

PREINVESTMENT PROGRAM

(PR-0093)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Paraguay

EXECUTING AGENCY: Technical Secretariat for Socioeconomic and Development Planning of the Office of the President (STP)

AMOUNT AND SOURCE:

IDB:	US\$5 million (OC)
Local contribution:	US\$1 million
Total:	US\$6 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Disbursement period:	4 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	dollars of the United States of America

OBJECTIVES: The program seeks to: (a) support the preparation of general and specific preinvestment studies in order to make available a reasonable number of projects that have studies ensuring their feasibility and that help to establish their level of priority for inclusion in the national budget; and (b) help consolidate the public investment system by strengthening the agencies participating in the studies and supporting consolidation of the system for monitoring ministerial goals.

DESCRIPTION: The program activities can be divided into two subprograms: studies (US\$4.6 million) for the financing of preinvestment studies on projects that are in keeping with the strategy and priority areas agreed upon with national authorities; and institutional strengthening (US\$1 million), which would be carried out in two areas of the STP: strengthening the public investment system and improving the system for formulating ministerial goals, which also includes measures to strengthen the units responsible for programming, preparing, analyzing, monitoring, and evaluating investment projects, including the Ministry of Finance.

**ROLE OF THE
PROJECT IN THE
BANK'S COUNTRY AND
SECTOR STRATEGY:**

The proposed operation is consistent with the strategy agreed upon by the country and the Bank in that it will: (i) support modernization of the State and establishment of a social investment program to alleviate poverty; (ii) increase efficiency in the allocation of investment resources; (iii) reconcile spending and available resources; and (iv) improve supervision and control at the central level of the active portfolio and new investment operations.

**ENVIRONMENTAL
REVIEW AND SOCIAL
ASPECTS:**

The Environment Committee determined that an official environmental impact assessment was not needed for this program. As part of the studies, depending on the nature of the project, environmental impact assessments will be included to identify any problems that may occur and propose solutions to such problems and the investments necessary to prevent, control, or mitigate any adverse environmental impact and to improve the quality of the environment. All the studies to be financed will include an obligation on the part of the beneficiary institution to comply with all applicable national legislation on the protection of the environment and natural resources and to follow the procedures established by the Bank for environmental impact assessment.

BENEFITS:

The program will provide resources for the preparation of investment projects in areas considered priorities for the country's operations program with the Bank, which calls for support for the social sectors, poverty reduction, the productive sector, and State reform. The program will also help to improve the capacity to prepare investment projects for the public sector by conducting higher-quality studies, and will support preparation of the studies needed for the projects included in the country's operations program with the Bank.

RISKS:

Although the legal instrument that links the STP to the public investment system gives it a clearly-defined leadership role as system coordinator, it has only recently been enacted. Therefore, there is a risk that the sector institutions that were not subject to a coordinating body in the process of incorporating their projects into the country's public investment budget may initially be resistant to that body. Another risk is the institutional weakness of the STP and the new agencies that will be included in the public investment system, especially those that operate in the social sectors and rural areas (*gobernaciones*).

In order to mitigate the foregoing risks, the proposed program and ongoing technical-cooperation project ATN/SF-5461-PR include training activities for officials in the STP and sector institutions directly involved in the public investment system. These activities will be supplemented by the institutional strengthening subprogram, targeting the STP offices involved in the operation and the sector offices responsible for investment projects in each of the project's beneficiary institutions.

The government, which recently took office, has asserted the need to strengthen the STP, giving it a proactive role of greater leadership in the economic management of the country.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The conditions precedent to the first disbursement are: (a) establishment of the executive committee (see paragraph 3.2); (b) entry into force of the Operating Regulations (see paragraph 3.9); and (c) confirmation of the executing agency for project ATN/SF-5461-PR as the executing agency for the proposed program (see paragraph 3.2).

**POVERTY TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

Because of its nature, the program is not considered poverty-targeted.

**EXCEPTIONS TO
BANK POLICY:**

None.

**PROCUREMENT OF
GOODS AND
CONSULTING
SERVICES:**

This operation does not involve the procurement of goods. The consulting services will be hired in accordance with Bank policy.

I. BACKGROUND

A. Framework of reference ^{1/}

- 1.1 In 1997, the Paraguayan economy achieved an estimated growth rate of 2.5%, which fell below the official projection (4%), but exceeded the growth rate for 1996 (1.3%). This performance, which fell short of expectations, is attributed primarily to the absence of a strategy for cleanup of the financial sector, limited fiscal discipline, the postponement of State reforms, and political uncertainty over the presidential elections. Inflation in 1997, at 6.2%, was the lowest rate in the past 20 years.
- 1.2 The reduced level of public investment in Paraguay can be explained by fiscal difficulties and inadequate budgetary programming, along with the limited availability of projects. After achieving an average of 6.1% of GDP between 1985 and 1988, capital expenditures in the nonfinancial public sector fell to roughly 3.3% in 1996 and 2.4% in 1997, despite the absence of a major privatization process. Capital expenditures by the central government accounted for 27% of all expenses in 1995 and 16.6% in 1997.
- 1.3 During fiscal 1997, the government tried to ease the fiscal deficit by reducing investment expenses. This temporary policy has led to two conclusions: (a) in the face of scant resources, it is essential to increase the effectiveness of investment spending; and (b) the public sector must be trained in proper decision-making on the prioritization of investments, bearing in mind the significant deficiencies in the social sectors and in infrastructure.
- 1.4 Historically, the public sector's capacity to generate projects has been weak, but has begun to improve. However, despite the progress made, the country still lacks a structured portfolio of studies to enable it to select priority projects. Therefore, investments and the return on allocations must be increased by improving the methodology for formulating, evaluating, ranking, and selecting programs and projects.

B. The public investment system and the STP

- 1.5 The Constitution of Paraguay stipulates that public sector planning is mandatory. Accordingly, the national public investment program must be implemented in the Technical Secretariat for Socioeconomic Development Planning (STP), which reports to the Office of the President (Law No. 841 of September 1962). The STP is attached to the national economic team (Decree No. 633 of October 1993) and the

^{1/} Extensive information on the Paraguayan economy can be found in "Recent Economic Performance" - RE1, March 1998.

Council for Coordination of Social Development (Decree No. 2,433 of February 1994).

- 1.6 The STP's main responsibilities are to: (i) provide advisory services for the study, formulation, and execution of the strategic socioeconomic and development plans and programs and conduct the respective studies; (ii) coordinate and reconcile investment decisions and international technical cooperation among the different government agencies; and (iii) ensure that investment decisions are justified at the global level and that they are compatible with the financial situation of the public sector and the objectives of the government's socioeconomic policy.
- 1.7 In addition, Decree No. 2,837 of March 23, 1994, which restructured the STP, gives it the authority to: (a) guide, propose, and harmonize the government's economic and financial policies and policies and programs for decentralization; (ii) study, prioritize, evaluate, and monitor the programs and projects for economic and social development of the country, including the economic and financial analysis of those programs and projects; (iii) study projects financed with external resources; and (iv) promote, program, coordinate, and evaluate international technical cooperation, in order to support the government's socioeconomic program.
- 1.8 To carry out subparagraphs (i) and (ii) of the preceding paragraph, the STP implemented an integrated public investment information system (SIIP), the purpose of which is to assign priority to investment programs and projects requiring public credit. The STP must prioritize programs and projects for the national economic team (EEN), the highest body for economic and financial coordination in the country, to issue a decision so that a program or project may receive public credit (Decree No. 13,462 establishes the requirements for public credit to be authorized).
- 1.9 A suitable legal framework for the STP to carry out its functions now requires improving the institutional framework to: (i) more clearly establish intrainstitutional and interinstitutional roles; (ii) facilitate the participation of other institutions in the investment process, so as to integrate the technical and economic analysis subsystems into the formulation, budget execution, and ex post evaluation subsystems; and (iii) improve the relations of interdependence and the coordination between sector agencies that execute projects, the STP, and the Ministry of Finance.
- 1.10 With regard to preinvestment functions, the STP is currently responsible for keeping the record of investment program and project applications, providing the departmental governments with guidance in the formulation of their public investment plans, and conducting sector studies. It also participates in the meetings of the EEN.

- 1.11 The proposed program is aimed at strengthening the STP by developing a comprehensive system that helps coordinate sector investment programs and goals and keep them consistent with each other and with the government's programming objectives, thereby facilitating proper monitoring and quality control of projects to meet established sector goals.

C. The system for monitoring ministerial goals

- 1.12 Within the framework of the information and management system of the Office of the President, interactive work has been organized between the STP and the ministries to ensure systematic follow-up on ministerial actions. To date, the different institutions have been able to organize the information in a relatively uniform manner.
- 1.13 The program to strengthen the STP (ATN/SF-5461-PR), which is currently being executed, will also support improvement and standardization of methods for formulating and monitoring ministerial goals. To this end, the preparation of performance indicators will enable authorities to better monitor their institutions' performance. At the same time, the Office of the President will have an instrument to monitor the progress made in fulfilling the objectives set.
- 1.14 This program will lay the groundwork for the system for monitoring ministerial goals to operate. Additional efforts to link the monitoring of ministerial goals with the budget execution and formulation process need to be supported, and policy and program evaluation issues need to be addressed.

D. Preinvestment activities

- 1.15 The Government of Paraguay has begun to streamline the decision-making process for allocating financing for preinvestment. The actions already carried out point up the need for an agency in charge of coordinating the preinvestment work, with specialized technical experience in the project cycle. These functions were performed in an ad hoc manner, on a case-by-case basis, and if specific resources were available, such as specific technical-cooperation funding or a line of credit either from the Bank's Project Preparation Facility (PPF) or the limited local sources.
- 1.16 The government has appointed the STP to take charge of the program, because its functions and status as a unit directly answerable to the Office of the President facilitate the institutional coordination required to expedite the investment process. The responsibility for coordinating preinvestment activities will add to the STP's competence in overseeing the technical and economic evaluation of studies and projects, and at the same time enable it to encourage and promote the preparation of projects and programs in areas of precarious development.

E. The proposed program

- 1.17 The proposed program will help Paraguay: (a) establish a comprehensive institutional framework for the operation of the public investment system; (b) consolidate the system for monitoring ministerial goals; and (c) launch the first program to prepare and finance preinvestment studies.
- 1.18 For some years, Paraguay has tried to install a system that improves the allocation and use of investment resources. Technical assistance program ATN/SF-5461-PR is being executed with this end in mind and initially addresses the problem of the lack of an institutional framework and the absence of standards and procedures for managing the public investment system.
- 1.19 Within this context, the analysis done of the operation of the public investment information system (SIIP) found that while there were problems, they could be corrected by designing and implementing the required institutional framework and modernizing the SIIP by introducing advances in computer technology: establishment of a fiberglass network and the development of the financial administration system (SIAP), the system for monitoring the foreign debt (SIGADE), and the presidential information system (SIPRE).
- 1.20 The investment system has not been adequately developed, and a standardized method is needed to prepare and evaluate projects in different sectors of the Paraguayan economy. This would facilitate coordination between sector bodies and the STP. The technical assistance mentioned earlier supports the development of methodologies in the Ministries of Health, Education, Agriculture, and Basic Sanitation.
- 1.21 The technical assistance will also strengthen the investment offices in those ministries in order to continue to build up the investment system.
- 1.22 With this program, the STP will develop a system that helps coordinate sector investment programs and keep them consistent, financing the preparation of priority projects in the portfolio of investment projects that will be closely coordinated with private investment.
- 1.23 This program would order the investment process according to the government's priorities and help with such aspects as: (i) identifying and preparing priority projects that make it possible to achieve the program's objectives; (ii) determining the institutional framework and the method of execution; and (iii) allocating resources properly and promptly.
- 1.24 The program's sustainability would be ensured because the government is taking the necessary measures, has endowed the SIIP

with a suitable legal framework, and is currently training its human resources in how to use the system.

F. Relationship of the proposed program to the Bank's operations program

- 1.25 This program is directly related to the Bank's strategy in the country and the operations program agreed upon by the country and the Bank in that it will: (a) support modernization of the State and establishment of a poverty-targeted social investment program; (b) increase efficiency in the allocation of investment resources; (c) reconcile spending with the resources available; and (d) improve central-level supervision and control of the active portfolio and new investment operations.

- 1.26 The program would also supplement the line of credit of the Project Preparation Facility (PPF) (4/LC-PR) and the resources included in Bank-approved projects for the preparation of studies.

The experience with similar Bank-financed programs found that:

Preinvestment programs have become a modern instrument for public management, making it possible to identify novel areas of action in different spheres and finance the preparation of terms of reference for studies, using specialized personnel; often public agencies had few, if any, specialists of this kind. These programs have also helped to develop a considerable capacity to coordinate public institutions, which is crucial when preparing investment programs in areas that involve more than one institution.

G. Bank experience

- 1.27 Between 1984 and 1994, the Bank supported two institutional-strengthening programs for priority areas in the public sector in Paraguay, through technical cooperations ATN/SF-2525-PR and ATN/SF-3473-PR. Their objectives included: (i) formulating and monitoring policies, programs, and listing of technical-cooperation project; (ii) systematizing investment programming; and (iii) improving instruments for analyzing public policies.

The preinvestment programs have supported the development of a system that involves private consulting services in the execution of public policy, thus making the best professional talents in the private sector available to the State. A key factor here has been the development and implementation of objective and transparent procedures for prequalifying and selecting proposals. This has generated the confidence that consulting firms must have in the preinvestment system, which is essential for making high-quality cooperation feasible. Proof of this is that, despite the high number of proposals submitted, to date no complaints have been received from consulting firms.

- 1.28 The Bank's technical evaluation missions have verified that: (i) the initial phase of the implementation of the public investment information system (SIIP) is in the process of completion; (ii) the SIIP is establishing a computer link with the integrated financial administration system (SIAF) of the Ministry of Finance and with the system for monitoring the foreign debt (SIGADE); (iii) seminars-workshops have been given on formulating

and evaluating productive, social, and infrastructure projects to 90 participants from four ministries and 17 government agencies; (iv) the development of public investment programming, installation of computer support equipment, and training were completed using resources from loan 728/OC-PR, support for the sectoral investment program; (v) the AREMOS macroeconomic model, of which the STP is an active part, is being implemented through operation ATN/SF-5119-PR, support for macroeconomic programming; and (vi) ATN/SF-5461-PR financed a training program on investment evaluation and risk analysis, given by professors from the Harvard Institute for International Development (HIID), with 33 officials from 15 institutions directly involved in the SIIP participating.

- 1.29 The proposed program will help order the investment process as a function of the government's programming priorities and thereby help: identify and prepare projects that will achieve the investment program's objectives; establish the intervention priorities and order of the projects; determine the institutional framework and the method of execution; and allocate the resources that will be used. It will also collaborate on the establishment of a unit within the STP, for the purpose of organizing complex investment operations.

II. THE PROGRAM

A. Program objective

- 2.1 The program will support the preparation of general and specific preinvestment studies in order to make available a reasonable number of projects that have studies ensuring their feasibility and that help to establish their level of priority for inclusion in the national budget and to help consolidate the public investment system by strengthening the agencies participating in the execution of the studies and supporting consolidation of the system for monitoring ministerial goals.

B. Program activities

- 2.2 The activities will be divided into two subprograms: (i) studies; and (ii) institutional strengthening.

1. Studies (US\$4.6 million)

- 2.3 This subprogram would finance general studies and preinvestment studies on projects that are in line with the strategy and priority areas agreed upon by national authorities. These would be: (i) prefeasibility and feasibility studies and final designs; and (ii) general studies that help identify potential specific projects, and that also examine alternatives from a technical, environmental, and economic standpoint, so as to decide on the timing and advisability of preparing an operation, and studies on State modernization.
- 2.4 The scale of this subprogram was based on the availability of resources from the line of credit from the Project Preparation Facility (PPF) (4/LC-PR) and of the financial resources for preparation of projects already included in Bank operations under way. ^{2/} The total would cover the resources needed to prepare, primarily, the studies required for the preparation of such projects as the country and the Bank may agree upon for eventual financing in the 1999-2002 period.
- 2.5 Provision is made for the possibility of hiring any short-term consulting services that may be needed for the preparation of the studies and the institutional strengthening activities. Their purpose would be to: (i) prepare the terms of reference for the different studies, support implementation of the supplementary and/or highly-specialized work and/or work on new issues in which there is little experience; and (ii) prepare studies or fill in the

^{2/} For example, ATN/JF-4528-PR for agricultural diversification.

background information needed for the institutional strengthening activities already under way.

2. Institutional strengthening (US\$1 million)

- 2.6 This subprogram would support the strengthening of the STP and the units responsible for programming, preparing, analyzing, monitoring, and evaluating investment projects in the ministries and/or sectoral institutions, including the Ministry of Finance. This support would lend continuity to the activities carried out under the program to strengthen the STP (ATN/SF-5461-PR).
- 2.7 The technical cooperation to strengthen the STP involves improving the system of rules and regulations, institutional design, support for the STP's implementation and for four priority sectors (health, education, agriculture, and basic sanitation) by introducing standardized methods of project evaluation and technical monitoring of project preparation and implementation. It would also strengthen the analytical capacity of the STP's sector specialists in the four above-mentioned priority sectors. Initiation of project ATN/SF-5461-PR coincided with the pre-election process in the country - May 1997 and May 1998 - which complicated the hiring of consulting services and the normal operation of those consulting services that were identified and hired. Given the above and in order to achieve the program objectives, it was agreed to postpone execution until the new administration took office. However, the specialists with the units in charge of the SIIP in the STP and in the different public institutions participating in the program have been trained. With this training, communications between sector specialists in the STP and their counterparts in the organizations that make up the SIIP improved.
- 2.8 This subprogram includes two components:
- a. Institutional strengthening of the SIIP and the investment office of the STP
- 2.9 Under this component, consulting services will be hired to develop, strengthen, and increase the investment system's efficiency in four main areas: (i) consolidating installation of the investment system redesigned under the program to strengthen the STP (ATN/SF-5461-PR) and its implementation in the following ministries: Public works and Communications, Industry and Commerce, the Interior, Justice and Labor, and Integration; (ii) introducing standardized project evaluation methods in the aforementioned ministries; (iii) financing specific modernization projects and upgrading the units in charge of investment preparation, that the ministries suggest be part of the SIIP and that have particular weaknesses; and (iv) holding seminars to train officials from the sector ministries and departmental governments.

b. Support for improving the system for preparing and monitoring ministerial goals

- 2.10 This support calls for the contracting of consulting services to develop and consolidate the system for monitoring ministerial goals, introduced under ATN/SF-5461-PR, in the following areas: (i) the division of the government's investment program into objectives and ministerial goals in order to produce conditions for proper tracking of executive-branch performance; (ii) development of indicators that facilitate supervision of the fulfillment of the goals and monitoring investments by ministerial authorities; (iii) establishment of the bases for creating linkage between the system for monitoring ministerial goals and public investment and the formulation and execution of the budget; and (iv) the development of a pilot program to evaluate public policies and programs that may result in a permanent system.

C. Program cost and financing

- 2.11 The total cost of the program would be equivalent to US\$6 million: US\$5 million would be financed with resources from the Bank's ordinary capital, and US\$1 million would be contributed by the Government of Paraguay. The program components, at the level of the executing units, and their cost and sources of financing are shown in Table I.

TABLE I PROGRAM COST AND FINANCING (in thousands of US\$)			
Investment category	Bank loan	Local contribution	Total
1. Studies	3,834	766	4,600
- Specific studies	3,617	633	3,800
- General studies	500	100	600
- Short-term, support consulting services	167	33	200
2. Institutional strengthening	833	167	1,000
3. Administration and supervision	283	67	350
- Inspection and supervision	50	-	50
TOTAL	5,000	1,000	6,000

D. Status of program preparation

- 2.12 The study preparation component has been set for the first year; eligible studies have been preliminarily identified and the respective terms of reference prepared. Studies to be financed in

subsequent years will be added as the projects in the Bank's operations program are determined. This mechanism will be responsive to the dynamic of the Bank's programming of operations with the country, as an instrument to help with preparation of projects for the 1999-2002 period.

- 2.13 For the first year of execution, preinvestment studies need to be prepared for three projects that would be financed by the Bank, for a total amount of approximately US\$700,000: highway corridors, stage II, a consolidation and expansion of the electric power transmission system, and water supply and sewerage, stage II.

III. PROGRAM EXECUTION

A. Execution framework

1. The borrower and executing agency

- 3.1 The borrower of the financing will be the Republic of Paraguay, and the executing agency will be the Technical Secretariat for Socioeconomic and Development Planning (STP), established in 1962 under the Office of the President through Law No. 841. The other decrees governing the STP and establishing its main responsibilities are described in paragraphs 1.5, 1.6, and 1.7.

2. Organization for program execution

- 3.2 An **executive committee** will be established to execute the program. It will be responsible for the management and overall supervision of: (a) preinvestment; (b) monitoring ministerial goals; and (c) institutional strengthening, with the government's macroeconomic policy and the public investment budget. The **executing unit** established to implement the institutional strengthening program (ATN/SF-5461-PR) will be responsible for the operational and administrative activities under the proposed program. 3/ The executive committee must be established prior to the first disbursement of the loan.
- 3.3 The executive committee will be chaired by the executive secretary of the STP and will consist of an area director from the STP, an area director from the Ministry of Finance, and the general coordinator of the program execution unit (UEP), who will serve as committee secretary. When the committee discusses matters related to the program's target agencies, the authorized representatives of the respective agencies will be invited to the meeting.
- 3.4 The program execution unit will be made up of a general coordinator, professionals responsible for the different sectors, and their respective assistants. Among its functions are: (i) technical coordination of the program; (ii) selection of the consulting services required, including preparation of the terms of reference; (iii) preparation and monitoring of the work plans; (iv) supervision of the bidding process and preparation and presentation of studies; (v) supervision of the institutional strengthening program; (vi) advisory services for preparation of the guidelines to be used for preparing the ministerial goals to be submitted to the STP; (vii) preparation, monitoring, and evaluation of the training programs; (viii) ensuring compliance with the

3/ Confirmation of its continued status as executing agency is a condition precedent to the first disbursement.

program's Operating Regulations; (ix) periodically updating the SIIP; and (x) administrative and financial management of the program.

- 3.5 The UEP will be strengthened by hiring a senior technical advisor (ATP) who has extensive experience in public investment programs. The advisor will be supported by a local professional (a technical advisor) in each component of the operation, and will provide technical advisory services for the preparation of preinvestment studies, the execution of the institutional strengthening program, and the formulation of the guidelines to be used to prepare the ministerial goals that will be submitted to the STP. In addition, the advisor will directly support the general coordinator in the: (a) preparation and monitoring of the UEP work plans and the training programs; (b) coordination and supervision of each project; (c) monitoring of the selection process of the consulting services required, including the preparation of the corresponding terms of reference and the bidding procedures for the studies.
- 3.6 The UEP, with the support of the respective STP offices, will hold technical responsibility for the institutional strengthening subprogram for the SIIP and for the preinvestment program. The Economic and Social Policy Office will assume technical responsibility for the component to support the improvement of the system for preparing and monitoring ministerial goals.
- 3.7 Legal counsel for the program will be provided by the Legal Office of the STP, which will be responsible for providing advisory services to the UEP for reviewing the contracts for consulting services proposed by the target agencies. In addition, it will provide advisory services to the executive committee and will issue an opinion on any legal issue related to the program and its implementation.

B. Processing of the operations

- 3.8 For processing the program operations, the executing agencies will submit applications to the STP with a proposal that includes a definition of the scope and objectives of the proposed study and/or service, preliminary terms of reference, a timetable for execution and control, a detailed estimate of the costs, and a description of the characteristics and scope of the periodic reports. Where necessary, the STP will support the agencies in preparing their applications and drafting the terms of reference. Once an application is approved by the executive secretary of the STP, the final terms of reference will be prepared for final review by the STP, to be submitted to the Bank for review and approval. The consulting services will then be selected and hired, following procedures agreed upon by the Bank.

C. Operating Regulations

- 3.9 Program execution will be governed by the Operating Regulations agreed upon by the STP and the Bank. They must enter into force prior to the first disbursement of the proposed loan. The Operating Regulations establish the criteria for the selection of studies and for the selection and hiring of consulting services, stipulate how the resources are to be used and the funds transferred, include environmental impact assessments and the participation of women, and describe the data required for program monitoring and control.

1. Criteria for the selection of studies

- 3.10 Studies will be selected from the universe of projects approved by the EEN that are in line with the strategy agreed upon by the country and the Bank in that they would: (a) support modernization of the State and the establishment of a social investment program to alleviate poverty; (b) increase efficiency in the investment resource allocation process; (c) reconcile expenses with available resources; and (d) improve supervision and control of the active portfolio and new investment operations at the central level.
- 3.11 All the studies to be financed using program resources must be compatible with the national plans and priorities established by the government. The studies will be included in the program subject to submittal by the executing agency to the Bank for nonobjection. The technical aspects indicated below are considered essential for the preparation of these studies:
- a. General studies must concern sectors, subsectors, and/or priority areas that have specific or general problems that need to be studied, in order to determine what measures would resolve them. To ensure optimal use of program resources and have adequate information, an analysis will be conducted for preliminary identification of the respective technical, economic, environmental, and social parameters that must be studied further in the framework of the proposed study. Each proposal must describe the outcome and possible applications of the conclusions expected to be drawn from the proposed study.
 - b. In the case of specific studies, it should be borne in mind that for **prefeasibility studies** the problems to be resolved and the alternatives put forth to resolve them need to be clearly stated. The alternatives must be clearly identified in terms of their estimated cost and benefits, technical, environmental, financial, or institutional problems, and any other relevant aspects. A prerequisite for **feasibility studies** is that it be demonstrated, through a preliminary (prefeasibility) study, that the project has the foundations to yield an adequate economical return and is technically, environmentally,

financially, and institutionally feasible, and that all aspects that will need to be more closely examined have been properly identified. For the **final engineering designs** to be prepared, it must be demonstrated through a proper feasibility study that the project is technically, environmentally, economically, financially, and institutionally feasible. For an investment project to be considered economically feasible, it must have an internal economic rate of return at efficiency prices of at least 12%, and it must constitute the alternative that maximizes the net present value calculated at a discount rate of 12%.

2. Common requirements for the studies

a. Environmental impact

- 3.12 As part of the studies, and depending on the nature of the project, environmental impact assessments will be included to identify any problems that may occur and propose solutions to those problems and necessary investments to prevent, control, or mitigate any adverse impact on the environment and improve the quality of the environment. In all the studies to be financed, the target agency will be required to fulfill all the applicable provisions in the country's legislation on protection of the environment and natural resources, as well as the procedures established by the Bank for environmental impact assessment. The Environment Committee, at its meeting of February 27, 1996, recommended that the project be classified as a category II operation and approved the environmental brief without comment.

b. Participation of women

- 3.13 Greater participation of women in the development process is essential not only for achieving social justice, but also for reducing poverty. The experience gained worldwide shows that the support for a more active role for women contributes to economic growth, improves child survival and overall family health, and reduces fertility, thus contributing to slowing the demographic growth rate. In short, investment in women is essential for sustainable development. ^{4/}
- 3.14 Within the objective of contributing to increasing the number and quality of specific investment projects, the program will support, through the projects to be prepared, efforts to achieve greater involvement of women in all stages of the development process and to improve their economic situation. The program will support initiatives designed to: (i) promote the role of women in

^{4/} World Bank policy paper entitled *Enhancing Women's Participation in Economic Development*, Washington, D.C., 1995.

productive and social activities; (ii) help them gain access to the resources, services, and benefits provided through the investment operations; and (iii) reduce social, legal, and economic barriers limiting their ability to participate in the development process.

c. Contribution to poverty reduction

- 3.15 Given the nature of the program, it is difficult to estimate how much of the resources will benefit low-income segments of the population. However, the program's slant towards the social sectors will ensure that the projects prepared with program resources will have a significant impact in terms of income redistribution.

3. Beneficiary agencies

- 3.16 The beneficiary agencies of the program may be central government agencies, autonomous agencies of the State, departmental governments, and local governments.

4. Transfer and use of program resources

- 3.17 The proceeds of the loan and local counterpart contribution will be transferred by the Ministry of Finance to a special account at the Central Bank of Paraguay opened in the name of the STP, the program's executing agency, against which the STP will authorize the necessary payments.
- 3.18 The resources allocated to this program will be provided to the beneficiary agencies on a nonreimbursable basis for them to hire the professional consulting services needed to conduct the studies and to carry out the institutional strengthening activities.
- 3.19 Up to the equivalent of US\$200,000 of the total program resources may be used to carry out the activities to support the preparation and execution of projects and the training, and to hire supporting consulting services to carry out the supplemental and/or highly-specialized studies and/or studies on new topics. The maximum amount per study or activity that may be financed using these resources will be US\$20,000 equivalent.
- 3.20 Program resources may not be used to finance the overhead or administrative expenses of the executing agency or the beneficiary agencies of the program.

5. Criteria for the selection and hiring of consulting services

- 3.21 The beneficiary agencies will be responsible for the selection and hiring of the consulting firms and/or individual consultants. These activities will be carried out in accordance with normal Bank procedures, which will be part of the contract for the ordinary capital loan to finance the program.

- 3.22 In any event, consulting firms and/or individual consultants will be selected so as to guarantee a proper level of technical knowledge and experience related to the areas of the study, as defined in the terms of reference. The loan proceeds may only be used to hire consultants from member countries of the Bank.
- 3.23 To select and hire consulting firms, each beneficiary agency will submit to the executing agency the selection and hiring procedures that it plans to follow, the respective terms of reference, and a list of no fewer than three but no more than six consulting firms selected as a result of the notices published.
- 3.24 The executing agency will review the documentation forwarded by the beneficiary agency and will submit it to the Bank for approval. Only following Bank approval will consulting firms be invited to present technical proposals.
- 3.25 Before beginning negotiations with the consulting firms selected, the beneficiary agency must provide the executing agency and the Bank with a copy of the report summarizing the evaluation of the technical proposals. The executing agency will coordinate with the beneficiary agency preparation of the final draft of the contract to be signed with the consulting firm selected. Once the contract is negotiated it will be presented prior to its signature to the Bank for approval. The tentative procurement plan for the program is attached as Annex III-1.

6. Monitoring the operations

a. Supervision

- 3.26 The participating beneficiary agencies will be responsible for directly supervising the studies. The executing agency and the Bank will monitor the progress made on the studies financed under the program. Once a study is completed, the beneficiary institution and the executing agency will examine the draft of the consultant's final report and present their opinions within 60 days. The consultant must present a final report that takes into account the comments made by the executing agency and the beneficiary agency.
- 3.27 During program execution, the executor must submit semiannual progress reports to the Bank containing, among other information: (i) the status of the studies being conducted; (ii) a detailed profile of each study; and (iii) the findings of the studies completed during the previous six-month period, including the final reports.

b. Accounting information

- 3.28 Each beneficiary agency must keep separate accounts for all expenses covered with program funds. The accounting classification

used for these expenses will be in keeping with the chart of accounts supplied by the executing agency. Each beneficiary agency will periodically forward to the executing agency the accounting statements prepared according to the models provided by the executing agency.

- 3.29 The program's financial statements will be prepared by the executing agency at the end of each calendar year and audited by independent external auditors. The audit reports must be submitted to the Bank within 120 days after the end of each fiscal year of the executing agency.

c. Evaluation

- 3.30 Upon completion of the studies and institutional support activities, the beneficiary agencies will present a report to the UEP on the findings of the studies and the recommended improvements, along with their comments. Semiannually until program completion, they will also present a report on the improvements made as a result of the institutional strengthening activities carried out. The UEP will ensure that the reports prepared by the beneficiary agencies contain the necessary background, so that an ex post evaluation of the program can be prepared within one year after the date of the final disbursement of the loan.

7. Timetable for commitments and disbursements

- 3.31 The commitment period for the program resources will be three years from the date of the signature of the loan contract. The resources will be considered committed once Bank approves the hiring of the consulting services selected to conduct the studies and institutional strengthening activities.
- 3.32 There are no exceptions to Bank policy with regard to disbursements and local contributions. The disbursement period for the program resources will be four years, in accordance with the estimated timetable indicated below (in thousands of dollars):

	Year 1	Year 2	Year 3	Year 4	Total
Bank resources	900	1,600	1,600	900	5,000
Government contribution	100	400	400	100	1,000
Total	1,000	2,000	2,000	1,000	6,000

8. Other provisions

- 3.33 The program Operating Regulations may be modified through a written agreement between the STP and the Bank. Anything not provided for

in the regulations will be governed by the contract for the proposed loan entered into by the Bank and the Republic of Paraguay. In the event of a discrepancy between the loan contract and the regulations, the provisions of the loan contract will prevail.

IV. JUSTIFICATION AND RISKS

A. Justification

- 4.1 The program is proposed in response to the Government of Paraguay's request for an instrument to help it properly prioritize projects for the allocation of public investment resources in a timely manner. The program was designed bearing in mind the government's development policies, the Bank's operational policies, and the operations program agreed upon by the country and the Bank.
- 4.2 Resources will be provided to prepare investment programs in the social and productive sectors and for modernization of the State. The operation has the flexibility to allow new studies to be added, while taking into account the priorities established. To this end, the EEN's agreement would be required to add new projects to the program. In addition, institutional strengthening for the STP and the agencies participating in the public investment system has been included, particularly those involved in the preparation and execution of projects that could be incorporated into the Bank's operations program for Paraguay.
- 4.3 In conclusion, the proposed program is justified because it will improve the capacity to prepare investment projects through higher-quality studies and will primarily help to prepare the studies needed for the incorporation of projects into the country's operations program with the Bank. It will also strengthen the public investment system and the system for monitoring ministerial goals, by laying the foundations for their sustainability.

B. Risks

- 4.4 The legal instruments linking the STP to the organization of the public investment system give it a leading role in setting investment priorities. However, since these instruments were only recently established, there is a risk that sector institutions not accustomed to a systematic decision-making process for incorporating their projects into the public investment budget will resist the establishment of another body in the process. Another risk is the institutional weakness of the STP and the new bodies that will be incorporated into the public investment system, particularly those operating in the social sectors and rural areas (departmental governments).
- 4.5 In order to mitigate these risks, the proposed program and ongoing technical-cooperation project ATN/SF-5461-PR, include training activities for staff from the STP and sector institutions directly involved in the public investment system. These activities will be supplemented by the institutional strengthening subprogram called for in this operation, which will be carried out in both the

offices of the STP involved in the operation and the sector units responsible for investment projects in each of the project's beneficiary institutions.

- 4.6 Among the priorities of the administration that took power on August 15, 1998 is the need to strengthen the STP and give it a proactive, more leading role in the economic management of the country. In fact, the recently-appointed technical secretary led the group of advisors to the President of the Republic until the new administration took office. And the new president reiterated in his inaugural address on Sunday, August 16 that his government will give top priority to the public investment program, in which the STP plays a fundamental part.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS ¹	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Goal:</p> <p>Improve the productivity of public investment in Paraguay</p>	<p>Specific projects financed that have preinvestment studies, prepared in keeping with the standards and requirements of international financial organizations and that guarantee their feasibility and ensure that they are the best alternative for resolving the respective problems.</p>	<ul style="list-style-type: none"> - Impact assessment reports on the public investment projects 	<p>Commitment of the authorities to prioritize the investment projects to be financed that have preinvestment studies guaranteeing their feasibility.</p>
<p>Purpose:</p> <p>Increase the number of investment studies available that enable evaluations enabling priority to be given to projects that have ensured economic, technical, institutional, environmental, and financial feasibility</p>	<p>Availability, in a period of four years, of alternative investment projects to be presented to national and international sources of financing.</p>	<ul style="list-style-type: none"> - Number of projects that are candidates for financing in the program cycles with the Bank and incorporated into the national public investment plan. 	<ul style="list-style-type: none"> - High level of commitment on the part of the authorities to timely execution of the program and the management experience of the STP - There is a supply of professional services to carry out the studies.
<p>Components:</p> <p>Preinvestment study</p> <p>General studies conducted for national government projects.</p> <p>Specific studies conducted for national government projects.</p>	<p>Number of general and specific studies financed in keeping with program specifications.</p> <p>Number of projects considered for financing or being financed, for which studies were conducted under the program.</p>	<ul style="list-style-type: none"> - Semiannual progress reports and annual evaluation. - Number of projects incorporated into the Bank's operations program with the country. 	<ul style="list-style-type: none"> - The local counterpart resources are made available in a timely manner. - There is a sufficient supply of professional services to carry out the studies.
<p>Institutional strengthening of budget agencies</p> <p>Organizational and administrative structure of the STP readjusted to fulfill the functions established by law.</p>	<p>Implementation of the recommendations approved by the STP within six months after the consulting services have been hired.</p> <p>Compliance with the deadlines established for the preparation of the national public investment plan in order to submit the plan to the National Congress in September each year.</p>	<ul style="list-style-type: none"> - Final consulting report - Semiannual progress reports and annual evaluation 	<ul style="list-style-type: none"> - Authorities are willing to implement the recommendations.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS ¹	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Preinvestment studies</p> <p>Hiring of professional services to support preparation of the TOR for the preinvestment studies, as well as to support competitions to select and rank bidders, and award contracts for the studies.</p>	Consulting services	Budget performance	<ul style="list-style-type: none"> - There is a supply of professional services to carry out the studies efficiently.
General preinvestment studies	General studies US\$500,000	Budget performance	<ul style="list-style-type: none"> - There is a supply of professional services to carry out the studies efficiently. - The competitions are held and the consulting services selected swiftly and efficiently.
Specific preinvestment studies	<ul style="list-style-type: none"> - Highway corridors II 270,000 - Consolidation and expansion of the electric power transmission system 180,000 - Water supply and sewerage II 280,000 - Other studies 	Budget performance	<ul style="list-style-type: none"> - There is a supply of professional services to carry out the studies efficiently. - The competitions are held and the consulting services selected swiftly and efficiently.
<p>Institutional strengthening</p> <p>Public investment system, investment office of the STP and public credit unit of the Ministry of Finance</p>	Consulting services	Budget performance	Authorities are willing to implement the resulting recommendations, and commit to doing so.
Support for improving the preparation and monitoring system	Consulting services	Budget performance	There is a commitment to implementing the recommended criteria.
Short-term consulting services	Consulting services Subtotal US\$200,000	Budget performance	There is a commitment to using the recommendations of the consultants.

In the negotiations on the operation, the number of investment projects, general studies, projects considered for financing, and implementation deadlines will be included, among other indicators.

TENTATIVE PROCUREMENT PLAN FOR THE PROGRAM

Main consulting services	Financing in thousands of US\$	Procedure	Prequalification	Estimated timing
Year One				
Highway corridors II	270	ICB	Yes	3rd quarter
Consolidation and expansion of the electric power transmission system	180	SBP	Yes	3rd quarter
Water supply and sewerage II	280	ICB	Yes	3rd quarter
General studies	50	SBP	<u>1/</u>	2nd, 3rd, and 4th quarters
Institutional strengthening (several contracts)	200	SBP	<u>1/</u>	1st, 2nd, 3rd, and 4th quarters
Years Two, Three, and Four	5000	<u>1/</u>	<u>1/</u>	-

PROCEDURES FOR THE SELECTION AND HIRING OF CONSULTING SERVICES		
COST OF THE STUDIES	PROCEDURE	PUBLICATION
Equal to or greater than US\$200,000	International competitive bidding (ICB)	<i>Development Business</i> (General Procurement Notice and Specific Notices) Newspapers with broad national circulation
Under US\$200,000	Standard Bank procedures (SBP)	Newspapers with broad national circulation

1/ Depending of the amount of the activity to be financed.

PROPOSED RESOLUTION

PARAGUAY LOAN /OC-PR TO THE REPUBLIC OF PARAGUAY
(Preinvestment Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Preinvestment Program. Such financing shall be for the amount of up to five million dollars of the United States of America (US\$5,000,000), which are parte of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.