

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **PARAGUAY**

### **INVESTMENTS IN PUBLIC FINANCE FOR SUSTAINABLE DEVELOPMENT**

**(PR-L1150)**

#### **LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem addressed, and rationale .....	1
B.	Objectives, components, and cost .....	10
C.	Key results indicators .....	13
II.	FINANCING STRUCTURE AND MAIN RISKS .....	14
A.	Financing instruments .....	14
B.	Environmental and social safeguard risks .....	14
C.	Fiduciary risks .....	15
D.	Other project risks .....	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	16
A.	Summary of implementation arrangements .....	16
B.	Summary of arrangements for monitoring results .....	18

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
<b>REQUIRED</b>
1. <a href="#">Multiyear execution plan (MEP) and annual work plan (AWP)</a>
2. <a href="#">Monitoring and evaluation plan</a>
3. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Safeguard policy filter (SPF) and safeguard screening form (SSF) for classification of projects</a>
2. <a href="#">Project economic analysis</a>
3. <a href="#">Itemized budget</a>
4. <a href="#">Diagnostic assessment of Municipal Public Financial Management Systems</a>

## ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CIAT	Inter-American Center of Tax Administrations
DGCP	Dirección General de Contabilidad Pública [Public Accounting Directorate]
DGIC	Dirección General de Informática y Comunicaciones [Information Technology and Communications Directorate]
DGJP	Dirección General de Jubilaciones y Pensiones [Retirement and Pension Directorate]
DGP	Dirección General de Presupuesto [Budget Directorate]
DNCP	Dirección Nacional de Contrataciones Públicas [National Public Procurement Office]
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JUPE	Sistema de Jubilaciones y Pensiones del Estado [State Retirement and Pension System]
LAC	Latin America and the Caribbean
LIBOR	London Interbank Offered Rate
OC	Ordinary Capital
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PCU	Project coordination unit
PEFA	Public Expenditure and Financial Accountability Assessment
PRODEV	Program to implement the external pillar of the medium-term action plan for development effectiveness
PROFOMAF	Fiscal Management Strengthening and Modernization Program
RBB	Results-based budgeting
SCSP	Sistema de Contrataciones del Sector Público [Public Sector Procurement System]
SET	Subsecretaría de Estado de Tributación [Taxation Branch]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SIARE	Sistema Integrado de Administración de Recursos del Estado [Integrated State Resources Management System]
SICP	Sistema de Información de Contrataciones Públicas [Public Procurement Information System]
SIFEN	Sistema Integrado de Facturación Electrónica Nacional [National Integrated Electronic Invoicing System]
SIGADE	Sistema de Gestión y Análisis de Deuda Externa [External Debt Analysis and Management System]
SNPV	Social net present value
SSEAF	Subsecretaría de Estado de Administración Financiera [Financial Administration Branch]

STP	Secretaría Técnica de Planificación del Desarrollo Económico y Social [Technical Secretariat for Economic and Social Development Planning]
UDM	Unidad de Departamentos y Municipios [Departments and Municipios Unit]
UNCTAD	United Nations Conference on Trade and Development
VAT	Value added tax

## PROJECT SUMMARY

### PARAGUAY INVESTMENTS IN PUBLIC FINANCE FOR SUSTAINABLE DEVELOPMENT (PR-L1150)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Paraguay			Flexible Financing Facility <sup>(a)</sup>	
			<b>Amortization period:</b>	23.5 years
<b>Executing agency:</b> Ministry of Finance			<b>Disbursement period:</b>	6 years
			<b>Grace period:</b>	6 years and 7 months <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital):</b>	25,000,000	95	<b>Credit fee:</b>	(c)
			<b>Inspection and supervision fee:</b>	(c)
<b>Local:</b>	1,340,000	5	<b>Weighted average life:</b>	15.25 years
<b>Total:</b>	26,340,000	100	<b>Currency of approval:</b>	U.S. dollars
Project at a Glance				
<b>Project objective:</b> The project objective is to improve public revenue and expenditure management through increased: (i) efficiency in revenue intake; (ii) effectiveness in expenditure execution (at the national and municipal levels); and (iii) efficiency in expenditure.				
<b>Special contractual condition precedent to the first disbursement of the loan proceeds:</b> The executing agency will provide evidence of the appointment of the project coordination unit (PCU), to include the general coordinator, administrative/financial specialist, procurement specialist, monitoring and evaluation specialist, and at least one functional coordinator (see paragraph 3.3).				
<b>Exceptions to Bank policy:</b> None.				
Strategic Alignment				
<b>Challenges:</b> <sup>(d)</sup>	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
			EI	<input type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(e)</sup>	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

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

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

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

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

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

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 **Context.** Since 2002, Paraguay has been consolidating a stable macroeconomic environment with fiscal responsibility and low inflation. From 2004 to 2011, the country ran a primary surplus, and after current expenditure mounted in 2012<sup>1</sup> the National Congress enacted the Fiscal Responsibility Law (Law 5,098) in 2013, effective for fiscal year 2015. This law caps the central government deficit at 1.5% of GDP, and real public sector primary current expenditure growth at 4% of GDP. These targets were met in 2016 and 2017.<sup>2</sup> Public debt has remained at low, sustainable levels: 18% of GDP at end-2017, after reaching nearly 50% of GDP in 2002.<sup>3</sup>
- 1.2 Improving the macroeconomic environment is a significant achievement for the Government of Paraguay, contributing to sustain one of the highest GDP growth rates in Latin America and the Caribbean (LAC): annual GDP growth averaged 4.7% in real terms from 2004 to 2016, above the regional average of 3.2%, and GDP per capita grew at an average annual rate of 3% in real terms in the 15 years between 2002 and 2017, contrasting with an average annual decline of 0.6% in the preceding two decades.<sup>4</sup> This, in turn, drove down total and extreme poverty significantly from 40.8% and 36.8%, respectively, in 2004 to 28.9% and 5.7% in 2016.<sup>5</sup>
- 1.3 However, significant development challenges still remain to set Paraguay on a sustainable development path. For example, Paraguay has an estimated 69% disparity in physical capital compared to other similar-income countries. In terms of human capital, just addressing the gaps in infant mortality and years of schooling versus the LAC average will require investments equivalent to 9% of GDP.<sup>6</sup> Paraguay also lags significantly behind in terms of education coverage (less than half of young people aged 15 to 17 attend secondary school), health care (37% of the population has access to primary and preventive care), and quality water services (53% coverage versus the LAC average of 72%).<sup>7</sup>
- 1.4 Addressing these development challenges is tied to two main issues, described below: revenue management, which restricts the generation of public resources; and expenditure management, which prevents from efficiently and effectively reaching the people who need them the most.

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<sup>1</sup> The wage bill grew around two GDP points in 2012, contributing to deterioration in the fiscal balance from a surplus of 1% of GDP in 2011 to a deficit of 1.7% of GDP in 2012.

<sup>2</sup> The fiscal deficit reached 1.4% of GDP in 2016 and 2017.

<sup>3</sup> Sources: for 2002, IMF Article IV (2003), and for 2017, Economics Blog of the Office of the Vice Minister of Economy.

<sup>4</sup> Sources: IMF Article IV (2005) and fiscal statistics of the Central Bank of Paraguay.

<sup>5</sup> Data obtained from IDB Paraguay: Roadmaps for Development, prepared as input for the strategic dialogue with Paraguay (IDB, 2018).

<sup>6</sup> IDB, 2018. In mid-2018 the Government of Paraguay updated its national accounts, which resulted in a 32% increase in nominal GDP. The references to GDP in this document have incorporated this update.

<sup>7</sup> IDB, 2018.

- 1.5 **Revenue management – tax administration.** Paraguay has the lowest tax ratio in LAC.<sup>8</sup> Adding up all government revenue (including social security contributions, royalties, and other nontax revenue), the value of total revenue as a proportion of GDP is the second lowest in the region, higher only than Guatemala.<sup>9</sup> Tax rates for the principal taxes—value added tax (VAT) and income tax—are low for both individuals and corporations at 10%, far below the LAC average.<sup>10</sup> However, there is room for improvement in tax administration, which is the responsibility of the Taxation Branch (SET) of the Ministry of Finance. In 2017, VAT accounted for 53% of the total revenue collected by the SET, but the evasion rate was 30.9%, whereas the LAC average was 25.9% (2014). Income tax revenue intake (in relation to GDP) was just 30% of the LAC average (2015).<sup>11</sup>
- 1.6 **Implementation of the electronic invoice.** To improve tax collection performance and reduce the costs of compliance for taxpayers, the SET is embarking on development of the National Integrated Electronic Invoicing System (SIFEN). The SIFEN involves introducing the electronic invoice into use and gradually rolling it out to all taxpayers in Paraguay, following the experience of the region's principal tax administrations.<sup>12</sup> Electronic invoicing addresses three main problems: (i) since VAT is invoiced on paper, the SET lacks timely, traceable invoice information; (ii) taxpayers face high compliance costs associated with printing and storing invoices and physically sending documentation to clients and suppliers, etc.;<sup>13</sup> and (iii) since the SET does not have the issued invoices, it faces the costs of notifications and verification of information self-reported by taxpayers.<sup>14, 15</sup>
- 1.7 The SET implementation strategy has three stages: (i) pilot plan (currently ongoing): electronic invoice development and use by 14 large taxpayers in diverse sectors, with the first electronic invoices expected to be issued in 2018; (ii) monitored voluntary electronic invoicing (2019-2020): expansion of electronic invoicing to at

<sup>8</sup> The tax ratio (tax revenue/GDP) was 9.9% of GDP in 2017. Even when calculating based on the tax ratio prior to the recent update (13.1%), Paraguay ranks among the three countries with the lowest tax ratios in the region, higher only than Guatemala and Panama (Artana, 2018), *Análisis del sistema tributario de Paraguay y sugerencias de reforma* [Analysis of Paraguay's tax system and suggested reforms], IDB; *Situación Financiera Administración Central* [Central Administration Financial Position] (2018), Ministry of Finance; and Organization for Economic Cooperation and Development (OECD), et al. (2018), LAC tax statistics.

<sup>9</sup> Artana, 2018.

<sup>10</sup> The average VAT, individual income tax, and corporate income tax rates in LAC are 14.9%, 26.9%, and 27.8%, respectively (IDB, 2017). *Comparative evaluation: Review of Bank support to tax policy and administration, 2007-2016, Paraguay country case study*. Office of Evaluation and Oversight (OVE), IDB.

<sup>11</sup> CIAT, 2016, and Artana, 2018.

<sup>12</sup> The LAC countries that have made the most progress on implementing electronic invoicing include Argentina, Brazil, Chile, Ecuador, Mexico, and Uruguay. See Barreix and Zambrano, 2018. *La Factura electrónica en América Latina* [Electronic invoicing in Latin America], IDB and CIAT.

<sup>13</sup> According to a SET survey of large taxpayers that will participate in the electronic invoicing pilot, the costs of invoice distribution, storage, printing, and data load management was US\$17.7 million in 2017.

<sup>14</sup> The SET incurred an estimated US\$74,000 in 2017 for notifications and verification of taxpayer information.

<sup>15</sup> Taxpayers are more likely to adopt electronic invoicing because it lowers their compliance costs. In addition, compliance should improve due to improved enforcement capacity, expansion of the taxpayer base, and taxpayer perceptions of greater risk of detection. Improved traceability of invoices also increases income tax compliance by reducing invoice cloning and fraud involving deductions for costs and expenses, and excise tax compliance by improving the cross-checking of information.



least 100 interested large taxpayers; and (iii) mandatory electronic invoicing, phased in (2020-2023): target of adding 5,000 electronic invoicers to the SIFEN.<sup>16</sup> The Bank, the Inter-American Center of Tax Administrations (CIAT), and the International Monetary Fund (IMF) are supporting the pilot plan with functional and technological supervision.<sup>17</sup>

- 1.8 **Needs identified – SIFEN.** The SET has a number of requirements for implementing SIFEN stages 2 and 3: (i) expansion of storage infrastructure; (ii) completion of the development of computer systems for electronic invoicing, now ongoing, for stage 3 (evolutionary development for rollout); and (iii) SIFEN training, technical assistance, and dissemination. In conjunction with implementation of the SIFEN, the SET also identified the following needs: (i) the tax intelligence and risk management model is not adapted to electronic invoicing; (ii) sector compliance enforcement and computer auditing capabilities are limited; (iii) the medium-sized taxpayers department is not well organized for the expansion of electronic invoicing (structure and computer hardware); and (iv) the SET's ability to meet international tax commitments is limited.<sup>18</sup>
- 1.9 **Expenditure management – Integrated State Resources Management System (SIARE).** To narrow development gaps, expenditure management must also be improved for a more efficient, effective, and transparent use of public resources. To that end, the Financial Administration Branch (SSEAF) of the Ministry of Finance has been spearheading the modernization of the Integrated Financial Administration System (SIAF), which first began to be developed in 1999. The SIARE currently being developed includes not only the traditional SIAF modules (budget, treasury, accounting, and public debt), but other related administrative systems as well: public investment, goods and services, and human resources. Development is well along, and the modules are expected to be phased into production starting in 2019. The SIARE is supported by Bank project 2014/BL-PR, Fiscal Management Strengthening and Modernization Program II (PROFOMAF II), which will complete execution in June 2019.
- 1.10 Once operational, the SIARE will address significant weaknesses in the public financial management system: in budgeting, poor linkage with strategic planning, constraints on multiyear budgeting, and limited ability to track physical execution; in treasury, incomplete coverage of the treasury single account and cash plans that limit the recording of liabilities, transfers, and semiautomatic bank reconciliations; in accounting, weaknesses in income and expenditure reports, semiautomatic generation of double-entry accounting records, and limitations on determining short-term debt; in the administration of goods, insufficient inventory information; in human resources, insufficient integration with the budget, treasury, and accounting systems, with mostly manual validations, compounded by different personnel files and payroll settlement for the different institutions; in public investment, weak

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<sup>16</sup> SET (2018). SIFEN implementation proposal.

<sup>17</sup> Under operations 2014/BL-PR and ATN/OC-16747-PR, the Bank is financing functional and technological experts in electronic invoicing to support the SET in the SIFEN implementation strategy. The IMF is also financing a functional expert in electronic invoicing for SIFEN development.

<sup>18</sup> In 2016, Paraguay was accepted as a member of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes and joined the Inclusive Framework on Base Erosion and Profit Shifting. In 2018, it became a party to the Convention on Mutual Administrative Assistance in Tax Matters.

relationship of the programmatic structure with project category and disaggregation into activities and works, and little automation of financial and physical information, leading to limitations on project monitoring and evaluation;<sup>19</sup> and in public debt, high use of manual processes for recording disbursements and debt service, out-of-date External Debt Analysis and Management System (SIGADE), and lack of multicurrency recording processes.<sup>20</sup>

- 1.11 Many of these weaknesses were identified in the public expenditure and financial accountability assessment (PEFA), conducted most recently in Paraguay in 2016,<sup>21</sup> which found weaknesses in nearly two thirds of the indicators. One such weakness is poor budget performance, especially for priority expenditure items. In 2017, just 69% of the planned investment budget and 80% of the planned social expenditure budget were executed.
- 1.12 **Needs identified – SIARE.** The following needs have been identified, to fully implement the SIARE: (i) user training, functionality testing, procedure manuals, and troubleshooting during system launch. However, the Information Technology and Communications Directorate (DGIC) of the Ministry of Finance does not have enough technological and functional experts serving as counterparts for SIARE implementation; DGIC facilities have limited space and equipment for training sessions and hosting the technology experts supporting implementation; and the SIARE must be publicized with users at the government agencies and entities and the general public; (ii) the Ministry of Finance open data portal must be adapted to incorporate information from the SIARE and business intelligence tools to generate managerial reports; (iii) the information on beneficiaries in the State Retirement and Pension System (JUPE), linked to the SIARE, is incomplete, because most of that information is in physical files;<sup>22</sup> and (iv) in terms of technology, the SIARE is not highly accessible since there is no backup data processing center.<sup>23</sup>
- 1.13 **Municipal SIARE.** The SIARE is not currently being implemented in the municipios, which have notable weaknesses in public financial management. The subnational public sector is made up of 17 departmental governments and 254 municipios, whose total expenditure budgets represented 3% and 14%, respectively, of the central administration budget in 2017. The departmental governments (intermediate level) are part of the national budget and included in the SIARE's national coverage; they do not have tax autonomy and are fully dependent on the central government for funds. The municipios (local level), on the other hand, have political, administrative, and regulatory autonomy, as well as their own resources, which accounted for 58% of total municipal revenue in 2017. The municipios are

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<sup>19</sup> Improving these processes will make it possible to optimize the functionality of tools for transparency in public expenditure developed with Bank support, such as the Investment Map, which in turn may help spread and sustain the expected improvements in the SIARE public investment module.

<sup>20</sup> Source: SSEAF, based on SIARE implementation progress reports.

<sup>21</sup> The [PEFA](#) assessment was done at the request of Paraguay's Ministry of Finance, with the European Union's financial and technical backing, the IDB's active participation, and support from the World Bank.

<sup>22</sup> The JUPE is managed at the functional level by the Retirement and Pension Directorate (DGJP), and at the technological level by the DGIC, both within the SSEAF.

<sup>23</sup> The data processing center ensures that the SIARE will continue operating during unexpected crashes of the central systems supporting it, thus avoiding the associated costs.

responsible for many typical functions<sup>24</sup> and are classified into four groups, depending on the departmental capital budget average, with the exception of Asunción.<sup>25</sup>

- 1.14 The budget law requires the municipios to deliver public financial management reports every four months, six months, and year in print and digital formats to various central government entities. Since transfers are contingent on these reports, all of the municipios are compliant, although over half deliver them more than four months late and experience the resulting delays in transfers. Since the transfers are allocated mainly to public investments, these delays affect their budgetary execution, which was just 50% in 2016 and 2017, limiting the municipios' ability to execute works and provide services to their populations.
- 1.15 **Subnational public financial management – diagnostic assessment and needs identified.** A municipio-level diagnostic assessment of public financial management and information technologies found that the municipios tend to adopt their own SIAFs, which include only some of the public financial management subsystems and are typically not integrated.<sup>26</sup> The municipios are highly dependent on external advisors for managing these IT tools and preparing the reports required by the central government. Information is generated manually, in electronic spreadsheets, which makes it not very reliable. The municipios incur high costs for generating and delivering reports due to the number of entities and the required reporting frequency. Furthermore, municipal technical staff have little training on substantive public financial management issues. Computer hardware is typically insufficient, and Internet access is limited in many municipios.
- 1.16 **Operational weaknesses of the Departments and Municipios Unit (UDM).** The municipal challenges in public financial management have their central government equivalent at the Ministry of Finance's Departments and Municipios Unit (UDM), which is responsible for coordinating and organizing the relationship between the central and subnational governments, and has the following weaknesses: (i) the UDM is not ready in terms of organization, systems, and capabilities to supervise and implement the expansion of the SIARE to the municipios; and (ii) there is room to improve UDM staff capabilities in decentralization topics such as municipal revenue and expenditure management, transfer systems, and municipal borrowing.
- 1.17 **Other aspects of public financial management – results-based budgeting (RBB).** Among Paraguay's public financial management challenges, one of the main obstacles to ensuring the efficiency and effectiveness of public expenditure is that the current program-based budget structure does not allow links to be clearly established among the public resources allocated, outputs delivered, and expected outcomes. Furthermore, no effective procedures and instruments have been established for monitoring, supervision, and performance evaluation of budget

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<sup>24</sup> See [Municipal Charter Act \(Law 3966/2010\)](#).

<sup>25</sup> The groups are updated after each subnational election cycle.

<sup>26</sup> [Diagnostic assessment of Municipal Public Financial Management Systems](#) (Lo Cané, 2018).

programs or the use of such information in decision-making. This is an area in which Paraguay lags behind LAC.<sup>27</sup>

- 1.18 However, progress has been made to fix this situation since late 2016, under the leadership of the Budget Directorate (DGP) with Bank support (operation ATN/OC-13082-PR).<sup>28</sup> As part of implementation of the RBB strategy in Paraguay, methodological guides have been prepared for design and development of results-based budget programs; monitoring, supervision, and evaluation of budget programs; institutional strategic planning, and other topics. A proposal is also being developed to reorganize the DGP around the RBB logic, and training activities have been held for staff of the DGP and the government agencies and entities, contributing to the development of a results-based management culture.
- 1.19 **Needs identified – RBB.** The apex agencies for implementation of the RBB strategy—the Technical Secretariat for Economic and Social Development Planning (STP), for planning, and the DGP, for budgeting—have identified the following challenges to moving forward with implementation: (i) insufficient development of the RBB policy framework and methodological instruments for planning at the sector, territorial, and institutional levels; (ii) weakness of the sector statistics systems with regard to monitoring RBB indicators; (iii) the DGP’s insufficient RBB capacities; and (iv) the early stage of transfer and adoption of RBB instruments at selected government agencies and entities focused on social sectors, including activities to achieve gender equality.<sup>29</sup>
- 1.20 **Challenges in government procurement.** One important administrative system not included in the SIARE is the government procurement system. In Paraguay, the National Public Procurement Office (DNCP) has released information on all government procurement processes following implementation of the Public Procurement Law (Law 2,051/2003) and, more recently, the Access to Information Law (Law 5,282/2014). Despite this progress, challenges remain: (i) although the framework agreement modality (pooled procurement) has been operating since

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<sup>27</sup> The Bank’s PRODEV Evaluation System scored Paraguay below the LAC average for the results-based budgeting pillar (1.7 and 1.9, respectively), ranking it 15th of 24 countries studied (Kaufman, Sanginés, and García Moreno, 2014), Building Effective Governments (IDB, 2013).

<sup>28</sup> The principal methodological instruments for implementing RBB were financed by the technical cooperation operation ATN/OC-13082-PR, Support for the Implementation of a Management for Results System Based on the Public Sector Budget (PRODEV Account B). The project coordination unit (PCU) of the Ministry of Finance was responsible, and execution was completed in June 2018.

<sup>29</sup> In 2009, Paraguay began a process of mainstreaming the gender perspective in RBB. The [National Report on Paraguay of the Economic Commission for Latin America and the Caribbean \(ECLAC\)](#) notes that the national budget does not currently allow for analyzing the impact of the use of public resources on gender relations: the only agency with a specific allocation for gender issues is the Ministry of Agriculture. This statement is supported by the [2017 Report of Paraguay to the Committee on the Elimination of Discrimination against Women \(CEDAW\)](#), which diagnoses backsliding in certain aspects related to gender equality and emphasizes the need to strengthen institutional mechanisms for the advancement of women through the allocation of identifiable funding to equal opportunity plans. LAC experiences with gender budgeting show that, even though tangible gains in the reduction of gender inequality are hard to identify, and the identifiable change in budget allocation to gender-oriented objectives is modest, these initiatives still play a key role in empowering women and women’s organizations, as well as in training civil servants in the gender aspects of public policies. Pérez Frago and Rodríguez Enriquez (2016). Western Hemisphere: A survey of gender budgeting efforts. IMF WP/16/153.

2014,<sup>30</sup> it has limitations. Of 21 calls for bids issued, 11 were not completed due to a lack of offerors, the number of which has been decreasing over time. This is because vendor selection processes and the corresponding evaluation criteria do reflect the features of each industry, so the methodological and regulatory framework needs to be adapted, and the transaction costs incurred by vendors need to be lowered; (ii) the Market Intelligence Unit, created in 2017 to analyze market information and support benchmark price-setting, lacks basic operational inputs, including methodologies for conducting market research, setting benchmark prices, generating statistics, analyzing data, and developing product datasheets linked to the SIARE and the SIFEN; and (iii) the Public Procurement Information System (SICP), which dates to 2010, needs functional and technological adjustments; the DNCP is not up to date and needs support for developing the electronic contract management module, disseminating the new system, and training employees of the DNCP and government agencies and entities in its use.

- 1.21 **Weaknesses in the public accounting system.** Paraguay's public accounting system, under the stewardship of the Public Accounting Directorate (DGCP), has weaknesses associated with the partial adoption of the International Public Sector Accounting Standards (IPSAS): (i) budgetary accounting is incomplete, since it partly includes the commitment step, and the type of expense and economic classifications are not harmonized with the IMF Government Finance Statistics Manual;<sup>31</sup> and (ii) the information available on the physical inventories of government agencies and entities is limited and imprecise, making it difficult to keep the government's net assets up to date in financial statements.<sup>32</sup>
- 1.22 **Rationale.** The Bank has been supporting the Ministry of Finance in setting its investment agenda and reform priorities associated with its fiscal policy and management responsibilities, to maximize the contribution to Paraguay's sustainable development. The Ministry of Finance has thus requested Bank support for implementation of its investment agenda and priority reforms, respectively. This investment loan reflects much of the Ministry of Finance's priority investments for the next few years and follows on loan 2014/BL-PR, Fiscal Management Strengthening and Modernization Program II (PROFOMAF II), slated for completion in June 2019, the key output of which is the SIARE. After initial delays associated with the bidding process, substantial progress was made on developing the SIARE, with sustained technical assistance from the Bank. Along with this project, the Bank is executing technical cooperation operation ATN/OC-16747-PR, Support to Improve Fiscal Management (Operational Support), which finances, among other activities, continuation of the technical assistance for supervising the SIARE through 2019.
- 1.23 This operation complements the policy-based loan PR-L1151, Public Finance for Sustainable Development, which is being prepared simultaneously and supports the priority reform agenda of the Ministry of Finance for the coming years, targeting

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<sup>30</sup> This modality was established in Decree 11,193/2007, with implementing regulations issued via Decree 1,315/2014, together with DNCP Resolution 628/2014.

<sup>31</sup> The [Government Finance Statistics Manual](#), most recently published in 2014, is one of the principal international standards for comparability of fiscal statistics.

<sup>32</sup> The most recent PEFA assessment, in 2016, gave Paraguay a score of D+ on the integrity of financial information indicator, and a C+ on audited financial statements.

consolidation of the macrofiscal framework and improvement of tax policy and management and expenditure management. In particular, the policy-based loan supports the accomplishment of implementation milestones along with regulatory changes for implementation of the SIARE, SIFEN, and RBB investments. Lastly, this operation will benefit from the Digital Agenda Support Program (loan PR-L1153), now in preparation, especially the improvements in broadband infrastructure.

- 1.24 **The Bank's experience and lessons learned.** The Bank has an extensive record of support for improving revenue and expenditure management.<sup>33</sup> Designs and lessons have been reflected in this operation from recent experiences in countries including: with regard to tax administration, Argentina (loan 4500/OC-AR), Brazil (loan BR-X1005), Ecuador (loan 3325/OC-EC), El Salvador (loan 4542/OC-ES), Guatemala (loan 3786/OC-GU), Honduras (loan 3541/BL-HO), Jamaica (loan 2658/OC-JA), and Peru (loan 3214/OC-PE); and with regard to improving expenditure management, Colombia (loans 3284/OC-CO and 4252/OC-CO), Honduras (loan 2032/BL-HO), and Nicaragua (loan 2422/BL-NI). In particular, actions in Brazil under the PROFISCO I CCLIP (operation BR-X1005) have demonstrated how the implementation of electronic invoicing in the states of Brazil increased state VAT revenue intake.<sup>34</sup>
- 1.25 The OVE evaluation<sup>35</sup> emphasizes synergies between policy reforms and actions to strengthen administration. This is addressed through the simultaneous development of this operation, which supports investments in implementing tax changes, and policy-based loan PR-L1151, which supports measures to reform tax policy and administration (in preparation). The following lessons learned from execution of the PROFOMAF II operation have been incorporated: (i) the need to strengthen the PCU team to respond to beneficiary needs and wants in a timely manner; (ii) the establishment of realistic execution timelines in line with executing agency capabilities; and (iii) the addition of functional managers to support the main beneficiaries, who will contribute to monitoring the delivery of project outputs and outcomes.
- 1.26 **International evidence.** In supporting improved revenue intake and expenditure management for the proper use of public resources, the operation is consistent with conceptual developments like Besley and Persson's (2011) pillars of prosperity. According to this theory, the ability to collect taxes from a broad base (with each society deciding rates) and to effectively provide services that benefit the population and stimulate private investment are attributes of effective states. In prosperous countries, these roles are complementary and interdependent.<sup>36</sup>

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<sup>33</sup> The Bank has implemented over 40 investment loans to improve tax administration in the majority of the countries of the region, and over 60 to improve expenditure management in almost all of them. See Fiscal Policy and Management Sector Framework Document (document GN-2831-3).

<sup>34</sup> The midterm evaluation of the PROFISCO I CCLIP shows that revenue intake from the goods and services sales tax as a percentage of GDP rose more in the states with a PROFISCO project. The evaluation of electronic invoicing (São Paulo tax invoice) in the State of São Paulo shows that the program led to a real increase in goods and services sales tax (state VAT) revenue of 12% of the average collected by the state.

<sup>35</sup> Comparative evaluation: Review of Bank support to tax policy and administration, 2007-2016 (OVE, 2017).

<sup>36</sup> See Besley and Persson (2011). Pillars of prosperity: The political economics of development clusters. Princeton University Press.

- 1.27 Impact assessments in countries of the region where the implementation of electronic invoicing is further advanced demonstrate a positive impact on revenue intake.<sup>37</sup> The information generated from implementation of electronic invoicing has uses beyond tax administration. In Brazil, for example, electronic invoicing helps monitor goods traffic in real time, which is expected to help reduce the theft of vehicles and cargos. It is also used to set ceiling prices in government procurement processes.
- 1.28 The literature emphasizes the benefits of integrated financial administration systems associated with fiscal sustainability and greater efficiency, effectiveness, and transparency in resource management. However, the failure rate is high in the implementation of these projects. The lessons learned thus include the importance of a strong commitment from the authorities and sufficient technical and financial resources; broad support from the authorities and beneficiary organizations; and an agenda for change management. Given the need for cooperation, it is important to establish a steering committee with a clear leader and solid technical team with project management experience.<sup>38</sup>
- 1.29 In public procurement, implementation of the electronic government procurement system in Chile helped lower prices by 2.65% and led to savings on administrative costs of between 0.28% and 0.38% from the centralization of administrative tasks, the reduction of vendor costs in the procurement cycle, and the resulting larger number of participants in bidding processes.<sup>39</sup> With regard to RBB, some case studies in Chile<sup>40</sup> and the United States have found a correlation between program performance evaluations and year-on-year variations in program budget allocations, suggesting that that performance information influences resource allocation.<sup>41</sup> The lessons learned from the international experiences include the need to (i) engage the line ministries, which requires using incentives, improving skills and behaviors, and simplifying methodologies for less strategic programs; (ii) build local capacity in key areas like strategic planning and accounting; and (iii) recognize that the countries that make the most progress are the ones that adapt to difficulties, rather than abandoning RBB: they correct past mistakes and make gradual changes,

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<sup>37</sup> See Barreix and Zambrano, editors (2018). *La factura electrónica en América Latina* [Electronic invoicing in Latin America]. Electronic invoicing impact assessments were conducted in Argentina, Brazil, Ecuador, Mexico, and Uruguay.

<sup>38</sup> See Hashim and Piatti-Funkirchen (2018). *Lessons from reforming financial management information systems: a review of the evidence*, World Bank Policy Research Working Paper 8312; Pimenta and Pessoa (2015), *Public financial management in Latin America: the key to efficiency and transparency*. IDB and IMF.

<sup>39</sup> See Singer, Konstantinidis, Roubik, and Beffermann (2009). *Does e-procurement save the State money?* *Journal of Public Procurement*, Volume 9, Issue 1, 58-78.

<sup>40</sup> Zaltsman, A. (2009). *The effects of performance information on public resource allocations: a study of Chile's performance-based budgeting system*. *International Public Management Journal*, 12(4): 450-483. Gilmour, J. B., and D. E. Lewis (2006). *Assessing performance assessment for budgeting: the influence of politics, performance and program size*. *Journal of Public Administration Theory and Research* 16: 169-186.

<sup>41</sup> Robinson, M., and J. Brumby (2005). *Does performance budgeting work? An analytical review of the empirical literature*. IMF Working Paper, WP/05/210.



ensuring continuity to build credibility in the face of changes in government.<sup>42</sup> Lastly, the IPSAS allow for accrual basis accounting, which has advantages over cash basis accounting in terms of transparency, accountability, and financial management: the recognition of economic events, which frequently do not involve money flows (for example, depreciation), the recording of asset and liability inventory in financial statements, improved monitoring of contingent liabilities and debts, and consolidation of all government-controlled entities.<sup>43</sup>

- 1.30 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the development challenge of productivity and innovation, through support for implementation of the SIFEN, the SIARE, and the SICP, which will strengthen the technological infrastructure of the Paraguayan State. The project is also aligned with the crosscutting areas of: (i) gender equality and diversity, by including information and targets broken down by gender in budget programs, with a focus on priority social spending; and (ii) institutional capacity and rule of law, by strengthening, through the various outputs, the SET's institutional capacity, the administrative systems for public financial management, the government agencies and entities, and the municipios covered by the subnational SIARE. Additionally, the project will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6), specifically the following indicators: (i) percent of GDP collected in taxes; (ii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery; (iii) subnational governments benefited by decentralization, fiscal management, and institutional capacity projects; (iv) countries benefited by IDB projects aimed at improving domestic resource mobilization; and (v) countries that use fiduciary country systems. The project is also consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3), with regard to the efficient mobilization of public resources for development; and with the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8), with regard to improved efficiency and quality of subnational government spending. Lastly, the project is aligned with the Bank's country strategy with Paraguay 2014-2018 (document GN-2769) in the priority sector of public management and the strategic objectives of consolidating fiscal sustainability and improving the effectiveness, transparency, and integrity of public entities. The program also is found in the Update to Annex III to the 2018 Operational Program Report (document GN-2915-2).

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

- 1.31 The project objective is to improve public revenue and expenditure management through increased: (i) efficiency in revenue intake; (ii) effectiveness in expenditure execution (at the national and municipal levels); and (iii) efficiency in expenditure. This will make it possible to generate more resources and apply them more effectively, efficiently, and transparently, to promote sustainable development in Paraguay. The project has the following components:

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<sup>42</sup> See World Bank (2016). Toward next-generation performance budgeting: lessons from the experiences of seven reforming countries. Daniel Moynihan and Ivor Beazley, Directions in Development, Public Sector Governance.

<sup>43</sup> See IMF (2016). Implementing accrual accounting in the public sector. Joe Cavanagh, Suzanne Flynn, and Delphine Moretti, Fiscal Affairs Department.



- 1.32 **Component I. Implementation of electronic invoicing (US\$7.3 million).** The objective of this component is to raise tax revenue intake, lower the cost of compliance for taxpayers and the cost of administration for the SET, and support modernization of the SET, through:
- a. **Subcomponent 1.1. Implementation of the National Integrated Electronic Invoicing System (SIFEN) (US\$6.3 million).** This subcomponent includes the controlled voluntary and rollout stages. The activities include: (i) improvement of the SET's technological and functional capabilities for operation and maintenance of the SIFEN; (ii) the strategy for SIFEN training, technical assistance, and dissemination; and (iii) expansion of the storage infrastructure and database licenses.
  - b. **Subcomponent 1.2. Modernization of the Taxation Branch (SET) (US\$1 million).** This subcomponent consists of activities to complement the SIFEN intended to support the SET's institutional modernization, including: (i) implementation of the tax risk management system (fiscal intelligence software and adaptation of the risk management office to electronic invoicing); (ii) implementation of sector enforcement and computer auditing models; (iii) implementation of a medium-sized taxpayers department model adapted to the SIFEN (equipment and management improvements); and (iv) implementation of an international taxation model (improvement of the SET's ability to comply with the international tax standards adopted by Paraguay).
- 1.33 **Component II. Strengthening of the Integrated State Resources Management System (SIARE) (US\$7.4 million).** The objective of this component is to improve the efficiency and transparency of expenditure through capacity-building for the Financial Administration Branch (SSEAF) of the Ministry of Finance to supervise the final stage of implementation of the SIARE and its subsequent operation, through:
- a. **Subcomponent 2.1. Timely implementation of the SIARE (US\$3.9 million).** This subcomponent includes: (i) implementation of the final stage of the SIARE, together with the improvement of the SSEAF's functional and technological capabilities for supervision, operation, and maintenance; this includes the strategy for SIARE training, technical assistance, and dissemination; (ii) implementation of a management information system, together with improvement of the open data platform of the Ministry of Finance publishing information from the SIARE; and (iii) implementation of the JUPE database by digitizing information on state pension and retirement beneficiaries.
  - b. **Subcomponent 2.2. SIARE high accessibility site (US\$3.5 million).** This subcomponent consists of the implementation of the technological and communications infrastructure of a data processing center for the SSEAF to ensure the SIARE's high accessibility.
- 1.34 **Component III. Implementation of the municipal SIARE (US\$4.1 million).** The objective of this component is to improve efficiency and transparency in municipal management, through:
- a. **Subcomponent 3.1. Municipal SIARE (US\$3.4 million).** This subcomponent includes: (i) development of the municipal SIARE; and (ii) pilot implementation

in a group of municipios. The national SIARE modules will be adapted, and a revenue module will be incorporated. Computer, communications, and security equipment for the central government and the municipios are included, as is training and technical assistance for the municipios, which are expected to access the municipal SIARE online. Although development of the system will allow for implementation in all municipios, this operation will only implement a pilot in two stages of 20 municipios each (40 in total), chosen based on representativeness and high probability of success: the selected municipios will have experience with prior municipal management improvement projects, will be representative of the four officially classified groups (see paragraph 1.13), and will be near each other, to keep execution costs down.<sup>44</sup>

- b. **Subcomponent 3.2. Modernization of the Departments and Municipios Unit (UDM) (US\$0.7 million).** This subcomponent includes: (i) institutional reorganization and capacity-building for supervising and functionally operating the municipal SIARE; and (ii) capacity-building in municipal revenue and expenditure management; transfer systems; and municipal borrowing.

1.35 **Component IV. Improvement of public financial management (US\$4.9 million).** The objective of this component is to improve the efficiency, effectiveness, and transparency of expenditure, through:

- a. **Subcomponent 4.1. Implementation of the results-based budgeting (RBB) strategy (US\$1.8 million).** This subcomponent consists of supporting the current RBB strategy for improving expenditure effectiveness by developing budget programs at selected government agencies and entities (with a focus on social sectors) through the following activities: (i) training, technical assistance, and evaluation, including information and targets broken down by gender;<sup>45</sup> (ii) completion of development of the regulatory framework and the methodological instruments of the STP and the DGP;<sup>46</sup> and (iii) improvement of the DGP's capabilities.
- b. **Subcomponent 4.2. Improvement of the management of the National Public Procurement Office (DNCP) (US\$1.4 million).** This subcomponent consists of helping to improve the management of the DNCP through modernization of the Public Procurement Information System (SICP), making it transactional by developing the modules for management of electronic contracts, framework agreement, interfaces with the SIARE and the SIFEN, and the strategy for system training, technical assistance, and dissemination. It includes the following activities: (i) methodological and regulatory re-engineering of the framework agreement; and (ii) improvement of the Market Intelligence Unit (methodologies, benchmark prices, statistics, and generation of product datasheets).

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<sup>44</sup> The Ministry of Finance may expand the number of municipios where the municipal SIARE will be implemented, but in this project, given the budget and for the demonstration effect, implementation will target only the 40 selected municipios.

<sup>45</sup> The Ministry of Finance included the gender perspective as a priority focus area in its budget preparation guidelines decree. Likewise, in connection with RBB, it has included information disaggregated by sex and age in the Matrix of Beneficiaries of the Government Program Monitoring and Evaluation System.

<sup>46</sup> Including strengthening of the sector statistics systems for tracking RBB indicators.

- c. **Subcomponent 4.3. Implementation of International Public Sector Accounting Standards (IPSAS) (US\$1.7 million).** This subcomponent consists of supporting the Public Accounting Directorate (DGCP) in implementing the IPSAS, in line with current policies. It includes developing budget execution and accounting manuals adapted to international standards, accounting policies, training, and technical assistance, and completing the inventory of government assets.
- 1.36 **Administration, monitoring, and evaluation (US\$2.5 million).** Financing will be provided for the continuity and strengthening of the project coordination unit (PCU), as well as external auditing, midterm and final evaluations, and other activities.
- C. Key results indicators**
- 1.37 The expected impacts are: (i) increased tax revenue intake/GDP; and (ii) greater budget allocations to priority expenditures (social expenditure and public investment). The expected outcomes are: (i) improved SET revenue intake efficiency (administrative costs of compliance/SET revenue intake; and audits with assessments/total audits performed); (ii) improved budgetary execution of priority expenditures (social expenditure and public investment); (iii) improved budgetary execution of municipal public investment; and (iv) improved public financial management (a higher percentage of the budget will be results-based and incorporate the gender perspective; and percentage variation between the awarded value and the market value in government procurement processes).
- 1.38 **Beneficiaries.** The expected beneficiaries of the project include: (i) as indirect beneficiaries, the inhabitants of Paraguay, due to increased social spending and public investment, as a result of increased revenue intake through the SIFEN, the timely execution of investments and social expenditure, greater effectiveness of budget programs in social sectors, and improved efficiency in government procurement; and (ii) as direct beneficiaries: (a) taxpayers, due to tax payments facilitated through the SIFEN;<sup>47</sup> (b) government agencies and entities benefiting from the timely implementation of the SIARE and the SICIP; (c) the inhabitants of the municipios, who will have more information to demand accountability from their authorities; (d) apex agencies of the public financial management administrative systems;<sup>48</sup> and (e) the entire population, due to the increased transparency of the central government's public financial management.
- 1.39 **Economic analysis.** An [economic analysis](#) of the project was performed based on the outcomes associated with the increased efficiency of public revenue and expenditure management, including benefits due to: reduced expenditure on invoice administration; time saved due to improvements in budgetary execution; and increased social benefits due to higher revenue intake. The project is estimated to generate a social net present value (SNPV) of around US\$30 million with an internal rate of return (IRR) of 38%. According to the sensitivity and risk analyses conducted, the benefits from reduced expenditure on invoice administration and time saved due to improvements in budget execution account for over 66% of the change in the SNPV; the probability is high (88%) that the SNPV will be positive.

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<sup>47</sup> There are 750 large, 4,239 medium-sized, and 785,857 small taxpayer companies.

<sup>48</sup> This includes budget, treasury, accounting, debt, human resources, public investment, and procurement.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The total cost of the project is US\$26.34 million. Of that amount, US\$25 million will be financed by the Bank from Ordinary Capital resources, and US\$1.34 million will be the local counterpart, as shown in Table 1. The financing instrument will be a specific investment loan.

**Table 1. Total budget (US\$)**

Category	Bank*	Local contribution	Total	%
<b>1. Direct costs</b>	<b>23,800,000</b>	-	<b>23,800,000</b>	<b>90.4%</b>
Component I. Implementation of electronic invoicing	7,320,000	-	7,320,000	27.8%
Component II. Strengthening of the SIARE	7,420,000	-	7,420,000	28.2%
Component III. Implementation of the municipal SIARE	4,100,000	-	4,100,000	15.6%
Component IV. Improvement of public financial management	4,960,000	-	4,960,000	18.8%
<b>2. Administration, monitoring, and evaluation</b>	<b>1,200,000</b>	<b>1,340,000</b>	<b>2,540,000</b>	<b>9.6%</b>
<b>Total</b>	<b>25,000,000</b>	<b>1,340,000</b>	<b>26,340,000</b>	<b>100%</b>
<b>%</b>	<b>95%</b>	<b>5%</b>	<b>100%</b>	

\* Amounts include local taxes, pursuant to Bank policies.

- 2.2 Disbursements will be made over a period of six years,<sup>49</sup> running from the loan contract signature date, following the disbursement schedule shown in Table 2.

**Table 2. Disbursement schedule (US\$)**

Source/year	1	2	3	4	5	6	Total
IDB	1,460,844	6,756,257	10,793,261	4,105,992	1,459,455	424,191	25,000,000
Local	228,280	235,480	219,060	219,060	219,060	219,060	1,340,000
<b>Total</b>	<b>1,689,124</b>	<b>6,991,737</b>	<b>11,012,321</b>	<b>4,325,052</b>	<b>1,678,515</b>	<b>643,251</b>	<b>26,340,000</b>
<b>%</b>	<b>6.4%</b>	<b>26.5%</b>	<b>41.8%</b>	<b>16.4%</b>	<b>6.4%</b>	<b>2.5%</b>	<b>100%</b>

### B. Environmental and social safeguard risks

- 2.3 Pursuant to the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703) and the results of the safeguard policy filter, the project has been classified as a category "C," meaning that no socioenvironmental risks are foreseen. This operation will not finance infrastructure or civil works.

<sup>49</sup> The six-year disbursement period is based on the historical performance of Paraguay's portfolio; the technical design features of the project, structured as four components with different beneficiary entities; and OVE's recommendation (2017) to build extra time for approval and execution into operations with Paraguay, given the country's parliamentary ratification dynamics.

**C. Fiduciary risks**

- 2.4 The possibility of delays in the responsiveness of the project coordination unit (PCU) given the involvement of several different beneficiaries (SET, SSEAF, DNCP, STP) was identified and rated as a medium risk. This risk will be mitigated by strengthening the PCU, adding fiduciary technical specialists; training the current PCU staff, who already have experience; and assigning Bank analysts to work on the project at a high level of commitment.

**D. Other project risks**

- 2.5 A risk management workshop was conducted following the Bank methodology, and the operation was determined to be medium risk. The following risks were identified:
- a. **Public management and governance.** There is a high risk that the legal approval of the operation will be held up due to delays in Congress. This risk will be mitigated through: (i) presentations to the authorities so that they take ownership of the project and send it promptly to Congress; and (ii) coordination of the PCU and the beneficiary entities with the Ministry of Finance's Parliamentary Liaison Department, to facilitate prompt submission to Congress. There is also a medium risk that shifting priorities of the Ministry of Finance authorities will erode support during the project cycle. This risk will be mitigated through: (i) the Bank's timely communication of the agreed institutional priorities; (ii) periodic Bank review (every six months) of execution progress via administration missions; and (iii) PCU staff providing prompt support to the beneficiary entities, thus contributing to project ownership.
  - b. **Sustainability.** The following are classified as medium risks: (i) difficulties in the operational startup of the SIFEN and SIARE projects due to respective taxpayer and civil servant resistance to adopting them. This risk will be mitigated through: (a) awareness campaigns, training, change management, and facilitation of the adoption of electronic invoicing and the SIARE, included as project actions; and (b) legal reforms to institutionalize the new procedures and systems implemented, which will be supported by policy-based loan operation PR-L1151, now in preparation; (ii) failure to maintain and continue using the systems after the project has concluded. This risk will be mitigated through training for beneficiary entity staff on operating and maintaining the project-financed systems, and through the counterpart's contractual commitment to operation and maintenance after project-end; and (iii) cyberattacks that hinder proper execution of the systems implemented by the project. This risk will be mitigated through information technology areas improving the mechanisms for detecting and mitigating attacks and vulnerabilities, in coordination with activities to strengthen the national cybersecurity framework under the Digital Agenda Support Program (operation PR-L1153), now in preparation.
  - c. **Execution.** There is a medium risk of delays due to the planned Component II and III activities being affected by problems with execution of the final stage of implementation of the SIARE. This risk will be mitigated through: (i) the Bank, the PCU, and the Ministry of Finance users advocating for the benefits of the SIARE; (ii) close, proactive PCU and Ministry of Finance user supervision of compliance with the requirements of the executing consortium; and

(iii) ongoing, close Bank supervision of the final stage of SIARE implementation by staff and international experts.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 The borrower for the project will be the Republic of Paraguay. The executing agency will be the Ministry of Finance, which will be responsible to the Bank, dealing with it directly and determining the project's course of action. The responsibility for execution of the operation will belong to the existing project coordination unit (PCU), which is executing project 2014/BL-PR, Fiscal Management Strengthening and Modernization Program II (PROFOMAF II), and has a team made up of a general coordinator and an administrative/financial specialist, procurement specialist, and monitoring and evaluation specialist. During project execution, this team will be financed by the local counterpart.
- 3.2 **Interagency coordination.** To support the beneficiary entities—the Taxation Branch (SET), Financial Administration Branch (SSEAF), National Public Procurement Office (DNCP), and Technical Secretariat for Economic and Social Development Planning (STP)—in procurement and monitoring of project activities, the PCU will have a functional coordinator for each component, who will serve as liaison between the PCU and each beneficiary entity. Additionally, coordination for execution of the project activities will be facilitated by the following: (i) more than 90% of project funds benefit the Ministry of Finance itself (the SET and the SSEAF, including support for the municipios through the municipal SIARE); and (ii) the DNCP interacts with the executive branch through the Ministry of Finance (Law 2051/03), and the STP, together with the Ministry of Finance, is an apex agency for results-based management, in relation to planning for results.
- 3.3 **As a special contractual condition precedent to the first disbursement of the loan proceeds, the executing agency will provide evidence of the appointment of the PCU, to include the general coordinator, administrative/financial specialist, procurement specialist, monitoring and evaluation specialist, and at least one functional coordinator.** This condition is necessary to ensure the operational, fiduciary, and institutional responsibility conditions required for the organized launch and execution of the project.
- 3.4 The PCU will be responsible for project administration and will perform the following main functions: (i) preparing the annual work plan (AWP) and status reports; (ii) opening and maintaining specific, separate bank accounts for managing the Bank loan proceeds and local counterpart funds; (iii) managing the counterpart resources and processing loan disbursement requests according to Bank procedures; (iv) recording and filing supporting documentation for disbursement requests; (v) preparing project financial statements for subsequent audit, as well as making arrangements for the selection and contracting of the audit firm; (vi) managing the processes for the procurement of goods and contracting of services for project execution; (vii) processing approvals and payments associated with the procurement of goods and services purchased and/or commissioned for the project; (viii) registering project consultants and financial records for subsequent audit; (ix) coordinating with the Bank for the execution of project components and activities,

responding to relevant Bank requests in a timely manner; and (x) other activities required for efficient execution of the operation.

- 3.5 Project procurement and contracting will be conducted in accordance with the Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9), the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), and the procurement plan. The SICP electronic reverse auction and competitive bidding subsystems will be used for the operation on the terms specified in the Fiduciary Agreements and Requirements (Annex III). No advance procurement or retroactive financing is planned for this operation.
- 3.6 **Single-source selection.** Component II calls for the single-source selection of the United Nations Conference on Trade and Development (UNCTAD) to improve the operations of the External Debt Management and Analysis System (SIGADE) / Debt Management and Financial Analysis System Programme (DMFAS), as the information system for public debt management already acquired by the Government of Paraguay under the PROFOMAF II program (loan 2014/BL-PR). This selection is justified because UNCTAD will conduct the activities related to improvement of the system as a natural continuation of work previously carried out, and due to UNCTAD's experience of exceptional worth for providing the service, in accordance with policy document GN-2350-9, paragraph 3.10, points (a) and (d) (see Annex III).
- 3.7 The executing agency has prepared a draft [annual work plan \(AWP\)](#) for the first 18 months of execution, which will be the initial plan for the project. The changes made to the AWP during annual execution must be submitted to the Bank for information and approval within 60 days after the close of each calendar six-month period. The AWP will consist of a report that includes a plan of activities for the calendar year, including: (i) a projection of the number of activities to be carried out for each project component, and the corresponding execution timeline and estimated costs; (ii) the objectives and programmatic targets for the period, including indicators; and (iii) the financing requirements for the period, by source of financing, indicating the most important milestones for achieving the desired objectives. The AWP must also include the annual financial programming and programming of contractual clauses.
- 3.8 The Bank team and the executing agency have worked to prepare a [procurement plan](#) that specifies: (i) the contracts for goods and consulting services required for conducting the project during the initial 18 months of execution; (ii) the proposed methods for the procurement of goods and selection of consultants; and (iii) the procedures followed by Bank for the assessment of procurement processes. The borrower will update the procurement plan at least annually, coinciding with the planned annual evaluations and together with the AWP, or when material changes arise, and always covering the following 18 months of the project execution period. Any proposed changes to the procurement plan will be submitted to the Bank for approval. The current version of the procurement plan will be available on the Bank and DNCP websites and on any other system or media indicated by the Bank, once the operation has been approved.
- 3.9 **Accounting and audit.** The executing agency will be responsible for the financial accounting of transactions, disbursements, financial records, and project bank

accounts. The executing agency will deliver annual project financial audit and accounting reports, to be financed with project resources and prepared by an independent audit firm acceptable to the Bank, according to the requirements (documents AF-100 and AF-300) and terms of reference agreed upon by the Bank. These audits will take place during the execution period and will include a final audit. Bank procedures will be followed for the selection and contracting of the auditors (documents AF-200 and AF-400).

**B. Summary of arrangements for monitoring results**

- 3.10 **Monitoring and evaluation.** The targets and output and outcome indicators established in conjunction with the executing agency and specified in the Results Matrix will be used for project monitoring and evaluation. The executing agency will deliver six-monthly status update reports on execution and the physical and financial planning targets based on the progress monitoring report, along with regular updates on the operation risks. The project includes resources for monitoring and evaluation. Midterm and final evaluations will be conducted, once 45% and 90% of the disbursements have been made, respectively. The objective of these evaluations will be to determine the degree of progress and compliance of the established indicators, outcomes, and targets, as well as to make recommendations, propose corrective actions, and establish good practices and lessons learned. The executing agency will commission external consulting services to prepare these evaluations, which will address: (i) compliance with the targets set in the initial plan and the AWP; (ii) progress on implementation of activities specified in the Results Matrix; and (iii) any necessary recommendations to ensure the best possible completion of the project objectives. The program will also perform an experimental impact assessment (random selection) in collaboration with the DNCP, to identify the causal effect on the efficiency and transparency of public procurement. Specifically, the evaluation will focus on estimating the SICP's impact on the change in value of government procurements. See [monitoring and evaluation plan](#).
- 3.11 The Bank and executing agency will hold at least two joint monitoring meetings annually, to discuss: (i) progress on the activities identified in the [AWP](#); (ii) the degree of compliance with the indicators established in the Results Matrix for each component; and (iii) the AWP and [procurement plan](#) for the following year.



Development Effectiveness Matrix		
	Summary	PR-L1150
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Countries benefited by IDB's projects aimed at improving domestic resource mobilization (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)* -Countries that use fiduciary country systems (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2769	Consolidate fiscal sustainability and improve the effectiveness, transparency and integrity of public entities
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	8.2	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	1.2	
4. Ex ante Economic Analysis	9.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	0.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	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, Accounting and Reporting.  Procurement: Information System, Price Comparison.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation 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 TC ATN/OC-16747-PR, Support for the improvement of fiscal management, supports the quality assurance of SIARE and SIFEN, along with the development of a specific module of the SICP

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

The main goal of the operation is to contribute to management improvements of Government revenues and expenditures. To achieve this end, the proposal defines three specific areas that define a component on which the project will intervene. Its first area focus is efficiency of tax collection, followed by efficacy of budget execution (at the municipal and national level), and finally efficiency of public expenditure.

The project includes a detailed description of the process gaps that lead to weaknesses in each of these three areas; it is also complemented by PR-L1151 which is being simultaneously developed.

The project's proposal generates a diagnosis to identify gaps in institutional arrangements (such as weak coordination and outdated legal documents), deficits in personnel management and training, and gaps in capital investments (resulting in outdated technological infrastructure), and budget gaps of alignment between the predetermined budget and public resources allocation.

The economic analysis provides a quantification of the efficiency of public income and expenditures gains. It also includes benefits by reduction of administration cost, time reduction by improving budget execution and increase in social benefits due to higher collection. The project's cost already includes investments in technology and its maintenance. The analysis concludes with a net present value of US\$30 million and an internal rate of return of thirty eight percent (38%).

Monitoring relies on reports by the Revenue Secretariat of the State, the Directorate-General for Budget, and the Municipalities and Departments Unit all part of the Ministry of Treasury. The ex post evaluation plan includes an impact evaluation to identify time and cost efficiencies in public spending with a focus on procurement. The evaluation relies on a randomized control trial.

Out of five identified risks there is one that classifies as high. The main risk faced by the project is delays in legislation approval processes which can compromise its success, therefore, improvements on coordination between the Ministry of Treasury and the Congress are listed as part of the mitigation measures.

## RESULTS MATRIX

<b>Project objective:</b>	The project objective is to improve public revenue and expenditure management through increased: (i) efficiency in revenue intake; (ii) effectiveness in expenditure execution (at the national and municipal levels); and (iii) efficiency in expenditure.
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### EXPECTED IMPACT

Indicator	Unit of measure	Baseline		Targets		Means of verification	Comments
		Value	Year	Value	Year		
Impact 1: Increased tax ratio							
Tax revenue intake/GDP	% (guaraníes/guaraníes)	9.9	2017	11	2024	SET statistics	The SIFEN will contribute to improve tax revenue intake.
Impact 2: Increased budget allocations to priority expenditures <sup>1</sup>							
Social expenditure/ Total executed expenditure <sup>2</sup>	% (guaraníes/guaraníes)	54	2017	56	2024	Ministry of Finance <a href="#">SITUFIN report</a>	Improved allocation to priority expenditures.
Investment expenditure/ Total executed expenditure	% (guaraníes/guaraníes)	16	2017	20	2024	Ministry of Finance <a href="#">SITUFIN report</a>	Improved allocation to priority expenditures.

### EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline		Intermediate target		Final target		Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
Outcome 1: Improved SET revenue intake efficiency									
Administrative costs of compliance/SET revenue intake	% (guaraníes/ guaraníes)	0.5	2017	0.45	2021	0.3	2024	SET report on change in indicator	Costs of paper invoicing for taxpayers and the SET. <sup>3</sup>
Audits with assessments/Total audits performed	% (audits/audits)	88	2017	90	2021	93	2024	SET report on change in indicator	Improved effectiveness of controls with electronic invoicing.
Outcome 2: Improved budgetary execution of priority expenditures									
Executed/budgeted social expenditure	% (guaraníes/ guaraníes)	80	2017	85	2021	90	2024	DGP budget execution report	Improved execution of priority expenditures.

<sup>1</sup> Includes executed expenditure of the central government.

<sup>2</sup> Includes the implementation of results-based budgeting programs with information and targets broken down by gender.

<sup>3</sup> Includes costs of storage, printing, and courier costs for businesses, and taxpayer notification and auditing for the SET

Indicator	Unit of measure	Baseline		Intermediate target		Final target		Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
Executed/budgeted public investment	% (guaraníes/ guaraníes)	69	2017	75	2021	85	2024	DGP budget execution report	Improved execution of priority expenditures.
<b>Outcome 3: Improved budgetary execution of municipal public investment</b>									
Executed/budgeted municipal public investment	% (guaraníes/ guaraníes)	58	2017	65	2021	80	2024	UDM municipal budget execution report	Covers the 40 pilot municipios for the municipal SIARE.
<b>Outcome 4: Improved public financial management</b>									
Results-based budget that incorporates the gender perspective/Total budget	% (guaraníes/ guaraníes)	0	2018	15	2021	35	2024	DGP report on changes in RBB coverage	Budgetary program coverage of the budget. <sup>4</sup>
Awarded value/market value for government procurement processes <sup>5</sup>	% (guaraníes/ guaraníes)	34	2018	31	2021	28	2024	DNCP report	Awarded value/market value.

#### OUTPUTS

Indicator	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
<b>Component I: Implementation of electronic invoicing</b>												
1.1 SIFEN implemented	System	1	2018	0	0	1	0	1	0	2	SET report on compliance with SIFEN milestones 1 and 2 <sup>6</sup>	Users use the system (hardware and software), which includes activities for SIFEN milestones 1 and 2, once the pilot plan has been completed in 2018.
1.2 Integrated tax risk management system implemented	System	0	2018	0	0	0	2	0	0	2	SET reports on the implemented system	Users use the system, which includes tax intelligence software and adaptation of the risk management office.

<sup>4</sup> The budgetary programs will include information and targets broken down by gender.

<sup>5</sup> Value calculated for a representative sample of 29 goods often procured by the government.

<sup>6</sup> Milestone 1: Launch of monitored voluntary electronic invoicing. Milestone 2: Launch of rollout of electronic invoicing.

Indicator	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
1.3 Sector enforcement and computerized audit model implemented	Model	0	2018	0	0	0	0	2	0	2	SET report on the implemented enforcement and audit model	Users use the model, which includes activities to improve sector enforcement and computerized audit.
1.4 Medium-sized taxpayers department model adapted to the SIFEN implemented	Model	0	2018	0	0	0	2	0	0	2	SET report on the implemented department model adapted to the SIFEN	Users use the model, which includes hardware and improved management for SIFEN implementation.
1.5 International taxation model implemented	Model	0	2018	0	0	1	0	0	0	1	SET report on the implemented model	Users use the model, which involves activities to comply with international agreements.
<b>Component 2: Strengthening of the Integrated State Resources Management System (SIARE)</b>												
2.1 SIARE implemented	System	0	2018	0	0	0	1	0	0	1	DGIC/Ministry of Finance report on implementation of the SIARE	Users use the system (hardware and software), consisting of full implementation of the SIARE, including evolutionary development.
2.2 Management information system implemented	System	0	2018	0	0	2	0	0	0	2	DGIC/Ministry of Finance report on implementation of the management information system	Users use the management information system (software) together with the open data portal update.
2.3 State Retirement and Pension System (JUPE) database implemented	Database	0	2018	0	1	0	0	0	0	1	DGJP/Ministry of Finance report on the JUPE database launch	Database consists of digitalization of retiree files.
2.4 High accessibility site implemented (data processing center)	Site	0	2018	0	0	0	1	0	0	1	DGIC/Ministry of Finance certification report on SIARE accessibility site	The site (office) consists of the procurement of technological and communications infrastructure for the backup data processing center.

Indicator	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
<b>Component 3: Implementation of the municipal SIARE</b>												
3.1 Municipal SIARE developed	System	0	2018	0	0	1	0	0	0	1	UDM/Ministry of Finance completion report on development of municipal SIARE	Users use the system, consisting of hardware and software.
3.2 Municipal SIARE implemented	Municipios	0	2018	0	0	0	20	0	20	40	UDM/Ministry of Finance report on the registry of data in the municipal SIARE <sup>7</sup>	Implementation of the municipal SIARE pilot in 40 municipios.
3.3 Departments and Municipios Unit (UDM) modernization model implemented	Model	0	2018	0	0	0	2	0	0	2	UDM/Ministry of Finance report on implementation of the modernization model	Users use the model, consisting of UDM organizational restructuring and capacity-building.
<b>Component 4: Improvement of public financial management</b>												
4.1 Reports on budget programs based on RBB that incorporate the gender perspective	Report	0	2018	0	0	10	10	10	5	35	DGP/Ministry of Finance report on central government approval of each budget program <sup>8</sup>	Consists of budget program formulation based on RBB with data and targets broken down by gender.
4.2 Transactional Public Procurement Information System (SICP) implemented	System	0	2018	0	0	1	0	0	0	1	DNCP report on the launch of the transactional SICP	Users use the system, consisting of implementation of the transactional SICP (hardware and software), including reengineering of the framework agreement and improvement of the Market Intelligence Unit.

<sup>7</sup> The pilot will be implemented in 2 stages of 20 municipios each.

<sup>8</sup> Such programs presuppose previous development of methodologies by the STP and DGP, and training and technical assistance on RBB.

Indicator	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
4.3 IPSAS model implemented	Model	0	2018	0	0	0	0	0	1	1	DGCP/Ministry of Finance report on financial statements with IPSAS <sup>9</sup>	Users use the model, consisting of central government financial statements prepared based on IPSAS, including standardized inventory of assets.

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<sup>9</sup> Includes the implementation of the asset inventory by the DGCP.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Paraguay  
**Project name:** Investments in Public Finance for Sustainable Development  
**Project number:** PR-L1150  
**Executing agency:** Ministry of Finance  
**Prepared by:** Fernando Glasman, Bruno Candia, and Jorge Luis Gonzalez  
(fiduciary specialists, VPC/FMP)

### **I. EXECUTIVE SUMMARY**

- 1.1 The institutional assessment for fiduciary management of the project was conducted based on: (i) the fiduciary context of the country; and (ii) the findings of the fiduciary risk assessment. This assessment was used to prepare the fiduciary agreements applicable to project execution.

### **II. FIDUCIARY CONTEXT OF THE COUNTRY**

- 2.1 Overall, the country systems for financial management have a medium level of development. However, these systems must be supplemented for the execution of Bank-financed projects. Specific financial reports are prepared through auxiliary accounting systems. Financial control tools such as the Integrated Financial Administration System (SIAF), the Integrated Accounting System, and other subsystems allow the executing agency to manage payment transfers to vendors under acceptable conditions through the Central Bank of Paraguay. The integration of these tools will make it possible to prepare audited program or project financial statements in the SIAF in the future. Until then, parallel systems will be used. External control is currently performed by private audit firms.
- 2.2 The efficiency and transparency of the country's National Public Procurement System has improved as a result of the creation of its apex agency, the National Public Procurement Office (DNCP), which has made it possible to implement a transactional platform for procurements with electronic procedures such as the electronic reverse auction, a system of vendors, and the Statistical Information System. The Public Procurement Information System (SICP) has been used for Bank-financed operations, as have the country subsystems for electronic reverse auction and competitive bidding, for the amounts and categories established in the agreement on their use signed by Paraguay and the Bank on 17 June 2014.

### **III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 3.1 The executing agency will be the Ministry of Finance, acting through the project coordination unit (PCU), which will be made up of a general coordinator and administrative/financial, procurement, and monitoring and evaluation specialists.
- 3.2 Our experience with execution by the Ministry of Finance's PCU shows that the main opportunities for improvement involve:
  - a. Implementing a financial and accounting information system that can record transactions and issue the information required by the Ministry of Finance and the IDB;
  - b. Strengthening the accounting and internal control areas in Bank financial management policies through courses and training sessions;
  - c. Strengthening the procurement area with an additional analyst/specialist and training on Bank procurement policies.

### **IV. FIDUCIARY RISK ASSESSMENT AND MITIGATION ACTIONS**

- 4.1 The PCU is currently executing project 2014/BL-PR, Fiscal Management Strengthening and Modernization Program II (PROFOMAF II), so it generally possesses technical competency in fiduciary matters. However, the involvement of the different beneficiaries—the Taxation Branch (SET), Financial Administration Branch (SSEAF), National Public Procurement Office (DNCP), and Technical Secretariat for Economic and Social Development Planning (STP)—could lead to delays in the PCU's responsiveness. This has been rated as a medium fiduciary risk.
- 4.2 This risk will be mitigated by strengthening the PCU, adding fiduciary technical specialists; training the current PCU staff, who already have experience; and assigning Bank analysts to work on the project at a high level of commitment.

### **V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT**

- 5.1 For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(ii). For such purposes, the agreed exchange rate will be the exchange rate in effect on the date on which the currency of approval or disbursement is converted into the local currency of the borrower's country.

### **VI. FIDUCIARY AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 6.1 The procurement policies applicable to this loan are the Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). Additionally, the Bank's Board of Executive Directors has approved (document GN-2538-11) the use of the electronic reverse auction and competitive bidding subsystems of Paraguay's Public Sector Procurement System



(SCSP) (Law 2051/03). Other country systems approved after project approval will be used automatically, and thus indicated in the procurement plan.

**A. Procurement execution**

- 6.2 Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding will be executed using national bidding documents agreed upon with the Bank. The project's sector specialist will be responsible for reviewing the technical specifications of procurements during the preparation of selection processes.
- 6.3 Selection and contracting of consultants.** Contracts for consulting services generated under the project will be executed using the standard request for proposals issued by or agreed upon with the Bank. The project's sector specialist is responsible for reviewing the terms of reference for the contracting of consulting services. The operation calls for the single-source selection of the United Nations Conference on Trade and Development (UNCTAD) to improve the operations of the External Debt Management and Analysis System (SIGADE) / Debt Management and Financial Analysis System Programme (DMFAS), as the information system for public debt management already acquired by the Government of Paraguay under the PROFOMAF II program (loan 2014/BL-PR). This selection is justified because UNCTAD will conduct the activities related to improvement of the system as a natural continuation of work previously carried out, and due to UNCTAD's experience of exceptional worth for providing the service, in accordance with policy document GN-2350-9, paragraph 3.10, points (a) and (d). The operation also provides for the financing of approximately US\$1.1 million to complete execution of the current contract for development of the SIARE, initially entered into under the PROFOMAF II program (loan 2014/BL-PR), without such contract constituting a new procurement item.
- 6.4 Selection of individual consultants.** Individual consultants will be selected in accordance with policy document GN-2350-9, or subsequent updates.
- 6.5 Training.** Procurement workshops will be held.
- 6.6 Use of country system.** Pursuant to document GN-2538-11 of October 2013, the electronic reverse auction and competitive bidding subsystems may be used in Bank-financed operations for:
- a. All contracts for goods and nonconsulting services subject to the use of the electronic reverse auction procedure under the country system and involving amounts below the Bank's established threshold for use of the shopping method for off-the-shelf goods (for reference, US\$250,000).
  - b. All contracts for works involving amounts below the Bank's established threshold for use of the shopping method for complex works (for reference, US\$250,000), and contracts for goods and nonconsulting services up to the amount established by the Bank for the use of the shopping method for complex goods and services (for reference, US\$50,000).

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<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) paragraph 1.1: Nonconsulting services are treated as goods.

- c. Contracts for amounts equal to or greater than the aforementioned amounts will be governed by document GN-2349-9, or subsequent updates.
- 6.7 Section 1 of document GN-2349-9 will continue to be applicable to all executed contracts, regardless of amount or procurement method. Any system or subsystem approved subsequently will be applicable to this operation. The operation's procurement plan and updates will indicate which procurement processes are to be executed using the approved country systems.<sup>2</sup>
- 6.8 **Advance procurement/Retroactive financing.** Not planned for this operation.
- 6.9 **Domestic preference.** Not planned for this operation.

**Table 1. Thresholds for ICB and international short list (US\$)**

Method	ICB works	ICB goods and nonconsulting services	International short list Consulting services
Base amount	3,000,000	250,000	200,000

**Table 2. Main procurement items**

Activity	Method	Process number in procurement plan	Estimated amount (US\$)
<b>Goods</b>			
Expansion of the storage infrastructure for the SIFEN rollout stage (2019-2022) – HARDWARE	ICB	1.1.1	1,000,000
Technological infrastructure for SIARE high accessibility – HARDWARE and SOFTWARE	ICB	2.4.1	2,975,642
<b>Consulting firms</b>			
Technical, functional counterpart, infrastructure of detailed specifications and implementation of the SIFEN (2019-2022). Monitoring, supervision, and technical testing for SIFEN software development (2019-2022) – TECHNICAL ASSISTANCE	QCBS	1.1.5	1,152,000
Process analysis, review of the conceptual model, and information technology development for the municipal SIARE – SOFTWARE	QCBS	3.1.1	1,580,744

**Table 3. Amounts by procurement type**

Category	Bank-financed amount (US\$)	Total amount (including counterpart) (US\$)
Individual consultants	2,609,400	3,509,400
Consulting firms	13,572,484	13,572,484
Goods	6,522,411	6,522,411
Other	2,295,705	2,735,705
<b>Total</b>	<b>25,000,000</b>	<b>26,340,000</b>

<sup>2</sup> If another system or subsystem is validated by the Bank, it will be applicable to this operation, in accordance with the loan contract.

- 6.10 **Procurement supervision.** All procurement and/or contracting processes governed by policies GN-2349-9 and GN-2350-9 and subject to ex ante review by the Bank ex ante, with consideration for the position of the Ministry of Finance. All supervision of procurement and/or contracting processes under the SCSP electronic reverse auction and competitive bidding subsystems (document GN-2538-11) will be conducted through the country system.<sup>3</sup>
- 6.11 **Records and files.** The systems, formats, and procedures indicated by or agreed upon with the Bank will be used for the preparation and filing of project reports.

## VII. FIDUCIARY AGREEMENTS AND REQUIREMENTS FOR FINANCIAL EXECUTION

### A. Financial management

#### 7.1 Programming and budget

- a. The PCU, reporting to the Ministry of Finance, will centrally coordinate execution, with support from other Ministry of Finance departments and units, as necessary.
- b. The Ministry of Finance will be responsible for budget programming, administration, and execution under the zero-based budget system.

#### 7.2 Accounting and information systems.

The country uses modified cash basis accounting; however, cash basis accounting is used for IDB-financed project accountability processes.

- a. **Information systems.** The PCU will have access to the SIAF. The country systems do not issue the necessary reports for the Bank. These reports are prepared using different systems, which creates additional work for the PCU.
- b. **Disbursements and cash flow.** Program disbursements will typically be made via advances of funds, corroborated through the monthly submission of an itemized financial plan for up to six months, and another for a longer period, which can be used to determine the program's actual demand indicated in the multiyear execution plan, annual work plan, and procurement plan. The second and subsequent disbursements will be subject to justification of at least 80% of the previous advance. If requested, disbursements may also be made as direct vendor payments or reimbursements for payments made.
- c. **Exchange rate.** The exchange rate agreed upon with the executing agency for accountability will be the monetization exchange rate, unless otherwise determined by the Ministry of Finance in its capacity as borrower during the loan negotiations.
- d. **Internal control and internal audit.** The Ministry of Finance evaluation of Paraguay's standard internal control model reports an adequate level of performance. However, the Ministry of Finance internal audit office does not include Bank-financed projects in its audit plan.
- e. **External control and reports.** The executing agency will deliver annual project audit reports prepared by an independent audit firm acceptable to the

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<sup>3</sup> Depending on the scope of system use, supervision may be supplemented by project audits. If so, it must be indicated in this annex.

Bank, according to terms of reference previously approved by the Bank. The project's financial statements include a cash flow statement, statement of accrued investment income, notes to these financial statements, and the statement from the project management team. The audit report will include an evaluation of the internal control system. An eligible-level firm of independent auditors will be selected for the project. External audits will be covered with loan proceeds, for an estimated cost of US\$240,000 over the planned six years of loan execution.

- f. **Financial supervision plan.** Financial supervision may be adjusted based on project execution and audit reports.

**Table 4. Financial supervision plan**

Nature/scope	Frequency
Ex post review of disbursements	1 per year
Financial audit and delivery of financial statements	Annual
Review of disbursement requests and attached reports	2 or 3 per year
Inspection visit/analysis of internal controls and control environment at the executing agency	Annual

**7.3 Execution mechanism.** As described in section III.A of the loan proposal.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Paraguay. Loan \_\_\_\_/OC-PR to the Republic of Paraguay  
Investments in Public Finance for Sustainable Development

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the program "Investments in Public Finance for Sustainable Development." Such financing will be for an amount of up to US\$25,000,000 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 \_\_\_\_ 2018)