

TC Document

I. Basic Information for TC

▪ Country/Region:	PARAGUAY
▪ TC Name:	Administrative Simplification and Regulatory Improvement
▪ TC Number:	PR-T1283
▪ Team Leader/Members:	Farias, Pedro Cesar L. (IFD/ICS) Team Leader; Theinhardt, Jean Eric (IFD/ICS) Alternate Team Leader; Catano Guzman, Mariana (IFD/ICS); Fitzpatrick, Silvana Valdivieso (IFD/ICS); Mendoza Benavente, Horacio (LEG/SGO); Rojas Gonzalez, Sonia Amalia (IFD/ICS); Zanabria Gainza, Gustavo (IFD/ICS)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	04 Nov 2019.
▪ Beneficiary:	Paraguay
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Portuguese Technical Cooperation Trust Fund(PTF)
▪ IDB Funding Requested:	US\$165,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period:	30 Months
▪ Required start date:	March, 2020
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	CSC/CPR-Country Office Paraguay
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

- 2.1 Paraguay has been experiencing a prolonged and significant economic growth. The average GDP growth rate in the 2013-2018 period was 5.8%¹. However, the country has significant lags in competitiveness and productivity. According to the 2019 Global Competitiveness Report of the World Economic Forum², Paraguay ranks 95th of 140 countries. Also, according to the 2019 Doing Business Ranking of the World Bank, Paraguay is ranked 113th of 190 countries³.
- 2.2 The low level of competitiveness is related, among others, with high bureaucratic barriers and complexity in regulations that inhibit investments and greater economic growth. According to the Multidimensional Study of Paraguay prepared by the OCDE

¹ Presentation of GDP Forecast 2019 by the Central Bank of Paraguay

² [The Global Competitiveness Report 2019 of the World Economic Forum](#).

³ The World Bank's [2019 Doing Business Report](#).

in 2018⁴, one of the main obstacles to the development of Paraguay is “weaknesses in the coverage and quality of regulations” due to administrative burdens that hinder entrepreneurship. According to the Global Indicators of Regulatory Governance of the World Bank, Paraguay obtains 1.5 of 5 possible points which places it below the average for Latin American and the Caribbean which obtains 2.5 points score⁵. Paraguay also ranks 70th of 140 countries in the Burden of Government Regulation sub-indicator of the World Economic Forum’s Global Competitiveness Index 2019.

- 2.3 In the last years, Paraguay has undertaken some initiatives to improve the regulatory quality and services to citizens and businesses⁶. In 2013, for example, it was created the Unified System for Opening and Closing Businesses (SUACE in Spanish), which allows entrepreneurs to complete all administrative transactions for opening and closing businesses in a single window. However, an IDB study conducted in 2017⁷ indicated that, even using SUACE, an entrepreneur must complete 14 steps, which includes the presentation of 11 documents and the hiring of a notary and an accountant to complete the process of opening a business. On average, it takes 60 days to open a business from the first step which includes the hiring of the notary to the end of the process which includes the registration in the Social Security Institute and the Ministry of Justice and Labor⁸.
- 2.4 On the citizen’s side, many of the most demanded administrative transactions are still carried out in person and the provision is fragmented. Thus, for example, although the renewal of the identity card is government transaction highly demanded in Paraguay, this transaction must be carried out in 6 steps, in person and only at the points of attention determined by the National Police⁹. There is no option to do it even partially through other venues such as the digital channel. The same study carried out in 2017¹⁰ has estimated that the administrative costs for the society of 2 transactions (the renewal of the identity card and the registration of businesses through SUACE) reach about US\$69 million by year. Considering that Paraguayan Central Government manages about 1010 government transactions¹¹, the administrative costs should represent a high economic impact for the country.
- 2.5 In this sense, the general problem that this project seeks to address is the **high transaction and regulatory compliance costs that citizens and businesses must handle in their interaction with the government**. The main causes of these problems are: i) institutional weaknesses in the provision of services, and ii) complexity of regulations that govern the compliance of obligations and access to rights and opportunities.

⁴ The [Multidimensional Study of Paraguay prepared by the OCDE](#).

⁵ The [World Bank’s Global Indicators of Regulatory Governance](#) measure how policy makers interact with citizens and entrepreneurs when regulations are issued.

⁶ One example of these initiatives is the Export Single Window. For more information, you can check: [Lanzamiento de la “plataforma de cobros electrónicos”](#)

⁷ Study by Rodrigo, D and J.L. Dos Santos (2017). Measurement of Administrative Costs of Citizen and Business Procedures in Paraguay (Mimeographed Document).

⁸ Source: [El Fin del Trámite Eterno](#) (BID, 2018).

⁹ Source: [Ministerio de Tecnologías de la Información y Comunicación – Gobierno Digital](#).

¹⁰ Study by Rodrigo, D and J.L. Dos Santos (2017). Measurement of Administrative Costs of Citizen and Business Government Transactions in Paraguay (Mimeographed Document).

¹¹ Source: [El Fin del Trámite Eterno](#) (BID, 2018).

- 2.6 The institutional weakness in the provision of services translates into cumbersome services and procedures for citizens and businesses. Indeed, according to the Global Competitiveness Index of the 2017-2018 World Economic Forum, entrepreneurs point out “inefficient government bureaucracy” as the third most problematic factor for doing business. Likewise, according to a recent IDB analysis¹², the satisfaction of citizens with administrative transactions is low. On a scale of 1 to 10¹³, the satisfaction experienced by Paraguayan citizens is 4.9, while the regional average is 5.2. Part of the dissatisfaction arises from the fact that the services and procedures are not easily accessible to citizens and businesses. Paraguay is one of the countries in the region that has one of the lowest percentages of administrative transactions that can be started and completed online¹⁴. Only 5.4% of the transactions can be started online and less than 3% can be completed online¹⁵. Regarding to face-to-face and telephone services, they are provided in a fragmented way and without quality standards.
- 2.7 **The regulatory complexity** stems from a lag in the adoption of instruments and good regulatory practices. Paraguay is one of the countries in the region where a greater number of hours is required to complete an administrative transaction¹⁶. In total, 6.7 hours are required to complete an administrative transaction, while in the region is required 5.4 hours and in countries like Chile, only 2.2 hours. Paraguay has not yet clearly established a regulatory policy that includes the adoption of regulatory improvement instruments recognized as good practices at the international level. As an example, the country lags in the systematic use of Regulatory Impact Analysis (AIR), public consultations of new regulations, lacks systematic records of administrative cost estimates for procedures and regulations, and does not carry out evaluations of its regulatory stock.
- 2.8 Paraguay can benefit from international lessons to improve and simplify public services and transactions of citizens and businesses with the government. A successful experience recognized internationally has been developed by the Government of Portugal through SIMPLEX (Administrative Simplification Program)¹⁷. This is a program that combines administrative simplification measures and digital governance under a service integration model. The key of the program is to identify those bureaucratic “bottlenecks” that generate the most administrative burden based on the participation of citizens and businesses.
- 2.9 The program has not only helped the central government, but also the Portuguese municipalities to simplify administrative transactions. Currently the program is gradually integrating in a single catalog all licenses and prior authorizations that affect the activities of citizens and businesses. Some of the interventions include: the online and automatic income tax declaration (2016) and the single electronic address of each citizen (2017), which allows a paperless communication between the public administration and the citizen.

¹² The data comes from the second round of the “Simplifying Lives: Quality and satisfaction with public services” survey.

¹³ According to the methodology, it is considered that there is “citizen satisfaction” when it reaches a minimum score of 5.5.

¹⁴ Source: [El Fin del Trámite Eterno](#) (BID, 2018).

¹⁵ The same study indicated that only 2% of the people who made their last transaction with the Government used digital channels to process it.

¹⁶ Source: [El Fin del Trámite Eterno](#) (BID, 2018).

¹⁷ For further information: <https://www.simplex.gov.pt/>

- 2.10 Additionally, Portugal has implemented the “*Custa Quanto?*” program¹⁸ which allows identifying and measuring, through standardized criteria and parameters, the burden of regulations on citizens and entrepreneurs. The objective is to eliminate, reduce or mitigate the obligations generated by regulations that are not considered necessary supporting thus, the measurement of the impact of the legal proposals and the eventual identification of alternative measures that preserve the benefits of regulation and are less expensive to citizens and entrepreneurs. This ex-ante regulatory economic impact assessment tool has been essential for the 255 initiatives of simplification, digitalization and integration of services undertaken in 2016 and 172 undertaken in 2017.
- 2.11 The relevance of Portugal’s experience has led the Ministry of Finance (MH) of Paraguay to request from the IDB a technical cooperation to finance the transfer of knowledge of the Government of Portugal in the areas mentioned above. The request was made based on meeting and communications facilitated by the IDB between professionals of the Ministry of Finance, the Agency for Administrative Modernization and the Center for Legal Competencies of the State of Portugal.
- 2.12 The **objective of this Technical Cooperation is to contribute to the reduction of transaction and regulatory compliance costs that citizens and businesses in Paraguay must handle while interacting with the Government.** The specific objectives are: i) to promote the improvement of the quality of government services through administrative simplification and integration and, ii) to promote the improvement of regulatory quality. The project will take advantage of the knowledge generated by Portuguese Government in initiatives on the areas of service delivery and better regulation.
- 2.13 Strategic **Alignment.** This TC is aligned with the cross-cutting priority of Strengthen institutional capacity and the rule of law of the updated IDB’s 2010-2020 Institutional Strategy. Additionally, this TC will contribute with the objectives of the operation PR-L1153 Program for the Support of the Digital Agenda, through actions related to the digitalization of procedures and regulatory improvement. For this purpose, the IDB and the Ministry of Finance will ensure coordination the Ministry of Information and Communication Technologies, responsible for the implementation of the Digital Agenda.

III. Description of activities/components and budget

- 3.1 **Component I. Simplification and Modernization of Government Services (US\$63,510).** This component aims to simplify administrative transactions and support the integration of services delivered to citizens and businesses. Based on the experience of SIMPLEX, the following activities will be financed: i) technical assistance for the identification, redesign and simplification of the most used government transactions that promote investment attraction¹⁹, ii) capacity building in administrative simplification and quality management of services including training through workshops and study trip to Portugal; and, iii) support for the digitalization of simplified

¹⁸ For further information: <https://www.jurisapp.gov.pt/custa-quanto/>

¹⁹ Among government transactions to be considered for simplification are: i) the request for tax incentive under Law 90/1990, and ii) the Single Window Export Platform.

administrative transactions that are relevant to the business environment and are highly demanded by citizens and businesses.

- 3.2 **Component II. Promotion of Regulatory Improvement (US\$89,990).** This component aims to improve quality of regulations through capacity building and the adoption of management instruments for the flow and stock of regulations. For this purpose, the following activities will be financed considering the Portuguese experience on regulatory improvement: i) Diagnostic and Action Plan on regulatory policy in Paraguay ii) technical assistance on Regulatory Impact Analysis and public consultation, iii) training to officials in good regulatory practices and cost estimation, and iv) study on international regulatory cooperation commitments of Paraguay.
- 3.3 To support the execution of these two components, a consulting firm will be hired in order to provide technical and logistical assistance for the planning and execution of activities related to the transfer of knowledge from Portuguese officials to the Paraguayan officials designated by the Ministry of Finance of Paraguay. These activities will include the organization of workshops in Paraguay and a study trip to Portugal, in addition to the preparation of the corresponding supporting material. Also, an individual consultant will be hired to support the coordination of the multiple actors, the monitoring of activities and the dissemination of results.
- 3.4 **Expected results:** The main impact of this operation will be the reduction of transaction and compliance costs faced by citizens and businesses through an improvement in the quality of government regulations and services. The achievement of these results will be measured through the reduction of steps of administrative procedures and the number of public agencies that engage in regulatory improvement program.
- 3.5 The main beneficiaries will be citizen users of public services and businesses that will have lower regulatory compliance costs. In addition, official and public institutions will benefit from an improvement in their capabilities in terms of regulatory improvement and modernization of public services. Finally, it is expected that Paraguay and Portugal can share the experiences generated by this TC within the scope of the Ibero-American Network for Regulatory Improvement allowing other countries in the region benefit from the lessons learned.

Indicative Budget

Component	Description	IDB/Fund Funding (US\$)	Total Funding ²⁰ (US\$)	Total funding ²¹ (€)
Component 1	Improving the quality of government services through administrative simplification	\$63,510	\$63,510	€56,523.9
Component 2	Promote institutional strengthening for regulatory governance	\$89,990	\$89,990	€80,091.1
Monitoring and Dissemination of Results		\$11,500	\$11,500	€10,235
Total		165.000	165.000	€146,850

²⁰ At least 50% of the resources will be used to hire firms or individuals of Portuguese nationality to provide the services.

²¹ The exchange rate of the U.S. dollar to the euro considered was 0.89, corresponding to May 10th, 2020.

IV. Executing agency and execution structure

- 4.1 At the request of the Paraguay's Ministry of Finance, especially taking into account the administrative procedures required by the budgetary process of Paraguay that could delay the execution of the TC and the need to coordinate with the Government of Portugal, the executor of this TC will be the IDB, through the Representation in Paraguay, with technical support from the Innovation in Citizen Services Division (IFD/ICS). The Bank's capacity and experience on border issues in public management in Latin America and the Caribbean will facilitate the implementation of project under Inter-American Development Bank (IDB) procedures.
- 4.2 The bank will contract consulting services in accordance with the requirements of the Policy for the Selection and Contracting of Consulting Firms in Operations Executed by the Bank (GN-2765-1) and its corresponding Operational Guides (OP-1155-2). For the selection of individual consultants, IDB's Human Resources procedures will be applied (AM-650). In the case of contracts for services other than consulting, the procedures and the Institutional Procurement Policy (GN-2303-20) will be applied. Considering that this TC will be executed by the Bank, it will be able to finance one IDB staff travel to support the execution, should it be required to ensure an adequate implementation, pending on a written approval from the donor, in accordance with IDB policy.
- 4.3 The operation will comply with the requirement of the Fund (tied fund) which stipulates that at least 50% of the operation resources must be used to cover professional fees, travel expenses and other costs related to the services provided by consultants, consulting firms and specialized institutions of Portuguese nationality.
- 4.4 The disbursement period will be 30 months, including the execution period.

V. Major issues

- 5.1 The main risks identified are possible delays that come from the need to engage several agencies and the low commitment of some of entities involved in this project. In addition to the involvement of the Ministry of Finance, Ministries of Industry and Commerce (MIC) and the Information and Communication Technology (MITIC) must participate besides other entities responsible for selected government transactions and regulations. The risks will be mitigated through prior work with the Ministry of Finance in order to make a rigorous selection of agencies interested in working on the activities planned in this project. Another risk refers to the low interest of consulting firms in Portugal in participating in the contracting process to be carried out by the Bank to support the execution of the project. The mitigation will require coordination with the Government of Portugal to support the dissemination of the selective process with Portuguese companies.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to Bank policies

VII. Environmental and Social Strategy

- 7.1 There are no expected environmental or social risks associated with the activities outlined in this operation. It is therefore anticipated that its environmental classification will be "C", according to the [Environment and Safeguard Compliance Policy \(OP-703\)](#).

Required Annexes:

- [Request from the Client - PR-T1283](#)
- [Results Matrix - PR-T1283](#)
- [Terms of Reference - PR-T1283](#)
- [Procurement Plan - PR-T1283](#)

Additional Annexes:

- [Communication of Amount](#)