SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

EARLY CHILDHOOD DEVELOPMENT PROGRAM

(PR-L1051)

LOAN PROPOSAL

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ELECTRONIC LINKS

REQUIRED

1. AWP (Work plan for the first disbursement and the first 18 months of implementation)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36374837
2. Monitoring and evaluation plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356947
3. Environmental and Social Management Report (ESMR)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356937

OPTIONAL

1. Economic evaluation (cost-benefit analysis – executive summary)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36358521
2. Institutional assessment
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356941
3. Complete procurement plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356949
4. Early childhood: current situation
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356942
5. National Plan for Comprehensive Early Childhood Development
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356944
6. Detailed program budget
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36357796
7. Project Execution Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36374645
8. List of targeted departments and municipios
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36374703
9. Progress Monitoring Report
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36408830
10. Environmental assessment
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36408430
11. Safeguard and Screening Form and Classification of Projects (SSF)
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356950
12. Technical cooperation operation
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36356956

ABBREVIATIONS

ANI	Programa de Asistencia Neonatal Integrada [Integrated Neonatal Care Program]
CEBINFAs	Centros de Bienestar de la Infancia y la Familia [Childhood and Family Welfare Centers]
DGAF	Dirección General de Administración y Finanzas [Administration and Finance Bureau]
DGRRH	Dirección General de Recursos Humanos [Human Resources Bureau]
DIRSINA	Dirección de Salud Integral de la Niñez y Adolescencia [Child and Adolescent Wellness Division]
ECD	Early childhood development
IMCI	Integrated Management of Childhood Illnesses
KCP	Knowledge and capacity-building products
MAIDIT	Modelo de Atención Integral de Desarrollo Infantil Temprano [Integrated Early Childhood Development Management Model]
MEC	Ministry of Education and Culture
MSPyBS	Ministry of Public Health and Social Welfare
PCT	Program Coordination Team
SATs	Servicios de Atención Temprana [Early Childhood Services Units]
SCL/SPH	Social Protection and Health Division (IDB)
SITs	Servicios de Intervención Temprana [Early Intervention Services Units]
SNNA	Secretaría Nacional de la Niñez y Adolescencia [National Childhood and Adolescence Department]
UAF	Unidad de Análisis Financiero [Financial Analysis Unit]
UOC	Unidad Operativa de Contrataciones [Operational Contracts Unit]
USFs	Unidades de Salud de la Familia [Family Health Units]

PROJECT SUMMARY

PARAGUAY
EARLY CHILDHOOD DEVELOPMENT PROGRAM
(PR-L1051)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="3">Borrower: Republic of Paraguay
Executing agency: Ministry of Public Health and Social Welfare</td><td>Amortization period:</td><td>25 years</td></tr>
<tr><td>Grace period:</td><td>4 years</td></tr>
<tr><td>Disbursement period:</td><td>4 years</td></tr>
<tr><td>Source</td><td>Amount (US$ millions)</td><td>%</td><td>Interest rate:</td><td>*</td></tr>
<tr><td>IDB (Ordinary Capital)</td><td>US$27</td><td>90</td><td>Inspection and supervision fee:</td><td>*</td></tr>
<tr><td>Local</td><td>US$ 3</td><td>10</td><td>Credit fee:</td><td>*</td></tr>
<tr><td>Total</td><td>US$30</td><td>100</td><td>Currency:</td><td>U.S. dollars from the Single Currency Facility of the Bank’s Ordinary Capital</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project objective:

The objective of the program is to help improve levels of cognitive, emotional, and physical development for children under 5, through early detection of developmental disorders and timely access to treatment. The specific objectives are: (i) to expand prevention, diagnosis and treatment through the health services, with emphasis on early childhood development (ECD); (ii) to coordinate and strengthen the services of child development centers; and (iii) to strengthen institutional capacities to implement ECD programs.

Conditions precedent to the first disbursement:

The borrower, through the executing agency, will present evidence that: (a) the Program Coordination Team has been officially established and staffed with the minimum number of professionals required for its operation (see paragraph 3.1); (b) the program Operating Regulations are in effect (see paragraph 3.2).

Exceptions to Bank policies: None

Project qualifies as: SEQ [X] PTI [X] Sector [ ] Geographic [X] Headcount [ ]</td></tr>
</table>

* 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 applicable provisions of the Bank’s policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed and rationale

1.1 Paraguay has a population estimated at 6,459,058, characterized by a rising urban population (60%) with some 775,000 children under the age of 5 (12%) and an indigenous population of around 1.7% of the total. Poverty levels in Paraguay, and in particular the total number of poor and extremely poor people in urban areas, have declined over the last decade. Overall poverty was reduced from 44% of the population in 2003 to 35.1% in 2009, and extreme poverty fell from 21.2% to 18.8% over the same period. Despite these improvements, 46.4% of children under 5 are poor and 25.4% (70% of whom live in rural areas) are extremely poor.[1]

1.2 Between 1990 and 2009, the mortality rate among children under 5 declined from 41.7 to 22.6 per 1,000 live births, and the infant mortality rate fell from 34.0 to 19.0 per 1,000 live births.[2] Despite this progress, these rates exceed averages for the region[3] and the current trend of these indicators suggests that Paraguay will not achieve the Millennium Development Goal of cutting the under-five mortality rate by two thirds by the year 2015.[4] Fourteen percent of children under 5 suffer from chronic undernutrition and the situation is worse in rural areas and in indigenous communities (16% and 42% respectively).[5] At the same time, half the children under 5 live in poor households. The latest study from the United Nations Children's Fund (UNICEF, 2007) reveals stunted growth in 14% of children under 5 and, while data are lacking,[6] they are likely to be lagging significantly in cognitive and psychosocial development as well. These delays are due to adverse development, health, and nutrition conditions from conception, as well as to a lack of adequate early childhood stimulation services.

1.3 **Why and when to intervene in early childhood development (ECD).** During early childhood, the human brain grows more than at any other stage of life,

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1 Permanent Household Survey, 2009.

2 United Nations MDG indicators. Data for Paraguay. Available at http://mdgs.un.org/UNSD/MDG/Default.aspx. Consulted in August 2011.

3 In 2009, the under-five and infant mortality rates in Southern Cone countries averaged 21.9 and 17.9 per 1,000 live births, respectively (CEPALSTAT, op.cit.).

4 Paraguay's target for reducing the under-five mortality rate is 13.3 per 1,000 live births, and the target for infant mortality is 6.6 per 1,000 live births. United Nations, under the coordination of Alicia Bárcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC). Achieving the Millennium Development Goals with equality in Latin America and the Caribbean. Progress and challenges. August 2011.

5 The latest data on malnutrition are from the Permanent Household Survey, 2005, and the Indigenous Household Survey, 2008.

6 There will soon be an Early Childhood Development indicator available for Paraguay (the "Observational Scale of Development") resulting from the Regional Indicators Project sponsored by the IDB in 2010. This indicator will be representative at the national level and samples will be stratified by urban and rural area, according to the definition used by the country.

reaching 80% of adult size in the first three years, and 90% in the first five years. For this reason, these first five years are the ones in which learning occurs with the greatest ease.[7] Evidence indicates that investments during early childhood have a greater yield than any other investment later in life, with rates of return of 15%-17%.[8] The family socioeconomic environment and level influence physical and mental development from birth, leaving those children born into households of low socioeconomic status and without access to adequate childhood development services at a disadvantage.[9] For example in various countries[10] five-year-olds in the lowest decile are on average up to a year and a half behind the norm. The comprehensive interventions that will be undertaken in Paraguay cover health, nutrition, early stimulation, and parent education. It has been shown that these interventions (in childcare centers and in health care facilities) result in better physical development for children, have a positive impact on the family environment and parental behavior, and generate improvements in cognitive and social-emotional development.[11]

1.4 Although the approach supported by the Bank in ECD is a comprehensive one that considers various child development factors, in the specific case of Paraguay the interventions focus primarily on health, since most of the programs aimed at the under 5 age group are in this sector. Currently, actions in early education for children under 5 are scarce and the most significant efforts are focusing on preschool education. In this context, the program's focus is on interventions from the health sector, but they incorporate joint and incipient actions with the Ministry of Education and Culture (MEC) (participation of teachers in community counseling and use of services for children with cognitive problems through Early Childhood Services units—SATs) and the National Childhood and Adolescence Department (SNNA) (child care), in order to step up joint actions among the

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[7] Araujo and López Boo, 2010 *Invertir en los primeros años de vida: una prioridad para el BID y los países de América Latina y el Caribe*, IDB Technical Note # IDB-TN-188.

[8] *Heckman, 2006: Skill Formation and the Economics of Investing in Disadvantaged Children, Science, 312(5782): 1900-1902.*

[9] *Lozoff et al, 2006: Double burden of iron deficiency in infancy and low socio-economic status a longitudinal analysis of cognitive test scores to age 19 years. Arch. Pediatr. Adol. Med., 160:1108-1113.*

[10] In Ecuador, Colombia, Chile, and Nicaragua vocabulary tests were administered and used to predict school performance, as a way of measuring the gap with respect to international standards (see Paxson and Schady, 2007*: Cognitive Development among Young Children in Ecuador: The Roles of Wealth, Health, and Parenting. Journal of Human Resources 42(1): 49–84*, among others).

[11] *Heckman and Masterov, 2007; Grantham-McGregor et al, 2007, Engle, et al., 2007; Baker-Henningham and López Boo, 2010; Lawn JE, Mwansa-Kambafwile J, Horta BL, Barros FC, Cousens S. "Kangaroo mother care to prevent neonatal deaths due to preterm birth complications.<http://www.ncbi.nlm.nih.gov/pubmed/20348117>" Int J Epidemiol. 2010 Apr; 39 Suppl. 1:i144-54 and "Towards Universal Kangaroo Mother Care: recommendations and report from the First European Conference and Seventh International Workshop on Kangaroo Mother Care." Acta Paediatr.<http://www.ncbi.nlm.nih.gov/pubmed/20219044> 2010 Jun;99(6):820-6.*

sectors.[12] This program is expected to enable an institutional strengthening process to begin over the medium term that includes a comprehensive care modality and decentralized management at the local level, headed by the MSPyBS. This justifies the supplementary participation of the MEC and the SNNA in various actions related to their natural functions.

1.5 Childhood is a crosscutting theme of the four pillars of the Government of Paraguay's proposed Social Development Policy 2010-2020 (Chapter III) and is included in the Country Strategy with Paraguay 2009-2013 as one of the priority areas in the social sector (section II.B), both in education (early childhood and preschool) and in health (preventive care for children under 5). In addition, early childhood care is one of the specific issues of sector priority in the GCI-9, "Social policy for equity and productivity" (section (a) paragraphs 3.14 and 3.19).

1.6 **Early childhood care in Paraguay and its challenges.** There is a broad legal framework relating to childhood in the country, the provisions of which are included in the social strategy[13] and in the National Plan for Comprehensive Early Childhood Development 2011-2020. The broadest government program targeted at early childhood (children under 5) is the one offered by the Ministry of Public Health and Social Welfare (MSPyBS) through primary care institutions known as Family Health Units (USFs), using the Integrated Management of Childhood Illnesses (IMCI) strategy.[14] The strategy's package of services includes health, nutrition, growth, and development, but in practice the focus is primarily on health, nutrition, and growth monitoring services. Development-related activities are confined to identifying, classifying, and reporting[15] cases of children with problems of delayed development or physical disabilities, and preventive and promotional activities for child development are rare, in the health facilities and in the communities alike. Moreover, USFs do not have sufficient health personnel (community-based or specialized) to carry out these promotional activities and their training is primarily clinical. Although subgroups of the child population have been identified as being at higher risk of early development problems (for example children born prematurely or with low birth weight or who require treatment in neonatal intensive care units), measures are just beginning to be taken to address this risk. Nor does the system respond adequately to demands for diagnosis and treatment of children with developmental problems, as the public supply of these

[12] In addition, the government expressed its preference to the IDB with regard to avoiding having loans with more than one executing agency, which, based on past experience, are difficult to execute.

[13] *Paraguay para Todos y Todas, Propuesta de Política Pública para el Desarrollo Social 2010-2020.*

[14] The Growth and Development Program was incorporated into the IMCI in the 1980s. However, there has been more success with growth monitoring (weight and height) than with the developmental aspect (visual, auditory, psychomotor, social-emotional, etc.). The MEC has a program for preschoolers but it does not cover the age group targeted by the project.

[15] The only comprehensive treatment services are concentrated in Asunción and the neighboring Departamento Central, in the Acosta Ñu General Pediatric Hospital and the Itaguá National Hospital. The National Institute for the Protection of People with Special Needs handles cases of physical disability.

services is limited and confined largely to the capital city. While the MEC has an Early Childhood Services program, its coverage is limited (18 districts) and the services are specifically in the area of educational psychology.

1.7 For some years now there have been public services available for this age group (kindergartens, day-care centers, nursery schools) offered by the MSPyBS, the MEC and the SNNA.[16] Yet the supply of these services is fragmented and scarce[17] and delivery differs from institution to institution, presenting significant variations (different approaches to care, different scopes of service, and different personnel profiles). Moreover, there is no information on the number of privately-run care centers or any effective mechanisms for public-private coordination of these services. In particular, there is a generalized lack of a specific national strategy relating to child care centers or services, in a context where increasing female participation in the labor market requires solutions for children to be looked after outside the home.[18]

1.8 In short, the main challenges in early childhood care for children under 5 are: (i) the low supply of ECD services through the health system, which precludes a comprehensive response to the development needs of children and their families, particularly with respect to stimulation services; and (ii) the fragmentation of the scarce supply of care centers, which impedes the intersectoral coordination required so that ECD interventions will have a standardized curriculum with protocols for quality service. Other crosscutting challenges identified with respect to ECD are the scarcity of reliable information, the shortage of health personnel with training or knowledge about ECD, and infrastructure and equipment shortcomings in all the services.[19]

B. Objectives, components and cost

1.9 The objective of the program is to help improve levels of cognitive, emotional, and physical development for children under 5, through early detection of

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[16] The SNNA has "open centers" within the *Abrazos* program and alternative care centers; the MSPyBS, through the Social Welfare Department, has the Childhood and Family Welfare Centers; and the MEC runs a child care program in the Adult Education Resource Centers.

[17] For example, the MEC estimates under-coverage of initial education at 99% for three-year-olds and at 76% for four-year-olds. *Situación Actual de la Primera Infancia y Perspectivas de la Atención Integral en Paraguay*, 2011.

[18] A Ministry of Social Development is being created, and is expected to involve an institutional reordering of these services. For this reason, until the policy decisions are made, service coverage will not be increasing, although this is one of the challenges facing the government.

[19] Another problem identified is the low coverage of health services at the primary and secondary level, which in turn limits delivery of ECD programs to these neglected groups. That problem is not addressed in this operation, as the flagship program developed by MSPyBS since 2008 is to expand coverage and strengthen health services through the creation of the USFs (the target for 2013 is 1,850 units) and establishment of comprehensive service networks.

developmental disorders and timely access to treatment.[20] The specific objectives are: (i) to expand prevention, diagnosis, and treatment through the health services, with emphasis on ECD, with family and community participation; (ii) to coordinate and strengthen the services of the child development centers; and (iii) to strengthen institutional capacities to implement ECD programs.

1. Component 1. Implementation of the Integrated Early Childhood Development Management Model (MAIDIT) in the health sector (US$25.47 million)

1.10 The objective of this component is to support the MSPyBS in implementing the MAIDIT for children under 5, through health service networks of differing degrees of complexity. As a complement to health and nutrition interventions, preventive and promotional measures to address child development at the primary level will be strengthened, with community participation and cultural relevance, and diagnostic and treatment services at other levels of care will be strengthened. This component comprises three subcomponents:

1.11 **Subcomponent 1.1. Strengthening of early childhood services at the primary level (US$11.2 million).** This subcomponent will strengthen the USFs so that, through the IMCI strategy (hereafter ECD-reinforced IMCI), they can improve their counseling and education activities for prevention and to promote the development of children under 5, in coordination with health and nutrition activities, both in health centers and in the communities. This intervention calls for strengthening the USFs health teams through training and an increase in community staffing[21] and/or the inclusion of educators from the MEC. This subcomponent will finance the following activities, among others: (i) training for MEC health personnel and the communities in ECD interventions included in the IMCI; (ii) detailed designs of ECD play rooms and waiting rooms; (iii) works for upgrading infrastructure, equipment, and materials to create ECD spaces in the USFs; (iv) works supervision; (v) preparation and costing of maintenance plans;[22] (vi) design and reproduction of teaching materials for health and community workers; (vii) a communication strategy on ECD targeted primarily at communities; and (viii) technical assistance to support the Child and Adolescent Wellness Division (DIRSINA) in implementing the MAIDIT.

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[20] Component 1 focuses on 10 departments and 41 municipios with an estimated child population of 373,259. Component 2 is confined to the capital city, with an estimated child population of 1,361. (See paragraph 1.18).

[21] According to MSPyBS rules set out in its policy document ("Quality of Life and Health with Equity"), the community team comprises five people, but in practice most USFs function with fewer people. The program will help strengthen the community team.

[22] Maintenance expenditures during program execution are expected to be minor, given the planned timing for completion of works and the procurement of equipment and vehicles. However, the program Operating Regulations will include the maintenance plan for goods and works acquired under this operation, and the initial resources for their financing, which will subsequently be assumed by the health centers.

1.12 **Subcomponent 1.2. Creation of intermediate diagnostic and treatment services for children with developmental delays (US$6.11 million)**. This subcomponent will support the creation of early intervention services units (SITs), with an intermediate degree of complexity, for assessing and treating children under 5 with disorders or alterations in their cognitive, emotional, and physical development. Up to 11 SITs will be created, networked with the USFs, the hospitals, and the mother and child care centers.[23] The SITs will have a skeleton team comprising a nurse, a psychologist, a physiotherapist, a pediatrician, and support personnel,[24] to be financed initially by the program and gradually built into the MSPyBS budget. Given the shortage of human resources with ECD training, this component will also support training of staff for the SITs, through a postgraduate fellowship program with the National Institute of Health of the MSPyBS and other international institutions or universities recognized for the quality of their programs in their respective countries.[25] The specific modalities of the fellowship program will be designed by the MSPyBS before the program begins. In addition, the general guidelines will be included in the program Operating Regulations. MAIDIT services will supplement the MEC's early childhood services, for cognitive development services. This subcomponent will finance the following activities, among others: (i) review and implementation of the SIT training module; (ii) upgrade or expansion of SIT staff infrastructure, materials, furnishings, and equipment; (iii) supervision of works, preparation and costing of maintenance plans; (iv) purchase of vehicles for the services network referral system; (v) SIT staffing; and (vi) manuals, teaching materials, and other operating costs for health personnel and service users.

1.13 **Subcomponent 1.3. Strengthening of hospitals and mother and child care centers (US$8.14 million)**. This subcomponent will strengthen the ECD services delivered by second and third level care facilities through the following interventions: (i) strengthening of existing diagnostic and treatment services in hospitals with higher complexity of care (Niños de Acosta Ñu Pediatric General Hospital and Itauguá National Hospital) that constitute the referral network; (ii) comprehensive interventions for prevention or mitigation of risk factors for neuro-development in newborns, the Integrated Neonatal Care Program (ANI)[26]

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[23] A map of existing public and private ECD services is being prepared in order to determine the geographic location of the SITs.

[24] Before physical works begin for the SITs, the MSPyBS will demonstrate that it has the minimum personnel and the required budgetary resources earmarked.

[25] This will be a criterion for selecting the universities or other establishments, which will be included in the Operating Regulations. Moreover, the postgraduate program will be implemented at the start of the loan period, so as to have a first team of professionals after 18 months. By then, the physical activities in the SITs (rehabilitation, equipment, purchase of materials, etc.) are expected to have been completed.

[26] The ANI is being implemented in the San Pablo Hospital in Asunción as part of the neonatal strategy of the MSPyBS. It incorporates measures for the care of newborns admitted to neonatal units, such as induction of behavioral changes in health care personnel and the families of newborns, and the creation of a suitably stimulating environment for neuro-development.

and *Madre Canguro* [Kangaroo Care];[27] and (iii) incorporation of early detection of sensory disorders, which increase the risk of developmental problems. The subcomponent will finance the following activities, among others: (i) technical assistance for development of clinical practice manuals and quality standards for *Madre Canguro*, ANI, and sensory disorder detection; (ii) human resource training; (iii) works for the upgrade of facilities, equipment, materials and furnishings, supervision of works, preparation and costing of maintenance plans, and detailed designs for works; and (iv) development of teaching materials.

2. Component 2. Strengthening of child care services (US$1.66 million)

1.14 This component will support the improvement of existing child care services by: (i) coordinating and standardizing the different services (kindergartens, nursery schools, day-care centers) offered by the MSPyBS, the MEC, and the SNNA; and (ii) strengthening child care services of the Social Welfare Institute of the MSPyBS. The component will finance the following activities, among others: (i) technical assistance for defining and implementing a single standard for child care services (including unification of protocols or service packages and definition of profiles for educators or child care personnel); (ii) technical assistance for preparation of standardized manuals for the provision of these services; (iii) technical assistance for analyzing gaps in child care services and the coverage expansion plan; (iv) physical upgrade and equipping of child care services in the Child and Family Welfare Centers (CEBINFAs); and (v) training for educators and child care personnel.

3. Component 3. ECD program management, monitoring and evaluation (US$1.88 million)

1.15 The objective of this component is to strengthen the ECD institutional framework. The component is intended to: (i) support the implementation of projects to decentralize management of ECD, promoted by the SNNA, with local governments; (ii) develop the communication system for the ECD network; (iii) improve MSPyBS information on ECD so as to strengthen the SNNA Childhood and Adolescence Information System,[28] which includes development of software, digitization and technological equipment for systematizing information from children's clinical records from the USFs, and interface with the SNNA; (iv) definition and implementation of a decentralized supervision system for the

[27] The *Madre Canguro* program is a standardized system for the care of premature or underweight newborns that has been successfully introduced in several countries of the region with evidence of positive impacts on child development and child rearing behavior.

[28] The IDB has been strengthening the Observatory of Public Policies and Rights of Children and Adolescents, in particular through construction of a system of childhood and adolescence indicators. A recent assessment by the SNNA of existing information sources in the country found that the information systems of institutions responsible for childhood and adolescence suffered from a lack of systematized and timely statistical data and systems to produce disaggregated information. The program will strengthen the ECD information of the MSPyBS.

MSPyBS that will strengthen the health departments; and (v) development of the Program Monitoring and Evaluation Plan, detailed at the link. The component will finance consulting services for the design of the planned activities and evaluations of the program, support for implementation of activities (training workshops, materials), and hardware and software for the information system.

1.16 **Administration and audit (US$0.82 million).** DIRSINA will be supported by a technical coordination and fiduciary execution team, as well as operating expenses for proper implementation of the program and the financial audit.

1.17 **Cost of the operation.** The cost of the program amounts to US$30 million, of which $27 million will be financed by the IDB and US$3 million from the local contribution. A more detailed costing is found at the Detailed Budget link.

Table I-1. Program cost and financing (US$ million)

Component	IDB	Local	Total	%
1. Implementation of MAIDIT in the health sector	**22.93**	**2.54**	**25.47**	**85**
1.1 Strengthening of early childhood services at the primary level	10.10	1.12	11.22	37
1.2 Creation of intermediate diagnostic and treatment services for children with developmental delays	5.5	0.61	6.11	21
1.3 Strengthening of hospitals and mother and child care facilities	7.33	0.81	8.14	27
2. Strengthening of child care services	**1.49**	**0.17**	**1.66**	**0.055**
3. ECD program management, monitoring, and evaluation	**1.69**	**0.19**	**1.88**	**0.06**
4. Administration and Audit	**0.74**	**0.08**	**0.82**	**0.03**
Contingencies	**10.15**	**0.02**	**0.17**	**0.005**
Total	**27.0**	**3.0**	**30.0**	**100**

1.18 **Geographic scope.** Component 1 will focus on 10 departments that include 83% of the country's under-five population.[29] Within those departments 41 municipios were selected, using criteria of poverty, concentration of children under 5, and availability of USFs. The estimated population of children under 5 (2011) in those municipios is 373,259, representing 50% of the total population in that age group.[30] Component 2, as it relates to the physical upgrade of the centers, will focus on the capital city and the department of Central, where the MSPyBS child care centers are located, with an estimated child population of 1,361 corresponding to the 31 CEBINFAs that will be strengthened by the program. The rest of the intervention will have national coverage, and will apply to all child care facilities.

[29] Central, Alto Paraná, Itapúa, Caaguazú, San Pedro, Capital, Guairá, Concepción, Presidente Hayes, and Caazapá.

[30] Population data from projections of the National Statistics Institute based on the National Population Census of 2001. These data will be revised on the basis of the new national census planned for 2012.

C. Key indicators from the results matrix

1.19 The indicators of outputs, outcomes, and impact are detailed in the Results Matrix (Annex II). The key indicators are:

Table I-2. Indicators from the Results Matrix

Key indicators	Time of measurement	Rationale for selection
Children with delays in the targeted municipios	After the program is over	Measures the impact on psychomotor and language development of beneficiary children.
Children identified by ECD-reinforced IMCI as developmentally delayed	Annually	Measures the outcome of strengthening ECD services at the first level of care.
Children receiving health care services from ECD-qualified personnel under ECD-reinforced IMCI [31]	Annually	Measures the outcome of strengthening ECD services at the first level of care in the health services, with respect to service quality.
Percentage of children receiving treatment in SITs.	Annually	Measures the outcome of strengthening ECD services at the second level
Percentage of child care centers trained and qualified to existing quality and curriculum standards.	Annually	Measures the outcome of improving the quality of child care services.

II. Financing Structure and Risks

A. Financing instruments

2.1 Given the nature of the activities planned under this operation, the financing instrument will be an investment loan. The disbursement schedule will be as follows:

Table II-1. Disbursement schedule (in millions of US$)

Source	Year 1	Year 2	Year 3	Year 4	Total	%
IDB	1.9	13.6	8.1	3.2	27.0	90
Local	0.3	1.6	0.9	0.4	3.0	10
Total	2.2	15.2	9.0	3.6	30.0	100

[31] The proxies for the four most important variables of service quality in child development centers (on which there is academic consensus) are: human capital of the service provider, ratio of children per provider, and contents and application of the curriculum (Kagan, 2010). Because of the nature of the intervention in Paraguay it makes sense to combine the first three variables and to deal separately with the percentage increase in trained personnel, given the emphasis on training with quality protocols.

B. Environmental and social safeguard risks

2.2 Consistent with the Bank's Environment and Safeguards Compliance Policy (OP-703), the program is classified as a category B operation, as it calls for the addition of facilities and the rehabilitation and improvement of low-complexity infrastructure in existing facilities (hospitals, health care centers, health posts and child care centers). Because the program is expected to have moderate effects on the environment, it includes social and environmental development plans in the affected establishments. As to the social aspects, as indicated in paragraph 1.3, the positive social impacts of ECD interventions on child development and on human capital in general have been amply demonstrated. In addition, the ex ante cost-benefit analysis estimates a benefit-cost ratio exceeding unity (varying from 13.5% to 15.3%, using a discount rate of 12%). Care will be taken to ensure compliance with the Bank's policy on indigenous peoples (OP-765). The risks identified and the mitigation measures are detailed at the ESMR link.

C. Fiduciary risks

Table II-2. Summary of principal fiduciary risks with mitigation measures

Risk	Level	Mitigation measure
Delay in execution of complex processes within the MSPyBS	High	The program Operating Regulations will set out special administrative processes for efficient management of the program, in accordance with the standards and instruments established in the loan contract. Approval of the Operating Regulations will be a condition precedent to the first disbursement.
Execution delays through unfamiliarity with procurement policies on the part of the Administration and Finance Bureau (DGAF)	Medium	Training in IDB rules for personnel of the DGAF and other units involved in program execution, and inclusion of a fiduciary support team in the DGAF.
Execution delays due to lack of coordination of the entities involved	Medium	Review of the execution arrangement one year after the loan is declared eligible, and possible changes to the arrangement approved in the Operating Regulations
Execution delays due to inadequate local counterpart funding to pay the value added tax	Low	Priority accorded by MSPyBS in the annual budget and *pari passu* allocation by the Ministry of Finance

D. Other issues and risks

2.3 The following table summarizes some non-fiduciary risks and their respective mitigation measures. For further detail see the Risk Assessment link.

Table II-3. Risks and mitigation measures

Risk	Level	Mitigation measure
Execution delays due to shortage of health personnel (for creating the SITs, *Madre Canguro* programs and ANI)	Medium	Development of a postgraduate fellowship program in ECD, to begin before program launch, financed from technical cooperation funding and subsequently from the loan
Execution delays due to lack of funds for hiring SIT personnel	Medium	Gradual inclusion of personnel in the MSPyBS budget
Execution delays due to lack of property titles required for investment in health facilities' infrastructure	Medium	MSPyBS to identify properties with title before the program begins
Information gaps, which impede program monitoring and accountability	Low	The program includes funds to improve data collection.
Lack of funding for the sustainability of interventions supported by the loan	High	Gradual inclusion of recurring expenses in the MSPyBS budget

III. IMPLEMENTATION AND MANAGEMENT

A. Program execution and administration

3.1 The Ministry of Public Health and Social Welfare (MSPyBS) will be the executing agency, through the Child and Adolescent Wellness Division (DIRSINA). DIRSINA will be responsible for planning, management, and technical execution of the program as well as for its monitoring, for which purpose it will have a program coordination team (PCT) comprising a coordinator with a managerial profile, a child development specialist, a procurement specialist, a financial specialist, and a monitoring and evaluation specialist, who will be financed with loan proceeds. The MSPyBS will appoint specific staff to support the program, including at a minimum a health specialist and an information systems specialist. **Presentation of evidence that the Program Coordination Team has been officially established and staffed with the minimum number of professionals required for its operation, as indicated in this paragraph, will be a condition precedent to the first disbursement.** In addition, short-term support will be provided by an engineer/architect for purposes of the works included in the program. To ensure program sustainability once the loan ends, during the third and fourth years of execution the technical staff of the PCT will be gradually incorporated into the DIRSINA budget.[32] DIRSINA will be supported by: (i) the Administration and Finance Bureau (DGAF) for fiduciary management of the program (procurement and financial administration). To guarantee sound fiduciary execution, the DGAF will be supported by a procurement specialist and a financial specialist, devoted exclusively to the program. The MSPyBS undertakes to provide adequate physical office space for both support teams within the respective divisions, for which purpose the program may finance leasing; and (ii) the Planning Bureau, for

[32] This commitment will be incorporated into the loan contract, in order to strengthen the program's future sustainability.

purposes of program planning and monitoring. This execution arrangement will be evaluated by the MSPyBS and the IDB one year into program execution, in order to adjust it if necessary.

3.2 The coordination mechanisms will be established in the program Operating Regulations, which will define cost-effective flowcharts to promote and execute the program. A fiduciary annex will establish specific flows relating to procurement and disbursements. **As a condition precedent to the first disbursement of the program, the borrower, through the executing agency, will present evidence that the program Operating Regulations have entered into force.**

3.3 The MSPyBS will sign interagency agreements with the MEC and the SNNA to coordinate the activities described in subcomponents 1.1 (teaching staff support for the USF health teams), 1.2 (referral of children to the Early Childhood Services for treatment of cognitive delays), and component 3 (support for decentralized management of ECD, promoted by the SNNA). Before execution of subcomponents 1.1 and 1.2 begins, the interagency cooperation agreement between the executing agency and the MEC must be in full force and effect. In addition, before execution of Component 3 begins, the interagency cooperation agreement between the executing agency and the National Childhood and Adolescence Department must be in full force and effect.

B. Monitoring and evaluation arrangements

3.4 This plan calls for the following principal activities: (i) improvement of the ECD information systems of MSPyBS, which will strengthen the SNNA information system; (ii) evaluation of the impact of the operation's two larger-scale components on the variables of interest relating to children under 5 (cognitive and social-emotional development). The interventions to be evaluated are: (a) the IMCI strategy; and (b) the SITs for treating children with developmental delays. The evaluation methodology is detailed in the Monitoring and Evaluation Plan. It will be based on experimental methods (to be confirmed with the government), quasi-experimental methods (with the search for instrumental variables), and double-difference estimators (making use of lists of eligible children not covered (e.g. on the waiting list) either in the USFs through the IMCI or in the SITs; (iii) program supervision, through IDB instruments and mechanisms (results matrix, multiyear execution plans, procurement plan, progress monitoring reports, etc.); and (iv) contracting of a monitoring and evaluation specialist who will monitor this plan.

C. Ex ante cost-benefit analysis

3.5 The possible benefits to be generated by the program were identified on the basis of an extensive bibliographic review. The benefits were monetized by assuming them to be associated with improvements in years of schooling (years in school and completion rates at normal age), translated subsequently into higher incomes for beneficiaries seeking opportunities in the labor market. Potential benefits were identified in six dimensions (cognitive and motor development, nutrition, psycho-

social, sensory, neonatal health, and institutional development). Given the lack of empirical evidence in each dimension, however, direct wage effects were recorded in: (i) cognitive and motor development; (ii) psycho-social development; and (iii) indirect effects in nutrition.[33] In these three dimensions, the aggregate benefit is estimated to have an impact of 6.79% on earned income.

3.6 Costs are associated essentially with infrastructure, equipment, materials, and human capital combined with reasonable regulations for quality care and proper operation of child care centers, leaving aside possible payments made by families (or other private contributions) for the activities planned in the interventions.

3.7 With this information, the net present value and the benefit/cost ratio of the project were calculated, under two scenarios: (i) the estimated program impact on wages; and (ii) the wage effect plus the advance of one year in the school completion age (entering the labor market one year earlier). Under a conservative scenario (discount rate of 12%) the benefit/cost ratio of the program ranges between 13.5% and 15.3% in these scenarios. The sensitivity analysis used two assumptions: (i) changes in labor market basic income; and (ii) changes in potential benefits from participants' cognitive development (reducing the program impact from 6.7% to 4.9%), again achieving positive results. Under both the base case scenario and the pessimistic ones, the program shows a benefit/cost ratio exceeding unity, hence the conclusion that the project is economically viable.

D. Design activities subsequent to approval

3.8 Prior to the operation's launch, the MSPyBS will have made progress in determining and approving: (i) the design of the MAIDIT and the operating manuals, for which DIRSINA has already prepared an initial draft of the model; (ii) the design of the human resource training program for the SITs, which will be prepared on the basis of the postgraduate module now used in the National Institute of Health of the MSPyBS; (iii) completed design of the program impact evaluation and fine-tuned results framework based on the baseline findings from the first survey planned under the program; and (iv) the design of the ECD information system module of the MSPyBS. These latter items will be supported by individual consulting contracts, funded from administrative resources or through technical cooperation.

E. Procurement

3.9 Procurement will be done in accordance with policies GN-2349-9 and GN-2350-9, for which no exceptions are anticipated. Local procurement rules will not apply. The postgraduate programs will be conducted through the MSPyBS's National Institute of Health, as it is the training institution that currently runs the ECD program, or under contracts with universities.

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[33] The program does not call for direct nutritional interventions, but empirical evidence suggests that there are indeed indirect effects on nutrition to be gained through interventions in other dimensions of child development (see details in chapter 4 of the Cost Benefit Analysis).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to support small and vulnerable countries, ad well as, poverty reduction and equity enhancement.		
Regional Development Goals	Extreme poverty rate.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Approximately 400,000 beneficiary children.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2541-1	To reduce extreme poverty through the expansion of the social safety net.	
Country Program Results Matrix	Gn-2617	The project is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.8		10
3. Evidence-based Assessment & Solution	6.8	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	8.3	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	B		
III. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial management: Budget, treasury, accounting and reporting. Procurement: Information system, shopping method.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment	Yes	The project will finance a plan for environment management at hospitals, as well as its implementation.	
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	An impact evaluation, to be financed with TC resources, is included.	

This is an investment loan for Paraguay, which contributes to the objective of lending to small and vulnerable countries. It also contributes to the objective of lending for poverty reduction and equity enhancement and to the outputs defined in the Bank´s Results Framework. The project is aligned to the Bank´s Country Strategy with Paraguay, and was included in the 2011 Country Program Document.

The document presents the existing evidence about the importance of investing in Early Childhood Development programs, and describes the situation of children under five years old in Paraguay. Few information is presented about the children´s cognitive and emotional development, but it is proposed that the project generates information in this regard. The proposal also describes the sector institutional arrangements in Paraguay, and explains how this issue is being incorporated in the country´s health sector. Hence, the problem is well defined and the proposed solutions are logically related to it.

The project has a solid logic as it proposes technically founded solutions that take into account the existing institutional framework. For example, it proposes strengthening the units for family health, as to detect and intervene in issues related to delays in ECD. The results matrix has adequate indicators, most of them SMART, to monitor the intervention. The economic analysis is adequate. The project has a solid Monitoring and Evaluation Plan, which allows monitoring and measuring de impact of the interventions proposed. The risk matrix is adequate.

RESULTS MATRIX

Program objective	The objective of the program is to improve levels of cognitive, emotional, and physical development for children under 5, through early detection of developmental disorders and timely access to treatment. The specific objectives are: (i) to expand prevention, diagnosis, and treatment through the health services, with emphasis on early childhood development (ECD); (ii) to coordinate and strengthen the services of child development centers; and (iii) to strengthen institutional capacities to implement ECD programs.						
Indicators of expected impact	**Unit of measurement**	**Baseline**		**Targets**		**Source/Means of verification**	**Comments**
		Value	**Year**	**Value**	**Year**		
Impact							
Children with delays[1] in targeted municipios.	% children	10%	2011	7%	4	Psychomotor and language tests (observational scale of development for children between the ages of 2 and 5 and psychomotor development scale for children under 2).[2]	Baseline: Results from the Regional Project on Early Childhood Development Indicators (PRIDI[3]), which will be in hand by the end of 2011. For monitoring purposes, measurements will be based on the program impact evaluation.

[1] In accordance with international literature, children with delays are those with two standard deviations below the norm in the distribution of the developmental observation checklist.

[2] The evaluation design calls for over-sampling of children between 6 and 24 months to take account of the impact of neonatal interventions financed by the loan. The MSPyBS will be validating this scale during the year with support from the Chilean government and the Japan International Cooperation Agency (JICA).

[3] The MSPyBS will also be implementing the developmental assessment test currently being used in *Chile Crece Contigo* [Chile's Early Childhood Protection System].

Indicators/ Expected outcomes	Unit of measure	Baseline		Interim measurements			Targets	Source/Means of verification	Comments
		Value	Year	Year 1	Year 2	Year 3	Year 4		
Component 1									
1.1 Children under 5 served by qualified ECD personnel under IMCI.[4]	Ratio of children	0	2011				10 children per qualified professional[5]	USF system records. Administrative information from the USFs' IMCI.	Ratio of children served/number of qualified personnel.[6]
1.2 Children under 5 with delays identified by IMCI-qualified personnel.	% children	0	2011	5 [7]	5 to 10	5 to 10	10	USF system records. Administrative information from the USFs' IMCI.	The denominator is the total population identified with delays by IMCI-qualified personnel, in relation to the total number of children receiving treatment in SITs.
1.3 Children under 5 receiving treatment in SITs.[8]	% children	0	2011	20	30	40	50	Administrative information from the USFs' IMCI. Final program evaluation report.	The denominator is the total population identified with developmental delays in each participating USF, in relation to the total number of children receiving treatment in SITs.

[4] The proxies for the four most important variables of service quality in child development centers (on which there is academic consensus) are: class size, human capital of the teacher/caretaker, ratio of children per teacher/caretaker, and contents and application of the curriculum (Kagan, 2010). Because of the nature of the intervention in Paraguay it makes sense to combine the first three variables and to deal separately with the percentage increase in trained personnel, given the emphasis on training with quality protocols.

[5] This is the ratio suggested by the American Academy of Pediatrics (2009).

[6] "Qualified personnel" are those who have taken and passed the knowledge test applied during training.

[7] WHO estimates that between 5% and 10% of children in Paraguay present some type of developmental delay that is either biological (autism, etc.) or non-biological (emotional, undernutrition, etc.). Ideally, the goal would be to capture all these children through the IMCI.

[8] In the SITs, the population monitored will be: (i) registered, (ii) diagnosed, (iii) treated (this indicator, in addition to being monitored, will be evaluated), (iv) number of visits; and (v) whether the delay is biological on non-biological (i.e., SIT treatable or not).

Indicators/ Expected outcomes	Unit of measure	Baseline		Interim measurements			Targets	Source/Means of verification	Comments
		Value	Year	Year 1	Year 2	Year 3	Year 4		
1.4 Newborns served by the *Madre Canguro* program. 1.5 Eligible newborns submitted to hypoacusis screening test. 1.6 Eligible newborns submitted to visual screening test.	% newborns	0	2011		30	40	70	Hospital administrative data.	Measurements will begin in the second year, when the programs are expected to begin operating. Percentage of children served by the programs in relation to those eligible. Eligibility criteria will be determined on the basis of specific clinical aspects of each program.
Component 2									
2.1 Number of centers applying protocols with quality standards.	% centers	10	2011	15	20	25	30	Specific survey at end of program.	The baseline, using results from the evaluation by SPH based on the ECD 2011 KCP. At the end with another survey. Numerators: centers applying protocols. Denominator: total of centers.
2.2 Child care center personnel qualified according to current curriculum.	% personal	10	2011	15	20	25	30	Specific survey at end of program.	To be measured by knowledge surveys: The baseline, using results from the evaluation by SPH based on the ECD 2011 KCP. At the end with another survey. Denominator: total personnel of the centers.

OUTPUTS

Outputs	Total estimated cost x output (US$)	Unit of measure	Baseline 2010	Year 1	Year 2	Year 3	Year 4	Target	Source/Means of verification
Component 1: Implementation of the Integrated Early Childhood Development Management Model									
1.1 Strengthening of early childhood services at the primary level									
1.1.1 Quarterly visits to communities by personnel of the USF under reinforced IMCI	9.5 million	No. of communities	0		20	100	60	180	USF system records. Administrative information from the USFs' IMCI.
1.1.2 ECD evaluations recorded in system files by USF personnel	4.2 million	No. of USFs	0			100	80	180	USF system records. Administrative information from the USFs' IMCI.
1.2 Creation of intermediate diagnostic and treatment services for children with developmental delays									
1.2.1 SIT units operating in locations given priority by the program (according to the mapping exercise).	2.0 million	No. of SITs	0		2	9		11	DIRSINA technical report.
1.3 Strengthening of diagnostic and treatment services in hospitals and mother and child care centers in the 10 program departments.									
1.3.1. Referral hospitals strengthened.*	0.6 million	No. of hospitals	0			1	1	2	DIRSINA technical report. MSPyBS administrative data.
1.3.2 ANI and *Madre Canguro* programs implemented* in the regional hospitals and mother and child care centers of the program.	2.0 million	No. of centers	0			12	4	16	DIRSINA technical report. MSPyBS administrative data.

Outputs	Total estimated cost x output (US$)	Unit of measure	Baseline 2010	Year 1	Year 2	Year 3	Year 4	Target	Source/Means of verification
1.3.3 Programs for early detection of sensory disorders implemented in regional hospitals	1.5 million.	No. of establishments	0		5		6	11	DIRSINA technical report. MSPyBS administrative data.
Component 2: Strengthening of complementary child care services.									
2.1 Standardized rules approved by MEC, SNNA, and MSPyBS.	0.6 million	No. of rules	0	1				1	Final report from the consultants and ministerial approval
2.2 CEBINFA child care centers of MSPyBS, strengthened	1.6 million	No. of centers			10	10	11	31	DIRSINA technical report.
Component 3: ECD program management, monitoring, and evaluation									
3.1 Decentralized models for protecting children's rights implemented in program municipios	0.6 million	No. of municipios	0			10	10	20	DIRSINA technical report, based on information supplied by the contracted entity
3.2 Implementation of a videoconferencing system for training and for updating the ECD network.	0.8 million	System	0		1			1	DIRSINA technical report.
3.3 ECD information generated by the MSPyBS systematized	0.7 million	System	0		1			1	DIRSINA technical report, based on information generated by the system.
3.4 Program evaluations conducted	1.0 million	evaluations	0		1		1	2	Final evaluations

* "Strengthened" or "implemented" means the completion of activities planned for each component or subcomponent, as defined in the POD and the PEP (e.g.: subcomponent 1.3.1 calls for training of personnel, rehabilitation works, and procurement of equipment and furnishings). This information is also gathered through DIRSINA's technical reports.

FIDUCIARY AGREEMENTS AND REQUIREMENTS[1]

Country:	Paraguay
Project name and number:	Early Childhood Development Program (PR-L1051)
Executing Agency:	Ministry of Public Health and Social Welfare (MSPyBS)
Prepared by:	Alberto de Egea and Mariano Perales, fiduciary specialists

I. EXECUTIVE SUMMARY

1. The evaluation of the fiduciary management of the proposed project was based on the institutional capacity analysis of the Ministry of Public Health and Social Welfare (MSPyBS) using the Institutional Capacity Assessment System (ICAS) methodology, and on the Risk Analysis Report.

2. With respect to the state of the country's fiduciary management systems, even greater efforts are needed to improve country capacity, while addressing the following risks: (i) elevated perception of corruption in the country; (ii) weak performance of the public sector and insufficient efficiency and transparency in the allocation of public resources, reflected in poor ability to execute budgeted expenditures, incipient multiyear outlook in the fiscal and financial planning of annual cash flows, lack of proper recording of intergovernmental transfers (departments and municipalities), and ineffective internal control; (iii) need for improvement in the area of public contracting and procurement, such as market development practices and real-time monitoring of contract execution in the various stages. As for the executing agency's fiduciary management systems, the results of the institutional analysis show incipient development in terms of its institutional capacity, and substantial risk for this operation.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. The National Comprehensive Child Health Plan 2008-2012 establishes the objective of improving the health and quality of life of Paraguayan children by promoting policies, programs, and projects that foster growth and development, with an emphasis on early childhood and a focus on rights, interculturalism, gender, equity, and epidemiology.

2. The executing agency for the program will be the MSPyBS, through the Child and Adolescent Wellness Division (DIRSINA). DIRSINA will receive fiduciary support

[1] The Project Team Leader may require this Annex to be lengthened or shortened, depending on project needs.

from the Administration and Finance Bureau (DGAF), specifically for processing procurement and disbursements under the program.

3. The executing agency has adequate systems for the fiduciary administration of funds earmarked for the operation. However, those systems need to be reinforced and the executing agency must make a commitment to implement a risk mitigation plan based on the institutional assessment of the MSPyBS.

4. Weaknesses were detected in the areas of execution and control capacity, which, according to the ICAS, are only at the level of Incipient Development and Substantial Risk, making it necessary to pay greater attention to activities to strengthen the areas mentioned.

5. Lastly, it should be noted that more than 10 years have elapsed since the Bank last negotiated and executed an operation with the MSPyBS.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

1. The 2011 ICAS rated the overall institutional capacity of the MSPyBS at 56.87%, indicating Incipient Development of its institutional capacity and a Substantial Risk level for the present operation. The institutional capacity assessment and risk analysis point to the need for priority measures, which must be implemented as quickly as possible, preferably with a time-bound schedule. Adoption of such measures would make for a substantial improvement in capacity, and they should be implemented before execution begins, or at an early stage of execution.

2. The fiduciary risk evaluation, resulting from applying the ICAS to the executing agency and the program risk analysis, concludes that a mitigation and strengthening plan is needed for the executing agency. The challenge is to strengthen the DGAF, the unit responsible for the program's fiduciary aspects, which has the status of the Financial Analysis Unit (UAF) and the Operational Contracts Unit (UOC). Moreover, the DGAF and DIRSINA need equipment, networks, and licenses to activate an information system for all areas involved in the program’s fiduciary management processes.

3. Lastly, it is important to consider the following:

   a. Prioritize program planning, programming, and monitoring activities.

   b. Develop a technological platform for integrated management of projects.

   c. Establish a program execution scheme that will make it possible to simplify processes by minimizing intervention in areas that do not add value to the process itself.

   d. Establish better coordination of financial management with the DGAF and design a system for permanent reconciliation of records in SICO, SIGADE, and elsewhere.

e. Draw up a training program on issues relating to the project management, risk management, and fiduciary management of projects financed by the Bank, and prepare procurement documentation and financial reports for the Bank.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS IN THE CONTRACTS

1. In order to streamline contract negotiations by the project team, primarily the Legal Department (LEG), the specific agreements and requirements to be considered in the special conditions are described below:

2. Program execution will require the following as conditions precedent to the disbursement of loan proceeds:

   a. Rules that allow the project coordination team (PCT) to go into action immediately are in effect.

   b. The process to select the audit firm to cover technical and financial management aspects in the execution of expenditures charged against the advances to be established has begun.

   c. The Operating Regulations have been approved and have entered into force.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. Procurement execution

a. **Procurement of works, goods, and nonconsulting services**: Contracts for works, goods, and nonconsulting services[2] under the project and 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 (NCB) will be carried out using the country bidding documents agreed upon with the Bank. The review of procurement technical specifications during the preparation of selection processes is the responsibility of the project's sector specialist. Initially, no selection processes that involve direct contracting are planned.[3]

In view of the nature and level of technical complexity of procurement, the executing agency will not need to be offered external assistance to evaluate bids.

No prequalification of bidders will be required, given the uncomplicated nature of the works.

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[2] Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) paragraph 1.1: Nonconsulting services are treated as goods.

[3] Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) paragraph 3.6: Direct contracting must be duly justified.

b. **Selection and contracting of consultants**: Contracts for consulting services under the project will be executed using the standard request for proposals (RFP) issued by or agreed upon with the Bank. The review of the terms of reference for the procurement of consulting services is the responsibility of the project's sector specialist. Initially, no selection processes that involve direct contracting are planned.[4]

c. **Procurement of information technology systems**: The Bank's information technology specialist may assist with designing the stipulations for this type of procurement. Contracts using contracting methods other than the Bank's will not be required.

d. **Advance procurement/retroactive financing:** Not planned for this operation.

e. **Domestic preference:** Not planned for this operation.

2. Threshold amounts table (in US$000)

Works			Goods[5]			Consulting services	
International competitive bidding	**National competitive bidding**	**Shopping**	**International competitive bidding**	**National competitive bidding**	**Shopping**	**International publicity**	**100% national short list**
≥ 3,000	250 to 3,000	< 250	≥ 250	50 to 250	< 50	> 200	< 200

3. Principal procurement items

Description	Estimated amount US$000	Selection method
Goods	**4,153**	
Furnishings, equipment, and materials for USFs	1,524	ICB
Furnishing, equipment, and materials for SITs and hospitals	436	ICB
Furnishings and equipment for CEBINFAs	463	ICB
Hearing aids and eyeglasses	1,400	ICB
Computer equipment for the MSPyBS information system	330	ICB
Works	**10,964**	
Rehabilitation of USF infrastructure	2,330	NCB
Rehabilitation of infrastructure Lot 1: SITs Lot 2: Referral hospitals Lot 3: Comprehensive neonatal strategy establishments Lot 4: Regional hospitals	7,754	ICB

[4] Policy for the Selection and Contracting of Consulting Services (document GN-2350-7), paragraph 3.9 et seq.: Direct selection must be duly justified.

[5] Includes nonconsulting services.

Description	Estimated amount US$000	Selection method
Rehabilitation of CEBINFAS infrastructure	880	NCB
Nonconsulting services	**6,783**	
Human resource training in IMCI	3,237	ICB
Implementation of workshops in health units (includes procurement of teaching materials)	2,361	ICB
Implementation of the communication plan	600	ICB
Human resource training services for implementing the integrated neonatal strategy and early detection and treatment of sensory disorders	585	ICB
Consulting firms	**1,910**	
Detailed designs for CEBINFAs works and rehabilitation works for USFs, SITs, referral hosp., regional hosp. and referral for sensory disorders	1,080	QCBS
Design and development of the MSPyBS information system and digitization.	330	QCBS
Program impact evaluation	500	QCBS
Individual consultants	**2,888**	
Consulting services specialized by output	2,888	NICQ

4. Procurement supervision

Initially, all procurement will be reviewed ex ante at the request of the borrower, the Ministry of Finance. If agreed with the borrower, ex post review may be performed for processes involving amounts under 15% of the threshold amounts indicated in subsection 2 above. The review will be performed on a case-by-case basis, and will be applied after two processes with ex ante review in each category have been satisfactorily approved by the Bank. Ex post reviews will be conducted every six months, in accordance with the project's supervision plan.[6]

5. Special provisions

With respect to the assessment of the fiduciary capacity of DIRSINA and the DGAF to execute the program procurement processes, it is essential that, before execution begins, these agencies and their procurement sections be minimally strengthened in all areas, i.e., that they have the minimum human resources required to function, with adequate physical space and furnishings as necessary to perform their duties, and with appropriate technological infrastructure to ensure efficient management of procurement processes.

6. Records and files

The central Procurement Operations Unit of the MSPyBS is in charge of keeping all procurement records and files for the program. However, DIRSINA and the DGAF

[6] Responsibility, review support, and methodology are described in the document, "Guidelines for ex post review of procurement processes."

will keep copies of all records related to procurement. When preparing and filing project reports, agreed formats or procedures should be used, which will be described in the project Operating Regulations.

VI. FINANCIAL MANAGEMENT

1. Programming and budget

The MSPyBS was evaluated in its main areas of responsibility for the program and a substantial risk was found in this subsystem. Consequently, a number of agreements are needed: (i) to establish a programming, control, and results monitoring unit; (ii) to establish formal programming procedures; (iii) to develop and approve manuals for the organization and functions of DIRSINA and the Human Resources Bureau (DGRRH); (iv) to include in the program Operating Regulations the main functions of the program coordination unit; (v) to determine the execution arrangements with due regard to the recommendation from the comptroller's office in its 2007 and 2008 reports.

The Ministry of Public Health was constituted by Decree Law 2000/36 of 15 June 1936; Decree Law 2001/36 established the Ministry's organization and functions within the then-Secretariat of State; subsequently, Decree 21.376/98 established its present organization.

It is agreed that prior to the first disbursement, the borrower will provide the resources necessary to start up the program at a minimum level, to supplement the resources to be provided by the IDB for the first year of execution.

2. Accounting and information systems

At the present time the executing agency keeps its books using the public accounting system (SICO) (SIGADE) required by the Ministry of Finance.

The accrual basis accounting principle will be used, but for purposes of rendering accounts for projects partially financed by the IDB the cash basis principle will be used; country practices, International Accounting Standards, and the project’s Public Accounting System, the project relies on country system practices, using public sector standards (NICSP).

There is a need to improve the Ministry's information technology platform so as to issue program financial statements for auditing as required and by the Bank.

3. Disbursements and cash flow

The Treasury consists of an operations assistant and a financial assistant; there is also a budget and financial planning officer. These individuals, together with the accountant, are part of the Administration and Finance Office. Disbursements will be made in accordance with the new provisions for advances, through a financial plan that expresses short-term expenditure needs supported by the AWP, the multiyear execution plan, etc.

4. Internal control and internal audit

The basic objectives of internal control can be defined as follows:

a. Efficiency in the conduct of operations

b. Gathering reliable financial information

c. Protection of the institution's assets

d. Adherence to the administration's policy

The internal audit function is performed by the Internal Control Unit of the Ministry of Health and Social Welfare, but it needs strengthening in terms of risk management, its principal functions, and application of the COSO approach in its executive interventions.

5. External control and reports

1. The project will be audited by an independent auditing firm acceptable to the Bank, according to the procedures established in the new auditing guidelines in effect for 2011.

2. The project resources are expected to cover the cost of the program audit.

3. The audit must be contracted at the beginning of program execution with a view to certifying the reconciliations of resources and providing operational information on program execution.

6. Financial supervision plan

Financial supervision will be conducted in three ways; (i) through the review of disbursement reports and inspection visits; (ii) on-site visits scheduled by the Bank; (iii) through the financial information provided in the financial statements and execution reports.

7. Execution arrangements

The PCT will be responsible for:

(i) Execution and supervision of proper use of loan funds;

(ii) Timely and appropriate provision of the required human, technological, and budgetary resources;

(iii) Presentation to the Bank of the documentation required to fulfill the disbursement conditions and other operating conditions for execution;

(iv) Presentation of monitoring and follow-up reports on the operation.

8. Other financial management agreements and requirements

(i) Hire a consultant to prepare the organization and functions manuals for all areas involved in the program.

(ii) Hire a specialized firm to develop a technological platform.

(iii) Hire the procurement specialist.

(iv) Hire an administrative and financial management specialist.

(v) Appointment of the counterparts by the supreme authority.

(vi) Prior to replenishment of the advance of funds, an audit firm will have been contracted for the program; the terms of reference must be agreed with the Bank.

(vii) The exchange rate agreed upon with the executing agency for rendering accounts will be the rate on the date of the respective expenditure, as published by the Central Bank of Paraguay or in the absence of such a rate, the exchange rate to be agreed upon with the Republic.

(viii) The program financial statements will be produced annually at the close of the fiscal year and presented within 120 days after that date; semiannual execution and financial reports will be presented within 60 days after 30 June and 31 December of each year.

(ix) The firms auditing the program financial statements must be declared acceptable to the Bank before they prepare the audit reports.