PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

PUBLIC INVESTMENT MANAGEMENT PROGRAM

(PR-L1101)

LOAN PROPOSAL

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ABBREVIATIONS

DSIP	Dirección del Sistema de Inversión Pública [Public Investment System Division]
GDP	Gross domestic product
OEE	Organismo Ejecutor del Estado [State executing agency]
PEC	Program executive committee
PET	PRODEV Evaluation Tool
PGN	Presupuesto General de la Nación [National General Budget]
PND	Plan Nacional de Desarrollo [National Development Plan]
PPP	Public-private partnership
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]

PROJECT SUMMARY

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<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="2">Borrower: Republic of Paraguay</td><th colspan="2">Flexible Financing Facility[a]</th></tr>
<tr><td>Amortization period:</td><td>20 years</td></tr>
<tr><td colspan="3" rowspan="2">Executing agency: Ministry of Finance</td><td>Original WAL:</td><td>12.75 years[b]</td></tr>
<tr><td>Disbursement period:</td><td>24 months</td></tr>
<tr><th rowspan="2">Source</th><th rowspan="2">Amount (US$)</th><th rowspan="2">%</th><td>Grace period:</td><td>5 years[b]</td></tr>
<tr><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td rowspan="2">IDB (OC):</td><td rowspan="2">200,000,000</td><td rowspan="2">100</td><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td>Credit fee</td><td>[c]</td></tr>
<tr><td>Total:</td><td>200,000,000</td><td>100</td><td>Currency of approval:</td><td>U.S. dollars from the Ordinary Capital (OC)</td></tr>
<tr><th colspan="5">Project at a glance</th></tr>
<tr><td colspan="5">Objective:
The program’s objective is to make public investment financing and management more efficient through policy measures aimed at: (i) strengthening the strategic, legal, and institutional framework of the National Public Investment System; (ii) improving public investment project and program management capacity; and (iii) promoting the use of public-private partnerships to fund and manage public investment.</td></tr>
<tr><td colspan="5">Special contractual conditions:
Disbursement of the resources in each loan tranche will be subject to fulfillment of the policy reform measures described in the program components and the Policy Matrix (Annex II) and the general conditions set forth in the Loan Contract (paragraph 3.3).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: None.</td></tr>
<tr><td colspan="5">Project qualifies as:[d] SV ☑ PE ☐ CC ☐ CI ☐</td></tr>
</table>

[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 and currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] The original weighted average life (WAL) and grace period may be shorter, depending on the actual signature date of the loan contract.

[c] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank’s lending charges, in accordance with the relevant policies.

[d] SV (small and vulnerable countries), PE (poverty reduction and equity enhancement), CC (climate change, sustainable energy, and environmental sustainability), CI (cooperation and regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem, and rationale

1.1 **Macroeconomic context.** The Republic of Paraguay has one of the fastest growing economies in the region and a sound macroeconomic situation. Over the past decade (2005-2014), the country underwent rapid economic expansion, with an average gross domestic product (GDP) growth rate of 5%, higher than in previous decades, with per capita GDP of US$4,300 in 2014. Total poverty fell from 41.2% (2007) to 22.6% (2014). Growth registered in the last few years has mainly been based on a somewhat undiversified agricultural production model, in which 25% of GDP and over 60% of exports come from the agriculture sector. This means that the economy's performance is subject to exogenous risks, such as falling international prices and adverse climatic factors.

1.2 This period of growth has been characterized by increased macroeconomic stability, stable inflation at an annual average of 6.2%, and sound fiscal accounts, with a series of surpluses up until 2011 and moderate deficits as of 2012. To curb possible deficit growth, the Fiscal Responsibility Law was passed in 2013, setting a fiscal deficit ceiling of 1.5% of GDP in the formulation of the National General Budget (PGN).[1] In 2014 the central government fiscal deficit was 1.1% of GDP. Paraguay maintains a solid external position with a level of international reserves of around 22% of GDP. This is equivalent to 180% of external debt, ensuring that it can manage its obligations in a financially stable manner. Levels of public sector debt remain stable. In June 2015 a public debt balance of US$5.506 billion was recorded, equivalent to 18.3% of GDP.[2]

1.3 The Paraguayan economy is expected to continue to outpace regional average growth over the next few years. Nonetheless, the outlook for 2015 and 2016 suggests more moderate growth rates (3.7% and 4%, respectively), given the less favorable international and regional context, which will have repercussions for the performance of the country's economy. This growth will take place in a context of price stability, with an estimated inflation rate of 3.7% in 2015—below the Central Bank of Paraguay's annual inflation target of 4.5%. The inflation rate is projected to reach 4.3% by the end of 2016. As to the fiscal outlook, the Ministry of Finance projects a central government fiscal deficit of around 1.5% of GDP for 2016.

1.4 **Role of national public investment systems.** Various studies confirm the importance of public investment as a key component of countries' sustained development.[3] However, public investment efficiency and its consequent social and economic impact depend on multiple factors, including: the level of economic development, structural and market characteristics, geography and climate, and how sound institutions are in terms of the management of public investment systems.[4] These systems consist of the rules, tools, and procedures that guide the

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1 Law 5098/13 on Fiscal Responsibility.

2 Source: Ministry of Finance - National General Budget (PGN) 2016 Bill Message. August 2015.

3 Sources: Era Dabla-Norris, Brumby, Kyobe, Mills, and Papageorgious. Investing in Public Investment: An index of Public Investment Efficiency. February 2011. IMF. Andrew Warner, Public Investment as an Engine of Growth, 2014. IMF. Tomás Serebrisky. Sustainable Infrastructure for Competitiveness and Inclusive Growth. 2014. IDB.

4 Source: Improving Public Investment Efficiency in the G-20. International Monetary Fund. September 2015.

various stages of the investment cycle, which comprises the following stages: (i) strategic planning; (ii) ex ante analysis and evaluation; (iii) priority setting; (iv) budgeting; (v) execution monitoring; and (vi) ex post evaluation.[5]

1.5 **Paraguay's National Public Investment System (SNIP).** Paraguay's SNIP was only recently created. The general guidelines for the design and coordination of its operating policies, rules, and procedures were established in 2010.[6] In 2011 the Public Investment System Division (DSIP) was set up within the Ministry of Finance as the lead agency responsible for managing the SNIP.[7] The SNIP's procedures and processes were established in 2012, along with the institutional roles of the Technical Planning Secretariat (STP) and the Ministry of Finance in the system. A Preinvestment Fund was created that same year in order to finance preinvestment studies.[8]

1.6 The SNIP process begins at the STP, which receives investment project profiles presented by the State executing agencies (OEEs) and, based on established criteria, grants them eligibility for inclusion in the Project Bank.[9] The DSIP then determines the technical, economic, financial, and social viability of the accepted projects. Those projects considered viable are given a SNIP code[10] and may be selected and given priority for funding from the National General Budget.

1.7 Although Paraguay's SNIP has been strengthened in recent years, because of its incipient institutional framework, its level of development still lags behind the regional average, and it is still a long way from being fully implemented. The latest measurement by the IDB's PRODEV Evaluation Tool (PET) showed that Paraguay's SNIP registered significant progress between 2007 and 2013, its score rising from 0.5 to 1.9 points. However, this is below the regional average of 2.5 points for the 24 countries of Latin America and the Caribbean in 2013, and less than half the value at which a system is classified as being "in development" (a value of 4 points) and even further from what is defined as being a "consolidated" system (the maximum value of 5 points).[11]

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5 Source: Metodología Global de las Etapas que componen el ciclo de inversiones [Global methodology for the stages of the investment cycle].

6 Decree 5374/10.

7 Law 4394.

8 By Decree 8312/12.

9 The Project Bank is the SNIP's IT application for collecting all the project-related information from the preinvestment phase through to ex post evaluation. It contains data on the public sector projects under way and being studied. The Project Bank currently holds records of 238 investment project profiles from various OEEs.

10 Defined as a sequential number uniquely identifying the project from approval through to completion or cancellation. Source: Decree 8312/12.

11 The PET analyzes the essential features of results-oriented institutional capacity throughout the entire public management cycle (planning, budgeting, financial management, public investment, sector management of goods and services, and monitoring and evaluation). The PET's rating of the SNIP pertains to the ex ante evaluation and prioritization of public investment projects component. This component comprises three indicators: (i) ex ante evaluation rules and institutions; (ii) coverage of ex ante evaluations; and (iii) use and dissemination of the information. In turn, the indicators contain requirements—in this case, a total of eight. The requirements are rated by integer values of 0 to 5, where 0 (zero) means the requirement is nonexistent or not fulfilled, 1 (one) that it is proposed, 2 (two) begun, 3 (three) under development, 4 (four) implemented, and 5 (five) consolidated, which is the maximum or optimal value. Source: Makon and Varea, Section I, Chapter 6, Building effective governments. Achievements and Challenges for Results-based Public Administration in Latin America and the Caribbean. Kaufmann, Sangines, 2015.

1.8 The incoming government in August 2013 established the following strategic focuses as its main objectives: (i) poverty reduction and social development; (ii) inclusive economic growth; and (iii) Paraguay's entry into the global economy. To accomplish these objectives, the measures the government proposed include stepping up public investment, particularly public investment aimed at poverty reduction and the closing of infrastructure gaps.[12]

1.9 Nonetheless, the government program has already warned that financing problems and State institutions' limited management capacity could represent a bottleneck, holding back efforts to improve the efficiency with which public investments are implemented. In this regard, it identified shortcomings in the sector's institutional setup and the management of public investment as possible obstacles to the country's development.[13] Similarly, a recent evaluation of the country's financial and economic situation indicated that constraints on administrative capacity for the execution of public investment constituted a risk limiting Paraguay's medium-term growth prospects.[14] The aforementioned report recommended speeding up efforts to address institutional weaknesses and step up the strengthening of public investment implementation capacity to avoid persistent growth deficits.

1.10 The adoption of the Public-Private Partnership (PPP) Law in November 2013 represents a great opportunity to increase investment in public infrastructure and makes the need to strengthen the strategic, legal, and institutional framework of the SNIP and public investment project management capabilities even more pressing.

1.11 **Issues and challenges the program aims to address.** The main problem addressed by the program is the limited efficiency of public investment, as evidenced by: (i) cost overruns and delays;[15] and (ii) low budget execution in project implementation.[16] The main causal factors underlying this problem include: (i) the SNIP's weak strategic, legal, and institutional framework; (ii) limited capacity to manage public investment projects; and (iii) underuse of the PPP model to complement traditional public investment funding and management. Although the PPP Law came into force in late 2013, so far it has not been possible to implement any infrastructure projects using this modality.

1.12 **The SNIP's weak strategic, legal, and institutional framework.** Although a regulatory framework exists, in which the DSIP is identified as the government entity in charge of the SNIP, its action has been limited as a result of:

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12 Paraguay ranks 131 out of 140 countries worldwide in terms of overall infrastructure quality. Additionally, infrastructure quality is the third biggest problem for doing business in the country. Source: *World Economic Forum; The Global Competitiveness Report 2015-2016*. Just 8% (5,040 km) of the 62,404 km of the national road system managed by the Ministry of Public Works and Communications is paved.

13 Ñande Paraguay. Plan de Gobierno Propuesto por Horacio Cartes 2013-2018 ["Our Paraguay." Government Plan proposed by Horacio Cartes 2013-2018].

14 Paraguay, 2014 *Article IV Consultation – Staff Report and Press Release*, IMF, February 2015.

15 In a sample of 20 infrastructure projects executed in the last 10 years, on average, the following was found: (i) a 46% cost increase relative to the initial cost; and (ii) a 45% delay in project completion relative to the initially estimated time. Source: Public Investment System Division (DSIP)/Ministry of Finance.

16 Annual budget execution of public investment projects over the last 10 years averaged 57%. Source: DGP/Ministry of Finance.

a. **absence of a national development plan providing a long-term strategic vision.** The National Constitution establishes that national development plans are binding on the public sector.[17] Nonetheless, up until late 2014 the country lacked a national development plan transcending a single administration's term of office, establishing long-term development priorities, coordinating government policies, and guiding the strategic selection of public investment projects. At the end of 2014 the government adopted the "Paraguay 2030" National Development Plan (PND), which came into force upon its publication in January 2015.[18]

b. **absence of a legal framework guiding and regulating the SNIP.**[19] The SNIP is currently operating with a set of rules (decrees and directives) prone to modification by successive administrations, given that they lack the status of law. This situation highlights the risk that requirements for the appropriate design, selection, execution, and oversight of public investment projects may be reduced or eliminated. The government is aware of the need to have a law in order to provide greater legal stability for the regulatory framework that governs public investments. This law should facilitate more efficient management of the SNIP, ensuring that its internal processes have the necessary government controls without that implying cumbersome regulatory processes.

c. **incomplete internal processes and tools.** The information system used by the DSIP for project management comprises two information technology (IT) applications: the Project Bank and the Project Manager.[20] These applications are not integrated, which limits their interoperability and analytic report generating capacity.[21] Additionally, just two sector methodological guides have been approved and implemented, according to the SNIP portal.[22]

1.13 **Limited capacity for the management of public investment projects.** The OEEs are entrusted with project implementation, but their management is undermined by:

a. **weak capabilities of technical staff in the public investment cycle.**[23] Only about 20% of staff associated with public investment project execution have received any kind of training on the investment cycle.[24]

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17 Source: Article 177. National Constitution (1992).

18 Source: Decree 2794/14 "Enacting the Paraguay 2030 National Development Plan (PND)," published in the Official Gazette on 2 January 2015.

19 There is no specific public investment legislation.

20 This is an IT repository used for physical public investment project monitoring.

21 To date no ex post evaluations have been conducted, making it impossible to conclude whether projects have yielded the economic benefits estimated in their designs.

22 These are: (i) education infrastructure; and (ii) interurban road infrastructure.

23 The level of technical expertise in the civil service scored two out of five for functional capacity in 2004 and 2013. Source: Cortázar, Lafuente, Sangines (2014).

24 Execution of the public investment project portfolio involves approximately 1,200 people, of whom 256 have received some form of training on the investment cycle. Source: DSIP/Ministry of Finance.

b. **limited use of preinvestment at the project formulation stage**. In 2012 the government set up a preinvestment fund in order to finance studies required to have available a number of investment projects with quality designs.[25] However, the preinvestment fund has insufficient resources to finance the required studies and no rules have been defined for its use. In the last five years, preinvestment expenditure represented an average of 2% of total public investment spending,[26] which falls short of international standards. Moreover, 47% of projects registered in the Project Bank lack preinvestment studies and, while the remaining 53% have studies of this type, quality levels vary.[27] These factors affect project design quality, leading to cost underestimates and optimistic forecasts of implementation times.[28] The available evidence suggests that countries with strong preinvestment and project management systems stand a better chance of controlling costs and minimizing delays.[29] Experience also shows that projects with better ex ante economic analysis tend to be executed more efficiently.[30] Aware of this shortcoming, the government recently tasked the Ministry of Finance with identifying options to capitalize the preinvestment fund in order to finance the continuation of studies of investment profiles declared viable and to have priority.[31]

c. **deficient budgetary programming and inadequate fiduciary management.** Current processes for budget programming and modifications for projects executed by the OEEs are complex.[32] Moreover, the obligation to follow rigid processes that in some cases do not add value in the bid prequalification and analysis stage for the contracting of public works leads to delays that unnecessarily prolong the process of awarding contracts for projects. The government also recognizes that large-scale infrastructure works represent a significant management challenge, in both the formulation and execution stages. A high-level technical unit focused on conducting studies of strategic public works projects during the preinvestment phase and on monitoring contracts during the investment phase is needed to ensure that technically complex infrastructure works are managed efficiently.

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25 Decree 8312/12.

26 Source: Ministry of Finance. Budget execution reports. Periods 2010/2014.

27 Source: DSIP/Ministry of Finance.

28 Ibid 15.

29 Source: Rajaram, A. et al: *The Power of Public Investment Management,* World Bank Group, 2014.

30 Source: Glenn P. Jenkins: *Project Analysis and the World Bank*, *The American Economic Review.* Vol. 87, No. 2, May 1997.

31 Decree 3944/15.

32 Fortalecimiento de la Ejecución Presupuestaria en Proyectos con Financiamiento Multilateral – Informe Final de Consultoría [Strengthening budget execution in projects with multilateral financing - Final consulting report]. *Consulting Group*. 2015.

1.14 **Underutilization of the PPP model as a complement to traditional funding and management of public investment.** The average rate of public investment in Paraguay as a percentage of GDP was 3.3% between 2003 and 2014.[33] This rate is below the figures recommended for countries of the region to create the conditions for sustained economic growth (6% of GDP).[34] To close the gap between the effective public investment rate and the 6% target, specialized agencies recommend using alternative public investment project financing and execution instruments such as PPPs. Some of the main factors that limit the use of PPPs include:[35] (i) lack of an enabling legal and regulatory environment for private sector participation in public investment;[36] (ii) insufficient development of the banking sector that would provide financing for new projects under this modality; (iii) a private sector that lacks experience in the management of long-term public projects; and (iv) lack of public sector capacity to manage contracts under the PPP modality. With the adoption and regulation of a PPP Law,[37] Paraguay has recently begun developing this instrument in order to channel financial resources and know-how from the national and international private sector into the development of public infrastructure, as happens in countries that are more advanced in this area. In order to make headway with this reform, the government needs to successfully complete the stages required to implement the first PPP projects.

1.15 There is broad consensus regarding the need to improve public investment to achieve sustained growth that lays the foundation for the country's economic and social development. However, as the evidence presented above shows, despite the progress achieved in recent years to improve the SNIP's institutional context, numerous weaknesses persist that reduce the State's efficiency in public investment management. This program stems from the government's recognition of the pressing need to comprehensively address the numerous weaknesses that are obstacles to making public investment management more efficient. In order to overcome the above-mentioned weaknesses, the program supports reforms that aim to improve the regulatory framework and SNIP tools, strengthen the capabilities of technical staff in the institutions involved in the various phases of the investment cycle, simplify public contracting processes, define a prioritized approach for the management of strategic projects, and move forward with the implementation of PPP projects.

1.16 **The Bank's experience in the country and sector.** The Bank has worked actively with the Government of Paraguay to enhance public investment efficiency and effectiveness. The following lessons learned from experience acquired in the execution of the Public Management Modernization Program (2146/OC-PR) and the Preinvestment Program (1143/OC-PR) have been applied to this program: (i) closer coordination of the work among the participating institutions. To this end,

[33] International Monetary Fund.

[34] *Estudio económico de ALC. Desafíos para impulsar el ciclo de inversión con miras a reactivar el crecimiento* [Latin America and the Caribbean economic study. Challenges to stimulate the investment cycle to reactivate growth]. Economic Commission for Latin America and the Caribbean, 2015.

[35] Source: Stages for the development of a PPP. Public Private Partnership. United Nations Development Programme.

[36] For example, accounting practices and laws, laws that govern construction contracts, public works conventions and laws, among others, may be inappropriate for purposes of private sector participation.

[37] The PPP Law (Law 5012) was adopted in November 2013 and its regulatory decree (1350) in March 2014.

a program executive committee (PEC) will be set up to strengthen interagency communication (paragraph 3.2); and (ii) more thorough training of the entities involved in public investment management. In this regard, the program includes preparation of a human resources strengthening plan, aimed at ensuring that Ministry of Finance and OEE staff have technical capabilities in the investment cycle stages.

1.17 These efforts have also been supported with technical assistance and analytical work through two technical-cooperation operations currently under way that seek to: (i) strengthen the DSIP's capabilities (ATN/OC-14257-PR - Support for the SNIP; and (ii) instill a culture of managing for results in Paraguayan public institutions involved in making public investments, by creating project management capacity (ATN/OC-13924-PR - Program to Strengthen Project Management Capacity in Paraguay). This program will benefit from both operations by: (i) strengthening the DSIP's processes and tools; and (ii) strengthening the capabilities of the SNIP's technical teams.

1.18 The Bank also brings experience from similar reform programs to strengthen public investment system institutions at the regional level, including: (i) the Public Capital Expenditure Management Program (2666/OC-SU); (ii) Public Financial and Performance Management Program III (2521/OC-JA); and (iii) Public Capital Expenditure Management Program I (2479/OC-TT). The following relevant lessons were drawn from these programs: (i) the need to take a comprehensive approach to designing institutional reforms. To this end, the program evaluates the performance and soundness of all the stages of the investment cycle and, with input from this comprehensive analysis, it includes reforms in both the preinvestment and execution phases; (ii) the importance of strengthening crosscutting public management systems. For this purpose the program includes reforms to improve the planning, budget, procurement, and contracting systems; and (iii) capacity building in the technical teams responsible for implementing legal and administrative reforms promoted by the program in order to ensure sustainability. In this regard, the program supports the preparation of a comprehensive training plan geared to providing the SNIP's technical staff with the knowledge and skills they need for the effective formulation, evaluation, and management of public investment projects.

1.19 **Proposed intervention.** In order to respond to the challenges mentioned above, this program supports a set of measures covering key aspects for improving the preparation, selection, financing, execution, and monitoring of public investment projects. First, it aims to promote a development framework for the country that will result in a long-term vision and identify the main development objectives and targets with which public investment projects should be aligned. This needs to be accompanied by legislation on public investment and institutional strengthening of the SNIP's lead agency. In terms of public investment project management, measures are proposed to strengthen the capabilities of the technical staff responsible for formulating and executing investment projects and actions to improve the quality of project design and simplify processes so the OEEs are able to implement public works more efficiently. Lastly, the program supports the government's efforts to implement the PPP Law as a tool for the financing and management of public investment projects. The policy measures in the first tranche lay the groundwork for the program and determine its scope. The measures in the second tranche focus on submitting draft legislation to Congress and implementing a further series of measures associated with the first tranche of the loan.

1.20 **Strategic alignment.** The program is aligned with the priority area of public management in the Bank's Country Strategy with Paraguay (2014-2018) (document GN-2769), specifically with regard to: (i) strengthening public investment; and (ii) improving State financial administration, adoption of management by results, multiyear budgeting, and government control at the different levels of government (paragraph 3.35). The program will also contribute to the financing priority of the Ninth General Increase in Resources (document AB-2764) (GCI-9) to support small and vulnerable countries. Additionally, it will contribute to the "public financial systems implemented or improved" output, as defined in the results framework. It is also aligned with the Strategy on Institutions for Growth and Social Welfare (document GN-2587-2); and the Fiscal Policy and Management Sector Framework Document, currently under preparation. Specifically, the program is aligned with Dimension 1: Fiscal policies will seek to reinforce sustained growth in a context of fiscal sustainability and macroeconomic stability; and Dimension 2: Governments build the public sector's institutional capacities to design and implement fiscal policies that improve efficient mobilization and allocation of resources.

B. Objectives, components, and cost

1.21 **Objective and components.** The program's objective is to make public investment financing and management more efficient through policy measures aimed at: (i) strengthening the strategic, legal, and institutional framework of the SNIP; (ii) enhancing public investment project and program management capabilities; and (iii) promoting the use of PPPs to fund and manage public investment

1.22 To accomplish the proposed objectives, the program has been structured in four components that include actions reflecting the dialogue between the Bank and the government. These actions are considered essential due to their relevance to strengthening the SNIP and improving the efficiency with which public investment is managed.

1.23 **Component I. Macroeconomic stability.** The objective of this component is to maintain a macroeconomic context consistent with the program's objectives as established in the Policy Matrix (Annex II).

1.24 **Component II. Strengthening of the SNIP's strategic, legal, and institutional framework.** This component's objective is to provide the tools with which to achieve the SNIP's institutional coordination and consolidation. To accomplish this objective, the program will support policy measures to: (i) develop the SNIP's strategic and regulatory framework; and (ii) strengthen the tools and processes of the DSIP, as the SNIP's lead agency.

1.25 The policy actions for the first tranche are: (i) approval by executive decree of the "Paraguay 2030" National Development Plan (PND), which establishes a vision of the country to 2030 and defines long-term objectives and targets with which public investment programs and projects are to be aligned, together with development strategies and mechanisms to implement, monitor, and evaluate them; (ii) approval by the National Economic Team of proposed legislation on public investment, establishing the guiding principles regulating the SNIP, and containing: (a) the law's purpose and scope of application; (b) configuration of the SNIP and institutional roles; (c) the SNIP's principles and objectives; (d) the phases or stages of the public investment cycle; and (e) the IT application consolidating the project-related information from the preinvestment stage through to ex post evaluation;[38] (iii) adoption of an executive decree complementing and adjusting the current regulatory framework of the SNIP to adapt it to the guiding principles and provisions defined in the proposed draft Public Investment Law approved by the National Economic Team providing for: (a) the adjustment, harmonization, and/or consolidation of existing decrees and directives; and (b) a review of the project typology;[39] and (iv) approval, by ministerial resolution, of an institutional strengthening plan for the DSIP, including a timetable for its implementation, and measures to: (a) optimize the DSIP's processes for more efficient operation of the SNIP; (b) improve the DSIP's information system for public investment project management and monitoring; and (c) apply sector methodologies for public investment project formulation.

1.26 The policy actions for the second tranche are: (i) adoption of an executive decree establishing that formulation of institutional budgets to be used to prepare the PGN must be linked to the PND; (ii) submission of the draft Public Investment Law to Congress; and (iii) implementation of an institutional strengthening plan for the DSIP in accordance with its timetable.

1.27 **Component III. Improvement of public investment program management capacity.** This component aims to promote measures to improve the investment program management capacity of the entities in the SNIP. It will therefore promote: (i) strengthening the capabilities of the SNIP's technical staff; (ii) strengthening the preinvestment stage; and (iii) enhancing fiduciary management processes and budget programming.

1.28 Under the first tranche, the policy actions in this component are: (i) approval, by executive decree, of a human resources strengthening plan, with actions aimed at equipping Ministry of Finance and OEE staff with technical capabilities in the stages of the investment cycle in public investment projects (including identification, formulation, ex ante assessment, planning, execution, monitoring, and ex post evaluation); (ii) approval of an executive decree establishing the capitalization of the preinvestment fund, indicating, inter alia, the estimated amount of this capitalization and its funding sources; (iii) approval of an executive decree establishing simplified processes to solicit bids for public infrastructure projects in a more efficient and transparent way;[40] and (iv) adoption of a ministerial resolution creating a specialized division dedicated exclusively to the management of the preinvestment and investment phases of strategic projects.[41]

[38] The National Economic Team is the national government's economic policy advisory body. Its tasks include advising on projects that include economic and financial measures that the Executive Branch might propose or adopt. The head of the National Economic Team is the Finance Minister and its members are the ministers for Industry and Trade, Agriculture, Public Works and Communications (MOPC), and Foreign Affairs, the Technical Planning Secretariat, the General Secretariat of the Office of the President, and the President of the Central Bank of Paraguay.

[39] This decree will serve to fill the vacuums in the current regulatory framework and to implement other regulatory improvements to promote the draft public investment law until it is approved by the Legislative Branch.

[40] Decree 3719/15.

[41] MOPC Resolution 1660/14.

1.29 The policy actions for the second tranche are: (i) implementation of the plan to strengthen technical capabilities in the investment cycle in accordance with its timetable; (ii) approval by executive decree of a regulation for the operation of the Preinvestment Fund, including provisions on: (a) the Fund's objective; (b) definition of the body tasked with administering it and its functions and powers; (c) eligible beneficiaries; (d) types of studies that can be financed with Fund resources; (e) study selection criteria; (f) procedures for the monitoring and evaluation of the studies financed; and (g) guidelines to ensure the quality of the studies financed with Fund resources; (iii) the launch of a simplified bidding process for at least one public infrastructure project; (iv) the setup, staffing, and funding of the specialized division dedicated exclusively to the management of strategic projects in the preinvestment and investment phases; and (v) the identification of at least one strategic project referred to the specialized division for the respective preinvestment studies to be conducted.[42]

1.30 **Component IV. Development of PPP for the financing and management of public investment.** The objective of this component is to implement the PPP Law for the financing and management of large-scale public investment projects. The policy action for the first tranche is: having a viability opinion from the Ministry of Finance's DSIP on the prefeasibility studies of at least two investment projects under the PPP modality.[43]

1.31 Lastly, the policy action for the second tranche is: publication of the bidding documents and conditions for at least one PPP project.[44]

C. Key outcome indicators

1.32 The Results Matrix will be used to measure the outcomes of the policy actions and reforms envisaged in the program. These outcomes will be monitored and assessed by mutual agreement with the borrower. The indicators to be used to measure the expected outcomes are: (i) number of public investment projects in the Project Bank with a feasibility opinion for which preinvestment studies have been done at the profile level; (ii) number of projects with information on physical monitoring by the DSIP; (iii) average number of corrections per public investment project; (iv) average approval time for public investment projects; (v) number of people trained by the SNIP on project management; (vi) resources earmarked for the Preinvestment Fund; (vii) average public investment project cost overrun; (viii) average time for competitive bidding for public investment projects; and (ix) total investment in public projects approved under the PPP modality.

1.33 **Economic analysis.** An economic analysis of the program was conducted, showing it to be economically viable. The analysis included estimates of the net present value (NPV) of the projects considered for financing under the PPP modality and an estimate of the impact of using the Preinvestment Fund to reduce cost overruns on public investment projects through improvements to their design. In the first case, a cost-benefit analysis was performed for two PPP projects

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42 MOPC Resolution 1800/14.

43 The Ministry of Finance has already issued favorable opinions on prefeasibility studies for the following projects: (i) extension and widening of national highways 2 and 7; and (ii) modernization of the Silvio Pettirossi International Airport in Asunción.

44 The government approved the first PPP project, to extend and widen national highways 2 and 7, in September 2015 (Decree 4103/15), as the requirement for launching the competitive bidding process. Subsequently, on 8 October 2015, the bidding documents and conditions for the project were published.

(a road project and modernization of the Silvio Pettirossi International Airport in Asunción). The NPV of the road project (extension and widening of national highways 2 and 7) was estimated at US$218 million and the NPV of the airport project (construction of the airport to operate as a passenger and cargo hub) at US$7.6 million.[45] For the second case, reduction in cost overruns due to the availability of preinvestment studies, the NPV was estimated at US$1,060,000 using a discount rate of 12%. The analysis carried out includes sensitivity evaluations for various scenarios for both groups of projects.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The proposed program consists of a multiple-tranche policy-based loan designed in accordance with the Guidelines on the Preparation and Application of Policy-based Loans (document CS-3633-1). The selection of this loan modality stems from the Paraguayan government's interest in promoting a sector policy reform program and institutional changes in the public investment system over the short and medium terms, in a context in which the details of the measures necessary to implement the reforms are already defined.

2.2 **Amounts and tranches.** This operation will be 100% financed from the Bank's Ordinary Capital resources. The loan will total US$200 million and will be disbursed in two equal consecutive tranches of US$100 million. The draft budget for 2016 submitted to Congress projects a central government deficit of approximately US$468 million, equivalent to 1.5% of GDP.[46] The amount of this loan represents 43% of this deficit.

B. Environmental and social risks

2.3 No activities with potentially adverse effects on the environment are envisaged in this operation. Under directive B.13 of the Bank's Environment and Safeguards Compliance Policy (document GN-2208-20 and operational policy OP-703), this operation does not require classification (see Safeguards Policy Filter).

C. Fiduciary risks

2.4 The proposed financial instrument provides unrestricted funds for budgetary support once a responsible fiscal framework is in place. No significant fiduciary risk is therefore considered to exist since the executing agency has the necessary financial management instruments and control systems.

D. Other project risks

2.5 **Program sustainability.** Program implementation has reported significant progress in view of the fact that several of the measures in the policy matrix have already been implemented. The program includes a National Development Plan that transcends a particular administration's term of office, drawn up in close collaboration between the State authorities and civil society. Additionally, in the Policy Letter the government recognizes the consensus the country has achieved

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[45] The discount rate used to calculate the net present value was 11.4% in the highways project and 15% in the case of the airport project. These were the rates applied by the international consulting firms conducting the studies used by the government to evaluate these PPP projects.

[46] Source: Draft PGN 2016 submitted to Congress by the Executive Branch.

in recent years on the need to improve the efficiency and transparency with which public resources are used, particularly those earmarked for financing investment projects, and the need to adopt measures to overcome the shortcomings limiting the efficiency with which public investments are managed. It should be noted that, since this is a policy-based loan operation under the multiple-tranche modality, it provides for greater rigidity and control over the regulatory changes and for the promotion of capacities to ensure greater stability in the rules governing public investment, and certainty over their application.

2.6 The counterpart and Bank teams jointly identified the different types of risks that could affect fulfillment of the policy actions that trigger the program. The operation is considered to be of medium risk as a result of the following risk factors: (i) poor coordination between the institutions responsible for implementing the reforms may delay program implementation (see paragraph 3.2); (ii) the OEEs' difficulty in, or resistance to, adapting to the changes proposed by the program may delay approval of new public investment projects; (iii) inadequate management of liabilities associated with PPP projects may impair the country's fiscal situation; and (iv) a holdup in legislative approval of the draft public investment law may delay achievement of some of the expected outcomes. The following measures to mitigate these risks are proposed: (i) create a program executive committee (PEC) comprised of the directors of the divisions involved in program implementation. The PEC will be responsible for program supervision and coordination between the institutional actors involved; (ii) implement a comprehensive plan to strengthen the capabilities of the technical staff responsible for project formulation and implementation; (iii) develop a change-management strategy led by the DSIP; (iv) provide training to the Ministry of Finance's technical staff responsible for evaluating fiscal impact and risk allocation envisaged in PPP projects; and (v) develop a dissemination strategy for the draft legislation pending legislative approval, in order to raise awareness about its importance among opinion- and decision-makers. The political context up until the end of the program's disbursement period is expected to remain favorable.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower is the Republic of Paraguay and the executing agency is the Ministry of Finance. The executing agency will be responsible for: (i) providing evidence that the policy commitments have been fulfilled; (ii) supporting actions required for continuity of program fulfillment; and (iii) once the program disbursements are assured, collecting information on the performance indicators that will be used to evaluate program outcomes.

3.2 The Ministry of Finance will establish a PEC (see paragraphs 1.16 and 2.6) responsible for coordinating tasks and supervising progress on the actions planned for the program. To this end, the PEC will review progress on the execution of policy reforms the program promotes, and will act as the link with other institutional actors to facilitate their application. The PEC will be headed by the Office of the Deputy Minister for the Economy and will be comprised of the directors with specific responsibilities over implementation of the reforms (public investment, debt policy, budget, and the treasury legal department).

3.3 **Special contractual conditions. Disbursement of the resources in each loan tranche will be subject to fulfillment of the policy reform measures described in the program components and the Policy Matrix (Annex II), and the general conditions set forth in the loan contract**.

B. Summary of arrangements for monitoring results

3.4 **Monitoring.** A monitoring and evaluation plan has been drawn up to monitor program outcomes. The instruments included in this plan are: (i) the Policy Matrix (Annex II); (ii) the Means of Verification Matrix; and (iii) the Results Matrix. The objective of this monitoring is: (i) to verify fulfillment of the Government of Paraguay's policy commitments established in the Policy Matrix; and (ii) to verify their scope in keeping with the targets and indicators established in the Results Framework. The means of verification will be the source of information that will determine fulfillment of the policy targets. The IDB will monitor execution from the Bank's Country Office and from the Institutional Capacity of State Division at the Bank's headquarters. The executing agency will be responsible for monitoring and supervision of the operation's outcomes for the purposes of duly informing the Bank.

3.5 **Evaluation.** In accordance with the provisions of the Monitoring and Evaluation Plan, program outcomes will be measured using administrative data, qualitative and outcome evaluations, together with specific publicly accessible studies. In addition to the regular measurements included in the monitoring plan, an impact evaluation of the training program for OEE staff will be conducted. The program impact evaluation (training plan) envisages the use of a semi-experimental difference in difference methodology at both the executing unit and staff levels for two variables, namely: (i) number of project corrections; and (ii) project approval time.

IV. Policy Letter

4.1 The IDB and the Government of Paraguay agreed upon the policy commitments that will be supported through this program. These are reflected in the Policy Matrix (Annex II), the Means of Verification Matrix, and the Results Matrix. The Policy Letter confirms the government's commitment to the objectives and actions envisaged for the programmatic operation as a whole.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	-Lending to small and vulnerable countries		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	-Public financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues)		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2769	Consolidate fiscal sustainability	
Country Program Results Matrix		The intervention is not included in the 2015 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.1		10
3. Evidence-based Assessment & Solution	8.2	33.33%	10
3.1 Program Diagnosis	2.4		
3.2 Proposed Interventions or Solutions	2.8		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	9.0	33.33%	10
5.1 Monitoring Mechanisms	1.5		
5.2 Evaluation Plan	7.5		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)			
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The Monitoring and Evaluation Plan includes a semi-experimental impact evaluation, which would assess the effects of the training program on two variables: i) the amount of "observations" (which are corrections-called "avistas") as a proxy for project quality, and (ii) project approval times, subjects in which little evidence is currently available.	

The quality of public investment is an important factor for growth. Among other factors, this quality is related to institutional management strengths. The document presents evidence of the importance of institutional quality in public investment management on development.

The project presents the challenges associated with addressing public investment inefficiencies, which are evidenced by cost overruns, delays and low project execution. In order to address these challenges, the proposed loan's objective is to improve public investment efficiency with policy actions in three areas: the National Public Investment System's strategic, legal and institutional framework; public investment management capacity; and the development of innovative approaches in financing and managing public investment.

The intervention has vertical logic. The actions included in the Policy Matrix (products) will lead to better quality projects (with more pre-investment studies, with better monitoring, with fewer observations and approved in less time); to the deployment of more resources for preparation; and to fewer cost overruns and the generation of additional sources for funding public investments.

The cost-benefit analysis includes net benefit estimates for the new projects which will be made possible due to the implementation of the new PPP legal framework, and estimates for lower expected cost overruns in public investment due to the existence of better pre-investment studies. The package includes a complete monitoring and evaluation plan. A semi experimental impact evaluation is proposed which would assess the effects of the training program on two variables: i) the amount of "observations" (which are corrections- called "avistas") as a proxy for project quality, and (ii) project approval times.

POLICY MATRIX

Objective	Policy actions for disbursement of the first tranche	Policy actions for disbursement of the second tranche
Component I. Macroeconomic stability		
1.1. Maintain a macroeconomic environment consistent with achieving the program objectives.	1.1.1 Macroeconomic framework consistent with the program objectives and with the guidelines established in the sector policy letter.	1.1.2 Macroeconomic framework consistent with the program objectives and with the guidelines established in the sector policy letter.
Component II. Strengthening of the SNIP's strategic, legal, and institutional framework		
2.1 Have a strategic and regulatory framework for the National Public Investment System (SNIP) in place.	2.1.1 Adoption, by executive decree, of the “Paraguay 2030” National Development Plan (PND), establishing a vision for the country to 2030 and setting long-term objectives and targets with which public investment projects and programs are aligned, as well as development strategies and the mechanisms for their implementation, monitoring, and evaluation.	2.1.2 Executive decree enacted establishing that the formulation of institutional budgets used to prepare the National General Budget must be linked to the PND.
	2.1.3 National Economic Team approval of the draft public investment law establishing the guiding principles regulating the SNIP, containing: (i) the law's purpose and scope of application; (ii) configuration of the SNIP and institutional roles; (iii) the SNIP's principles and objectives; (iv) the phases or stages of the public investment cycle; and (v) the IT application consolidating project-related information from the preinvestment stage through to ex post evaluation. 2.1.4 Approval of the executive decree that complements and adjusts the SNIP's current regulatory framework to adapt it to the guiding principles and provisions set out in the proposed draft Public Investment Law approved by the National Economic Team containing: (i) the adjustment, harmonization, and/or consolidation of existing decrees and directives; and (ii) a review of the project typology.	2.1.5 Draft Public Investment Law submitted to Congress.

Objective	Policy actions for disbursement of the first tranche	Policy actions for disbursement of the second tranche
2.2 Strengthen the Public Investment System Division (DSIP), as the lead agency responsible for SNIP administration.	2.2.1 Approval, by ministerial resolution, of the DSIP strengthening plan, including a timetable for its implementation, and measures to: (i) optimize the DSIP's processes for more efficient operation of the SNIP; (ii) improve the DSIP's information system for public investment project management and monitoring; and (iii) apply sector methodologies for public investment project formulation.	2.2.2 Institutional strengthening plan for the DSIP, implemented in accordance with its timetable.
Component III. Improvement of public investment program management capacity		
3.1 Strengthen the capabilities of SNIP's technical staff.	3.1.1 Adoption, by executive decree, of the human resources strengthening plan, including actions geared to ensuring that staff at the Ministry of Finance and State executing agencies (OEEs) have technical capabilities in all the stages of the investment cycle in public investment projects (including identification, formulation, ex ante assessment, planning, execution, monitoring, and ex post evaluation), along with the corresponding implementation timetable.	3.1.2 Plan to strengthen technical capacity in the investment cycle, being implemented in line with its timetable.
3.2 Strengthen the preinvestment stage.	3.2.1 Executive decree approved establishing the capitalization of the Preinvestment Fund, indicating, inter alia, the estimated amount of this capitalization and its sources of financing.	3.2.2 Approval, by executive decree, of the regulation on the operation of the Preinvestment Fund, including provisions on: (i) the Fund's objective; (ii) definition of the body responsible for administering it, as well as its functions and powers; (iii) eligible beneficiaries; (iv) types of studies that can be financed with Fund resources; (v) study selection criteria; (vi) procedures for the monitoring and evaluation of studies financed; and (vii) guidelines to ensure the quality of the studies financed with Fund resources.
3.3 Improve budget programming processes and fiduciary management.	3.3.1 Executive decree approved establishing simplified processes to solicit public infrastructure bids more efficiently and transparently.	3.3.2 Simplified bidding process initiated for at least one public infrastructure project.
	3.3.3 Ministerial resolution adopted creating a specialized division dedicated exclusively to the management of strategic projects in the preinvestment and investment phases.	3.3.4 Specialized division in operation, equipped with staff and resources. 3.3.5 At least one strategic project identified and referred to the specialized division for the respective preinvestment studies to be conducted.

Objective	Policy actions for disbursement of the first tranche	Policy actions for disbursement of the second tranche
Component IV. Development of PPPs for the financing and management of public investment.		
4.1 Implement the Public-Private-Partnership Law for the financing and management of large-scale public investment projects.	4.1.1 Prefeasibility studies on at least two PPP projects, with a feasibility opinion from the Ministry of Finance's DSIP.	4.1.2 Publication of bidding documents and conditions for at least one PPP project.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/__

Paraguay. Loan ____/OC-PR to the Republic of Paraguay
Public Investment Management Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Public Investment Management Program. 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 ___ __________ 20__)

LEG/SGO/CSC/IDBDOCS:39972521
Pipeline No. PR-L1101