

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

PROGRAM TO SUPPORT TRANSFORMATION OF THE PUBLIC SECTOR

(PR-L1177)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Mariano Lafuente, Project Team Leader (IFD/ICS); Alejandro Pareja (IFD/ICS), Axel Radics (IFD/FMM), and Joaquín Domínguez (IFD/CMF), Alternate Project Team Leaders; Alejandra Aguilar, Nicolás Dassen, José Antonio Mejía, Robert Pantzer, and Katia Rivera (IFD/ICS); Ana Cristina Calderón and Leslie Harper (IFD/FMM); Jorge Luis González (VPC/FMP); Aloisio Lopes and Marco Buttazzoni (CSD/CCS); María Soledad Feal and Rocío Acosta (CSC/CPR); Gastón Pierri (SPD/SDV); Horacio Mendoza (LEG/SGO); Zachary Hurwitz (VPS/ESG); and Denisse Wolfenzon (consultant). The team thanks María José Jarquín (CID/CHO), Roberto de Michele, and Camila Mejía (IFD/ICS) for their input.

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROGRAM SUMMARY

I.	MACROECONOMIC FRAMEWORK AND DESCRIPTION OF THE INSTITUTIONAL/SECTORAL PROBLEM ADDRESSED	1
	A. Macroeconomic framework and outlook	1
	B. Institutional and/or sectoral problem	1
II.	PROGRAM OF REFORMS, OBJECTIVES, COMPONENTS, AND EXPECTED RESULTS	6
	A. Program of reforms.....	6
	B. Objectives, components, and expected results	9
III.	SCALING, RISKS, IMPLEMENTATION, AND MANAGEMENT PLAN	14
	A. Scale	14
	B. Risks	14
	C. Implementation and management plan	16
IV.	POLICY LETTER	17

APPENDICES

Proposed resolution

ANNEXES	
Annex I	Summary Development Effectiveness Matrix
Annex II	Policy Matrix
Annex III	Results Matrix

LINKS
REQUIRED
1. Policy letter
2. Means of verification matrix
3. Monitoring and evaluation plan
OPTIONAL
1. Analytical studies and Bank operational experience related to the program

ABBREVIATIONS

AFD	Agencia Financiera de Desarrollo [Development Finance Agency]
DNCP	Dirección Nacional de Contrataciones Públicas [National Public Procurement Office]
DPE	Dirección de Política de Endeudamiento [Debt Policy Office]
GMAs	Government ministries and agencies
INE	Instituto Nacional de Estadísticas [National Institute of Statistics]
MITIC	Ministry of Information and Communication Technologies
OECD	Organisation for Economic Co-operation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
SDGs	Sustainable Development Goals of the United Nations
SII	Sistema de Intercambio de Información [Information Exchange System]
SISEN	Sistema Estadístico Nacional [National Statistics System]
SOFR	Secured Overnight Financing Rate

PROGRAM SUMMARY

PARAGUAY PROGRAM TO SUPPORT TRANSFORMATION OF THE PUBLIC SECTOR (PR-L1177)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
Republic of Paraguay			Amortization period:	20 years
Executing agency			Disbursement period:	2 years
Ministry of Finance			Grace period:	5.5 years ^(b)
Instrument: Programmatic policy-based loan			Interest rate:	SOFR-based
Source	Amount (US\$)	%	Credit fee:	^(c)
IDB (Ordinary Capital):	200 million	100	Inspection and supervision fee:	^(c)
			Average weighted life:	12.75 years
Total:	200 million	100	Approval currency:	U.S. dollar
Program at a Glance				
<p>Program objective/description: The general development objective of this program is to boost the effectiveness of the public sector by: (i) increasing the efficiency of public management; (ii) enhancing the effectiveness of public management; and (iii) improving the integrity and transparency of public management.</p> <p>This operation is the first of two consecutive loans that are technically linked but independently financed as programmatic policy-based loans in accordance with the document Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2).</p>				
<p>Special contractual conditions precedent to disbursement of the loan: Disbursement of this single tranche will be conditional on compliance with the policy reform conditions established in the policy matrix (Annex II), the policy letter, and the loan contract (paragraph 3.3).</p>				
<p>Exceptions to Bank policy: None.</p>				
Strategic Alignment				
Challenges: ^(d)	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(e)	GE <input type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>
Sustainable Development Goals: ^(f)	SDG 1 <input type="checkbox"/> SDG 2 <input type="checkbox"/> SDG 3 <input type="checkbox"/> SDG 4 <input type="checkbox"/> SDG 5 <input type="checkbox"/> SDG 6 <input type="checkbox"/> SDG 7 <input type="checkbox"/> SDG 8 <input type="checkbox"/> SDG 9 <input type="checkbox"/> SDG 10 <input type="checkbox"/> SDG 11 <input type="checkbox"/> SDG 12 <input type="checkbox"/> SDG 13 <input checked="" type="checkbox"/> SDG 14 <input type="checkbox"/> SDG 15 <input type="checkbox"/> SDG 16 <input checked="" type="checkbox"/> SDG 17 <input checked="" type="checkbox"/>			

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

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

^(c) The credit fee and the 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 applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Socioenvironmental Sustainability); and IC (Institutional Capacity and Rule of Law). ^(f) SDGs (Sustainable Development Goals). Click [here](#) for more information about the SDGs and [here](#) to consult the IDB Group Methodology for Project Classification According to the SDGs.

I. MACROECONOMIC FRAMEWORK AND DESCRIPTION OF THE INSTITUTIONAL/SECTORAL PROBLEM ADDRESSED

A. Macroeconomic framework and outlook

- 1.1 The Paraguayan economy is recovering apace with the improvement in the health situation. In 2020, the economy shrank by 0.6%, one of the least severe contractions in the region, and a growth rate of 4.5% is projected for 2021. In 2022, growth of 3.8% is anticipated.
- 1.2 The fiscal accounts deteriorated as a consequence of the COVID-19 crisis, but the government is complying with its fiscal consolidation plan. The central government's fiscal deficit was 6.1% of GDP in 2020, making it necessary to temporarily suspend the fiscal rule that had established a cap on the fiscal deficit of 1.5% of GDP. The medium-term convergence plan proposes to reinstate the cap in four years (deficit of 4% of GDP in 2021 and 3% in 2022). This will require major adjustments in current expenditure, which is more flexible, since tax receipts are not projected to rise substantially in the short term.
- 1.3 Total public debt as a percentage of GDP was 33.2% as of September 2021, more than 10 percentage points above where it was prior to the pandemic (at year-end 2019, the public debt amounted to 22.9% of GDP). Although these levels are relatively moderate compared to other countries in the region, they are close to the limit of 40% of GDP proposed in the amendment to the Fiscal Responsibility Act.

B. Institutional and/or sectoral problem

- 1.4 **More effective, efficient, and transparent public management.** In a context of tighter fiscal restrictions and in light of the opportunities offered by digitalization, the Latin American and Caribbean governments need to move toward more efficient and effective public management (i.e. doing more and better with less) while assuring adequate levels of transparency and integrity. This strengthening of institutional capacity is crucial for promoting higher sustainable economic growth.¹ With respect to Paraguay, different studies² point to the need for regulatory and administrative measures to move in this direction.
- 1.5 **Transformation of Paraguay's public sector.** Under the 2018-2023 Government Plan and the Ñapu'ã Paraguay Economic Recovery Plan in response to the COVID-19 crisis, the government is committed to making headway on key reforms that promote the transformation of the public sector, with the objective of improving the quality of public spending, whose long-term impact, it is hoped, will contribute to greater economic development. The proposal for transformation of the public sector is based on building up institutional capacity through inclusive public policies that focus on citizen services, with a strategic vision and stronger institutions, whose crosscutting principles are transparency, integrity, institutional and intergovernmental coordination, and robust support for e-government, contributing to more effective, efficient, and open public management.

¹ [IDB, 2014.](#)

² [Optional link 1.](#)

- 1.6 These efforts are rooted in the “institutional strengthening” component of the 2030 National Development Plan,³ whose strategic objective is to “modernize government.” As part of this objective, the Paraguayan government has undertaken to boost public-sector efficiency and transparency through reforms of the civil service and government procurement, modernization of administrative procedures, and strengthening the national statistics system (SISEN), among others.
- 1.7 **Other steps taken by the country related to the program.** After a period of major management system reforms in the early 2000s, including the Civil Service Act (Law 1,626/2000) and the Government Procurement Act (Law 2,051/2003), Paraguay has made sustained efforts to advance in transformation of the public sector, with a focus on improving its effectiveness, efficiency, and transparency. Some of these efforts that have been completed and/or implemented in recent years include: (i) reforms for the effective implementation of merit-based competitions through a unified public employment portal⁴ and rationalization of public-sector salary policy;⁵ (ii) regulation of framework agreements as a practice to promote efficiency and transparency in government contracting⁶ and other reforms to modernize government procurement; (iii) strengthening the institutional framework for national statistics;⁷ (iv) creation of the Ministry of Information and Communication Technologies (MITIC) as the lead e-government agency,⁸ approval of a national cybersecurity plan⁹ and implementation of [Portal Paraguay](#) for online procedures; and (v) the Free Citizen Access to Public Information and Government Transparency Act,¹⁰ and implementation of the [RindiendoCuentas](#) (Accountability) platform to make public investment, planning, budgeting, and procurement more transparent, in response to COVID-19.
- 1.8 **The problem addressed.** Despite the aforementioned advances, Paraguay presents significant gaps in public-sector management. Although it has been improving its position in the Government Effectiveness Index¹¹ in recent years, moving from the 17th percentile in 2015 to the 35th percentile in 2020, it is still far from the Latin American and Caribbean averages (53rd and 51st percentiles, respectively). Furthermore, “inefficient government bureaucracy” was the third most problematic factor for doing business in Paraguay in 2018¹² and inefficiency

³ [Plan Nacional de Desarrollo 2014 \(updated in 2021\)](#).

⁴ [Decree 1,212/2014](#).

⁵ [Law 5,554/2016](#).

⁶ [Decree 1,315/2014](#).

⁷ [Decree 2,707/2014](#).

⁸ [Law 6,206/2018](#).

⁹ [Decree 7,052/2017](#).

¹⁰ [Law 5,282/2014](#).

¹¹ [World Bank – Worldwide Governance Indicators, 2021](#). Aggregate indicators that capture perceptions of the quality of public services and the civil service, the quality of policy formulation and implementation, and regulatory overburden, among other key aspect of public sector institutional capacity. Zero is the lowest ranking and 100 the highest.

¹² The two leading factors were corruption and an inadequately educated workforce. [World Economic Forum \(2017/2018\)](#).

in annual public spending was calculated as equivalent to 3.9% of GDP (with 1.5% originating in government procurement and 1.1% in wages).¹³ These problems can largely be attributed to the following causes.

1.9 (1) Inadequate key management systems

(i) Inefficient executive branch organization. Duplication and inconsistency, which averaged 64% in the areas of ministries not related to their principal function; support units comprising up to 68% of the ministerial structure; wide differences in the number of areas by ministry (ranging from 19 to 635); and differences in the nomenclature used and how it corresponds to organizational levels.¹⁴

(ii) Inadequate public service management. With approximately 216,000 employees in the national government (40,000 of whom make up the civil service), the public-sector wage bill amounted to 7.3% of GDP and nearly 40% of spending in the 2020 national budget, compared to 7.2% and 27%, respectively, for Latin America and the Caribbean. Paraguay scored 40 points out of a possible 100 in the 2017 civil service development index,¹⁵ a gap which, although it had been narrowed by 12 points since the initial evaluation in 2004, can be primarily attributed to: (i) inflated executive branch staffing levels, due to weak staffing planning and division into an excessive number of areas; (ii) an administrative career path with an ineffective classification system (more than 288 categories) with limited use of merit considerations (of 57% of the vacancies that were supposed to be filled by competitive processes in 2016, only one such competitive process was held), and with vertical and horizontal inequities in pay (average salary dispersion of 40% for all hierarchical levels); (iii) management positions appointed exclusively on the basis of trust;¹⁶ and (iv) leadership role in doubt due to weaknesses in the legal framework of Law 1,626/2000.

(iii) Inadequate government supply and procurement systems. Accounting for 8.5% of GDP and nearly 25% of public spending on average between 2010 and 2020,¹⁷ these systems present the following main challenges: (i) a legal framework that still reflects a traditional approach to government procurement,¹⁸ governed by compliance with formal steps in the selection of suppliers, and hampers efforts in the planning, contractual execution, and final evaluation of processes (standing in the way of stringent planning, better aggregation of demand, and a vision of an integrated supply chain that includes distribution, storage, and delivery), which negatively impacts spending efficiency and

¹³ [IDB, 2018](#).

¹⁴ Ugarte, M. (2019) – unpublished.

¹⁵ Equal to the regional average. Source: [IDB, 2017](#).

¹⁶ There is also a gender gap among those employed in such managerial positions: 42% of general management positions (third hierarchical level) and 46% of managerial positions (fourth hierarchical level) at the main ministries were held by women as of 30 September 2021. This gap is relatively minor, however, especially as compared with other countries of the region (paragraph 2.24).

¹⁷ [Paraguayan Ministry of Finance](#).

¹⁸ For example, it does not include the principles of value for money (efficiency, economy, effectiveness) or the use of more streamlined and efficient tools and procedures tailored to the complexity, volume, and market for goods, works, and services.

effectiveness; (ii) underuse of mechanisms to aggregate public-sector demand (such as consolidated purchases of uniform, commonly-used goods and services, which are discretionary under the existing regulatory framework); (iii) scant participation and competition among bidders in purchasing and procurement processes (41% of contracts put out for tender had just one bidder in 2017);¹⁹ and (iv) limited use of digital tools (combination of online, manual, and paper-based transactions), which reduces the possibility of automating the identification of integrity risks throughout the process cycle.

1.10 (2) Limited progress on enabling factors for better management

(i) Obsolete regulatory framework governing the national statistics system.

Better national statistics would improve planning for the use of public resources, boosting the efficiency of public institutions. It is also key for more effective, evidence-based public management.²⁰ In Paraguay, the legal framework for this function is obsolete and fragmented, based on the oldest law in the region (1942), which does not guarantee the technical independence of the National Institute of Statistics or establish technical requisites for appointing its head. It does not make it obligatory to provide information for statistical purposes, which hampers transparency, nor does it specifically stipulate that the institute has the right to access information contained in administrative records, among others.²¹

(ii) Embryonic progress in the area of e-government. E-government is a crucial mechanism for promoting greater efficiency and effectiveness in public management. In 2020, Paraguay ranked 65th among 193 countries (and 10th among IDB borrowing member countries) in the subindex for online services of the E-Government Development Index.²² Although Law 6,562/2020, passed in June 2020, promotes reducing paper use in public management and replacing it with digital formats, progress in effectively implementing the digitalization of citizen services (24% are fully digital but some of them continue to require citizens to present documents already in the government's possession)²³ and the use of interoperable platforms by government ministries and agencies (GMAs) has been very slow.²⁴

(iii) Weaknesses in the legal framework for preventing conflicts of interest among public officials. Rules governing public ethics are necessary for more scrupulous management, including the prevention of conflicts of interest.²⁵ Existing public ethics regulations are practically not applied and they do not include a robust system for the prevention and control of conflicts of interest

¹⁹ [World Bank, 2018.](#)

²⁰ [IDB, 2019.](#)

²¹ [IDB, 2020.](#)

²² [United Nations, 2020.](#)

²³ [MITIC.](#)

²⁴ Paraguay has [51 connected GMAs](#), 10.7 million transactions a month (MITIC), and offers [26 web services](#), while a country that is comparable in size (or with even a smaller population) such as [Uruguay has 99 institutions connected, almost 20 million transactions a month, and 244 web services.](#)

²⁵ [IDB, 2018.](#)

aligned with international standards.²⁶ The main weaknesses include: (i) the absence of a system for declaring interests for a given universe of public servants; (ii) the control authority envisaged in the Code of Ethics approved in Decree 10,143 of 2012 (the National Public Ethics Commission) has not been established; (iii) the regulations do not cover all public servants in the different branches of government or at the subnational level; and (iv) no adequate system of procedural or personal remedies exists, and there are no sanctions in place for infractions.

- 1.11 **(3) Regulatory limitations in key institutions for sustained economic development.** The Agencia Financiera de Desarrollo [Development Finance Agency] (AFD), an independent, decentralized institution and the country's only second tier public bank, has played a key role in the country's recent economic development and is essential for its sustained and sustainable economic recovery in the long term.²⁷ However, regulatory shortcomings are standing in the way of its progress toward more effective, efficient, and transparent management. They include: (i) the impossibility of expanding its technical and financial intervention functions to include initiatives that would enable it to play a catalytic role for private investment through public-private partnerships or as part of infrastructure development trusts; (ii) the impossibility of developing risk management strategies to minimize potential negative impacts associated with its products; (iii) limitation on profitably managing its available uninvested resources (which must be deposited at a minimum rate of return in the Central Bank); and (iv) limitations on adequate governance, since there is no clear division between strategic and managerial decisions, given the nature and definition of the functions of its board of directors.
- 1.12 **Empirical evidence.** The literature and international experience suggest that the policy actions supported by this operation will contribute to the program's expected results and to sustained economic growth. With regard to the key management systems, there is evidence that digitalization and the adoption of mechanisms such as centralized procurement and framework agreements (virtual store) lead to savings from economies of scale and also from higher productivity owing to better use of public servants' time thanks to the automation of some of their tasks, and to increased competition and transparency (IDB, 2021; de Michele and Pierri, 2020; Picci, 2006).²⁸ As for professionalization of the civil service, different studies have found evidence that it leads to higher economic growth and per capita income for countries as well as a reduction in

²⁶ [OECD, 2005](#); [IDB, 2018](#).

²⁷ Since its creation in 2005, the AFD has been one of the driving forces of economic growth in Paraguay through its solution of major failures in the financial system, primarily related to the lack of medium- and long-term credit for productive investments, which has consistently increased the share of this item in GDP. In addition, the AFD has been able to establish and develop a mortgage market that did not exist before its intervention and has made sustained growth of private investment in construction possible, which led simultaneously to an increase in real estate services, which today account for nearly 7% of the country's GDP.

²⁸ For the estimated impact of savings from the bill on government supply and procurement, see [Rossi, M. and D. Delic \(2021 – unpublished\), Proyecto de Ley de Suministro y Contrataciones Públicas: Análisis de Potenciales ahorros](#) [Government supply and procurement bill: Analysis of potential savings], an IDB-sponsored consulting project, Washington, D.C.

corruption and poverty levels (Evans and Rauch, 1999; Henderson et al., 2003; Dahlström, Lapuente, and Teorell, 2011; Knack and Keefer, 1995; Mauro, 1995; Acemoglu, Johnson, and Robinson, 2001; Dollar and Kraay, 2003; Rodrik, Subramanian, and Trebbi, 2004). It also leads to improved service delivery (Lira, 2012), greater trust in government (Maxfield and Schneider, 1997; Van de Walle, Van Roosebroek, and Bouckaert, 2005; Cai et al., 2009; Sacks, 2010) and even to better budget execution of investment spending (SERVIR, 2014).

- 1.13 As for the role of national statistics systems as enablers of better management, various studies have found a causal relationship between the availability of data and the economic and social outcomes of public policies (Jensen, 2010; Björkman and Svensson, 2007; Alatas et al., 2012) and its impact on the proper allocation of intergovernmental transfers (IDB, 2019), etc. Lastly, in e-government, the literature shows that digital public services are faster (by 74% on average), cheaper to provide (costing between 1.5% and 5% of the cost of in-person transactions), and less vulnerable to corruption. Digitalization promotes benefits such as greater public sector efficiency and savings for society, among others.²⁹

II. PROGRAM OF REFORMS, OBJECTIVES, COMPONENTS, AND EXPECTED RESULTS

A. Program of reforms

- 2.1 **Program strategy.** This operation will support the Program to Transform the Public Sector, which includes reforms of key management systems with a direct impact on the quality of 65% of public spending (i.e. government procurement and human resources), on key enabling factors for better public management (such as national statistics, digitalization, and the integrity of public servants), and on strengthening governance in public institutions that play a strategic role in sustained medium- and long-term growth. It builds on the Bank's operational experience and technical assistance for Paraguay in all of the program's areas of intervention, and promotes an integrated approach that is sustainable over time.
- 2.2 In this first operation, the program takes a hybrid approach. On the one hand, in the area of key management systems, it combines regulatory reforms and public policy design (preparation of bills and their submission to the Congress in some cases) with alternative instruments (decrees) to promote initial progress that is legally possible, in line with measures proposed in the bills. On the other hand, in the areas that enable better management and the strengthening of institutions with a key role in sustained economic development, the program supports measures that focus more narrowly on the regulation and implementation of recently-approved reforms. The second operation, which is expected to be sent to the Board of Executive Directors for consideration in January 2023, places greater emphasis on implementing the measures adopted in the first.
- 2.3 **Pending challenges.** Apart from regulatory reforms with suitable technical content, the success of the reforms to strengthen the public sector's institutional capacity requires the approval and implementation of regulations and operating

²⁹ [IDB, 2018](#).

instruments that support their effective implementation in all public institutions. Accordingly, the most important pending challenges in the medium and long term for transformation of the public sector and institutional strengthening in Paraguay after the programmatic series is completed will be to continue with the gradual implementation of reforms in key management systems, such as rationalization of organizational structures, modernization of the civil service, and implementation of the new national government supply system. It will be necessary to continue the technical dialogue with the authorities and provide the necessary technical assistance to support implementation of these measures.

- 2.4 **Bank experience in Paraguay and complementarity with other Bank operations.** Several of the policy measures in this operation are closely linked with the Bank's portfolio in the country in the area of institutional capacity, for which the IDB is a strategic partner. The Bank will cooperate in designing this program through dialogue, technical assistance, and support for the measures forming part of this first operation and for the second.
- 2.5 The investment operations that strongly complement this program include activities to: (i) modernize government procurement, particularly the government procurement information system (SICP) which is the digital transaction platform for government procurement;³⁰ (ii) modernize the national statistics system and facilitate the institutional development of the National Institute of Statistics (INE);³¹ and (iii) implement the government's digital agenda, including improvements in processes and the digitalization of services.³² The program is complemented by policy-support operations in a context of continuity and deepening of reforms in the areas of: (i) transparency and integrity, especially through the programmatic series Program to Support the Transparency Agenda in Paraguay;³³ (ii) government procurement, through the Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Paraguay;³⁴ (iii) e-government, through the Public Policy Support Program for the New Economy;³⁵ and (iv) strengthening of key institutions for economic development, through Productive Paraguay: Transparency and Financing.³⁶
- 2.6 **The Bank's value added.** In addition to support through investment and policy-support operations, in the area of technical assistance (on the diagnostic level and in technical inputs for preparing bills and other measures) the Bank has supported the Paraguayan government with greater intensity since 2017 in: (i) the rationalization of organizational structures; (ii) modernization of the civil service; (iii) modernization of the government supply system and procurement; (iv) prevention of conflicts of interest in the public service; and (v) modernization

³⁰ Operation [4671/OC-PR \(2018\)](#).

³¹ Operation [5224/OC-PR \(2021\)](#).

³² Operation [4650/OC-PR \(2018\)](#).

³³ Operations [4866/OC-PR \(2019\)](#) and [5244/OC-PR \(2021\)](#).

³⁴ Operation [5028/OC-PR \(2020\)](#).

³⁵ Operation [4985/OC-PR \(2020\)](#).

³⁶ Operation [4401/OC-PR \(2017\)](#).

of the regulatory framework governing the national statistics system. The Bank also provided technical assistance for the design and implementation of an early warning system to prevent corruption in public contracts and actions to strengthen the AFD,³⁷ which have led to significant progress on the first round of reforms in the proposed program (see [required link 1](#)).

- 2.7 **The Bank's experience in the sector.** The program will leverage the Bank's experience and lessons learned from other programs to transform the public sector in the region, such as the Support to the Public Sector Transformation Programme (4373/OC-JA) in Jamaica; the Program to Support Transparency and Integrity Reforms I and II in Argentina (4244-OC/AR and 4796-OC/AR); Chile's Integrity and Transparency Agenda Support Program I and II (3617/OC-CH and 3748/OC-CH); and the Citizen Service Efficiency Project in Colombia (3154-OC/CO), among others. The proposed program will also benefit from the knowledge and data generated and systemized in regional publications such as [Mejor gasto para mejores vidas \(2018\)](#) [Better Spending for Better Lives], [Transformación digital y empleo público \(2021\)](#) [Digital Transformation and Public Employment], [Marcos Legales Estadísticos \(2020\)](#) [Statistical Legal Frameworks], and [Conflicto de intereses: Desafíos y oportunidades para implementar un sistema efectivo de prevención y control \(2018\)](#) [Conflicts of Interest: Challenges, and Opportunities for Implementing an Effective Control and Prevention System].
- 2.8 **Lessons learned that are applicable to the program** include: (i) the need to ensure that governments have a high degree of ownership of the reforms; (ii) the appropriate sequencing of the reforms will necessitate taking into account the capacity of the institutions involved and developing a horizontal logic to make gradual headway on the reforms that combines regulatory progress with the improvement in technical capacity; (iii) the reforms envisaged should incorporate the interests and capabilities of the agencies that will implement them to improve their effectiveness; (iv) adequate technical assistance to support the design and implementation of the program's policy measures (including investment projects and/or technical cooperation) should be assured for crucial investments in information systems and key institutional strengthening for effective implementation of the reforms; and (v) the existence of adequate coordination among the different agencies participating in this multisectoral program.
- 2.9 This operation also considered the importance of aligning the reforms to transform the public sector with the international standards and initiatives adhered to by countries for the different areas it covers. These include: (i) civil service management and government supply and procurement systems, with recommendations from the International Monetary Fund in its most recent report on Paraguay, specifically related to improving public-sector governance and efficiency;³⁸ (ii) civil service, with the recommendations of the Organisation for Economic Co-operation and Development (OECD) and the Ibero-American

³⁷ Technical-cooperation operations [ATN/OC-18009-RG](#); [ATN/OC-18047-RG](#); [ATN/OC-18470-RG](#); [ATN/OC-16802-PR](#), [ATN/GN-16840-PR](#), [ATN/OC-17502-PR](#) and [ATN/AA-16580-PR](#) (financed by the Transparency Fund), among others. See [required link 1](#) for more details on the reports produced.

³⁸ [International Monetary Fund, 2021, Article IV.](#)

Public Service Charter;³⁹ (iii) statistics, with the Busan Action Plan for Statistics;⁴⁰ (iv) e-government, with the OECD and United Nations recommendations;⁴¹ and (v) transparency and integrity, with the OECD Guidelines for Managing Conflict of Interest in the Public Service and the United Nations Convention against Corruption.⁴²

- 2.10 **Coordination with other multilateral agencies.** Preparation of the operation was coordinated through the Dept Policy Office of the Ministry of Finance with Development Bank of Latin America (CAF), due to its support for the budget in the area of government supply and procurement under a program that focuses on public finances.⁴³ This cooperation is expected to deepen during the programmatic series.

B. Objectives, components, and expected results

- 2.11 **General and specific objectives.** The general development objective of this program is to boost the effectiveness of the public sector by: (i) increasing the efficiency of public management; (ii) enhancing the effectiveness of public management; and (iii) improving the integrity and transparency of public management. To achieve them, the program has been structured into four components.
- 2.12 **Component 1. Macroeconomic stability.** This component seeks to ensure that a stable macroeconomic framework is maintained, consistent with the program's objectives and the guidelines established in the policy matrix and [policy letter](#).
- 2.13 **Component 2. Key management systems.** This component supports progress on key management system reforms that enhance the efficiency, effectiveness, and transparency of government ministries and agencies (GMAs) in delivering public services through: (i) preparation of a bill establishing an organizational framework for the public sector; (ii) publication of a decree that tightens control over the creation of new organizational structures in executive branch GMAs and decentralized agencies that would have budgetary consequences, avoiding duplication of functions, and establishes a maximum of two levels of management below the senior manager for all modifications; (iii) submission to the Congress of a bill on the public service and the civil service career;⁴⁴ (iv) publication of a decree tightening control over the creation of new positions, establishing multiyear planning for GMA staffing levels, which retroactively applies public competition as the only avenue of entry into the public service for

³⁹ [OECD, 2018](#) and [Ibero-American Public Service Charter, 2003](#).

⁴⁰ [Partnership in Statistics for Development in the 21st Century, 2011](#).

⁴¹ [OECD, 2021](#) and [United Nations, 2021](#).

⁴² [OECD, 2003](#) and [United Nations, 2003](#).

⁴³ Program to Support the Strengthening of Fiscal Policy and Improve Public Spending.

⁴⁴ Although this measure was originally presented as a trigger for phase II of the Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Paraguay ([5028/OC-PR](#) and [5029/KI-PR](#))—whose second operation also forms part of the indicative program for Paraguay in 2022—the government asked to have it included in the present program since it is a key reform for public-sector transformation and contributes more effectively to the vertical logic of the proposed programmatic series.

- positions that were filled without competition between 2016 and 2018; (v) submission to the Congress of a bill on government supply and procurement; and (vi) implementation of a digital tool to establish early warnings in government procurement processes by crossing databases and identifying possible risks of corruption using artificial intelligence.
- 2.14 The second operation is expected to move forward with the measures adopted in this first component, making progress in their implementation. The triggers will be: (i) submission to the Congress of the bill establishing an organizational framework for the public sector; (ii) evidence that the decree tightening control over the creation of new organizational structures in executive branch GMAs and decentralized agencies was implemented in 2022, and recommendations for improving implementation in 2023; (iii) publication of decrees launching pilot projects on: (a) a system of civil service job and salary classification; and (b) a system of public directives in prioritized public institutions, envisaged in the bill on the public service and civil service career; (iv) multiyear planning for executive branch staffing levels in the period 2022-2025; (v) publication of resolutions promoting progress in the professionalization of the government procurement function and greater competition in government procurement, evidence of substantial progress in increasing the number of items available in the virtual store (framework agreements) to be used by GMAs, and recommendations for continuing to expand the virtual store; and (vi) evidence of implementation of the digital tool to establish early warnings in government processes, demonstrating an increase in the number of early warnings and coverage of the tool at the institutional level, and recommendations for improving the tool's implementation.
- 2.15 **Component 3. Enabling factors for better management.** This component supports advances in reforming enabling factors for better management that will boost the efficiency, effectiveness, and transparency of GMAs in delivering public services, through: (i) publication of the law requiring modernization of the national statistics system and creating a National Institute of Statistics; (ii) implementation of Law 6,562/2020, which promotes reduced paper use in public management, replacing it with digital formats both for internal management and for citizen services; (iii) publication of the Administrative Procedures Act which establishes that citizens cannot be required to present documents that are already in the government's possession ("once only" principle), the possibility of signing different administrative acts of the same nature with a single digital signature, and interoperability and permanent, direct exchange of data between GMAs as a matter public interest; and (iv) submission to the Congress of a bill establishing a system to govern the prevention, correction, and sanction of conflicts of interest in the public service.
- 2.16 The second operation is expected to move forward with actions to implement the regulations adopted under this component. The triggers are: (i) publication of decrees approving: (a) the general regulations of Law 6,670; (b) the national statistics development strategy; and (c) the National Statistics Plan 2020-2023; (ii) plans to develop digitalization in at least 30 GMAs covered by Law 6,562/2020; (iii) publication of a decree regulating the Administrative Procedures Act to regulate the use of electronic means for public management;

and (iv) preparation of a decree regulating the law on the prevention, correction, and sanction of conflicts of interest in the public service.

- 2.17 **Component 4. Key institutions for sustained economic development.** This component supports progress on institutional reforms for greater efficiency, effectiveness, and transparency in GMAs that are key for sustained economic development, through publication of the law that amends the AFD's charter, strengthening the governance of public finances for economic development.
- 2.18 In the second operation, progress is expected through actions whose implementation contributes to the component's objective through approval of the decree regulating the law amending the AFD's charter, to advance in strengthening the governance of public finances for economic development.
- 2.19 **Main results indicators.** The indicator for measuring the program's impact will be the Government Effectiveness Index. The main expected results of the program's policy actions and reforms, broken down by each specific objective, are: (i) efficiency: (a) savings attributable to the increased productivity of public servants responsible for government procurement in executive branch GMAs; and (b) reduction in spending for paper thanks to greater digitalization of internal processes and citizen services in the GMAs; (ii) effectiveness: (a) improvement in the civil service development index; (b) improvement in the statistical capacity index; and (c) GMAs that use the Information Exchange System (SII) to exchange data; and (iii) transparency and integrity: increase in the percentage of competitive processes with more than one bidder.
- 2.20 **Program beneficiaries.** The program's end beneficiaries will be the citizens of Paraguay, who will benefit from more effective, efficient, and transparent public services. In particular, taxpayers will benefit from more efficient and effective use of taxes; citizens interested in working in the public sector will benefit from greater use of merit criteria in access to government jobs; citizens will have access to timely and reliable national statistics; and users of public services will benefit from reduced access times and costs and from not having to present documents already in the government's possession. Companies will also benefit—especially micro, small, and medium-sized enterprises—from a modernized procurement system which enables them to participate more fully in public market opportunities. The greater efficiency and effectiveness of the AFD will provide them with access to more financing and better and increased participation in value chains. Lastly, public institutions will benefit, since their frames of action will be modernized—in their organizational structure, management systems, and digitalization—and will have better quality data for designing public policies. All this will enable them to be more effective and efficient in their work.
- 2.21 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy 2020-2023 (document AB-3190-2) and strategically aligned with the challenge of productivity and innovation, as it will improve the quality of government services and increase access to and the use of information and communication technologies by strengthening e-government. The program is also aligned with the crosscutting themes of: (i) institutional capacity and the rule of law, as it will strengthen the government's managerial capacity in key administrative systems and e-government and statistical capacity, greater

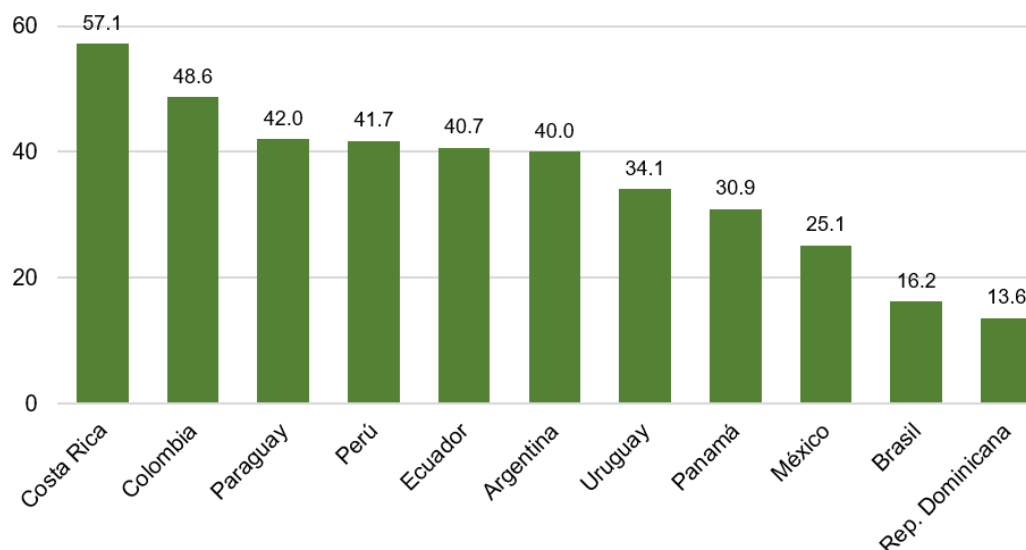
- transparency on the part of GMAs in delivering public services, and reduced corruption, as well as the strengthening of key institutions for Paraguay's economic development; and (ii) climate change by reducing the use of paper in the public administration, thanks to greater digitalization of internal processes and services (condition 3.2). Under the [Joint Methodology of the Multilateral Development Banks](#), the operation is estimated to contain 9.09% climate finance. These resources contribute to the IDB's climate finance target (30% of the volume of annual approvals). In addition, the program contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the increase in institutions with managerial and digital capacity and enhanced transparency and integrity practices, and countries with strengthened expenditure policy and management.
- 2.22 The program is also aligned with the Sector Strategy Institutions for Growth and Social Welfare (document GN-2587-2) in its public-sector management and financing component, and with the Transparency and Integrity Sector Framework Document (document GN-2981-2), which guides the work of the IDB Group with governments in those areas, particularly promoting the alignment of national regulatory frameworks with international standards. The operation is also aligned with the IDB Group Country Strategy with Paraguay 2019-2023 (document GN-2958), specifically with the strategic objectives of: (i) strengthening public management capabilities, including among its expected results, improvement in the quality of the civil service, improvement in the capacity to gather and process statistical information, and strengthening of the transparency and audit systems under Components 2 and 3 (paragraphs 2.13 and 2.15, respectively); and (ii) increasing the mobilization of public and private resources for development, including among its expected results, an improvement in the efficiency of public expenditure and strengthening of the public-private partnership framework under Component 4 (paragraph 2.17). The program is also aligned with the IDB's Vision 2025 in the area of good government and institutions able to achieve sustainable and inclusive economic growth. Lastly, the operation is included in the Update to Annex III of the 2021 Operational Program Report (document GN-3034-2) as part of the indicative program for the country in 2022.
- 2.23 **Climate change.** Law 6,552/2020 called for the transformation of processes and services into digital formats to replace the use of paper in public management and adjustment of the budgets of public-sector organizations and institutions⁴⁵ to reduce purchases of paper by 30% in 2021 and 50% by 2022. Decree 4,845/2021 regulates that law, establishing the corresponding budgetary adjustments and procedures for digitalizing procedures and for monitoring and control of compliance with them. Digitalization of services and internal public-sector operations reduces greenhouse gas emissions by reducing paper consumption (paper production is carbon-intensive process) and the amount of fuel used by citizens for travel to do business with the government. Since this transformation affects all public-sector operations and services, measure 3.2 in

⁴⁵ Including ministries, governors' offices, municipalities, autonomous and decentralized agencies, institutions that administer government funds, companies in which the government is a majority shareholder, and in general, all other public administrative authorities (Article 1 of Law 6,552/2020).

the policy matrix is considered to be large in scale and to meet the requisites of the multilateral development banks, and is reported as climate financing.

- 2.24 **Gender equity and diversity.** Although the program is not aligned with the crosscutting theme of gender equity and diversity, one of the policy-support measures, i.e. the bill on the public service and the civil service career (paragraph 2.13), includes: (i) gender equality as a crosscutting principle in the public service (both in terms of access and achieving equitable integration in jobs and positions (Article 6)); (ii) the promotion of women's access to decision-making positions in the public service as one of the attributes of the lead agency (Article 18(3)); and (iii) the establishment of rules and mechanisms to guarantee the participation of both sexes in recruitment and selection processes (Article 38). On this point, it should be noted that the gender gap among the Paraguayan government for women in civil service managerial positions in key ministries is considerably lower than for other governments (see Figure 1). With respect to diversity, this bill also establishes that at least 5% of positions at each institution are to be filled by persons with disabilities and at least 1% by members of indigenous communities, in line with current legislation (Civil Service Act, Law 1,626/2000).

Figure 1. Percentage of women in third-level hierarchical positions at prioritized ministries in Latin America and the Caribbean (selected countries)



Source: IDB, with data available as of 30 September 2021 (Paraguay) and as of 15 December 2020 for the rest of the countries.
 *Includes ministries of finance and economy, planning, education, health, social development, industry and commerce, and public works (or their equivalents).

- 2.25 **Innovation and technology.** The program supports various policy measures that strongly promote digitalization and the use of new technologies in Paraguay's public sector to achieve greater efficiency, effectiveness, and transparency in public management. They include: (i) the mandatory use of the digital transaction platform for government procurements and promotion of open data in the bill on government supply and procurement (paragraph 2.12); (ii) implementation of an artificial intelligence tool for early warnings related to

integrity in government procurement processes to prevent corruption (paragraph 2.12); (iii) the undisputable legal validity of documents exchanged through the online document management system (electronic files) and the SII (interoperability platform), and the mandate of all GMAs to prepare plans to digitalize procedures as part of implementation of Law 6,562/2020, which promotes a reduction in the use of paper in public management and its replacement with digital formats, for both internal management and citizen services (paragraph 2.14); and (iv) the right of citizens not to present documents that are already in the government's possession, promoting interoperability and permanent, direct exchange of data between GMAs as a matter of public interest, etc. (paragraph 2.14).

III. SCALING, RISKS, IMPLEMENTATION, AND MANAGEMENT PLAN

A. Scaling

- 3.1 **Financing instrument.** The Paraguayan government has requested a policy reform operation in the form of a programmatic policy-based loan (PBP) to support these efforts. It is composed of two operations that are technically linked but independently financed. This is the instrument of choice for implementing the reforms and provides an opportunity for evaluating progress and making adjustments based on lessons learned.
- 3.2 **Sizing of the operation.** The loan amount of this operation is for up to US\$200 million from the Ordinary Capital. The size of this first operation was based on the country's fiscal needs and represents about 20% of the estimated requirements for 2022.⁴⁶ It is not directly related to the costs of the program reforms, as permitted in the provisions of paragraph 3.27(b) of Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). It is expected that the second operation will be sent to the Board of Executive Directors for consideration in January 2023.
- 3.3 **Special contractual conditions precedent to disbursement of the loan. Disbursement of this single tranche will be conditional on compliance with the policy reform conditions established in the policy matrix (Annex II), the [policy letter](#), and the loan contract.**

B. Risks

- 3.4 **Environmental and social safeguard risks.** In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require ex ante classification of impacts. The operation supports the establishment of policies, management tools, and other actions for institutional strengthening which are not expected to have any significant, direct negative socioenvironmental impacts.
- 3.5 **Fiduciary risks.** A financial instrument that does not include procurement operations will be used and the funds will be paid directly into the Treasury

⁴⁶ Two-thirds of the total financing gap would be covered with loans from multilateral banks, and the rest through market bond issues.

Single Account to cover the country's financing needs. The executing agency has the necessary financial management and control systems and therefore no fiduciary risks have been identified. The funds will be disbursed once the policy measures established in the loan contract have been fulfilled.

- 3.6 **Governance risks.** The following have been identified as medium-high risks: (i) the possibility that some policy measures will require investments in human resources (training and personnel), information systems, and other institutional improvements (in addition to regulatory changes); unless those investments are made, attainment of some of the programmatic series' objectives could be delayed; and (ii) the possibility that, on account of the involvement of multiple institutions in the execution of Components 2, 3, and 4, greater efforts for coordination and communication among them may be required for the program (which could be exacerbated by potential changes in the authorities of the participating institutions), which could delay execution. The following measures have been identified to mitigate these risks, respectively: (i) The Bank approved a technical cooperation project to support this operation (paragraph 3.16) which will support some of the efforts; resources for investment projects have already been approved in the areas of government procurement, statistics, and e-government (paragraphs 2.4 and 2.7); and the strategy of advancing through alternative instruments (decrees) which promote initial progress that is legally possible, in line with the measures proposed in the bills (paragraph 2.2) will make it possible to move forward gradually and to prioritize human resources in government institutions; and (ii) the Ministry of Finance will lead the bimonthly meetings with focal points for each of the program's policy measures; it will organize meetings to present the program in the event of changes in the authorities heading the participating institutions, and will ensure adequate communication between the leaders of the participating institutions and the Ministry of Finance (with support from the Office of the President of the Republic) to underline the importance of the program's measures during the annual budget formulation exercise between April and September each year (paragraph 2.7).
- 3.7 **Political risk.** Although almost all the measures in the first operation have been completed, a medium-high risk was identified that the national elections will lead to a new administration taking office in August 2023, which may have different political priorities, could delay implementation of the actions slated for the second operation and jeopardize attainment of the objectives of the programmatic series by year-end 2025. To strengthen ownership of those actions by the new administration (paragraph 2.7), the following mitigation measures have been identified: (i) step up efforts to communicate evidence on the importance of the reforms, particularly in an election period, and actively involve civil society; and (ii) inform the elected authorities and the new heads of all national institutions about the importance of these reforms as part of the presidential transition.⁴⁷

⁴⁷ While the program supports reforms to define executive-branch organizational structures, and to the management of the civil service and management of government supply and procurement, among others, the political risk entailed in such reforms are seen as low. The bills supporting the program, which must be approved by the Congress, provide for their gradual implementation—and, with respect to organizational structure reforms of the civil service, these will respect the rights of public servants.

- 3.8 **Sustainability risk.** A medium-high risk has been identified of the possibility that the Congress may not pass some of the bills sent to it, or passes them with substantial amendments that could prevent the objectives of the programmatic series from being attained. Accordingly, the following mitigation measures have been identified: (i) the strategy of making headway through alternative instruments (decrees) that promote initial progress and are legally possible, in line with the measures proposed in the bills (paragraph 2.2); (ii) continue the practice of holding preparatory parliamentary meetings to provide information for the legislators when they debate the different reforms; and (iii) step up communication efforts to share evidence on the importance of the reforms, actively engaging civil society.

C. Implementation and management plan

- 3.9 **Borrower and executing agency.** The borrower will be the Republic of Paraguay and the executing agency will be the Ministry of Finance.
- 3.10 The executing agency will have the following responsibilities: (i) coordinate with the agencies responsible for the actions in this operation in all aspects, including the Ministry of Finance itself, the National Public Procurement Office (DNCP), the Technical Planning Secretariat (STP), the National Institute of Statistics, the MITIC, the National Anti-corruption Department (SENAC), and the AFD; (ii) submit evidence that the policy commitments have been complied with and all other program-related evidence that the Bank needs to approve the respective disbursement; and (iii) once the disbursement has been assured, compile information on the performance indicators to be used to evaluate the program's results. The executing agency will use the institutional means at its disposal to assure effective coordination among the public institutions affected by the policy measures included in this operation. It will also cooperate with the Bank in assuring the necessary coordination with other institutions that could be linked to the measures forming part of this operation.
- 3.11 **Interagency coordination.** The Ministry of Finance will be responsible for coordination for compliance with the program's measures, and will coordinate implementation through the Debt Policy Office (DPE). The measures necessary for managing this operation from the standpoint of inter-agency coordination are described in paragraph 3.6.
- 3.12 **Monitoring.** Program implementation will be monitored by the Ministry of Finance through the DPE. The borrower and the Bank will hold semiannual meetings to review compliance with the conditions. To that end, a [monitoring and evaluation plan](#) has been prepared to track results. The instruments in the plan are: (i) the policy matrix (Annex II); (ii) the means of verification matrix; and (iii) the results matrix (Annex III). They set out the key parameters for supervision and evaluation of the program's results. The executing agency will be responsible for monitoring the results of the operation for the purposes of duly reporting to the Bank.
- 3.13 **Evaluation.** The program proposes: (i) an impact evaluation; and (ii) a before-and-after analysis, for the purposes of attribution and reporting on attainment of the indicators in the results matrix. The impact evaluation will use the quasi-experimental method of differences in differences to determine the impact on the

efficiency of public management with respect to the digitalization of internal processes, and transparency in implementing digital tools for managing government procurement, examining changes in the number of bidders. The remaining indicators will be measured with a before-and-after analysis. The literature and international experience reviewed (paragraphs 1.12 and 1.13) suggest that the above-mentioned policy actions (and the results matrix outputs) will contribute to the expected results of the program (see the [monitoring and evaluation plan](#) for further details).

- 3.14 **Technical cooperation.** The technical cooperation project to support the operation “Institutional Strengthening of the Ministry of Finance for Transformation of the Public Sector” ([ATN/OC-18590-PR](#)), approved in April 2021 for US\$200,000 and already in execution, has the goal of building the ministry’s capacity to design and implement the proposed program.

IV. POLICY LETTER

- 4.1 **Policy letter.** The Bank agreed on the policy commitments to be supported through this program with the Paraguayan government. They, coupled with the government’s macroeconomic strategy, are reflected in the policy matrix (Annex II), the means of verification matrix ([required link 2](#)), and the results matrix (Annex III). The [policy letter](#) ratifies the government’s commitment to the objectives and institutional reforms envisaged for the programmatic operation as a whole.

Development Effectiveness Matrix		
Summary		PR-L1177
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
1. The Strategic Alignment tab in convergence shows alignment on IDB Group Strategic Priorities. The Results Matrix tab lists flagged CRF indicators		
2. The Strategic Alignment tab in convergence shows information on alignment to Country Development Objectives		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		1.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.1
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.6
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.6
III. Risks & Mitigation Monitoring Matrix		
6. Overall risks rate = magnitude of risks*likelihood		Medium Low
The Environmental and Social Data tab in convergence shows the environmental and social risk classification of the project		
IV. IDB's Role - Additionality		
Annex III Fiduciary Arrangements describes project reliance on the use of country systems (VPC/FMP Criteria)		
7. Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/OC-18590-PR; ATN/OC-18009-RG; ATN/OC-18470-RG; ATN/PT-17940-PR; ATN/OC-16802-PR

Evaluability Assessment Note: State Transformation Support Program.

The general development objective of the operation is to improve the management of the public sector by increasing the efficiency of public management; increase the effectiveness of public management; and improve the integrity and transparency of public management. This loan is the first of two operations, technically linked to each other, but financed independently, under the modality of Programmatic Loan to Support Policy Reforms (PBP).

To achieve this goal, this loan defines a focus on the following four specific areas in which the project intervenes. The focus of the first area is to ensure the maintenance of a stable and consistent macroeconomic framework. The second area supports advances in reforms of key management systems that increase the efficiency, effectiveness, and transparency of OEE in the delivery of public services. The third area supports progress in reforms of enabling factors for better management of OEE to contribute to the same objectives and purpose. The last area is to promote key institutions to strengthening the governance of public financing for economic development.

The loan proposal presents a solid diagnosis of the problem, as well as a review of the international evidence. The proposed solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix (MR) is consistent with the vertical logic of the project, presenting adequate and updated indicators at the level of results and impacts. Outcome indicators are appropriately defined to measure the achievements of the program and the fulfillment of its specific development objectives. All impact indicators are related to the overall development objective.

The project does not foresee an economic analysis based on the exception provided for this type of project in accordance with OVE's recommendations, paragraph 1.3 of the DEM for projects with and without sovereign guarantee GN-2489-5).

The monitoring and evaluation plan includes an impact evaluation that uses the Difference-in-Differences method to determine the effect of the incorporation of a system that seeks to increase the efficiency of OEE expenses in tenders, internal processes and services; and the propensity score matching (PSM) methodology to identify effects of transparency and number of bidders in competitive public procurement processes. This strategy will generate robust attribution evidence of key MR results. The rest of the outcome indicators will be measured by the before and after analysis. Monitoring and evaluation activities will be carried out by the Ministry of Finance of Paraguay in coordination with the Bank.

POLICY MATRIX

Objective: The general development objective of this program is to boost the effectiveness of the public sector by: (i) enhancing the efficiency of public management; (ii) increasing the effectiveness of public management; and (iii) improving the integrity and transparency of public management.			
Component/Policy objective	Policy conditions Programmatic loan I	Fulfillment of policy conditions Programmatic loan I ¹	Triggers for programmatic loan II
Component 1: Macroeconomic stability			
Macroeconomic stability	1.1 Maintenance of a macroeconomic context that is consistent with the program's objectives, as established in the policy matrix and the policy letter	Fulfilled	1.1. Maintenance of a macroeconomic context that is consistent with the program's objectives, as established in the policy matrix and the policy letter.
Component 2: Key management systems			
Move forward with reforms to key management systems that increase the efficiency, effectiveness, and transparency of the government ministries and agencies (GMAs) in delivering public services	2.1 Preparation of a bill establishing an organizational framework law for the public sector	Fulfilled (2021, 4th quarter)	2.1 Submission to the Congress of the public sector organizational framework law
	2.2 Publication of a decree that tightens control over the creation of new organizational structures in executive branch GMAs and decentralized agencies that would have budgetary consequences, avoiding duplication of functions, and establishes a maximum of two levels of management below the senior manager for all modifications	Pending (2022, 1st quarter)	2.2 Evidence that the decree tightening control over the creation of new organizational structures in national GMAs and decentralized agencies was implemented during 2022 and recommendations for improving its implementation in 2023.
	2.3 Submission to the Congress of the bill on the public service and civil service career	Pending (2022, 2nd quarter)	2.3. Publication of decrees launching pilot projects on: (i) a system of civil service job and salary classification; and (ii) a system of public directives in prioritized public institutions, envisaged

¹ As of the date of this document, the information provided herein is merely indicative. Pursuant to document CS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), the fulfillment of all disbursement-related conditions, including maintaining an appropriate macroeconomic policy, will be verified by the Bank at the time of the corresponding disbursement request by the borrower and promptly noted in the disbursement eligibility memorandum.

Component/Policy objective	Policy conditions Programmatic loan I	Fulfillment of policy conditions Programmatic loan I ¹	Triggers for programmatic loan II
			in the bill on the public service and civil service career
	2.4 Publication of a decree tightening control over the creation of new positions, establishing multiyear planning for the staffing levels of GMAs, which retroactively applies public competition as the only avenue of entry into the public service for positions that were filled without competition between 2016 and 2018	Pending (2022, 1st quarter)	2.4 Multiyear planning for national government staffing for the period 2022-2025
	2.5 Submission to the Congress of a bill on government supply and procurement	Fulfilled (2021, 2nd quarter)	2.5(a) Publication of resolutions promoting progress in the professionalization of the government procurement function and greater competition in public procurement 2.5(b) Evidence of substantial progress in increasing the number of items available in the virtual store (framework agreements) to be used by GMAs, and recommendations for continuing to expand the virtual store
	2.6 Implementation of a digital tool to establish early warnings in government procurement processes by crossing databases and identifying possible risks of corruption using artificial intelligence	Fulfilled (2021, 3rd quarter)	2.6 Evidence of implementation of the digital tool that provides early warnings in government procurement processes, demonstrating an increase in the number of early warnings and coverage of the tool on the institutional level, and recommendations for improving the tool's implementation

Component/Policy objective	Policy conditions Programmatic loan I	Fulfillment of policy conditions Programmatic loan I ¹	Triggers for programmatic loan II
Component 3: Enabling factors for better management			
Move forward with reforms of enabling factors for better management that will boost the efficiency, effectiveness, and transparency of the GMAs in delivering public services	3.1 Publication of the law requiring modernization of the national statistics system (SISEN) and creating the National Institute of Statistics	Fulfilled (4th quarter 2020)	3.1 Publication of decrees approving (i) the general regulations of Law 6,670/2020; (ii) the national statistics development strategy; and (iii) the national statistics plan for 2020-2023
	3.2 Implementation of Law 6,562/2020, which promotes a reduction in the use of paper in public management, replacing it with digital formats both for internal management and for citizen services	Fulfilled (1st quarter 2021)	3.2 Plans to develop digitalization in at least 30 GMAs covered by Law 6,562/2020
	3.3 Publication of the Administrative Procedures Act establishing that citizens cannot be required to present documents that are already in the government's possession (once only principle), the possibility of signing different administrative acts of the same nature with a single digital signature, and interoperability and permanent, direct exchange of data between GMAs as a matter public interest	Fulfilled (2021, 3rd quarter)	3.3 Publication of a decree regulating the Administrative Procedures Act, which regulates the use of electronic means for public management
	3.4 Submission to the Congress of a bill establishing a system to govern the prevention, correction, and sanction of conflicts of interest in the public service	Fulfilled (4th quarter 2021)	3.4 Preparation of a decree regulating the Law on the Prevention, Correction, and Sanction of Conflicts of Interest in the Public Service
Component 4: Key institutions for sustained economic development			
Move forward with institutional reforms for greater efficiency, effectiveness, and transparency in GMAs that are keys for sustained economic development	4.1 Publication of the law amending the AFD's charter, strengthening the governance of public finances for economic development	Fulfilled (3rd quarter 2021)	4.1. Approval of the decree regulating the law amending the AFD's charter, to make headway in strengthening the governance of public finances for economic development

RESULTS MATRIX

PROGRAM OBJECTIVE:	The program's specific objectives are to: (i) increase the efficiency of public management; (ii) enhance the effectiveness of public management; and (iii) improve the integrity and transparency of public management. Attaining these specific objectives will contribute to the general development of boosting the effectiveness of the public sector.
---------------------------	--

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measurement	Baseline	Baseline year	Expected year achieved	Target	Means of verification	Comments
GENERAL DEVELOPMENT OBJECTIVE 1. Boost the effectiveness of the public sector							
Government Effectiveness Index	Points	-0.47	2020	2025	-0.26	Source: World Bank	Scores range from -2.5 to +2.5. The average for Latin America and the Caribbean is -0.26 and the OECD average, excluding the Latin American countries, is 1.27 (2020)

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measurement	Baseline	Baseline year	End target (2025)	Means of verification	Comments
SPECIFIC DEVELOPMENT OBJECTIVE 1. Increase the efficiency of public management						
Cumulative savings in staff time from greater consolidation of public procurement and the virtual store	US\$ millions	0	2020	6.0	National Public Procurement Office (DNCP)	Time saved by staff in the procurement units of executive branch ministries, who are reassigned to more productive tasks
Reduction in spending on paper thanks to greater digitalization of internal processes and citizen services by government ministries and agencies (GMAs)	G millions (2020)	41,133	2020	15,000	Ministry of Finance (Budget Department through the Integrated Financial Management Information System (SIAF))	Mandatory reduction in expenditure on items 331 to 334 and 339 in the National Budget. Exchange rate: G 6,877.95 to US\$1 (November 2021)

Indicator	Unit of measurement	Baseline	Baseline year	End target (2025)	Means of verification	Comments
Efficiency in the use of surplus liquidity by Paraguay's Development Finance Agency (AFD)	Percentage	4.05%	2021	20%	AFD audited balance sheets	Returns on investments of minimum average liquidity over the AFD's annual net returns
SPECIFIC DEVELOPMENT OBJECTIVE 2. Enhance the effectiveness of public management						
Civil service development index	Points	40	2017	46	IDB	Scores range from 0 to 100. Methodology based on the Ibero-American Public Service Charter (2003)
Public services available in digital form	Percentage	24	2021	35	Ministry of Information and Communications Technology (MITIC)	Baseline: 1,020 proceedings registered, 244 available online
GMAs that use the Information Exchange System (SII) to share data	Number	51	2021	70	MITIC	All GMAs including producers and consumers
Increase in statistical capacity	Points	61.1	2019	65	World Bank	Statistical Performance Index . Scores range from 0 to 100. Latin American average: 62.2 (2019)
SPECIFIC DEVELOPMENT OBJECTIVE 3. Improve the integrity and transparency of public management						
Percentage of competitive processes with more than one bidder	Percentage	58%	2020	65%	DNCP	

OUTPUTS

Output	Unit of measurement	Baseline	Baseline year	2020	2021	2022	End target (2022)	Means of verification
Component 2: Key management systems								
2.1 Bill establishing an organizational framework for the public sector	Bill	0	2019	-	1	-	1	See Means of Verification Matrix
2.2 Publication of a decree that tightens control over the creation of new organizational structures in executive branch GMAs and decentralized agencies that would have budgetary consequences, avoiding duplication of functions, and establishes a maximum of two levels of	Decree	0	2019	-	-	1	1	

Output	Unit of measurement	Baseline	Baseline year	2020	2021	2022	End target (2022)	Means of verification
management below the senior manager for all modifications								
2.3 Submission to the Congress of a bill on the public service and civil service career	Bill	0	2019	-	1	-	1	
2.4 Publication of a decree tightening control over the allocation of new positions, establishing multiyear planning for the staffing levels of GMAs, and retroactively applying competition as the only avenue for entry into the public service for the positions that were filled without competition between the years 2016 and 2018	Decree	0	2019	-	-	1	1	
2.5 Submission to the Congress of a bill on public supply and procurement	Bill	0	2019	-	1	-	1	
2.6 Implementation of a digital transaction and analytical tool to establish early warnings in government procurement processes by crossing databases and identifying possible risks of corruption using artificial intelligence	Digital tool	0	2019	-	1	-	1	
Component 3: Enabling factors for better management								
3.1 Publication of the law on modernization of the national statistics system (SISEN) and creation of the National Statistics Institute (INE)	Law	0	2019	1	-	-	1	See Means of Verification Matrix
3.2 Implementation of Law No. 6562/2020 that promotes a reduction in the use of paper in public management, replacing it with digital formats for internal management and citizen service	Decree	0	2019	-	1	-	1	
3.3 Publication of the Administrative Procedures Act establishing that citizens cannot be required to present documents already in the government’s possession (once only principle), the possibility of signing different administrative acts of the same nature with a single digital signature, and interoperability and permanent, direct exchange of data between GMAs as a matter of public interest	Law	0	2019	-	1	-	1	

Output	Unit of measurement	Baseline	Baseline year	2020	2021	2022	End target (2022)	Means of verification
3.4 Submission to the Congress of a bill establishing a system to govern the prevention, correction, and sanction of conflicts of interest in the public service	Bill	0	2019	-	1	-	1	
Component 4: Key institutions for sustained economic development								
4.1 Publication of the law amending the AFD's charter, strengthening the governance of public finance for economic development	Law	0	2019	-	1	-	1	See Means of Verification Matrix

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Paraguay. Loan ____/OC-PR to the Republic of Paraguay
Program to Support Transformation of the Public Sector

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support Transformation of the Public Sector. Such financing will be for an amount of up to US\$200,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2022)