

FISCAL MANAGEMENT STRENGTHENING AND MODERNIZATION PROGRAM

(PR-0115)

EXECUTIVE SUMMARY

Borrower:	Republic of Paraguay	
Executing agency:	The Ministry of Finance acting through the Subsecretariats of State for Financial Management (SSEAF) and for Taxation (SSET), the latter in particular acting through the National Customs Office (DGA).	
Amount and source of funding:	IDB: (OC)	US\$ 6.0 million
	Local counterpart:	US\$ 2.7 million
	Total:	US\$ 8.7 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	3 years
	Disbursement period:	3 years 6 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency: (OC)	Basket of currencies
Objectives:	<p>The general objective of the program is to support the ongoing process of State modernization in Paraguay by strengthening the Subsecretariats of State for Financial Management and for Taxation and the National Customs Office (agencies responsible for fiscal management). This will help to increase revenue collection and enhance the efficiency of public resource management.</p> <p>The program's specific objectives for all fiscal management agencies are: (i) to help improve the framework of rules and regulations under which such agencies operate; (ii) to improve their organizational structures; (iii) to optimize their internal processes and procedures, and set up management control systems; and (iv) to provide training for staff. For the SSET and the DGA there are also the following additional objectives: (i) to increase the coverage and productivity of their inspection functions; (ii) to broaden the active taxpayer base; and (iii) to integrate the taxation and customs administration information systems.</p>	

Description: To achieve these specific objectives, a program has been designed consisting of the following three subprograms: 1. Strengthening of the National Tax Administration; 2. Strengthening of Customs Administration; and 3. Strengthening of Financial Management. Each subprogram has its own annual targets and indicators to facilitate monitoring and appraisal of its execution and impact.

A steering committee will be set up to ensure proper coordination and supervision of the program, which covers all fiscal management agencies. The members of this committee, headed by the Finance Minister, will be the Subsecretaries of State of the SSET, and the SSEAF, and the Director of the DGA. A program executing unit (PEU) will be set up to assist the steering committee with these tasks, to ensure proper technical and administrative execution.

The Bank's country and sector strategy:

The Bank's action in Paraguay is focused on five strategic areas: (i) reform of the State, which is intended to enhance efficiency in the delivery of public services and to strengthen governance; (ii) reform of the financial sector, to improve its functioning and support capital market development; (iii) modernization of the productive apparatus, in order to enhance economic efficiency; (iv) support for social sectors, to promote their development; and (v) support for the rural sector, to reduce poverty and improve living standards, particularly for the most needy. The proposed program is consistent with that strategy and is expected to contribute to advancing the State reform process by strengthening institutional capacity and modernizing fiscal management agencies, so that they can perform their basic functions efficiently, effectively, and with transparency. This in turn is expected to contribute to fiscal stability, a prerequisite for the country's economic and social development.

The program is also expected to help strengthen an area with a significant bearing on good governance, namely efficient public resource management (revenue collection, budgetary and financial management), by fostering predictability in management, eliminating arbitrariness and providing better service to the public through information and assistance programs and dissemination of information on procedures, rights, and obligations.

Environmental and social review:

The program was reviewed by the Committee on Environment and Social Impact (CESI). It has been determined that the program will not give rise to negative environmental impacts but will have direct positive social impacts. In accordance with CESI recommendations, the customs administrations subprogram includes staff training in enforcement oversight of regulations governing trade in endangered species and objects that are part of the cultural heritage, as established in national laws and international treaties (paragraphs 2.35 and 4.4).

Benefits: The program will directly support the economic stabilization process in Paraguay by improving fiscal management, which will help reduce fiscal imbalances.

The operation will also help broaden the active taxpayer base and reduce tax and export duty evasion, thus enhancing the effectiveness and equity of government fiscal policy by improving tax revenue collection mainly through better tax enforcement and supervision of large taxpayers, without the need to increase taxes and tariffs.

The program is also expected to help improve the public image of the tax and customs administrations, by promoting a series of actions to assist the taxpayer, including dissemination activities and improvements in import and export procedures, which are expected to produce higher levels of voluntary tax compliance.

Lastly, the program is expected to contribute to greater transparency and help reduce corruption in fiscal management, through the introduction of controls and anti-corruption measures. Activities in this direction will afford greater credibility to public management and make it possible to obtain higher levels of tax revenue (paragraph 4.7).

Risks: The success of the program will depend on significant improvements in the organizational and functional structure of fiscal management agencies, and this will clearly depend on the political will of the Government of Paraguay. The Minister of Finance, with the support of the Vice Ministers of the SSET and SSEAF, and the Directors DGA, has given the program a top-priority rating and given it his full endorsement. The fact that approval for new funding commitments is contingent on achieving tangible progress will also help to mitigate the potential risk of a lack of political support (paragraphs 3.10 and 3.11).

Another potential risk is resistance to change on the part of some SSET, DGA and SSEAF staff members. In order to minimize this risk, the program includes organizational development together with training components and activities. These will seek, among other things, to explain and underpin the need for, and nature of the organizational and functional changes to be introduced, while also making staff at different levels of the fiscal management agencies feel that they are participants in the institutional strengthening process. Apart from this, dissemination activities are envisaged with a view to keeping staff at all levels involved and informed of the goals and achievements of the program's sequential targets.

Special contractual clauses:

- a. Conditions precedent to the first disbursement: (i) formation of the program steering committee (paragraph 3.6); (ii) creation of the PEU and the hiring and/or assignment of staff to serve on it (paragraph 3.6); (iii) the hiring and/or assignment of area technical coordinators (paragraph 3.7); and (iv) presentation of the AOP for the first year of the program (paragraph 3.12).
- b. Special contractual conditions for execution: (i) presentation of AOPs for the second and third years of the program, within sixty days before the end of the previous year (paragraph 3.12); and (ii) annual report on the performance indicators for each subprogram 30 days before the end of each year. If the relevant performance indicators are considered unsatisfactory, no further funding will be committed for the subprogram concerned (paragraph 3.16).
- c. As a special contractual condition, it is recommended that expenses in an amount up to US\$200,000 be recognized as chargeable to the local counterpart funding (paragraph 3.20).

Poverty-targeting and social sector classification:

This operation does not qualify as a poverty reducing project, as described in the indicative targets for the Bank's activity contained in the report on the Bank's Eighth Replenishment (Document AB-1704). Nonetheless, the project is expected to enhance social equity, by broadening the active taxpayers base and reducing levels of evasion, thereby allowing more resources to be collected for investment.

Procurement:

The procurement of goods and the hiring of consulting services will be carried out in accordance with Bank procedures. International competitive bidding will be used for contracts valued at the equivalent of US\$250,000 or more, in the case of goods and US\$200,000 or more, in the case of services.