advisors, a technical assistant, and an administrative assistant. The annual operating cost per center is estimated at US\$390,000.

⁶² Institutions participating in bidding for Sector Technology Centers will include in their proposals a counterpart contribution comprised of financial and nonfinancial resources.

⁶³ The basic eligibility criteria are: a duly organized legal entity with a corporate purpose and activities related to productive or technology development, in operation for no less than seven years. The specific criteria are further detailed in the [program Operating Regulations](#).

⁶⁴ Each center is expected to assist 80 companies per year, providing training, technical assistance, testing and analysis, and innovation and globalization services. Regional precedents (INTI Argentina and sector centers in Colombia) suggest that the training services are more massive and present opportunities to establish linkages with MSMEs that will encourage them to use more sophisticated service lines, such as technical assistance, testing and analysis, and innovation services.

⁶⁵ This subcomponent uses an internationally tested method to engage anchor firms and suppliers in innovative activities and investments in the supply chain.

Table 1. Support instruments

Line	Allocation mechanism	Maximum financing (US\$)	Maximum counterpart (%)
Productivity Centers	Competitive bidding	1,500,000	30
Individual nonreimbursable financing to enhance productivity	Window, first in, first considered	5,000	50
Sector Technology Centers	Public competitive bidding	1,800,000	30
Supplier development	Window, first in, first considered	350,000	50

1.38 **Component 3. Strengthening MSME policy (US\$700,000).** The objective of this component is to strengthen the MSME regulatory framework and government capacity to manage the program.⁶⁶ The following activities will be financed: (i) proposals to establish or reformulate regulatory frameworks; (ii) establishment of an observatory to monitor and analyze the MSME sector and its policies; (iii) implementation of an MSME monitoring system of gender and environmental indicators⁶⁷; and (iv) training of individuals in MSME policy and development, which will entail a subexecution agreement with the BECAL Scholarship Program (loan 3491/OC-PR and the Strengthening the National Don Carlos Antonio López Scholarship Program for Postgraduate Studies Abroad, loan 4895/OC-PR; see paragraphs 1.27 and 3.6.). The studies and proposals described in subparagraph (i) above will be performed under cooperation agreements signed by the PEU and public sector agencies that regulate technical and/or administrative aspects of the MSME sector. Each agreement will finance up to US\$60,000 and cover the cost of identifying, drafting, implementing, and/or monitoring proposals to create, amend, or eliminate regulations, practices, or review authorities, and will also describe the problem or challenge it seeks to resolve with regulatory reform. The basic selection criteria for the agencies and proposals are: (i) qualitative/quantitative impact on problems of the MSME sector, and (ii) commitment of the agency to reforming regulations. Preference will be accorded to regulations that promote the participation of women entrepreneurs and businesswomen⁶⁸ and the use of clean technologies. The specific selection criteria of these agencies will be set out in the program Operating Regulations.

1.39 The policy observatory will be established under the Office of the Deputy Minister of MSMEs (paragraph 1.38(ii)) and its role will be to: (a) provide decision-making authorities with current and relevant data and analysis; (b) prepare proposals to

⁶⁶ The diagnostic assessment (paragraphs 1.14-1.20) indicates that MSME sector policy should address information and coordination failures that hinder the development of a set of public goods or collective goods that MSME policy should provide. With respect to the diagnostic assessment's design, these goods correspond to the four outputs financed under Component 3. They serve as catalysts and help improve productivity by facilitating more and better regulations and information, establishing gender and climate change indicators, and providing specific advanced human capital formation in MSME policy and management.

⁶⁷ This indicator-based monitoring system will provide MIC with updated gender and climate change data for companies, such as the percentage of women beneficiaries of technical assistance and training programs and the amount of investments in clean technologies, with the aim of improving the design and implementation of specific policies in these areas.

⁶⁸ MIC initiatives, such as the MSME identification card and [business surveys](#), show that there are opportunities to improve regulations at the Ministry level. The program may also result in a proposal to reform the legal framework by decree or legislation.

improve productive sector data collection in Paraguay and coordinate its implementation; and (c) prepare regular reports, studies, and assessments on MSME support policies. Specifically, the observatory will provide support to gather information on women's participation with respect to the ownership and management of businesses and startups, and the sector's impact on climate change⁶⁹ (paragraph 1.38(iii)). The human resources training in policies to encourage MSME development and innovation mentioned in subparagraph (iv) is designed to enhance human capital in these areas with a view to enabling public and private organizations in this field to leverage it going forward. The basic selection criteria for providers of postgraduate-level education is: (i) postgraduate educational institution formally recognized in the country of origin; (ii) postgraduate degree program (or at minimum a specialization degree) with more than five cohorts of graduates; and (iii) university or a degree program that is ranked internationally or regionally recognized. These criteria will be set out in the program Operating Regulations.

- 1.40 **Program administration.** The costs associated with the program's operation, administration, monitoring and evaluation are estimated at US\$1 million. The program's contingencies budget is US\$200,000.
- 1.41 **Beneficiaries.** The program's direct beneficiaries will be MSMEs supported by activities under Components 1 and 2, as well as public officials and students in the MSME field supported by the activities included in Component 3. Under Component 1, a total of 8,500 MSMEs are expected to benefit directly. Approximately 25% of the clients that seek support in these types of centers receive direct attention.⁷⁰ The rest are directed to other programs or are judged unqualified for such support. Approximately 800 MSMEs from at least three sectors are expected to participate in Component 2. Lastly, Component 3 is expected to finance MSME support policy training for approximately 30 specialists and public officials, and at least five public agencies responsible for regulations that affect business performance.
- 1.42 All MSMEs benefit indirectly from the program, through the expected improvements in the MSME policy of MIC; improvements in the capacity of public officials, investigators, and specialists; and a better business environment due to higher quality regulation.

C. Key results indicators

- 1.43 **Impact and expected results.** The program's anticipated impacts are: (i) an increase in MSME productivity; and (ii) an increase in the growth rate of MSME sales. The expected results of the program are: (i) an increase in private sector spending on training and technical assistance for MSME innovation, measured as the ratio of spending on training and technical assistance to the sales of the participating MSMEs; (ii) an increase in the rate of organizational innovation among MSMEs, measured as the proportional increase of participating MSMEs that adopt innovations in their organizational management; and (iii) an increase in the participating MSMEs' rate of private investment in innovation, measured as the

⁶⁹ There is limited information in this regard for the local level.

⁷⁰ Based on the performance data of a similar program in Chile.

increase in their rate of private investment in research and development and innovation with respect to sales.

Table 2. Expected impact

Impact indicator	Baseline (US\$000)	Target
Increase in MSME productivity; workforce productivity	26.9	31.5
Increase the growth rate of MSME sales; average annual sales of participating MSMEs	566.2	679.4

- 1.44 **Economic viability and robustness of program benefits.** An [economic analysis](#) of the program's main interventions was performed to estimate its potential benefits and social costs. A social discount rate of 12% was used, resulting in a net present value index of 0.4 additional dollars for every dollar invested and a 25% internal rate of return. The program's net present social value is US\$5.528 million. The sensitivity analysis shows that the most high-impact variables are the business survival rate, sales growth rate, profit margins, and average sales by MSME size.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The program is structured as a specific investment loan. The total program cost is US\$15 million, to be financed entirely with the Bank's Ordinary Capital resources. A six-year disbursement period was established, based on the following criteria: (i) past performance of the Paraguay portfolio; (ii) the technical characteristics of the program, Components 1 and 2 of which call for the selection, implementation, and operating maturation of the network of Productivity Centers and Sector Technology Centers; and (iii) the 2018 recommendation of the Office of Evaluation and Oversight to include additional time for parliamentary approval of the design of operations in Paraguay.

Table 3. Estimated program costs (US\$)

Components	IDB	Total	%
Component 1. Support for MSME business development service offerings	8,059,556	8,059,556	53.7
Subcomponent 1.1. Productivity Centers	7,859,556	7,859,556	52.4
Subcomponent 1.2. Nonreimbursable financing for MSMEs	200,000	200,000	1.3
Component 2. Support for MSME innovation in productive sectors	4,953,027	4,953,027	33.0
Subcomponent 2.1 Sector Technology Centers	3,931,414	3,931,414	26.2
Subcomponent 2.2 Supplier development	1,021,613	1,021,613	6.8
Component 3. Strengthening of MSME policy	725,640	725,640	4.8
Administration and supervision	1,010,737	1,010,737	6.7
Contingencies	251,040	251,040	1.7
Total	15,000,000	15,000,000	100

Table 4. Disbursement schedule (US\$)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
IDB	913,301	2,626,898	3,473,982	2,781,916	2,657,771	2,546,131	15,000,000
%	6.1	17.5	23.2	18.5	17.7	17	100,00

B. Environmental and social safeguard risks

- 2.2 Pursuant to the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program is classified as a category “C” operation and does not require any additional environmental or social review. The program will finance the creation and operation of Productivity Centers and Sector Technology Centers,⁷¹ which are not expected to produce adverse environmental and social impacts.

C. Other key risks and issues

- 2.3 **Development.** Disparity in the quality of services provided by the Productivity Centers and Sector Technology Centers was identified as a medium-level risk. This risk will be mitigated by preparing terms of reference and requests for proposals to hire experienced professionals for the Productivity Centers and Sector Technology Centers, who will closely monitor and supervise the performance of these centers.
- 2.4 **Public management and governance.** The following medium-level risks were identified: (i) delays in the approval of the program by the legislative branch, to be mitigated by coordination and awareness-raising activities concerning the draft legislation with key members of the legislative branch; and design and implement a communication strategy; and (ii) delays in administrative approvals and procedures of MIC and the Productivity Centers and Sector Technology Centers, to be mitigated with training in the technical and administrative procedures of MIC and the Productivity Centers and Sector Technology Centers.
- 2.5 **Sustainability.** MIC has expressed interest in continuing this program in the medium and long term. A midterm evaluation will be performed as input for the government’s decision as to whether it should allocate funds to continue the program after it has been executed. It should be noted, however, that the program’s sustainability criteria calls for a set of institutional, technical, and financial agreements between the public and private sectors to sustain the activities initiated by the program. The institutional agreements or contracts define the governments’ role as regulator of the networks of centers and the private sector’s role as the operator of the centers; the technical agreements cover the initial provision of methodologies and human capital formation pursuant to public policy, and the use of both by civil society organizations; and the financial agreements that facilitate the coinvestments to establish and operate the Productivity Centers and Sector Technology Centers. These agreements will constitute contracts between the PEU and each organization selected, and will include annual performance targets for the target group of startups and MSMEs (paragraph 3.3). International experience shows that the organizations build capacity, provide services to startups and MSMEs, and become active public policy agents, developing national support networks. Lastly, MIC will include the MSME observatory in its organizational structure, since generating and/or consolidating information and performing analysis

⁷¹ No construction of buildings or facilities are expected within the framework of this program.

is a core function. This is consistent with the Bank's experience supporting MIC in other areas.⁷²

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Paraguay. The executing agency will be the borrower, through MIC, which has experience managing productive sector support programs. MIC is the executing agency of the following programs: Investment Promotion Program (loan 3131/OC-PR) and Support for Business Development Services to Paraguayan Exporting Companies (loan 3865/OC-PR).
- 3.2 The executing agency will be responsible for managing the technical, administrative, and fiduciary aspects of the program through the PEU, which reports to the Office of the Deputy Minister of MSMEs. The responsibilities of the PEU will include: developing startups and MSMEs, the Productivity Centers and Sector Technology Centers; building the capacity of the Office of the Deputy Minister of MSMEs; awareness raising; monitoring and evaluation; and procurement; and financial management. The PEU will coordinate its activities with the regional offices of Office of the Deputy Minister of MSMEs and other relevant MIC areas.
- 3.3 **Coordination mechanisms.** The linkage between the PEU and each Productivity Center (paragraph 1.33), Sector Technology Center (paragraph 1.36), and the organizations that submit proposals to improve MSME regulations will be formalized by an agreement or contract, pursuant to the respective model agreements/contracts that will be included in the [program Operating Regulations](#). These model agreements and contracts will stipulate, *inter alia*, the technical terms and conditions required to obtain program funding and receive services, as well as the penetration targets for the MSME target group established by the Productivity Centers and Sector Technology Centers. The Productivity Centers will provide support services for startups and MSMEs aimed at helping them draft and implement productivity improvement plans. The Sector Technology Centers will identify sector barriers and provide services to businesses (individually or in groups) to help them adopt and/or develop technologies and innovate. The institutions will identify regulations that restrict MSME development and present proposals to mitigate their effects. As stipulated in each agreement or contract, the Productivity Centers and Sector Technology Centers will maintain constant contact with representative organizations associated with the target group (e.g. public entities, business associations, and universities), define and promote service offerings, enroll interested parties, and support beneficiaries with teams of qualified professionals. The executing agency will secure the Bank's approval prior to entering into agreements or contracts with each Productivity Center, Sector Technology Center, or institution. The Office of the Deputy Minister of MSMEs will create a network of all Productivity Centers and Sector Technology Centers, to facilitate collaboration and coordinate the use of funds, promoting good practices. During the year 1 of the program, the Office of the Deputy Minister of MSMEs will preside over monthly meetings. Beginning in year 2, the regularity of meetings will

⁷² See [REDIEX](#). Financed with the proceeds of loans 3131/OC-PR and 3865/OC-PR.

be adapted to the needs of the network. The commitments and obligations of the Productivity Centers and Sector Technology Centers with respect to the network will be further detailed in the agreements or contracts entered into with the PEU and in the [program Operating Regulations](#).

- 3.4 **Program Operating Regulations** The [program Operating Regulations](#) will govern the performance of the program and include: (i) the details for execution, including coordination, flowcharts of fiduciary procedures and detailed responsibilities assigned to each of the entities participating in the program; (ii) administrative and financial provisions, in accordance with terms previously agreed upon with the Bank; (iii) technical guidelines for program execution, in particular the eligibility and selection criteria of beneficiaries and the conditions for accessing program benefits; and (iv) any other general aspect of the program requiring regulation.
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan. The borrower will demonstrate to the Bank's satisfaction that: (i) the [program Operating Regulations](#) have been approved and entered into effect under the terms previously agreed upon with the Bank; and (ii) the executing agency has hired or appointed, under the terms agreed upon with the Bank, the staff of the PEU, to include, at minimum, a general program coordinator, a financial specialist, a procurement specialist, and a legal specialist responsible for contracts.** These conditions are justified: (i) inasmuch as they are necessary to ensure the performance of operational aspects and the institutional responsibilities associated with the program; and (ii) because the PEU implements the key processes of the program.
- 3.6 **Special contractual condition for the performance of Component 3.** Prior to executing the scholarship-related activities described in Component 3 of the program, the borrower will have presented evidence to the Bank's satisfaction, that the subexecuting agreement between the executing agency and the Ministry of Finance for awarding post-graduate training scholarships to individuals in the areas of MSME development and policy, has been signed and entered into effect, under the terms agreed upon previously with the Bank. This condition on grounds that it is required for the executing agency to transfer funds to the Ministry of Finance, which is the executing agency of the BECAL Program (see paragraphs 1.27 and 1.38).
- 3.7 **Fiduciary and financial management** The procurement of goods and services and financial management will be performed in accordance the applicable Bank policies, as set forth in the fiduciary agreements and requirements (Annex III). The program will primarily finance the operation of Productivity Centers and Sector Technology Centers, selected and contracted in accordance with Bank policies and procedures. Such agreements will be included in the [procurement plan](#) approved by the Bank in accordance with the special provisions of the loan agreement.

B. Summary of arrangements for monitoring results

- 3.8 **Multiyear execution plan.** The multiyear execution plan will cover all aspects of program planning, in accordance with the structure of the expected outputs set out in the results matrix, as well as any critical milestones and/or critical actions to be fulfilled and/or implemented, respectfully, so as to ensure the loan is disbursed within the original time frame. The plan will be updated as necessary, especially in the

event of significant changes that could potentially result in delays in program execution or changes to midterm output targets.

- 3.9 **Annual work plan.** The annual work plan will be prepared each year by MIC, based on the [multiyear execution plan](#). It will be delivered together with the second semiannual progress report or at another date previously agreed upon by MIC and the Bank in writing during the original disbursement period or any extensions thereof. The plan will include the updated schedule of activities, projection of disbursements, results matrix, [multiyear execution plan](#), and [procurement plan](#).
- 3.10 **Semiannual progress reports.** MIC will submit, within 60 days of the end of each six-month period or other period agreed upon between MIC and the Bank, a report detailing the progress made in the execution of program activities, including information on the outcomes achieved and ongoing activities, in accordance with the [multiyear execution plan](#), the annual work plan, and the indicators of the program results matrix; the monitoring and evaluation report, as designed by the project team; the action plan for the following six-month period, together with updated execution and disbursement schedules; compliance with contractual conditions; an updated annual work plan and its implementation status; and an analysis of any problems encountered and corrective measures taken.
- 3.11 **Program evaluations.** The program provides for midterm, final, and ex post evaluations. The first of these will be conducted 36 months from the start of execution or when 50% of the program's proceeds have been disbursed, whichever occurs first. The purpose of the midterm evaluation is to document the outcomes of the program based on the results matrix, and to delve into factors that impact program performance, pursuant to the methodology and guidelines set out in the program's [monitoring and evaluation plan](#) and [program Operating Regulations](#). The final evaluation will be performed once 90% of the program's proceeds have been executed, together with the drafting of the project completion report. The purpose of the final evaluation is to document the attainment of the agreed upon impact targets and lessons learned with respect to factors that influenced program performance, based on the methodology and in accordance with the guidelines set out in the program's monitoring and evaluation plan and [program Operating Regulations](#). The midterm evaluation will include surveys of the beneficiary startups and MSMEs, and an analysis of the performance of the institutions acting as Productivity Centers and Sector Technology Centers. The midterm evaluation will entail: (i) an analysis of work procedures of the Productivity Centers and Sector Technology Centers, compared to the conditions stipulated in the loan contract and [program Operating Regulations](#); (ii) description of funds used and outcomes achieved by the program and deviations from the multiyear execution plan; (iii) execution of funds compared to projections; and (iv) evidence of results achieved by the beneficiaries. The final evaluation will also include: (i) performance analysis of the Productivity Centers and the Sector Technology Center; (ii) description of use of funds and outcomes achieved by the program, and any deviations from the multiyear execution plan; and (iii) performance analysis of program results, for which surveys of the beneficiary startups and MSMEs may be undertaken. Two years from the expiration of the original disbursement period or any extensions thereof, an ex post evaluation of the program's outcomes will be conducted, based on the methodology and guidelines agreed upon with the Bank.

- 3.12 To evaluate the effect of the support to the MSMEs, the use of reflexive comparisons of the outcomes observed after the program compared to situation before (before-and-after comparisons). To strengthen this noncausal measurement, changes observed in the results indicators that are attributable to the program will be supplemented with qualitative analyses to clearly identify the causal chain linking the program's outputs with its outcomes and impacts (see [monitoring and evaluation plan](#)).

Development Effectiveness Matrix		
Summary		PR-L1165
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix	GN-2991-3	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)		The program will contribute to increase SME productivity and will support public management and institutions
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.4
3.1 Program Diagnosis		1.8
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		2.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
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		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury. Procurement: Information System, Price Comparison.
Non-Fiduciary	Yes	Strategic Planning National System.
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	The elaboration of the National SME Plan was financed in 2017-2018 with funds from Paraguay Country Office.

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

The program "Support for the National MSME Plan (PR-L1165)" has the general objective of contributing to increase the productivity of MSMEs. The specific objectives are: (i) to increase the training and technical assistance effort of MSMEs through the provision of Business Development Services (SDE); and (ii) increase the innovation effort of MSMEs through the provision of sectoral technology services. The vertical logic that justifies the intervention of the program is based on the existence of two market failures that affect important factors for the productivity of MSMEs: (i) information asymmetries that generate smaller investments in MSMEs in MSMEs; and (ii) network failures that negatively affect the links of MSMEs with different agents in their environment, weakening investments in innovation, technology and knowledge. The diagnosis of the program is clear, although the quantification of some potential beneficiaries and some determinants of the problem raised above are missing. The Results Matrix reflects this logic and includes three outcome indicators that allow measuring the achievement of the specific objectives.

The cost-benefit analysis of the project suggests a positive net result, mainly due to: (i) the growth rate of sales, and (ii) the rate of successful ventures. However, some of the assumptions used for the calculation of costs and targets are not supported by empirical or theoretical evidence. For the evaluation of the outcome and impact indicators of the project, the M&E plan relies on a non-experimental methodology (before-and-after analysis), owing to limitations related to sample size and data availability.

RESULTS MATRIX

PROGRAM OBJECTIVE:	The program's general objective is to help raise the productivity of micro, small, and medium-sized enterprises (MSMEs). Its specific objectives are to: (i) increase training and technical assistance opportunities for MSMEs by providing them with business development services; and (ii) enhance the innovation potential of MSMEs by providing them with sector technology services.
---------------------------	---

EXPECTED IMPACT

Indicator	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
Impact 1: Increase in MSME productivity¹							
Labor Productivity	U.S. dollars	26,930 (to be updated)	2015	31,500	2026	Innovation in Paraguayan Businesses Survey (IPB Survey)	Productivity measured as the ratio of annual sales to the number of employees. The target is consistent with the anticipated productivity gains associated with investments in innovation and/or improvements in workforce competencies, as reflected in the literature. Tan, 2011; Goni and Maloney, 2017; Goni, et al, 2018. See monitoring and evaluation plan (MEP) .
Impact 2: Increase in the growth rate of MSME sales							
Average annual sales of the participating MSMEs	U.S. dollars	566.2	2018	679.4	2026	IPB Survey	The target is consistent with the anticipated increase in sales following improvements made linked to the technical assistance and training in innovation, as reflected in the literature. Álvarez, Crespi, and Cuevas, 2012; Tan, 2009; REMISIP, 2009; Belmar, 2014. See MEP .

¹ For program purposes, the definition of MSME is the one provided in Law 4,457/2012 of Paraguay, which defines a microenterprise as a business with no more than 10 employees, a small business as having up to 30 employees, and a medium-sized business as having up to 50 employees. This designation also includes startups, which are defined in Law 5,669/2016.

EXPECTED OUTCOMES

Indicators	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
Specific objective 1: Increase in MSME innovation-related training and technical assistance efforts							
Outcome 1: Increase in MSME spending for innovation-related training and technical assistance							
Spending on innovation- and sales-related training and technical assistance by the participating MSMEs	Percentage	0.84	2015	1.68	2026	IPB Survey	The target is consistent with the anticipated increase in spending on training and technical assistance, and their potential impact on innovation, as reflected in the literature. Freel, 2005. See MEP .
Specific objective 2: Increase in MSME innovation-related efforts with respect to sector technology services							
Outcome 2: Increase in the rate of organizational innovation among MSMEs							
Percentage of participating MSMEs that implement organizational innovations	Percentage	17.3	2015	30	2026	IPB Survey	The target value is consistent with the percentage increase in participating MSMEs that introduce organizational innovations as a result of training and technical assistance. Tan and Nasuridin, 2011. See MEP .
Outcome 3: Increase in rate of private investment in innovation among MSMEs							
Private investment in research and development/sales of participating MSME	Percentage	4.56	2015	5.48	2026	IPB Survey	The target value reflects the absorption of the average treatment over the average value of sales. The sales projection is consistent with the expected increase in sales after investments in innovation or due to the indirect effects found in the literature. Herrera and Joost, 2007; Crespi et al., 2011; Goni et al., 2018. See MEP .

OUTPUTS

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Component 1: Support for MSME business development service offerings												
Subcomponent 1.1: Productivity Centers												
Productivity Centers in operation	Number of centers in operation	0	2020	0	4	4	0	0	0	8	Contract between center and program execution unit (PEU)	"Center in operation" is one that has initiated activities to support beneficiaries
Subcomponent 1.2: Nonreimbursable financing for MSMEs												
Number of grants made to MSME	U.S. dollar value of grants	0	2020	0	50,000	50,000	50,000	50,000	0	200,000	Program administrative records – PEU	"Granted" means that nonreimbursable funds have been provided to MSMEs to finance business development services
Component 2: Support for MSME innovation in productive sectors												
Subcomponent 2.1: Sector Technology Centers												
Sector Technology Centers	Number of centers in operation	0	2020	0	0	2	0	1	0	3	PEU resolution establishing the center	"Center in operation" is one that has initiated activities to support beneficiaries
Subcomponent 2.2: Supplier development												
Number of supplier development projects that receive program financing	Number of projects financed	0	2020	0	1	2	2	1	0	6	Program administrative records – PEU	"Financed" means that supplier development projects have been implemented with program cofinancing
Component 3: Strengthening of MSME policy												
Regulatory framework proposals submitted	Number of proposals presented	0	2020	0	2	3	0	0	0	5	Regulatory framework documents and PEU records	"Submitted" means that agencies have provided the PEU with the required forms and background information to apply for program funding

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
MSME observatory implemented	Number of observatories implemented	0	2020	0	1	0	0	0	0	1	Ministry of Industry and Commerce resolution establishing the observatory	"Implemented" means that the observatory's staff has been hired and is producing statistics and reports for the authorities and the public
Monitoring system with gender and climate change indicators implemented by MSMEs	Number of systems implemented	0	2020	0	1	0	0	0	0	1	PEU records	Pro-Género: The monitoring system will define the required indicators and the data model sought from participating MSMEs. Depends on the MSME monitoring center. "Implemented" means that the indicator values have been reported.
Individuals trained in MSME policies and development	Number of individuals trained	0	2020	0	15	15	0	0	0	30	Training certificates issued – PEU and supplier	An individual (public official or representative of a business or institution) is "trained" when he or she has completed the training.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Paraguay
Project number: PR-L1165
Name: Support for the National MSME Plan: Business Development Services to Boost the Productivity of Paraguayan Businesses
Executing agency: The Borrower, through the Ministry of Commerce and Industry (MIC)
Prepared by: Fernando Glasman, Jorge Seigneur, and Jorge Luis González (VPC/FMP)

I. EXECUTIVE SUMMARY

- 1.1 The Bank's fiduciary management team and MIC administrative-financial and procurement staff performed the institutional capacity assessment. The assessment was supplemented with other evaluations of MIC institutional capacity that were updated in 2019.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Paraguay's financial management systems present a medium level of development. For the execution of Bank-financed projects, however, these systems will need to be supplemented with specific financial reports and external controls. This will be done using auxiliary accounting systems and hiring Bank-eligible external audit firms. Financial control tools, such as the Integrated Financial Management System (SIAF), the Integrated Accounting System (SICO), and other subsystems will enable the executing agencies to manage payment transfers to suppliers of goods and services through the Central Bank of Paraguay. The integration of these systems will eventually make it possible to prepare the program's audited financial statements through the SIAF. In the meantime, they will be supported by parallel systems.
- 2.2 The efficiency and transparency of the country system for public procurement has greatly improved as a result of the creation of its lead agency, the National Public Procurement Department (DNCP), which has facilitated the implementation of a procurement platform with electronic procedures such as the electronic reverse auction, a system of suppliers, and the statistical information system. For Bank-financed operations, the public procurement information system (SICP) has been used, as have the national electronic reverse auction and competitive bidding subsystems (LCO), for the amounts and categories established in the agreement governing the use of these subsystems signed by Paraguay and the Bank on 17 June 2014.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The borrower will be the Republic of Paraguay. The program's executing agency is the Borrower, through MIC. The executing agency will be responsible for managing the technical, administrative, and fiduciary aspects of the program

- through the program execution unit (PEU), which reports to the Office of the Deputy Minister of Micro, Small, and Medium-sized Enterprises (MSMEs). The responsibilities of the PEU will include: developing startups, MSMEs, the Productivity Centers and Sector Technology Centers; building the capacity of the Office of the Deputy Minister of MSMEs; awareness raising; monitoring and evaluation; and procurement and financial management. The PEU will coordinate all administrative and fiduciary matters with the regional offices of the Office of the Deputy Minister of MSMEs. More details regarding the execution mechanisms are included in the [program Operating Regulations](#).
- 3.2 According to the institutional capacity assessment, MIC has capacity to execute program activities, including its systems for managing human resources, goods and services, and finances, and its control capacity. The assessment found that MIC has technical competencies in fiduciary matters, but did determine it has a low risk of delays in justification of program resources and/or accounting errors, and delays in the procurement associated with the Productivity Centers and Sector Technology Centers, which could delay program performance. Accordingly, the following mitigation measures are proposed: (i) the preparation of manuals covering organization, functions, and procedures; and (ii) the hiring of a financial specialist and training fiduciary staff at the Productivity Centers and Sector Technology Centers in Bank policies and procedures. The consolidated result points to a satisfactory degree of development and a low-level risk.
- 3.3 The PEU will execute the program and perform, *inter alia*: operation management, procurement supervision, and financial management.

IV. FIDUCIARY RISK EVALUATION

- 4.1 Based on the evaluations performed, improvements should focus on:
- a. Implementation of the [program Operating Regulations](#);
 - b. Implementation of an ongoing training plan for the PEU team, which will be responsible for program management and execution;
 - c. Hiring a financial specialist;
 - d. Consider within the organizational structure of the PEU, the key positions of the technical and fiduciary professionals who are needed to support the program's development and execution;
 - e. Develop and implement an independent, integrated system that includes a financial, management, and monitoring modules consistent with the program's requirements;
 - f. Training in the accounting and internal control areas through courses and training sessions on the Bank's financial management policies; and
 - g. Training in the Bank's procurement policies.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 5.1 The following agreements and requirements will be included in the special provisions:

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

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 The procurement policies to be applied for this loan are set forth in documents GN-2349-15 and GN-2350-15. In addition, the Bank's Board of Executive Directors has approved the use of the electronic reverse auction and competitive bidding subsystems (document GN-2538-11) of Paraguay's Public Sector Procurement System (SCSP) (Law 2051/03). The use of other country systems approved subsequent to approval of this program will be applicable automatically, as set forth in the [program procurement plan](#).

A. Procurement execution

- 6.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services¹ subject to international competitive bidding (ICB) will be procured using the Bank's standard bidding documents. Bidding processes subject to national competitive bidding (NCB) will be conducted using national bidding documents agreed upon with the Bank. The program's sector specialist will be responsible for reviewing the technical specifications of procurement documents during procurement procedures.
- 6.3 **Selection and contracting of consultants.** Consulting services for the program will be contracted using the standard request for proposals issued by or agreed upon with the Bank. The program's sector specialist will be responsible for reviewing the terms of reference for contracting of consultants. No direct contracting of individual consultants is anticipated.
- 6.4 **Country system use.** Pursuant to document GN-2538 of October 2013, use of the electronic reverse auction and competitive bidding subsystems in Bank-financed operations will apply to: (i) all contracts for goods and nonconsulting services eligible for use under the electronic reverse auction, as provided by the SCSP, for amounts below the threshold set by the Bank for use of the shopping method for off-the-shelf goods (i.e. US\$250,000); (ii) all works contracts for amounts below the threshold set by the Bank for use of the shopping method for complex works (i.e. US\$250,000), and contracts for goods and nonconsulting services up to the threshold set by the Bank for use of the shopping method for

¹ Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-15) paragraph 1.1: Nonconsulting services are treated as goods.

complex goods and services (i.e. US\$50,000); and (iii) contracts for amounts equal to or greater than the aforementioned thresholds will be governed by Bank policies (document GN-2349-15). Section 1 of document GN-2349-15 will remain applicable for all contracts financed, regardless of the amount or contracting method. Any other system or subsystem subsequently approved will apply to this operation. The operation's [procurement plan](#) and updates thereto will indicate which procurement processes are to be executed using the approved country systems. If the Bank validates another system or subsystem, it will become applicable for the operation, as set forth in the loan contract.²

- 6.5 **Recurrent expenses.** To ensure that the PEU has what it needs to perform its functions, the proceeds of the loan may be used to fund public services (does not include any type of economic compensation to MIC staff or the staff of other public agencies) and communication expenses, bank fees, advertising, photocopies, mail, etc. These expenses will be financed by the program, included the annual budget approved by the Bank, and procured in accordance with the executing agency's procedures, provided they are consistent with fundamental principles of competition, efficiency and economy. Nonetheless, operating costs do not include salaries for public servants.³

Table 1. Threshold for international competitive bidding and international shortlist (US\$)

Method	ICB for works	ICB for goods and nonconsulting services	International shortlist for consulting services
Threshold	3,000,000	250,000	200,000

Table 2. Procurement by category⁴ (US\$)

Procurement category	Bank-financed amount	Total program amount
Works	34,500	34,500
Goods	30,000	30,000
Training	200,000	200,000
Operating expenses	906,737	906,737
Consulting services (firms and individuals)	12,356,110	12,356,110
Transfers	1,221,613	1,221,613
Contingencies	251,040	251,040
Total	15,000,000	15,000,000

- 6.6 **Procurement supervision.** All procurement and/or contracting procedures governed by the Bank's procurement policies in documents GN-2349-15 and GN-2350-15, will be subject to ex ante review by the Bank, taking into account the government's position on the matter. The supervision of all procurement and/or contracting procedures governed by the national electronic reverse auction and competitive bidding subsystems (document GN-2538-11) will be supervised using the country system. Supervision may be supplemented with project audits.

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

³ Incremental costs associated with staff incurred by the executing agency are funded on an exceptional basis, specifically in connection with program execution [GN-2331-5](#) Annex I (1.7.)(C.)(c.)1.22.

⁴ [See program procurement plan.](#)

- 6.7 **Records and files.** Program reports will be prepared and filed using the systems, formats, and procedures specified by or agreed upon with the Bank and will be described in the program's Fiduciary Manual of Functions and Procedures.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Financial Management

- 7.1 **Programming and budget.** MIC will centralize execution through the PEU, supported by other MIC units and departments. MIC will provide the PEU with the following services: legal advisory services on regulations and procedures, information technology systems, human resources management, and logistical support.
- 7.2 **Accounting.** Accounting will be performed on an accrual accounting basis. However, for the preparation of accounts of projects partially funded by the Bank, a cash management system will apply. The SIAF is the main management system for budgetary and accounting transactions, linked to the SICO accounting subsystem and other subsystems; it facilitates the downloading of information and preparation of reports accessible to the Bank and other funding sources, the Integrated Invoice, Disbursement, and Accounting System.
- 7.3 **Information systems.** The PEU will have access to the SIAF; the country systems do not produce the reports required by the Bank, which are prepared using parallel systems. This requires the development and implementation of an independent, integrated system with financial, management, and monitoring modules consistent with the program's requirements.
- 7.4 **Disbursements and cash flow.** Disbursements will typically be made through advances of funds, corroborated through the monthly submission of an itemized six-month financial plan, which can be used to determine the program's actual needs, as reflected in the multiyear execution plan, annual work plan, and procurement plan. During program execution, the second and subsequent disbursements will be subject to justification of at least 80% of the previous advance, strictly in accordance with the Financial Management Guidelines for IDB-financed Project, as amended (document OP-273-6).
- 7.5 **Internal control and audit.** In order to address the observations raised in the internal control system, the parties agree to: (i) regularly report to the Bank any progress at MIC regarding the implementation of the Standard Model for Internal Control of Paraguay (MECIP), that ensures the monitoring and audit of activity in the performance of the program; and (ii) regularly report to the Bank progress in the implementation of the system referred to in paragraph 3.9 of the proposal document.
- 7.6 **External control and reporting.** The executing agency, through the PEU, will deliver annual audited financial statements of the program regarding activities financed with Bank loan proceeds, which must be prepared by an independent auditing firm acceptable to the Bank, in accordance with terms of reference previously approved by the Bank. Such external audited financial reports will be subject to publication in accordance with the Bank's Access to Information Policy.

- 7.7 **Financial supervision plan.** Financial supervision may be adjusted based on program execution and the audited financial reports. Financial supervision may be provided in three ways (see Table 3).

Table 3. Financial supervision plan

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

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Paraguay. Loan ____/OC-PR to the Republic of Paraguay. Support for the National MSME Plan: Business Development Services to Boost the Productivity of Paraguayan Businesses

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 Support for the National MSME Plan: Business Development Services to Boost the Productivity of Paraguayan Businesses. Such financing will be for an amount of up to US\$15,000,000 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 ____ 2020)