

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

**FISCAL MANAGEMENT STRENGTHENING AND
MODERNIZATION PROGRAM II
(PROFOMAF II)**

(PR-L1027)

LOAN PROPOSAL

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ANNEXES AND ELECTRONIC LINKS

Annexes	
Annex I	Results matrix
Annex II	Procurement plan

Electronic links (required)	
1a	Annual work plan – Tax administration http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1380733
1b	Annual work plan – Public expenditure management http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1380731
2	Monitoring and evaluation plan http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1380859

Electronic links (optional)	
3	Gantt chart – Tax administration http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1380761
4	Gantt chart – Public expenditure management http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1380764
5	Itemized budget http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1381123
6	Report on technological aspects of the program http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1381844
7	Cost-benefit analysis report for the program http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1408453
8	Final report on the reengineering of the tax systems (CIAT) http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1381818
9	Integrated Fiduciary Assessment – IFA (draft) http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1381117
10	Project Completion Report (PCR) PROFOMAF I http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1424438
11	Procurement Plan (extended version) http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1563864
12	Safeguard screening form for project classification http://ops/idbdocs/docsMain/getdoc.asp?docnumber=1566010

ABBREVIATIONS

AWP	Annual work plan
DGJP	Retirement and Pension Directorate (Ministry of Finance)
DPNC	Noncontributory Pension Directorate (Ministry of Finance)
FSO	Fund for Special Operations
GDP	Gross domestic product
OC	Ordinary Capital
PCU	Program coordination unit
PROPEF	Project Preparation and Execution Facility
SET	Taxation Branch (Ministry of Finance)
SIABYS	Sistema de Administración de Bienes y Servicios [Goods and Services Administration System]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SIARE	Sistema Integrado de Administración de Recursos del Estado [Integrated State Resources Management System]
SICAF	Sistema Integrado de Contabilidad y Administración de Proyectos [Integrated Project Administration and Accountability System]
SIGADE	Sistema de Gestión y de Análisis de la Deuda [Debt analysis and management system]
SINARH	Sistema Nacional de Administración de Recursos Humanos [National Human Resources Management System]
SSEAF	Financial Administration Branch (Ministry of Finance)
USAID	United States Agency for International Development

PROJECT SUMMARY

PARAGUAY FISCAL MANAGEMENT STRENGTHENING AND MODERNIZATION PROGRAM II (PROFOMAF II) (PR-L1027)

Financial Terms and Conditions					
Borrower: Republic of Paraguay Executing agency: Ministry of Finance			Amortization period:	OC 30 years	FSO 40 years
			Grace period:	5.5 years	40 years
Source	Amount (US\$)	%	Disbursement period:	4.5 years	4.5 years
IDB (Ordinary Capital)	7,600,000	48	Interest rate:	Variable	0.25%
IDB (FSO)	1,900,000	12	Inspection and supervision fee:	*	0
Local	6,500,000	41	Credit fee:	*	0
Total	16,000,000	100	Currency:	U.S. dollars from the Single Currency Facility	U.S. dollars
Project at a glance					
Project objective: The program will make management of tax revenues and public expenditure more efficient through greater integration and security of information in the crosscutting systems that support governance. The program has two components: (i) strengthening of tax administration; and (ii) strengthening of public expenditure management.					
Special contractual conditions: As special conditions precedent to the first disbursement of the loan, the executing agency, taking account of progress made during implementation of the Project Preparation and Execution Facility (PROPEF) operation, will deliver to the Bank for approval (see paragraph 2.3): (i) the initial plan for the program, which will also serve as the first annual work plan (AWP) and will include the activities planned for the first 12 months of program execution (consistent with PROPEF operation PR-L1035); (ii) an updated procurement plan covering the subsequent 18 months of execution; (iii) evidence of the creation of the program coordination unit (PCU) and the appointment of the general coordinator, financial-administrative specialist, procurement specialist, and monitoring and evaluation coordinator; and (iv) evidence of the appointment of the coordinators for each component (Ministry of Finance's Taxation Branch (SET) and Financial Administration Branch (SSEAF)).					
Exceptions to Bank policies: No exceptions to Bank policies are anticipated.					
Project consistent with country strategy: Yes [X] No [] Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []					
Verified by CESI on: N/A Environmental and social review: 7 January 2008					

* 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 MONITORING OF RESULTS

A. General context and background

- 1.1 Preliminary estimates from the Central Bank of Paraguay indicate that **gross domestic product** (GDP) grew 6.4%¹ in 2007, the highest rate since 1981, and posted average annual growth of 4.3% over the past five years (2003-2007). GDP per capita rose 4.5%, to US\$1,493², the highest rate since 1997.
- 1.2 In December 2007, the **inflation** rate was 1.3%, compared to 2.7% in the same month the previous year. The annual inflation rate in 2007 was 6%, down from 12.5% in 2006.
- 1.3 Paraguay reported an annual trade deficit of US\$3,124,200,000 in December 2007. However, **net international reserves** totaled a record-breaking US\$2,462,200,000 (6.7% of GDP) in December, which represented annual growth of 44.6%, up from 31.3% in December 2006.
- 1.4 With regard to **fiscal performance**, the central government reported a surplus of 0.59 billion guaranies in December 2007, which was the result of nominal increases in revenue and expenditure of 13% and 10%, respectively, and real increases of 4.3% and 1.6%, respectively, over the previous December. The end-2007 surplus posted by the central government was equal to 1% of GDP.
- 1.5 Annual **tax receipts** as of December 2007 totaled 7 billion guaranies, an increase of 11.5% over receipts collected as of December 2006. Revenues from the value-added tax (50.2% of total tax receipts) totaled 3.5 billion guaranies, up 24.9% from the previous period; revenues from the income tax (17.5% of total tax receipts) totaled 1.2 billion guaranies, up 28% from the previous period; and revenues from foreign trade (11.9% of total tax receipts) totaled 0.83 billion guaranies, down 8.8% from the previous period. In addition, total foreign revenue of US\$615.3 million was posted from the Itaipú and Yacyretá hydroelectric plants in December 2007, up 11.4% from 2006.
- 1.6 With regard to **public expenditure** by the central government in 2007, personnel expenditure rose 13.7% (4.46 billion guaranies) and capital expenditure climbed 4.8% (2.31 billion guaranies). Changes occurred both in the level and composition and in the structure of public expenditure. During the period 2002-2006, total public expenditure by the central government fell from 20.8% to 17.9% of GDP. Current expenditure, which equaled 16.4% of GDP in 2002, dropped to 13.7%, while capital expenditure remained stable (from 4.4% to 4.2%). The percentage of current expenditure financed by tax revenue rose from 62% to 88%.³

¹ This growth rate is consistent with the estimate made by the Department of Financial Programming (DPF) last October, which indicates a growth range of 5.5% to 6.5%.

² 1994 constant US\$.

³ Source: Independent Macroeconomic Assessment (IDB, November 2007).

- 1.7 Since taking office in 2003, the current administration has been significant efforts to reform **public financial management** and **government procurement**. With regard to public financial management, a major reform of the tax and customs regime was initiated in 2004. Technical improvements have been made in the financial planning and cash management areas of the budget process, as well as in budget accountability through the introduction of a commitment stage. The external audit function has been enhanced through institutional strengthening of the Office of the Comptroller General, with support from the Bank and the United States Agency for International Development (USAID). Lastly, the government is just launching a reform of the internal audit function and the Integrated Financial Management System (SIAF), also with technical and financial support from the Bank and USAID. With regard to government procurement, transparency has been improved with the adoption of new legislation, the expanded role of the National Government Procurement Directorate, and the development of a centralized government procurement system. These reforms have contributed to stricter fiscal discipline on the part of the central government, an increase in tax receipts, and greater efficiency in procurements.
- 1.8 The process of modernizing Paraguay's fiscal administration, and particularly its tax and financial administrations, has been supported by the Bank for many years, with substantial progress made under the Fiscal Management Strengthening and Modernization Program I, or **PROFOMAF I** (loan 1253/OC-PR), approved in 2000. The **outcomes** and impacts of PROFOMAF I, which was completed in October 2007 with no additional disbursements planned, have been very satisfactory. For example: (i) the number of registered taxpayers increased by 95% between late 1999 and November 2007, from 219,582 to 427,915; (ii) annual tax revenues rose 160% between 2002 and 2007, from US\$504 million to US\$1.31 billion; (iii) the time it takes to update the current account files of small and medium-sized taxpayers was cut from more than six months to less than 24 hours; (iv) the SIAF is being used much more extensively in the central government and has been expanded to the decentralized agencies and departmental governments; (v) the National Human Resources Management System (SINARH) processes payroll for the central government through the banking network; (vi) modules for interconnecting the Debt Analysis and Management System (SIGADE 5.3) and the SIAF were developed; (vii) the Paraguayan government's catalogue of goods and services was prepared based on the United Nations model for annual procurement plans; and (viii) the pension database was updated and 14,700 beneficiaries were purged from the roll, resulting in savings of more than US\$47 million between August 2003 and November 2007 (see Project Completion Report - PROFOMAF I). Based on these outcomes, PROFOMAF I has helped the country regain fiscal stability, as demonstrated by four consecutive years of fiscal surpluses.

B. Problems to be addressed

- 1.9 Although significant progress has been made in public financial management, there are still some areas that need to be made more efficient and effective. The three main financial management **challenges identified in the Integrated Fiduciary Assessment** are to make the budget process more efficient, increase fiscal transparency, and make control functions more effective. What these challenges have in common is their relationship to Paraguay's political and institutional context, and technical aspects that will be hard to tackle without bigger changes in governance.
- 1.10 The growing demand for greater social spending threatens the government's ability to maintain a sustainable fiscal balance over the medium term. This underscores the need to continue to support the government, given its limited institutional capacity, in these areas and help it modernize the various processes and systems it has in place for public expenditure management. The **main problems** to be addressed by the proposed program are as follows:
 - 1.11 In the area of tax administration: (i) tax laws and regulations are not consolidated in a single code, nor are they fully harmonized, and there are gaps, contradictions, and conflicting procedures; (ii) adaptation to the new information technologies has been insufficient at the organizational and human resources levels, and the Ministry of Finance's Taxation Branch (SET) lacks operational flexibility; (iii) the integrity and security of tax information is insufficiently protected; and (iv) there is no real tax culture and little involvement by professional associations in tax collection processes (which contributes to tax evasion and a highly informal economy).
 - 1.12 Specifically, the quality of the technology applied to **tax information** is such that the system does not provide effective physical security for all SET operations, and there is insufficient technical and financial capacity to ensure the sustainability of systems installed in recent years.
 - 1.13 In the area of public expenditure management: (i) the SIAF has inadequate data protection and contingency response systems, unintegrated features, and a lack of consolidated information for decision-making; (ii) the SINARH is still relying on numerous fragmented systems to input the information necessary for processing payroll for the central government and has insufficient regulatory, organizational, and technological support for full functioning; (iii) there is scarce monitoring of public investment projects financed with public debt and grant resources, owing mainly to the limited use of modern information technology; (iv) the management and control of public goods and services is fragmented and inefficient; and (v) retirement and pension information is not fully integrated and is subject to security problems, owing mainly to low mobility and lack of infrastructure for delivering payments directly to beneficiaries.
 - 1.14 Although the Paraguayan government has formally created the **Integrated State Resources Management System** (SIARE) to integrate all crosscutting systems in the management areas mentioned in the preceding paragraph in accordance with the

principles of regulatory centralization and operational decentralization, in practice, an acceptable degree of integration has yet to be achieved. Moreover, each system is different in terms of development, coverage, and security of information, which complicates the proposed integration.

C. Program challenges, strategy, and rationale

- 1.15 This program (**PROFOMAF II**) was conceived to address the problems identified in the previous section and to continue contributing to efforts to maintain fiscal stability, increase tax receipts, and provide the government with tools to improve the productivity, quality, and transparency of public expenditure. The scope of the program was determined as a function of the objectives proposed in the review of processes and in the proposals for the functional development of new systems or enhancements to existing systems, with the **challenge** of ensuring continuity of efforts during a period of political transition—a new administration will assume office on 15 August 2008.
- 1.16 The program **strategy** is to build on, and lock in, the progress made in the area of fiscal and public expenditure management under the previous operation (PROFOMAF I) and to continue to reform and modernize these areas of government by further integrating and protecting the information in the systems that support governance.
- 1.17 In the area of **tax revenues**, the strategy is to continue supporting the SET to achieve flexible, efficient, integrated management of tax information and its processes, as well as heighten public awareness to foster voluntary compliance with tax obligations. In the area of **public expenditure**, the strategy is to continue improving crosscutting management systems and develop new systems and enhancements, linking all these systems to the SIAF and the final payment authorization in the budget execution process, which is a strategy being pursued by most countries in Latin America as way to set up centralized databases and further standardize and expand the use of these systems.
- 1.18 **Rationale.** Paraguay's tax ratio, at 12.4% of GDP in 2007, is among the lowest in the region, compared with Argentina (26.3%), Brazil (35.9%), Bolivia (16.9%), Chile (17.3%), and Uruguay (24%).⁴ Accordingly, the Paraguayan government has decided to raise it slightly, reducing tax avoidance and evasion. The good outcomes of PROFOMAF I justify continued support to help the Paraguayan government make the collection of taxes more efficient, transparent, and effective. Efforts to enhance the transparency, control, and capacity of public expenditure management, through the SIARE, are also justified as part of a strategy to ensure the continuity and sustainability of actions supported by the Bank in recent years. This operation is consistent with the Bank's country strategy with Paraguay for the period 2004-2008 (document GN-2312-1), which supports efforts to strengthen

⁴ Oscar Cetrángolo, ECLAC office in Buenos Aires, September 2006.

governance, an objective also supported by this program inasmuch as it will make government more efficient and transparent.

D. Objectives and components

- 1.19 **Program objectives.** The program will make management of tax revenues and public expenditure more efficient through greater integration and security of information in the crosscutting systems that support governance. The program has two components: (i) strengthening of tax administration; and (ii) strengthening of public expenditure management. The components are described below.
- 1.20 **Component 1 – Strengthening of tax administration.** The objective of this component is to make tax administration more efficient by: (i) improving and consolidating tax laws and regulations; (ii) improving the SET's technical and operating organizational structure; (iii) using effective information technology solutions that lead to enhanced productivity and security; and (iv) providing tax training and education and disseminating tax information. The subcomponents are as follows.
- 1.21 **Tax laws and regulations.** The objective is to help the government review its tax laws and regulations and build consensus to improve and consolidate tax regulations and their operational management, in order to minimize gaps and contradictions and standardize the interpretation of the code, reducing inconsistencies and operational conflicts in tax administration. Activities include: (i) supporting the process of reviewing and drafting regulations for the proposed tax code and raising the awareness of the principal actors involved in the approval and implementation process; (ii) adjusting general tax administration laws and regulations and implementing new tax administration systems and procedures; (iii) reconciling tax administration procedures related to compliance and audit functions, to produce a unified tax audit manual and to consolidate internal administrative procedures for selecting and properly monitoring cases; and (iv) optimizing the stamped paper system and its corresponding applications to more effectively regulate and control taxpayers who have been authorized to print their own forms.
- 1.22 **Organizational development of the SET.** The objective is to give the SET a modern, functional organizational structure that allows for more efficient tax administration, starting with more highly skilled human resources and the promotion of improved budgetary and financial management, as well as to improve taxpayer relations and generate and disseminate tax expertise. Activities include: (i) modifying the new organizational structure proposed for the SET to give the institution autonomy to manage its human and financial resources, and pressing for approval of the proposal; (ii) designing and implementing a human resources management model with the establishment of a civil service based on merit and skills; (iii) preparing the SET for subsequent ISO or other quality of process certification; (iv) strengthening strategic planning, including a system of results-based performance indicators; (v) strengthening the taxpayer assistance

- centers located around the country, including facilities, office furniture, and procurement of computer, connectivity, and cable equipment; and (v) developing and discussing a proposal for a center for fiscal studies or similar initiative.
- 1.23 **Information technology.** The objective is to improve the productivity of operations, maintenance, and tax administration through the use of effective information technology solutions, the deconcentration and decentralization of services, and greater confidentiality, retention, and integrity of taxpayer information. Activities include: (i) strengthening the SET's technological infrastructure, including server redundancy, monitoring and access to the alternative Datacenter, expansion of storage capacity, connectivity, computer and physical security, and Internet services; (ii) procuring computer, communications, connectivity, and network equipment for the SET and its regional offices; (iii) conducting a diagnostic assessment and preparing a proposal for the certification of digital signatures; (iv) developing systems for reporting tax fraud; (v) digitizing SET's legacy records; and (vi) contracting specialized maintenance services for some systems at the SET for a set period of time.
- 1.24 **Tax training and dissemination.** The objective is to strengthen and expand tax education programs in order to raise the level of citizen responsibility with regard to taxes, promote the participation of professional associations of, for example, tax specialists, accountants, and lawyers, and build the skills of SET officials. Activities include: (i) strengthening the technical capacity of SET officials through training activities, mainly in the form of e-learning opportunities; (ii) developing a strategy proposal, preparing rules, methods, and training materials for private-sector tax agents, and creating incentives for the certification of these agents; (iii) conducting public education, dissemination, and awareness campaigns to foster voluntary compliance with tax obligations; and (iv) pursuing activities to promote the use of tax compliance technology.
- 1.25 **Component 2 – Strengthening of public expenditure management.** The objective of this component is to modernize and strengthen the SIARE, which consists of a number of interdependent systems, in accordance with the principles of regulatory centralization and operational decentralization, through the: (i) modernization of the SIAF; (ii) enhancement of the SINARH; (iii) improvement in the quality of public credit, debt, and investment operations; (iv) installation of the Goods and Services Administration System (SIABYS); and (v) strengthening and integration of the retirement and pension system. The subcomponents are as follows.
- 1.26 **Modernization of the SIAF.** The objective is to support migration from the Integrated Financial Management System (SIAF) currently in place to the new SIAF II, by incorporating and building on the technological improvements the Ministry of Finance has been pursuing with the support of USAID in 2008 (Threshold Program), which will help optimize processes, improve the protection and communication of data, and enhance the quality of SIAF management information. Activities include: (i) reengineering the basic modules that have

already been installed to function in a Web environment, adding new functionalities and simplifying and optimizing processes; (ii) providing user training and support; (iii) strengthening information and communications infrastructure and data protection and contingency response mechanisms by automating storage; (iv) bringing the budget classification in line with international standards and developing the respective manuals; (v) developing tools for preparation of the multiyear budget, including baseline and outcome indicators; (vi) developing a system for managing records and digitizing documents; (vii) identifying and developing a reciprocal accounting method to produce a consolidated balance sheet for the public sector; (viii) designing and developing a file management system; (ix) procuring the communications equipment and computer hardware and software needed for subcomponent activities; (x) implementing a quality management system based on ISO 9001-2000 (or equivalent) at the Ministry of Finance's Financial Administration Branch (SSEAF); and (xi) implementing the management information module.

- 1.27 **Expansion and integration of the SINARH.** The objective is to develop and implement a new National Human Resources Management System (SINARH) and expand it to cover all stages of the personnel management process, to enhance control and transparency. Activities include: (i) collecting and compiling SINARH rules and introducing a draft law on its functioning, as well as reconfiguring system procedures, with an emphasis on remunerations, in coordination with the Civil Service Secretariat; (ii) producing conceptual designs and developing computer systems for processing payroll, expanding payment coverage to officials through the banking network, and maintaining work history and personnel records for every civil servant; and (iii) creation of online interfaces with the SIAF, the retirement and pension systems for civil servants, the systems of the Civil Service Secretariat, and the banks in the payroll network.
- 1.28 **Modernization of public credit, debt, and investment operations.** The objective is to expand monitoring and oversight of projects financed with public debt and grant resources, to boost the efficiency of public credit, debt, and investment operations. Activities include: (i) running a pilot application and tuning the Integrated Project Administration and Accountability System (SICAF), including integrating it into the SIAF (to the extent possible, the system should generate the financial information required by the Bank and other financial institutions); (ii) developing a tool to capture data on the execution of public investment projects, as well as other financial information in the SIAF and a debt management system to produce management reports that make public credit, debt, and investment operations more efficient; (iii) upgrading the debt management system and developing and implementing an interface with the SIAF, so information on services and disbursements is entered once but appears in both systems, all of the data needed to make the information in SIGADE fully consistent with the information in the SIAF is recorded entered, and debt repayment schedule is automatically generated; (iv) conducting a diagnostic assessment of the financial analysis and risk management methods and tools for public debt to facilitate the

development and ongoing monitoring of risk and debt sustainability indicators; (v) procuring computer and communications equipment for subcomponent activities; and (vi) holding pilot courses and developing training manuals for officials responsible for the execution of public investment projects.

- 1.29 **Development and implementation of SIABYS.** The objective is to develop and implement a system for the management and control of public goods and services⁵ in State entities and agencies. Activities include: (i) producing conceptual designs and developing and installing the SIABYS, including digitizing and processing records related to the documentation of assets subject to registration (such as real estate, vehicles, and machinery); (ii) designing and developing manuals, including the corresponding rules and standards; (iii) providing training; (iv) procuring computer, communications, and data protection infrastructure for this subcomponent; and (v) implementing data protection mechanisms and equipment.
- 1.30 **Strengthening of retirement and pension operations.** The objective is to achieve greater security and efficiency in the payment of retirement and pension benefits and improve beneficiary services, by locking in the reforms of the Retirement and Pension Directorate (DGJP) and the Noncontributory Pension Directorate (DPNC), and implementing a quality management system. Activities include: (i) designing and implementing a quality management system based on ISO 9001:2000 (or equivalent) for the certification of the DGJP and the DPNC; (ii) producing conceptual designs and developing and installing a computer system for processing payments and automatic deductions in the beneficiary payment system; (iii) strengthening the technological base, including by procuring digital fingerprint (or other biometric information) readers for home delivery of payments that continuously update the database; and (iv) establishing a customer service center.

E. Key indicators in the results matrix

- 1.31 In addition to the outputs financed under the program, the main impact indicators in the results matrix will measure: (i) the increase in internal revenue divided by GDP; (ii) the maintenance of the SET's total operating costs divided by total internal revenue collections; (iii) the increase in the number of active registered taxpayers; (iv) the increase in the central government's capital expenditure as a percentage of GDP; (v) the increase in monitoring and oversight of the execution of public investment projects; (vi) the increase in the registration and control of central government assets; and (vii) the savings in total retirement and pension spending resulting from the removal of ineligible beneficiaries from the rolls.
- 1.32 By program completion, the following outcomes are expected in the area of tax administration: (i) improvement and consolidation of tax laws and regulations; (ii) a better technical and operating organizational structure at the SET; (iii) greater productivity in tax administration by applying effective information technology

⁵ The services that will be administered under the SIABYS will be those that the government procures for its own use, such as security, cleaning, and maintenance services.

solutions and making information more secure; and (iv) tax training and education, and dissemination of tax information.

- 1.33 In the area of public expenditure management, the following outcomes are expected: (i) modernization of the SIAF; (ii) enhancement of the SINARH and implementation; (iii) improvements in the quality of public credit, debt, and investment operations; (iv) the development and installation of the SIABYS; and (v) the strengthening and integration of the retirement and pension system.

II. FINANCING STRUCTURE AND RISKS

A. Financing and contractual conditions

- 2.1 The program has a total cost of US\$16 million. The Bank will contribute US\$9.5 million, of which 20% will be drawn from the Fund for Special Operations (FSO) and 80% will be drawn from the Ordinary Capital under the Single Currency Facility. The local counterpart will contribute US\$6.5 million. The program's consolidated budget, broken down by subcomponent, is presented below, and the itemized budget is available in the Institutional Capacity of State Division files (electronic link #5).

Table II-1 – Table of consolidated costs for PROFOMAF II (US\$)

Investment categories	IDB	Local	Total	%
Component 1 – Tax administration	4,078,941	2,637,059	6,716,000	41.98
1.1 Tax laws and regulations	561,000	75,000	636,000	3.98
1.2 Organizational development of the SET	703,000	247,000	950,000	5.94
1.3 Information technology	2,000,000	730,000	2,730,000	17.06
1.4 Tax training and dissemination	814,941	1,585,059	2,400,000	15.00
Component 2 – Public expenditure mgmt.	4,602,778	2,975,722	7,578,500	47.37
2.1 Modernization of the SIAF	2,053,000	1,529,500	3,582,500	22.39
2.2 Expansion and integration of the SINARH	774,800	221,200	996,000	6.23
2.3 Modernization of public credit, debt, and investment operations	829,200	370,000	1,199,200	7.50
2.4 Development and implementation of the SIABYS	550,000	550,000	1,100,000	6.88
2.5 Strengthening of retirement and pension operations	395,778	305,022	700,800	4.38
Management and administration (PCU)	339,438	578,200	917,638	5.74
Audit and evaluation	33,741	21,259	55,000	0.34
Contingencies	445,102	287,760	732,862	4.58
TOTAL	9,500,000	6,500,000	16,000,000	100.00

- 2.2 Table II-2 presents, by component, the amounts drawn from the Project Preparation and Execution Facility (PROPEF) (PR-L1035), which are included in the amounts presented in Table II-1 and were approved on 10 March 2008. PROPEF resources

unused as of the first disbursement of the program will be redistributed proportionately for each component. In Table II-3, the values corresponding to each component of the loan are itemized, discounting the resources advanced through PROPEF.

Table II-2 – Table of costs: PROPEF (US\$)

Investment categories	Bank	Local	Total
Strengthening of tax administration	1,343,000	327,000	1,670,000
Strengthening of public expenditure management	1,478,630	542,070	2,020,700
Management and administration (PCU)	148,999	127,009	276,008
Contingencies	29,371	3,921	33,292
TOTAL	3,000,000	1,000,000	4,000,000

Table II-3 – Table of costs: Loan discounting resources advanced through PROPEF (US\$)

Investment categories	Bank	Local	Total
Component 1 – Tax administration	2,735,941	2,310,059	5,046,000
Component 2 – Public expenditure management	3,124,148	2,433,652	5,557,800
PROPEF	3,000,000	1,000,000	4,000,000
Management and administration (PCU)	190,439	451,191	641,630
Audit and evaluation	33,741	21,259	55,000
Contingencies	415,731	283,839	699,570
TOTAL	9,500,000	6,500,000	16,000,000

- 2.3 **Contractual conditions.** As special conditions precedent to the first disbursement of the loan, the executing agency, taking account of progress made during implementation of the PROPEF operation, will deliver to the Bank for approval: (i) the initial plan for the program, which will also serve as the first annual work plan (AWP) and will include the activities planned for the first 12 months of program execution (consistent with PROPEF operation PR-L1035); (ii) an updated procurement plan covering the subsequent 18 months of execution; (iii) evidence of the creation of the program coordination unit (PCU) and the appointment of the general coordinator, financial administrative specialist, procurement specialist, and monitoring and evaluation coordinator; and (iv) evidence of the appointment of the coordinators for each component (SET and SSEAF).
- 2.4 **Recognition of expenditures.** In light of PROPEF operation PR-L1035, there are no plans to reimburse expenditures incurred prior to the Board of Executive Director's approval of this program using proceeds from the Bank's loan or the local counterpart contribution.
- B. Risks and mitigating measures**
- 2.5 The operation is considered to have a moderate overall risk, based on: (i) the experience demonstrated by the executing agency during execution of

PROFOMAF I (loan 1253/OC-PR); and (ii) the risk analysis exercise performed during program preparation (February 2008) using Expert Choice software. As a result of the foregoing and the program design process, the planned structure was deemed adequate for program execution.

- 2.6 The two main risks identified during the Expert Choice exercise were as follows: (i) political interference could adversely affect the program; and (ii) there could be high turnover among key government officials. Considering these risks in the context of the new administration taking office in August 2008, the project team believes mitigating measures will emerge from the administration itself and from the Bank's dialogue with the new authorities, inasmuch as fiscal policy is highly likely to continue playing a key role in the country's development, and satisfactory execution of the program will make it even more so.
- 2.7 The main risk to program execution is the possibility that the executing agency's procedures may be highly bureaucratic. The project team believes the PROPEF operation will provide an opportunity to evaluate that eventuality and establish mitigating measures.
- 2.8 **Environmental and social risks.** No environmental or social risks are associated with program activities. In accordance with the guidelines set forth in the Bank's Environment and Safeguards Compliance Policy, the program has been classified as a Category "C" operation.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of agreements reached for implementation

- 3.1 **Execution mechanism.** The borrower for the program will be the Republic of Paraguay, and the executing agency will be the Ministry of Finance, which will be accountable to the Bank for the basic aspects of the program, directly liaising with it and setting a course of action for the program. Responsibility for program execution will reside with the program coordination unit (PCU), which will also execute the Bank's loan. The PCU will comprise at a minimum the individuals indicated in paragraph 2.3(iii).
- 3.2 The PCU will be responsible for program administration, and its main functions will be to: (i) prepare the AWP and progress reports; (ii) process the opening and maintenance of specific, separate bank accounts for proceeds from the Bank's loan and resources from the local counterpart contribution; (iii) arrange for counterpart resources and process loan disbursement requests in accordance with Bank procedures (including the creation of a revolving fund and successive replenishments); (iv) keep records of and maintain on file supporting documentation for disbursement requests; (v) prepare program financial statements for subsequent auditing and manage the selection and hiring of an auditing firm to perform the audit; (vi) manage the goods and services procurement processes specified for program execution; (vii) process payments related to the procurement

of goods and services procured for the program; (viii) register program consultants and the corresponding financial vouchers for subsequent auditing; (ix) coordinate the execution of program components and activities with the Bank, responding promptly to any pertinent requests made by it; and (x) perform any other activities necessary for the efficient execution of the operation. Component coordinators will participate in functions (vi) and (vii) above and in other relevant functions, and the directorates involved will participate in all of the decisions that could affect them.

- 3.3 **Disbursement and execution periods.** The program will have an execution period of 48 months and a disbursement period of 54 months. The disbursement schedule by year is presented in the table below.

Table II-1: CONSOLIDATED DISBURSEMENT SCHEDULE (US\$)					
SOURCE	Year 1	Year 2	Year 3	Year 4	TOTAL
IDB	1,800,000	2,400,000	3,500,000	1,800,000	9,500,000
LOCAL	1,200,000	1,600,000	2,500,000	1,200,000	6,500,000
TOTAL	3,000,000	4,000,000	6,000,000	3,000,000	16,000,000

- 3.4 **Procurement.** The program does not call for any exceptions to Bank policies or entail the financing of works with Bank resources. Program goods and consulting services will be procured in accordance with the Bank policies set forth respectively in documents GN-2349-7 and GN-2350-7, of July 2006. International competitive bidding will be used for the procurement of goods and related services with an estimated cost of US\$250,000 or more, and national competitive bidding will be used for the procurement of goods and nonconsulting services with an estimated cost of US\$50,000 or more but less than US\$250,000. Shopping may be used for goods and nonconsulting services with an estimated cost of less than US\$50,000. International publicity will be required for the selection of consulting services with an estimated cost of US\$200,000 or more. The shortlists of consulting firms for contracts with an estimated cost of less than US\$200,000 may comprise entirely national consultants.
- 3.5 The project team conducted an analysis of the executing agency's capacity to administer procurements. Based on this analysis and the Country Procurement Assessment Report, it was determined that all contracts for goods and/or consultants and consulting firms will be reviewed by the Bank on an *ex ante* basis, as established in corresponding procurement plan.
- 3.6 **Annual work plans.** To ensure effective operational programming, the executing agency has prepared a draft annual work plan (AWP) for the first 12 months of program execution (electronic links 1a and 1b) that is consistent with PROPEF operation PR-L1035. This first AWP will serve as the initial program plan and constitutes a condition precedent to the first disbursement, as indicated in paragraph 2.3 above. Changes made to the AWP during annual program execution will be reported to the Bank for its information and approval, within 60 days after the end

of the each six-month calendar period. The AWP will consist of a report that includes a plan of activities for the calendar year, with information on: (i) the projected number of activities to be conducted for each program component, the corresponding execution schedule, and the estimated costs; (ii) the program objectives and targets for the period, including indicators; and (iii) the financing needs for the period, by source of financing, with an indication of the most important milestones for achieving program objectives. The AWP will also include annual schedules of financing and contractual clauses.

- 3.7 **Procurement plan.** The Bank's project team and the executing agency worked together to prepare the procurement plan (Annex II), which describes: (i) the goods and consulting contracts needed to execute the program during the initial 18-month period; (ii) the proposed methods for the procurement of goods and consulting services; and (iii) the procedures applied by the Bank to review procurements. The borrower will update the procurement plan annually, to coincide with the annual evaluations and along with the AWP, or whenever substantial changes are made, always covering the subsequent 18 months of program execution. Any proposed revision of the plan must be presented to the Bank for approval. The latest version of the procurement plan will be available on the Bank's website and on Paraguay's government procurement website upon approval of the operation.
- 3.8 **Operating Regulations.** Operating Regulations **will not be prepared** for this program because the documents envisaged in the program preparation process and their annexes establish the execution, monitoring, and evaluation mechanisms and resource allocation and accountability criteria. The following factors were also considered: (i) the program does not have complex execution mechanisms that require the preparation of Operating Regulations; and (ii) there are no other public entities participating in the program that would require the transfer of resources.
- 3.9 **Accounting and auditing.** The executing agency will be responsible for the financial accounting corresponding to transactions, disbursements, the maintenance of financial information, and the bank accounts of the program. The executing agency will deliver semiannual and annual financial accounting audit reports prepared by a firm of independent auditors acceptable to the Bank, in accordance with the requirements (documents AF-100 and AF-300) and terms of reference previously agreed on by the Bank. These audits will be conducted throughout program execution and will include a final audit. Auditors will be selected and contracted in accordance with Bank procedures (documents AF-200 and AF-400). Audit costs will be financed with program resources.
- B. Summary of agreements reached for monitoring results**
- 3.10 **Monitoring and evaluation.** For program monitoring and evaluation, the targets and progress and success indicators set with the executing agency, which are specified in the results matrix (Annex I), will be taken into account. Midterm and final evaluations will be conducted when 45% and 90% of disbursements have been made, respectively. The purpose of these evaluations will be to determine the status

of the program and the extent to which program indicators, outcomes, and targets have been met, as well as to formulate recommendations, propose corrective measures, and establish good practices and lessons learned. The executing agency will hire external consulting services to perform the evaluations, which will cover: (i) fulfillment of the targets established in the initial plan and in the AWP, according to the activities schedule devised for execution of the components; (ii) progress in implementing the activities identified in the results matrix; (iii) any necessary recommendations, including adjustments in the amounts allocated to each component, to ensure the optimal fulfillment of program objectives.

- 3.11 The Bank's Country Office in Paraguay and the Institutional Capacity of State Division will be responsible for program supervision. The executing agency and the Bank will hold at least one program monitoring meeting per year where they will discuss: (i) the status of activities identified in the AWP; (ii) the degree of fulfillment of the indicators set forth in the results matrix for each component; and (iii) the AWP for the subsequent year and the procurement plan for the subsequent 18 months.

FISCAL MANAGEMENT STRENGTHENING AND MODERNIZATION PROGRAM II (PR-L1027)

RESULTS MATRIX

Program goal	To make Paraguay's management of tax revenues and public expenditure more efficient.	
Outcome indicators (Goal)	Baseline	Expected outcomes
Tax revenue increases to 13% of GDP on average between 2008 and 2013.	11.1% of GDP (average tax burden for the six-year period 2002-2007). Source: IMF, government finance statistics, and DataGob (http://www.iadb.org/datagob/)	More efficient management of tax revenues.
Capital expenditure by the central government increases to 5.4% of GDP on average between 2008 and 2013.	5% of GDP (average capital expenditure for the six-year period 2002-2007). Source: Economic Survey of Latin America and the Caribbean 2006-2007, ECLAC	More efficient public expenditure.
Program purpose	To make Paraguay's management of tax revenues and public expenditure more efficient through greater integration and security of information in the crosscutting systems that support governance.	
Outcome indicators (Purpose)	Baseline	Expected outcomes
Component 1	Strengthening of tax administration	
Total operating costs of the internal revenue administration divided by total internal revenue collections holds steady through 2013. (Current costs are already low compared to similar countries.) Number of active registered taxpayers increases 30% by 2012.	1.3% in 2007. (The marginal cost of collecting taxes is rising, i.e., it rises as revenue increases because reaching new taxpayers represents an additional costs due to increased compliance monitoring, but in this case, the marginal cost will not increase.) 429,453 active registered taxpayers as of December 2007.	The objective of this component is to make tax administration more efficient by: (i) improving and consolidating tax laws and regulations; (ii) improving the SET's organizational operating structure; (iii) enhancing productivity in tax administration by applying effective information technology solutions and making information more secure; (iv) providing tax training and education and disseminating tax information.

Component 2	Strengthening of public expenditure management	
<p>Average annual execution of public investment projects, calculated based on budget estimates in the financial plans (estimated amount that each executing agency plans to spend) no less than 60% for 2009-2012.</p> <p>Removal from the retirement and pension database of at least 5% of beneficiaries by program completion (not counting the increase represented by new beneficiaries).</p>	<p>50% of average annual execution of the financial plan in 2006-2007.</p> <p>Approximately 37,600 beneficiaries were in the database in 2007.</p>	<p>The objective of this component is to make public expenditure management more efficient by modernizing and strengthening the SIARE, which includes:</p> <ul style="list-style-type: none"> (i) modernization of the SIAF; (ii) enhancement of the SINARH and installation; (iii) improvement in the quality of public credit, debt, and investment operations; (iv) development and installation of the Goods and Services Administration System (SIABYS); (v) strengthening and integration of the retirement and pension system.

Output indicators by subcomponent	Component 1 - Strengthening of tax administration				
Output indicators by subcomponent	Baseline	Year 1	Year 2	Year 3	Year 4
1.1 – Tax laws and regulations					
Tax code reviewed, agreed on by consensus, and sent to National Congress.	No consolidation and little harmonization of tax laws and regulations.	Proposed code reviewed and agreed on by consensus.	Proposed code submitted to Congress.		
Tax laws, regulations, and administrative procedures, and a unified compliance and audit manual, implemented.	Laws and regulations in force.	Pending implementing regulations for Laws 125/91 and 2421/2004 (personal income) prepared.	Pending implementing regulations for Laws 125/91 and 2421/2004 (agricultural activities and fuel), and unified compliance and audit manual prepared.	Regulations and manual implemented.	

Output indicators by subcomponent	Component 1 - Strengthening of tax administration				
Output indicators by subcomponent	Baseline	Year 1	Year 2	Year 3	Year 4
1.2 – Organizational development					
New organizational structure for the SET implemented and the SET certified in quality management, including a new plan for a civil career in tax administration.	Law 109/91 and Article 44 of Law 2421/04.		Diagnostic assessment, identification of key processes, and proposal drafted and agreed on by consensus.	Quality manuals approved and structure submitted to Congress.	Structure and civil career plan implemented and the SET certified.
10 additional taxpayer assistance centers in operation, for a total of 16.	6 taxpayer assistance centers in operation, 3,208 taxpayers assisted, and 18 types of assistance offered in 2007.	6 additional taxpayer assistance centers in operation.	2 additional taxpayer assistance centers in operation.	2 additional taxpayer assistance centers in operation.	Evaluation of services offered at taxpayer assistance centers.
1.3 – Information technology					
Alternative SET <i>Datacenter</i> in operation and electronic file management and storage systems implemented, with taxpayer identification records digitized .	Insufficient protection of information and data.		Equipment procured and installed and model electronic file management and storage system designed.	<i>Datacenter</i> and electronic file management and storage systems in operation.	All taxpayer master files and associated documents digitized.
Maintenance of some SET systems for a set period of time.		SET systems maintained for 12 months (to be covered with resources from the National General Budget in subsequent years).			

Output indicators by subcomponent	Component 1 - Strengthening of tax administration				
Output indicators by subcomponent	Baseline	Year 1	Year 2	Year 3	Year 4
1.4 – Tax training, education, and dissemination					
SET officials trained via distance learning (e-learning) and private sector agents trained and certified on tax subjects.		E-learning software procured and courses prepared. 50 trainers with an average minimum of 20 hours.	100 officials trained for a minimum of 20 hours on average, and 50 agents trained for a minimum of 10 hours on average.	150 additional officials trained for a minimum of 20 hours on average, and 50 agents trained for a minimum of 10 hours on average.	200 additional officials trained for a minimum of 20 hours on average, and 50 agents trained for a minimum of 10 hours on average.
Campaign conducted to raise tax awareness, and the number of tax returns filed via Internet increases to 40% of the total.	Of a total of 2,196,988 tax returns, 14,345 (0.65%) filed via Internet in 2007.	Campaign designed and commissioned.	Nationwide campaign under way and 15% of tax returns filed via Internet in 2009.	Nationwide campaign done and 30% of tax returns filed via Internet in 2010.	40% of tax returns filed via Internet in 2011.

Output indicators by subcomponent	Component 2 – Strengthening of public expenditure management				
Output indicators by subcomponent	Baseline	Year 1	Year 2	Year 3	Year 4
2.1 – Modernization of the SIAF					
New version of the SIAF (SIAF II) in operation throughout the central government and decentralized entities that receive transfers from the central government.	The SIAF version in operation in 2007 runs on an Oracle three-layer platform.	Basic budget, cash management, debt, and accountability modules of the SIAF II developed and incorporated.	Basic modules of the SIAF II in operation.	Other additional modules of the SIAF II in operation.	SIAF II in use at all central government offices and decentralized entities that receive transfers from the central government.
Offsite contingency data center in operation and documents digitized .	There is no offsite data center.	Equipment procured and installed.	Contingency data center and computerization system in operation.	At least 10,000 documents from the Directorates of Government Procurement, Budget, and Public Credit and Debt digitized.	

Output indicators by subcomponent	Component 2 – Strengthening of public expenditure management				
Output indicators by subcomponent	Baseline	Year 1	Year 2	Year 3	Year 4
2.2 – Expansion and integration of the SINARH					
SINARH rules and procedures implemented.	SINARH procedures partially designed.	SINARH procedures redesigned and rules proposed.	SINARH procedures and rules implemented.		
SINARH in operation in all 18 entities of the central government, including all phases of the human resources management process and online interfaces with SIAF II.	In 2007, all 18 entities of the central government use their own systems for entering data for processing payroll.	Modules developed for personnel records, payroll processing, payment through the banking network, and work histories.	Interfaces designed with the civil service retirement and pension systems, the Civil Service Secretariat, and the banks in the payroll network; and the SINARH in pilot operation in at least 6 entities	SINARH in full operation in at least 6 additional entities, and online interfaces in operation with the SIAF II and other systems.	SINARH in full operation in at least 6 additional entities.
2.3 – Modernization of public credit, debt, and investment operations					
Integrated Project Administration and Accountability System (SICAF), interconnected with the SIAF, in operation for at least 60% of all central government investment projects financed with public credit. The system is intended to generate the financial information requested by the Bank and other financial institutions.	System software being received.	Conceptual model reviewed and activities initiated to make the necessary updates, taking into consideration the financial information requested by the Bank and other financial institutions.	System developed and pilot tests conducted in at least 4 PCUs.	System interconnected with the SIAF in operation for at least 60% of all publicly financed central government investment projects.	System evaluated.
SIGADE interface with the SIAF II implemented.	SIGADE version 5.3 in operation with no SIAF interface.	SIGADE 5.3 interconnected with the new SIAF.	Procurement of the latest version of SIGADE. Development of the interconnection with the new SIAF initiated.	SIGADE interfaced with the SIAF.	

Output indicators by subcomponent	Component 2 – Strengthening of public expenditure management				
Output indicators by subcomponent	Baseline	Year 1	Year 2	Year 3	Year 4
2.4 – Development and implementation of the Goods and Services Administration System (SIABYS)					
SIABYS in operation in at least 12 of the 18 entities in the central government.	SIABYS does not exist.	SIABYS developed and at least 100,000 records of real estate, vehicles, and machinery entered into the system.	SIABYS installed at 4 entities.	SIABYS installed at another 4 entities.	SIABYS installed at another 4 entities.
2.5 – Strengthening of retirement and pension operations					
Customer service center in operation; a reduction to one hour in the processing time for automatic deductions in the beneficiary payment system; and an increase in the number of complaints handled.	Of 9,019 complaints received in 2007, 90% were handled. Processing time for automatic deductions in the beneficiary payment system is one day.	Customer service center established.	Customer service center in operation and computer system developed for processing and automatic deductions in the system of beneficiary payments.	Payments and deduction system in operation and 100% of complaints addressed.	Processing time for automatic deductions in the system of beneficiary payments cut to one hour on average.
44% of payments made by home delivery using fingerprint readers by the second year of program execution (capital and central region) and 80% by the fourth year (eastern region).	8% of payments made by home delivery without fingerprint readers.	Procurement of fingerprint readers, interconnected to the DPNC system.	44% of payments made by home delivery with the use of fingerprint readers (capital and central region).	60%	80% by the fourth year of program execution (eastern region).

PROCUREMENT PLAN

Country: Paraguay

Borrower: Republic of Paraguay

Executing agency: Ministry of Finance

Project name: Fiscal Management Strengthening and Modernization Program II

Project and loan contract numbers: PR-L1027

Brief description of the project's objectives and components: The objective of PROFOMAF II is to make Paraguay's management of tax revenues and public expenditure more efficient. The program strategy is to build on, and lock in, the progress made in the area of fiscal and public expenditure management under the previous operation (PROFOMAF I) and to continue to reform and modernize these areas of government by further integrating and protecting the information in the systems that support governance. The program has two components: **Component 1: Strengthening of tax administration**, which includes the following subcomponents: tax laws and regulations, organizational development, information technology, and tax training and dissemination; and **Component 2: Strengthening of public expenditure management**, which includes the following subcomponents: modernization of the SIAF, expansion and integration of the SINARH, modernization of public credit, debt, and investment operations, development and implementation of the Goods and Services Administration System (SIABYS), and strengthening of retirement and pension operations.

Estimated date of project approval by the Board of Executive Directors: June 2008

Estimated date of signature of the loan contract: September 2008

Estimated date of the final disbursement: June 2014

Address of the executing agency office responsible for the procurement plan:
Presidente Franco N° 173 c/Nuestra Señora de Asunción, Edificio Ybaga Piso 6.

FISCAL MANAGEMENT STRENGTHENING AND MODERNIZATION PROGRAM II (PR-L1027)

PERIOD COVERED BY THIS PROCUREMENT PLAN: 18 MONTHS

Ref. No.	Description and type of procurement contract	Estimated contract cost	Procurement method*	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
1	GOODS										
	Good 1 – SSEAF Servers, databases, and security infrastructure, alternative site for SIARE. Estimated cost: US\$400,000	400,000	ICB	Ex ante	67%	33%	No	Q2	Q4	Pending	
	Good 2 – SSEAF Communications and power infrastructure for the SSEAF data center. Estimated cost: US\$52,000	52,000	PC	Ex ante	90%	10%	No	Q2	Q3	Pending	
	Good 3 – SSEAF/SET Procurement of communications equipment and hardware and software. Estimated cost: US\$400,000	400,000	ICB	Ex ante	71%	29%	No	Q3	Q5	Pending	
	Good 4 – SSEAF Procurement of fingerprint readers (50 readers). Estimated cost: US\$110,000	110,000	LPN	Ex ante	90%	10%	No	Q3	Q5	Pending	
	Good 5 – SSEAF/SET Procurement of office furniture for the DGJP customer service center and the SET taxpayer assistance center. Estimated cost: US\$90,000	90,000	LPN	Ex ante	90%	10%	No	Q2	Q3	Pending	
	Good 6 – SET Design and printing of literature and related materials (trifold brochures, flyers, posters, banners, stickers, displays for posters and other literature). Estimated cost: US\$100,000	100,000	PC	Ex ante	90%	10%	No	Q3	Q4	Pending	

Ref. No.	Description and type of procurement contract	Estimated contract cost	Procurement method*	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	Good 7 – SET 1 video recorder, 1 digital camera, 1 external memory drive, 2 projectors, 2 notebook computers, 1 DVD recorder. Estimated cost: US\$10,000	10,000	PC	Ex ante	90%	10%	No	Q2	Q3	Pending	
	Good 8 – SET										
	Software for e-learning. Estimated cost: US\$15,000	15,000	PC	Ex ante	90%	10%	No	Q2	Q3	Pending	
	Good 9 – SSEAF Computer equipment for strengthening of the SSEAF. Estimated cost: US\$266,700	266,700	LPN	Ex ante	50%	50%	No	Q5	Q8	Pending	
	Good 10 – SSEAF New version of SIGADE with maintenance support. Estimated cost: US\$80,000	80,000	DC	Ex ante	90%	10%	No	Q5	Q6	Pending	
	Good 11 – SSEAF Procurement and maintenance of Bloomberg. Estimated cost: US\$42,000	42,000	DC	Ex ante	90%	10%	No	Q5	Q6	Pending	
2	NONCONSULTING SERVICES										
	Service 1 – SET Information workshops and events for professional associations directly involved and generally interested, acceptance of proposals for changes, and other activities targeting the general public. Estimated cost: US\$80,000	80,000	PC	Ex ante	90%	10%	No	Q1	Q3	Pending	
	Service 2 – SSEAF Training for central government and decentralized institutions on new SIAF procedures and modules Estimated cost: US\$56,000	56,000	PC	Ex ante	90%	10%	No	Q3	Q4	Pending	

Ref. No.	Description and type of procurement contract	Estimated contract cost	Procurement method*	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	Service 3 – SET Awareness campaigns Estimated cost: US\$410,000	410,000	ICB	Ex ante	65%	35%	No	Q2	Q4	Pending	
	Service 4 – SET Training for users of the taxpayer assistance center model Estimated cost: US\$60,000	60.000	PC	Ex ante	90%	10%	No	Q5	Q6	Pending	
	Service 5 – SSEAF Two international seminars and one national seminar to provide SIGADE training Estimated cost: US\$56,000	56,000	PC	Ex ante	90%	10%	No	Q5	Q6	Pending	
3	CONSULTING SERVICES										
	Consulting services 1 - SSEAF Individual consultant to prepare an accounting manual for municipios Estimated cost: US\$20,000	20,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 2 - SSEAF Individual consultant to prepare a manual of accounting procedures for the National Treasury Estimated cost: US\$16,000	16,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 3 - SSEAF Consultant to design training modules for end users and trainer training Estimated cost: US\$15,000	15,000	NICQ	Ex ante	90%	10%	No	Q3	Q7	Pending	
	Consulting services 4 - SSEAF Consulting firm to reengineer basic modules that have already been installed to function in a Web environment, adding new functionalities and simplifying and optimizing processes. Estimated cost: US\$400.000	400,000	QCBS	Ex ante	75%	25%	No	Q2	Q5	Pending	

Ref. No.	Description and type of procurement contract	Estimated contract cost	Procurement method*	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	Consulting services 5 - SSEAF International consultant to conduct a diagnostic assessment, gather information, and prepare a proposal to bring the budget classification and chart of accounts in line with international standards Estimated cost: US\$30,000	30,000	IICC	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 6 - SSEAF Consultant to develop a method for identifying reciprocal items between levels of government and obtaining a consolidated balance sheet for the public sector Estimated cost: US\$30,000	30,000	NICQ	Ex ante	90%	10%	No	Q2	Q6	Pending	
	Consulting services 7 - SSEAF Consulting firm specializing in information technology to develop the investment project monitoring system (SICAP II) and link it to other SIAF systems Estimated cost: US\$90,000	90,000	QCBS	Ex ante	90%	10%	No	Q2	Q6	Pending	
	Consulting services 8 - SSEAF Individual consultant specializing in projects to support the SICAP II Estimated cost: US\$18,000	18,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 9 - SSEAF										
	Consultant to design a system for monitoring the physical status of projects Estimated cost: US\$15,000	15,000	NICQ	Ex ante	90%	10%	No	Q2	Q6	Pending	
	Consulting services 10 - SSEAF Consultant to update the management information module of the SIAF Estimated cost: US\$25,000	25,000	NICQ	Ex ante	90%	10%	No	Q4	Q8	Pending	
	Consulting services 11 - SSEAF Consultant to develop pilot training for PCUs Estimated cost: US\$5,000	5,000	NICQ	Ex ante	90%	10%	No	Q3	Q5	Pending	

Ref. No.	Description and type of procurement contract	Estimated contract cost	Procurement method*	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	Consulting services 12 - SSEAF National consultant to conduct diagnostic assessment and analysis of the SIGADE tool Estimated cost: US\$10,000	10,000	NICQ	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 13 - SSEAF Consultant to develop financial analysis and risk management methods and tools for public debt, including training. Estimated cost: US\$20,000	20,000	NICQ	Ex ante	90%	10%	No	Q3	Q7	Pending	
	Consulting services 14 - SSEAF Consulting firm to digitize records related to the documentation of assets subject to registration (real estate and vehicles). Estimated cost: US\$60,000	60,000	QCBS	Ex ante	90%	10%	No	Q2	Q6	Pending	
	Consulting services 15 - SSEAF Preparation of draft rules and regulations on the functioning of the SINARH with regard to fiscal elements. Estimated cost: US\$36,000	36,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 16 - SSEAF Diagnostic assessment, analysis, design, and preparation of conceptual and procedural manuals on SINARH for centralized and decentralized entities. Estimated cost: US\$40,000	40,000	NICQ	Ex ante	90%	10%	No	Q1	Q4	Pending	
	Consulting services 17 - SSEAF Consulting firm to prepare the conceptual designs and develop the SINARH. Estimated cost: US\$180,000	180,000	QCBS	Ex ante	56%	44%	No	Q3	Q7	Pending	
	Consulting services 18 - SSEAF Consulting firm to set up a customer service center and provide training. Estimated cost: US\$38,000	38,000	QCBS	Ex ante	90%	10%	No	Q3	Q7	Pending	

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	Consulting services 19 - SSEAF Consultant to interface the digital fingerprint readers with the DPNC computer system. Estimated cost: US\$12,000	12,000	NICQ	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 20 - SET International consultant to prepare and adjust laws and regulations and a preliminary draft of the tax code. Estimated cost: US\$60,000	60,000	IICC	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 21 - SET International consultant to consolidate the legal framework. Estimated cost: US\$100,000	100,000	IICC	Ex ante	90%	10%	No	Q2	Q6	Pending	
	Consulting services 22 - SET National legal consultant to support the consolidation of the legal framework. Estimated cost: US\$36,000	36,000	NICQ	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 23 - SET Consulting firm to provide training for the implementation of the consolidated legal framework. Estimated cost: US\$25,000	25,000	LCS	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 24 - SET National legal consultant (specializing in constitutional law) Estimated cost: US\$10,000	10,000	NICQ	Ex ante	90%	10%	No	Q1	Q3	Pending	
	Consulting services 25 - SET National legal consultant to defend the tax code before National Congress. Estimated cost: US\$9,000	9,000	NICQ	Ex ante	90%	10%	No	Q1	Q3	Pending	

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	Consulting services 26 - SET Consulting firm to design training modules for the taxpayer assistance center and training for officials assigned to the center. Estimated cost: US\$40,000	40,000	LCS	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 27 - SET International consultant to conduct diagnostic assessment and develop a proposal for a fiscal studies center at the SET. Estimated cost: US\$50,000	50,000	IICC	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 28 - SET Consulting firm to maintain existing systems at the SET. Estimated cost: US\$350,000	350,000	QCBS	Ex ante	90%	10%	No	Q3	Q7	Pending	
	Consulting services 29 - SET Consulting firm to design public information campaigns to encourage voluntary compliance with tax obligations. Estimated cost: US\$30,000	30,000	QCBS	Ex ante	90%	10%	No	Q2	Q6	Pending	
	Consulting services 30 - SET Individual consultant specializing in audio and visual communications. Estimated cost: US\$10,000	10,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 31 - SET Individual consultant specializing in press relations. Estimated cost: US\$10,000	10,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 32 - SET Individual consultant specializing in the organization of events. Estimated cost: US\$10,000	10,000	NICQ	Ex ante	90%	10%	No	Q1	Q5	Pending	
	Consulting services 33 - SET Consultant to develop virtual courses for officials and the general public. Estimated cost: US\$7,000	7,000	NICQ	Ex ante	90%	10%	No	Q2	Q5	Pending	

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	Consulting services 34 - SET Consulting firm to design a campaign to encourage the use of tax compliance technology, making processes more transparent, efficient, and streamlined. Estimated cost: US\$40,000	40,000	QCBS	Ex ante	90%	10%	No	Q2	Q5	Pending	
	Consulting services 35 - SET Consulting firm to strengthen the technical skills of officials. Estimated cost: US\$38,000	38,000	LCS	Ex ante	90%	10%	No	Q3	Q7	Pending	
	Consulting services 36 - PCU General coordinator Estimated cost: US\$70,000	70,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	
	Consulting services 37 - PCU Financial administrative coordinator Estimated cost: US\$54,000	54,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	
	Consulting services 38 - PCU Procurement coordinator Estimated cost: US\$50,000	50,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	
	Consulting services 39 - PCU Monitoring coordinator Estimated cost: US\$50,000	50,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	
	Consulting services 40 - PCU Procurement assistant Estimated cost: US\$20,000	20,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	
	Consulting services 41 - PCU Financial administrative assistant Estimated cost: US\$10,000	10,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	

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	Consulting services 42 - PCU Executive secretary Estimated cost: US\$14,000	14,000	NICQ	Ex ante	90%	10%	No	Q1	Q8	Pending	
	Consulting services 43 - SET Consultant to adjust the new organizational structure of the tax administration. Estimated cost: US\$30,000	30,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 44 - SET										
	Consulting firm to design and implement a management model for access, retention, and promotion of human resources. Estimated cost: US\$50,000	50,000	QCBS	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 45 - SET Consulting firm to provide training on the model for the taxpayer assistance centers. Estimated cost: US\$50,000	50,000	QCBS	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 46 - SET Tax consultant to conclude development and implementation of the stamped paper system. Estimated cost: US\$32,000	32,000	IICC	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 47 - SET National organizational consultant to prepare adjustments to tax administration procedures related to compliance and audit functions Estimated cost: US\$32,000	32,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 48 - SET Consulting firm to develop a digital signature certification system. Estimated cost: US\$25,000	25,000	QCBS	Ex ante	90%	10%	No	Q5	Q8	Pending	

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	Consulting services 49 - SET Consultant to develop rules and regulations for implementation of the digital signature system. Estimated cost: US\$15,000	15,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 50 - SET Consulting firm to develop a system for managing digital documents. Estimated cost: US\$220,000	220,000	QCBS	Ex ante	50%	50%	No	Q5	Q8	Pending	
	Consulting services 51 - SSEAF Consulting firm specializing in information technology to tune the Integrated Project Administration and Accountability System, develop manuals, and conduct a test run with four pilot projects financed by the Bank. Estimated cost: US\$246,000	246,000	QCBS	Ex ante	50%	50%	No	Q5	Q8	Pending	
	Consulting services 52 - SSEAF National consultant to support implementation of the Integrated Project Administration and Accountability System with four pilot projects. Estimated cost: US\$18,000	18,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 53 - SSEAF Consultant to update the SIGADE management information module. Estimated cost: US\$25,000	25,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 54 - SSEAF National consultant to make the new version of the SIGADE compatible with the SIAF II. Estimated cost: US\$20,000	20,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 55 - SSEAF Consulting firm to design and develop financial analysis and risk management software for public debt. Estimated cost: US\$85,000	85,000	QCBS	Ex ante	90%	10%	No	Q5	Q8	Pending	

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	Consulting services 56 - SSEAF Consultant to help prepare SINARH rules and procedures. Estimated cost: US\$20,000	20,000	NICQ	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 57 - SSEAF Consulting firm specializing in information technology to develop new applications for the SINARH. Estimated cost: US\$660,000	660,000	QCBS	Ex ante	50%	50%	No	Q5	Q8	Pending	
	Consulting services 58 - SSEAF Consulting firm to establish interfaces so information can be exchanged online between the SINARH and the other components of the SIAF, the retirement and pension system, and the components of the Civil Service Secretariat. Estimated cost: US\$60,000	60,000	QCBS	Ex ante	90%	10%	No	Q5	Q8	Pending	
	Consulting services 59 - SSEAF Consulting firm to develop new applications within the SIABYS for implementation in State entities. Estimated cost: US\$500,000	500,000	QCBS	Ex ante	50%	50%	No	Q5	Q8	Pending	

* **Goods and Works:** ICB: International competitive bidding; LIB: limited international bidding; NCB: national competitive bidding; PC: price comparison; DC: direct contracting; FA: force account; PSA: Procurement through Specialized Agencies; PA: Procurement Agents; IA: Inspection Agents; PLFI: Procurement in Loans to Financial Intermediaries; BOO/BOT/BOOT: Build, Own, Operate/Build, Operate, Transfer/Build, Own, Operate, Transfer; PBP: Performance-Based Procurement; PLGB: Procurement under Loans Guaranteed by the Bank; PCP: Community participation procurement. **Consulting Firms:** QCBS: Quality- and Cost-Based Selection QBS: Quality-Based Selection FBS: Selection under a Fixed Budget; LCS: Least-Cost Selection; CQS: Selection based on the Consultants' Qualifications; SSS: Single-Source Selection. **Individual Consultants:** NICQ: National Individual Consultant selection based on Qualifications; ICC: International Individual Consultant selection based on Qualifications

CAPACITY OF THE EXECUTING AGENCY AND SUPERVISION OF PROCUREMENT BY THE BANK

Assessment of the executing agency's capacity to administer procurement

The Ministry of Finance will be responsible for carrying out project procurements. The Bank assessed the capacity of the executing agency to carry out the procurement actions and rated the overall risk to the project arising from the administration of procurement as low, inasmuch as the executing agency for this operation will be the same one that executed PROFOMAF I.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/08

Paraguay. Loan ___/OC-PR to the Republic of Paraguay
Fiscal Administration Strengthening
and Modernization Program II
(PROFOMAF II)

The Board of Executive Directors

RESOLVES:

1. 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 aimed at cooperating in the execution of the Fiscal Administration Strengthening and Modernization Program II (PROFOMAF II). Such financing will be in the amount of up to US\$7,600,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/08

Paraguay. Loan ___/SF-PR to the Republic of Paraguay
Fiscal Administration Strengthening
and Modernization Program II
(PROFOMAF II)

The Board of Executive Directors

RESOLVES:

1. 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 aimed at cooperating in the execution of the Fiscal Administration Strengthening and Modernization Program II (PROFOMAF II). Such financing will be in the amount of up to US\$1,900,000 from the resources of the Bank's Fund for Special Operations, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.