

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PARAGUAY**

**PROGRAM FOR CONSOLIDATION OF THE  
NATIONAL TAX REVENUE DIRECTORATE  
(DNIT)**

**(PR-L1192)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

AWP	Annual work plan
DGAF	Dirección General de Administración y Finanzas (General Directorate of Administration and Finance)
DGEE-GE	Dirección General de Estudios Económicos de la Gerencia Ejecutiva (General Directorate of Economic Studies of the Executive Division)
DGIF	Dirección General de Inteligencia Fiscal (General Directorate of Tax Intelligence)
DGTH	Dirección General de Talento Humano (General Directorate of Human Talent)
DNA	Dirección Nacional de Aduanas (National Customs Directorate)
DNCP	Dirección Nacional de Contrataciones Públicas (National Public Contracting Directorate)
DNIT	Dirección Nacional de Ingresos Tributarios (National Tax Revenue Directorate)
FMM	Fiscal and Municipal Management Division
G&D	Gender and diversity
GGA	Gerencia General de Aduanas (General Customs Division)
GGII	Gerencia General de Impuestos Internos (General Domestic Taxes Division)
ICB	International competitive bidding
ICS	Internal control system
ICT	Information and communication technology
IMF	International Monetary Fund
IRM	Integrated risk management
ISEF	Instituto Superior de Estudios Fiscales (Higher Institute of Fiscal Studies)
MDB	Multilateral development bank
MECIP	Modelo Estándar de Control Interno del Paraguay (Internal Control Standard Model of Paraguay)
MEP	Multiyear execution plan
NCB	National competitive bidding
OECD	Organisation for Economic Co-operation and Development
PCR	Project completion report
PCU	Program coordination unit
QCBS	Quality- and cost- based selection
RUC	Registro Único de Contribuyentes (Taxpayer Master File)
SBE	Subasta a la baja electrónica (online reverse auction)
SET	Subsecretaría de Estado de Tributación (Office of the Undersecretary of State for Taxation)
SIAF	Sistema Integrado de Administración Financiera (Integrated Financial Administration System)
SICO	Sistema Integrado de Contabilidad (Integrated Accounting System)
SICP	Sistema de Información de las Contrataciones Públicas (Public Contracting Information System)
SIFEN	Sistema de Facturación Electrónica (Electronic Invoicing System)
SOFIA	Sistema de Ordenamiento Fiscal del Impuesto en Aduanas (Customs Fiscal Management System)
SUAF	Sub-Unidad de Administración y Finanzas (Administration and Finance Subunit)
TADAT	Herramienta de Evaluación y Diagnóstico de la Administración Tributaria (Tax Administration Assessment and Diagnostic Tool)
UAF	Unidad de Administración y Finanzas (Administration and Finance Unit)
VAT	Value-added tax

## EXECUTIVE SUMMARY

### PARAGUAY PROGRAM FOR CONSOLIDATION OF THE NATIONAL TAX REVENUE DIRECTORATE (DNIT) (PR-L1192)

Financial Terms and Conditions							
<b>Borrower:</b>				<b>Flexible Financing Facility<sup>(a)</sup></b>			
National Tax Revenue Directorate (DNIT)				<b>Amortization period:</b>	23.5 years		
<b>Executing agency:</b>				<b>Disbursement period:</b>	6 years		
National Tax Revenue Directorate (DNIT)				<b>Grace period:</b>	7 years <sup>(b)</sup>		
<b>Guarantor:</b>				<b>Interest rate:</b>	SOFR-based		
Republic of Paraguay				<b>Credit fee:</b>	<sup>(c)</sup>		
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Inspection and supervision fee</b>		<sup>(c)</sup>		
<b>IDB (Ordinary Capital):</b>	30,000,000	100	<b>Weighted average life:</b>		15.25 years		
<b>Total:</b>	30,000,000	100	<b>Currency of approval:</b>		U.S. dollar		
Project at a Glance							
<b>Project objective/description:</b> The general development objective is to improve tax and customs revenue generation capacity through the specific development objective of improving the efficiency of operations of the National Tax Revenue Directorate (DNIT).							
<b>Special contractual conditions precedent to the first disbursement of the financing:</b> As contractual conditions precedent to the first disbursement of the loan proceeds, the borrower will provide evidence, to the Bank's satisfaction, that: (i) the program <a href="#">Operating Regulations</a> have been approved and have entered into force on the terms previously agreed upon with the Bank; and (ii) the program coordination unit (PCU) has been created with sufficient technical, administrative, fiduciary, and financial capacity, and the necessary core staff of the PCU have been contracted or appointed, as appropriate, including: (a) a general coordinator; (b) a procurement specialist; and (c) a financial specialist, on the terms previously agreed upon with the Bank (paragraph 3.6).							
<b>Exceptions to Bank policies:</b> A partial exception to Operational Policy OP-303, Guarantees Required from the Borrower (GP-104-2) is requested, such that the sovereign guarantee of the Republic of Paraguay will apply solely to the financial obligations of the borrower (paragraph 3.4).							
Strategic Alignment							
<b>Objectives:<sup>(d)</sup></b>	O1 <input checked="" type="checkbox"/>		O2 <input checked="" type="checkbox"/>			O3 <input checked="" type="checkbox"/>	
<b>Operational focus areas:<sup>(e)</sup></b>	OF1 <input checked="" type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input checked="" type="checkbox"/>	OF3 <input checked="" type="checkbox"/>	OF4 <input type="checkbox"/>	OF5 <input type="checkbox"/>	OF6 <input type="checkbox"/>	OF7 <input checked="" type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (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.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that 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.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

<sup>(d)</sup> O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

<sup>(e)</sup> OF1 (Biodiversity, Natural Capital and Climate Action); OF 2-G (Gender Equality); OF 2-D (Inclusion of Diverse Population Groups); OF 3 (Institutional Capacity, Rule of Law and Citizen Security); OF 4 (Social Protection and human Capital Development); OF 5 (Productive Development and Innovation through the Private Sector); OF 6 (Sustainable, Resilient and Inclusive Infrastructure); OF 7 (Regional Integration).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 **Background.** Between 2010 and 2018, Paraguay had strong macroeconomic performance, posting average annual growth of 4.8%, above the 2.2% for Latin America and the Caribbean [1]. However, starting in 2019, economic activity slowed amid droughts and the COVID-19 pandemic for 0.7% average annual GDP growth between 2019 and 2022.<sup>12</sup> While the fiscal position remained stable between 2010 and 2018, with overall deficits averaging 0.7% of GDP,<sup>3,4,5</sup> larger deficits were recorded between 2019 and 2023 (3.9% of GDP on average). This reflected policies implemented to counteract the effects of climate events and the health crisis, which boosted public investment and current expenditures by 1.1 and 2.4 percentage points of GDP, respectively.<sup>6</sup> Although the public debt grew from 22.9% of GDP in 2019 to 38.2% in 2023, it remained below the Latin American and the Caribbean average (70% of GDP in 2022).
- 1.2 Between 2010 and 2023 central government tax revenues averaged 9.6% of GDP,<sup>7</sup> below the Latin American and Caribbean average of 15.4% and among the three lowest in the region [2]. The low tax burden reflects three features of the Paraguayan tax system: (i) narrow tax bases owing to the informality of the economy, representing around 37% of GDP;<sup>8</sup> (ii) a low-tax policy with top rates of 10% for both personal and corporate income tax and for value-added tax (VAT);<sup>9</sup> and (iii) inefficiencies in tax and customs processes that include technology support weaknesses in key areas, compounded by weak control and integrated risk management (IRM) [3].<sup>10</sup> In customs management there are opportunities to strengthen revenue and improve service quality,<sup>11</sup> which is particularly important

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1 In 2019 the economy shrank 0.40% in the wake of a drought. In 2020 growth was -0.82%, due mainly to the impact of COVID-19. In 2022, a new drought episode kept output growth to just 0.18% [4].

2 In 2024 and 2025, the economy is expected to grow 3.8% [5].

3 In the same period, primary deficits averaged 0.33% of GDP (Ministry of Economy and Finance).

4 In the 2000s decade, the fiscal accounts ran surpluses owing to sustained reforms [6]. However, deficits have emerged since 2012, due partly to a higher current wage bill.

5 Deficits were within the 1.5% of GDP limit set in the Fiscal Responsibility Law.

6 Comparing the averages of 2010-2018 and 2019-2023.

7 Average 13.4% of GDP including social security contributions and revenues generated by the Itaipú and Yacyretá binational projects (average 2010-2021).

8 Level comparable to the regional average (with data for the period 2004-2021). Labor informality reached 68.9% in 2019, above the regional average of 62%. Paraguay was one of the countries with the highest informality rate [7].

9 The VAT rate is 5% for basic basket goods. Tax rates are among the lowest in the region [8].

10 These weaknesses keep revenue intake below potential. According to Peláez (2022), in 2016-2018 the VAT compliance gap was 27%, while the corporate income tax gap was 47.5% (Inter-American Center of Tax Administrations). Moreover, the Tax Administration Assessment and Diagnostic Tool (TADAT) (2023) detected weaknesses in timely compliance, mainly the filing of returns and payment of taxes.

11 Despite recent improvements, the trade facilitation indicators [10] show that Paraguay lags 27% behind in best practices in Latin America and the Caribbean, up to 50% behind in compliance with tariff obligations, and up to 33% behind in document management and processes.

considering that foreign trade represents 70% of GDP<sup>12</sup> and the fact that Paraguay's customs collect around 40% of VAT.<sup>13</sup>

- 1.3 Paraguay thus needs to increase its revenues, to restore fiscal balance and implement public policies aimed at resuming economic growth by boosting productivity and regional integration. It also needs to shore up the gains made in reducing poverty and inequality by providing more and better public services to citizens.
- 1.4 Since 2023 the government has promoted tax reforms along the crosscutting axis of transparent and efficient public management under the [Paraguay 2030 National Development Plan](#). The reforms include creating the National Tax Revenue Directorate (DNIT) by merging the National Customs Directorate (DNA) and the Office of the Undersecretary of State for Taxation (SET). The DNIT is a separate and autonomous corporate body under public law with its own assets ([Law 7143/2023](#)) and a mission to ensure correct enforcement of tax and customs regulations and to facilitate foreign trade. The DNIT's main objectives are to improve the quality of tax and customs services and increase revenue [\[9\]](#).
- 1.5 **Problem to be addressed.** The main problem to be addressed by this operation is Paraguay's limited capacity to generate tax and customs revenues, owing to inefficiency in DNIT operations (paragraph 1.2). Although creating DNIT by merging the SET and DNA seeks to grow revenues through economies of scale, the new entity has shortcomings in its management processes and requires significant investments to remedy the weaknesses accumulated by its two constituent organizations over time. The DNIT is not currently making the most of the opportunities offered by technology, nor is it exploiting potential synergies in crosscutting processes executed in both the domestic tax and the customs spheres. The following specific problems have been identified:
- 1.6 **Domestic tax management is not focused on facilitating voluntary compliance, nor does it take advantage of technology to improve compliance monitoring.** The facilitation for tax compliance is limited because: (i) only a few of the procedures that could be automated are actually offered through digital channels;<sup>14 15</sup> (ii) the information contained in the electronic invoice is not harnessed to promote compliance through the prefilling of tax returns, especially for large taxpayers.<sup>16 17</sup> In terms of compliance monitoring: (iii) the process of verifying tax compliance involves activities that are performed manually, leading to

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<sup>12</sup> Average for 2013-2022 [\[11\]](#).

<sup>13</sup> VAT collection in customs averaged 41.4% in 2019-2023.

<sup>14</sup> In 2023, the SET processed 566,171 taxpayer service procedures, 41% of which were online. The rest were processed manually, consuming a large amount of staff time.

<sup>15</sup> Timeliness in filing of the principal taxes and VAT payments does not meet [TADAT](#) minimum standards.

<sup>16</sup> This is considered a good practice in tax administrations, and could be enhanced if electronic invoices were available for foreign trade operations.

<sup>17</sup> In 2023 between 30% and 60% of revenue collected by tax administrations came from large taxpayers (OECD). In Paraguay 61.2% of revenue came from large taxpayers (average 2021-2023), much of it related to foreign trade operations.

errors, delays<sup>18</sup> and cost overruns;<sup>19</sup> and (iv) the limitations of the DNIT's technology infrastructure and computational capacity constrain its ability to perform mass controls that would contribute to closing compliance gaps [12].

**1.7 Limitations extend across all the different stages of customs operations.**

These challenges relate to: (i) fragmented and insufficiently systemized procedures in the different operational stages (registration and prior procedures, freight management, and clearance), and in all regimes, modalities, and means of transportation, which are largely performed manually,<sup>20</sup> leading to duplication, delays, and, ultimately, inefficiencies in customs operations that need to be remedied with modernized, standardized, automated, and traceable procedures;<sup>21</sup> and (ii) insufficient or outdated hardware that constrains the ability to perform controls, resulting in inadequate traceability of freight and only minimal risk management.<sup>22 23</sup> This slows down the clearance of foreign trade and makes it more expensive, limiting adequate attention to economic operators.<sup>24</sup> In such a context, these weaknesses call for development of the Customs Fiscal Management System (SOFIA) to host new processes and interoperate with other DNIT databases.

**1.8 The DNIT faces challenges in coordinating and consolidating processes that are shared between the tax and customs areas.**

The potential benefits of the merger of the SET and DNA (paragraph 1.5) are kept from being realized by the following: (i) operations are still unintegrated in strategic areas, principally the coexistence of two registries of taxpayers,<sup>25</sup> and DNIT operations do not take a structured approach to risk management<sup>26 27</sup> with a 360-degree view of taxpayers that would make it possible to interlink their domestic and foreign trade obligations and thus increase compliance;<sup>28</sup> (ii) inspection, audit, and enforcement actions and support for them are uncoordinated and fail to take advantage of the information provided by different DNIT units, and are in need of a unified model for the coordinated selection of cases for domestic tax and foreign trade audits, which

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<sup>18</sup> Audit actions in respect of overdue obligations take more than 14 days, which is the limit established as good practice in the TADAT.

<sup>19</sup> According to the [OECD \(2023\)](#), electronic and automated checks, validations, and data matching consume less resources. Audit functions currently require around 30% of a tax administration's staff.

<sup>20</sup> The DNIT's General Customs Division (GGA) handles 48 procedures, 4% of which are systemized, 65% semi-systemized, and 31% performed manually (DNIT, 2024).

<sup>21</sup> Activities that require updating of the Customs Code (Law 2422/2004), which dates back to 2004.

<sup>22</sup> The system of electronic and nonelectronic seals needs to be strengthened, as do capacities and equipment for analyzing and classifying goods entering the country.

<sup>23</sup> The DNIT has 17 scanners for inspecting imports, but no equipment for exports.

<sup>24</sup> Goods take more than 50 hours to be released for exports, and 60 hours for imports.

<sup>25</sup> Currently, two taxpayer registries are maintained, one at the General Domestic Taxes Division (GGII) and the other at the GGA. They are partially integrated.

<sup>26</sup> According to the TADAT assessment (2023), risk identification, analysis, and management are at early stages of development. In the "effective risk management" category, two of the indicators received a "C" rating, and the remaining three were rated "D".

<sup>27</sup> In the customs area, risk management is applied through freight selectivity at the time of clearance with no holistic, preventive vision making it possible to segment economic operators by volume and risk level.

<sup>28</sup> The DNIT created the General Directorate of Tax intelligence (DGIF) for this purpose.

would make them more effective and efficient;<sup>29 30</sup> and (iii) although there is an opportunity to manage information strategically, in order to deliver better services and close compliance gaps,<sup>31</sup> technological limitations and the absence of policies on governance and data management mean that this opportunity is currently being neglected.<sup>32</sup>

- 1.9 **The tax and customs ecosystems need to be integrated with a new technology architecture to support current and future processes.** This is due principally to the following: (i) the entity is in the early stages of digital transformation [13] and has no strategic vision for its technological development, consistent with its institutional strategic plan, that would enable it to target its investments;<sup>33</sup> (ii) the current technology architecture of the tax and customs environments, developed between 2002 and 2006, has shortcomings and will imminently become obsolete in the medium term, which prevents it from meeting new functional requirements<sup>34</sup> and taking advantage of the potential of the data it receives and produces. The key core systems (Marangatú and SOFIA) have a basic integration only at the level of consultation and validation for the operation of their most critical processes, but are unintegrated for such functions as tax compliance analysis or facilitation services supported by digital identity tools;<sup>35</sup> (iii) the General Customs Division (GGA) and General Domestic Taxes Division (GGII) have independent data centers,<sup>36</sup> whose storage and processing capacity needs to be increased, in order to strengthen data analytics and support operational modernization;<sup>37</sup> and (iv) delivering digital services over the Internet heightens exposure to cyber risk,<sup>38 39</sup> but the DNIT has no capabilities for managing potential cyberattacks and ensuring business continuity.

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<sup>29</sup> In line with the recommendations of the World Customs Organization ([2023](#)) for strengthening information exchange between the customs and tax authorities.

<sup>30</sup> Some of the actions to support inspection, audit, and enforcement have no operational model for units that audit foreign trade operations (such as the Jeroviaha Unit and the Antismuggling Unit) that would make it possible to use resources efficiently and effectively.

<sup>31</sup> Around 95% of the tax administrations involved in the OECD study (2023) use data science tools to manage both third-party and internally generated data.

<sup>32</sup> The DNIT currently has no system for producing reports on a timely basis to support fiscal policy design and satisfy internal and external demand for information.

<sup>33</sup> The resources allocated to technology by the SET and DNA in 2022-2023 were equivalent, on average, to 2.3% of the aggregate budget of the two entities, and in 2024 increased to 5.0%. According to the World Bank's [Global Tax Program](#), the standard for digital tax administration is 6.0% to 10.0%.

<sup>34</sup> For example, 18% and 31% of GGII and GGA procedures, respectively, are performed manually, as are 56% in the crosscutting areas of the DNIT.

<sup>35</sup> OECD (2022) notes that in most tax administrations over 80% of individual taxpayers use a digital identity.

<sup>36</sup> According to [Uptime Institute](#), [Consulting-Specifying Engineer](#), and [Data Center Dynamics](#), in 2023 the industry's average power usage effectiveness index was 1.58. For DNIT, this index is estimated at between 1.7% and 1.9%.

<sup>37</sup> This combined capacity is currently 448 terabytes (317 terabytes usable), which is below the average of 939 terabytes at other tax administrations of the region (IDB, Digital Maturity Index).

<sup>38</sup> According to the European Union Agency for Cybersecurity ([ENISA 2023](#)), cyberattacks on government entities increased 60% between 2019 and 2023. This led some tax and customs administrations, like Spain's, to reorganize their information technology unit [14].

<sup>39</sup> The DNIT has no evidence of having suffered this type of attack thus far.

- 1.10 **The DNIT lacks tools for implementing a strategic vision and managing its human talent effectively.** The DNIT was created only recently and so needs: (i) a new planning and management framework with specific tools for monitoring, decision support, and internal and external communication. Accordingly, the DNIT has begun preparing its first results-oriented institutional strategic plan;<sup>40</sup> and (ii) an approach to managing potential internal resistance to the new organizational model and the modernization of tax and customs processes;<sup>41</sup> (iii) in terms of human resources, integration gives rise to the need to manage the entity's staff effectively<sup>42</sup> since wage and benefit levels previously differed between the SET and DNA, but the DNIT has no policies, rules and instruments forming an integrated, unified framework for human talent management,<sup>43</sup> promoting staff integrity and development and reflecting gender equality<sup>44</sup> and the inclusion of persons with disabilities;<sup>45</sup> and (iv) in terms of education and training, the Higher Institute of Fiscal Studies (ISEF), created by Law 7143/2023, is not yet operational and requires support for implementing programs at a technical level.<sup>46</sup> Additionally, the training programs implemented by the General Directorate of Human Talent (DGTH) need to be expanded and updated, to cover the thematic areas demanded by the new entity, and to promote continuous and inclusive learning.<sup>47 48</sup>
- 1.11 **Climate change considerations.** In its [Nationally Determined Contribution](#) submitted to the United Nations Framework Convention on Climate Change, Paraguay set a target to reduce CO<sub>2</sub> emissions by 20% relative to projected emissions by 2030. To do so, the country is prioritizing five specific mitigation sectors. The loan will contribute to reducing emissions in the energy and transportation and waste sectors ([optional link 3](#)).
- 1.12 **Gender and diversity considerations.** The DNIT currently has a staff of 2,459, 31% of whom are women. This is lower than the 49% worldwide, reported by the International Monetary Fund ([IMF, 2023](#)). In 2021, women accounted for 42% of the staff of general directorates in Paraguay's central government [[15](#)], but this percentage is currently only 13% at the DNIT. According to 2012 Census data reported by Paraguay's [National Institute of Statistics](#), persons with disabilities account for 10.7% of the population. At the DNIT only 1.5% of current staff are persons with disabilities, despite the fact that Law 3585/2008 calls for this

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<sup>40</sup> According to the IMF (2023), the SET and DNA had no strategic results-based management models.

<sup>41</sup> A change management plan was launched for this reason.

<sup>42</sup> The DNIT has a staff of 2,459 (69% men, 31% women). Women's participation is lower than the 49% reported by the [IMF \(2023\)](#) for tax and customs administrations globally.

<sup>43</sup> It also has no performance evaluation system, skills-based management policy, variable pay system, career plan, or technology platform for talent management.

<sup>44</sup> When the National Directorate, General Division, General Directorate, and Coordination Office are included, women hold 21% of positions (paragraph 1.12).

<sup>45</sup> Currently, 1.5% of personnel are persons with disabilities (69% men, 31% women) (paragraph 1.12).

<sup>46</sup> ISEF's academic offerings include the Technical Course of Study in Customs Management and the Higher Technical Program in Taxation. In 2022-2023, only 21% of the beneficiaries of the customs training program were women, and 51% in the tax program.

<sup>47</sup> In 2023, 6,100 employees were trained. The training offerings cover basic skills and technical training. However, in 2023 only 32% of personnel had access to training.

<sup>48</sup> In 2023, 73% of women and 54% of men who are persons with disabilities received training, mainly in "New paradigms in disability and accessibility," with some training in intermediate or advanced technical topics.

percentage to be at least 5%. The IMF ([Gender and Revenue Administration](#), 2023) notes that the effectiveness of tax and customs administrations depends on organizational effectiveness and productive interaction with taxpayers and foreign trade operators, and that both dimensions are related to gender equity. This is consistent with the program's actions in human talent management and better online service delivery to taxpayers (paragraphs 1.27 and 1.30).

- 1.13 **The program's design strategy.** The program will support the process of integrating Paraguay's tax and customs areas, to make domestic tax and customs revenue collection more efficient and provide better quality tax and trade facilitation services. The program's strategy will leverage actions to provide more efficient and coordinated processes, managed under a sufficiently integrated information platform without duplication and with appropriate technology support. The program will promote the modernization of processes and the gradual digital transformation of the DNIT, to make revenue collection and taxpayer services more effective and efficient.<sup>49</sup> Promoting the integration of the tax and customs ecosystems, supported by a robust technology platform and a new technology architecture, will make it possible to scale the gains and results achieved under the program in the future by modernizing processes and establishing new ones. In addition, the DNIT will be able to pursue long-term challenges like becoming a tax and customs administration driven by data and information, as well as to achieve an increasing degree of digital maturity. This strategy is part of a programmatic approach that includes projects, technical cooperation, studies and technical assistance (paragraphs 1.14, 1.161.16, 1.17, 1.191.19 and [optional link 7](#)) and also draws on relevant knowledge and empirical evidence.<sup>50</sup> The operation builds on the gains of program [4671/OC-PR](#) (approved in 2018 for US\$25 million, now in execution with 44.01% disbursed) (paragraph 1.14), which is supporting implementation of the Electronic Invoicing System (SIFEN). The Bank is also coordinating with the IMF on technical assistance to the DNIT and the design of this operation, to make sure the interventions complement one another. This work is supported by technical cooperation operation [ATN/OC-20833-PR](#) (approved in 2024 for US\$200,000, now in execution with 7.75% disbursed), to support DNIT institution-strengthening and the start of execution of this operation.
- 1.14 **The Bank's experience in the country.** The Bank has extensive experience in supporting programs to improve Paraguay's tax and customs administrations. The Fiscal Management Strengthening and Modernization Program (PROFOMAF) ([1253/OC-PR](#), approved in 2000 for US\$6 million, closed) strengthened the SET and DNA by modernizing tax and customs regulations, strengthening the SET's organizational structure, and improving the organizational development and management capacity of the two agencies (OVE, 2017, [PCR 1253/OC-PR](#)). Similarly, PROFOMAF II ([2014/BL-PR](#), approved in 2008 for US\$9.5 million, closed) consolidated the PROFOMAF gains with an emphasis on policy development and technological modernization of the SET (OVE, 2017, [PCR 2014/BL-PR](#)). In addition, program [4667/OC-PR](#) (approved in 2018 for US\$300 million, closed) promoted policy measures for the creation and

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<sup>49</sup> The Fiscal Management Sector Framework Document (GN-2831-13) notes that digital tools are powerful instruments for increasing revenue intake, and should be introduced gradually with a modular approach.

<sup>50</sup> [Monitoring and evaluation plan](#).

implementation of SIFEN. Program [4671/OC-PR](#), in coordination with the IMF, supported the functional and operational design of the electronic invoice and its technological development and, in conjunction with program [5544/OC-PR](#) (approved in 2022 for US\$250 million, closed), promotes the widespread use of the electronic invoice, and thus far has achieved significant coverage of medium- and large-scale taxpayers. Program [1916/BL-PR](#) (approved in 2009 for US\$10 million, closed) resulted in the implementation of the single window for more streamlined export processing. In terms of technical cooperation, operation [ATN/SF-12510-PR](#) (approved in 2010 for US\$8,800, closed) enabled an exchange of experiences for the implementation of tax printers in the Dominican Republic; operation [ATN/AA-20690-RG](#) (approved in 2023 for US\$300,000, now in execution with 24.27% disbursed) supports the tax administration through capacity-building to protect the integrity of tax compliance; operation [ATN/OC-17032-RG](#) (approved in 2018 for US\$1 million, closed) supported the customs administration in negotiating mutual recognition agreements for authorized economic operator programs with MERCOSUR and the agreement between MERCOSUR and the Pacific Alliance; and operation [ATN/OC-19490-PR](#) (approved in 2022 for US\$300,000, now in execution with 23.81% disbursed) enabled the development of training activities for MEF staff with content aimed at finding opportunities to adopt measures for gender equality in tax policy and management.

- 1.15 **The Bank's experience in the region.** The modernization of tax and customs administrations is one of the areas in which the Bank has the most experience in the region [16]. In Colombia, it supported the widespread use of the electronic invoice through project [3155/OC-CO](#) and the digital transformation program for the National Tax and Customs Directorate ([5148/OC-CO](#)).<sup>51</sup> The Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO I) ([BR-X1005](#)) strengthened institutional capacity to increase revenue intake; and PROFISCO II ([BR-X1039](#)) promoted the widespread use of electronic tax documents to encourage voluntary compliance and risk analysis. Experiences in the following countries supported institutional and operational capacity-building, as well as technology systems to enhance tax and customs administration efficiency: Honduras ([3541/BL-HO](#) and [5694/BL-HO](#)); Peru ([3214/OC-PE](#)); Belize ([4839/OC-BL](#)); and Ecuador ([5598/OC-EC](#) and [5599/KI-EC](#)).
- 1.16 **Lessons learned.** This operation draws on lessons learned during the preparation and execution of similar operations. Actions to support the modernization of tax and customs administrations have revealed advantages in the following: (i) the use of information and communication technologies (ICTs) to make tax collection more efficient, by modernizing tax, customs and institutional processes supported by technology (paragraphs 1.25, 1.26, and 1.27); (ii) information-intensive inspection, audit, and enforcement models, by implementing mass controls and information-based IRM and audit models (paragraph 1.25); (iii) simplification of procedures to facilitate tax and customs compliance, by implementing a tax compliance facilitation model, and the reengineering of customs processes (paragraph 1.24); and (iv) tools that contribute to decision-making and strengthen follow-up mechanisms, by supporting the monitoring of the implementation of the DNIT's

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<sup>51</sup> This program also promoted the production of data to identify potential inequities in tax management.

institutional strategic plan (paragraph 1.27).<sup>52</sup> The program will also benefit from other lessons learned from the Bank's experience, such as including change management tools in projects of this kind, by implementing a change management plan (paragraph 1.28); and the desirability of pursuing complementarity and synergies with other agencies, notably the work with the IMF [17], by coordinating with the IMF to define an IRM model, to be implemented with this operation's support (paragraphs 1.18 and 1.25).

- 1.17 **Complementarity with other Bank programs.** The program will complement operation [PR-L1182](#),<sup>53</sup> now in preparation, which has the objective of contributing to the acceleration of trade integration through improvements in trade promotion and facilitation, and a component for promoting coordinated border management with the DNIT as a participating institution. It also complements technical cooperation operation [ATN/OC-20833-PR](#) (approved in 2024 for US\$200,000, now in execution with 7.75% disbursed), which supports the institutional strengthening of the DNIT, and program [4671/OC-PR](#) (paragraph 1.14), which enabled the development of the electronic invoice and supports SIFEN implementation ([optional link 7](#)).<sup>54</sup>
- 1.18 **Coordination with other cooperation agencies.** The Bank has been coordinating with the IMF on supporting the process of creating the DNIT since 2023, as well as on the activities incorporated into the program (paragraph 1.13). Specifically, the two institutions are working together on defining an IRM approach, optimizing customs clearance procedures, and providing support for institutional strategic planning. The Bank also coordinates with the Korean cooperation agency, which is supporting the DNIT on issues related to the automation of freight management.
- 1.19 **The Bank's value-added.** The program's design benefits from progress achieved with Bank support both regionally and in Paraguay. Regionally, the Bank has led institutional reform programs for revenue collection agencies in Brazil (state level), Honduras, and Colombia (paragraph 1.15) through institutional and, especially, technological advances. In Paraguay, the Bank has been providing technical expertise and financial resources through its various instruments in a sustained effort since the end of the previous decade ([optional link 7](#)). These actions add up to a robust programmatic approach, strengthened by work in coordination with other international agencies (paragraph 1.18) and by the program's complementarity with another operation now in preparation (paragraph 1.17).
- 1.20 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and aligned with the following objectives: (i) reduce poverty and inequality, by fostering the growth of tax revenues to expand the delivery of public goods and services; (ii) address climate change, by digitalizing processes and eliminating manual tasks, to use less paper, and by purchasing energy-efficient equipment. According to the [joint methodology of the multilateral development banks \(MDBs\) for tracking climate](#)

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<sup>52</sup> Among other sources, these lessons are reflected in the project completion reports of the following operations: [2331/OC-BR](#) (the PROFISCO I CCLIP with 14 individual operations), [3155/OC-CO](#), [3214/OC-PE](#) and [2658/OC-JA](#).

<sup>53</sup> Program to support Paraguay's international positioning, promotion, and trade facilitation (US\$25 million).

<sup>54</sup> The possibility of working with IDB Lab on periodic studies of perceptions of the quality of DNIT services will also be explored.

- [finance](#), 10.31% the operation's resources are climate finance, because it will finance a data center that incorporates sustainable construction certification criteria and the purchase of energy-efficient equipment; and (iii) bolster sustainable regional growth, by helping to improve the country's competitiveness through shorter logistics times, lower costs, and improved economic integration with better processes, regulations, and customs management systems. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; and (iv) regional integration.
- 1.21 The program is aligned with the priorities of the Sector Strategy: Institutions for Growth and Social Welfare (GN-2587-2), by supporting the generation of public revenue. It is also consistent with the following sector frameworks: Fiscal Management (GN-2831-13), by facilitating compliance and promoting tax control; Integration and Trade (GN-2715-11), by promoting the modernization of customs administration; Gender and Diversity (GN-2800-10), by supporting policies that contribute to reducing biases against women and persons with disabilities; and Climate Change (GN-2835-13), by supporting the reduction of greenhouse gas emissions through digitalization and energy efficiency. The program is also aligned with the IDB Group Country Strategy with Paraguay 2019-2023 (GN-2958)<sup>55</sup> in terms of the strategic objective to boost the mobilization of public and private resources for development. The operation is included in the Update to Annex III of the 2024 Operational Program Report (GN-3207-3). It is also aligned with the strategic pillars of "Poverty reduction and social development" and "Regional economic integration," as well as with the crosscutting theme of "Transparent and efficient public management" of the [Paraguay 2030 National Development Plan](#).
- 1.22 **Paris alignment.** This operation has been reviewed using the [Joint MDB Assessment Framework for Paris Alignment](#) and the [IDB Group Paris Alignment Implementation Approach](#) (GN-3142-1). It is deemed to be aligned with (i) the mitigation objective and (ii) the adaptation objective of the Paris Agreement, based on a specific analysis. Alignment was based on the following factors: (i) according to the program [Operating Regulations](#), the data center equipment will comply with energy efficiency levels equivalent to at least Energy Star labeling; (ii) the data center will be connected to the power grid; and (iii) no hydrofluorocarbon cooling will be financed. The operation is therefore considered consistent with Paraguay's Nationally Determined Contribution, and no emission risks, either committed or transition, have been identified ([optional link 3](#)).
- B. Objectives, components, and cost**
- 1.23 **Program objectives and components.** The general development objective is to improve tax and customs revenue generation capacity through the specific development objective of improving the efficiency of operations of the National Tax Revenue Directorate (DNIT). The program will have the following components:
- 1.24 **Component 1. Strengthening of tax and customs processes (US\$8.7 million).** This component seeks to improve the DNIT's tax and customs processes. For tax processes, financing will be provided for the implementation of: (i) a tax

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<sup>55</sup> In effect and in a transition period until 31 December 2024.

compliance facilitation model that makes it possible to expand the range of services provided online, prefill VAT returns for large and medium-scale taxpayers, and provide an operational and technological solution for electronic invoices in foreign trade; and (ii) a mass controls model that makes it possible to crosscheck data in order to verify tax compliance in a timely manner and cover more taxpayers. For customs processes, financing will be provided for: (iii) reengineering of the processes used by the DNIT in the management and control of foreign trade operations,<sup>56</sup> including critical processes to support customs operations,<sup>57</sup> and updating of the Customs Code;<sup>58</sup> (iv) strengthening of customs control processes through an operational model of electronic and nonelectronic seals for the physical traceability of freight, strengthening of the customs laboratory,<sup>59</sup> and a nonintrusive system for inspecting export freight.<sup>60</sup> The component will also finance the following crosscutting outputs: (v) modernization of the Taxpayer Master File (RUC) by merging the GGII and GGA databases;<sup>61</sup> implementation of: (vi) a tax and customs IRM model that integrates information on all transactions by taxpayers/economic agents, providing a 360-degree view; (vii) a tax and customs audit model that includes a reengineering of processes and procedures for domestic tax and foreign trade audits (including their selection, execution, and feedback) and an operational model for actions to support customs inspection in the field;<sup>62</sup> (viii) a data governance model that will enable the DNIT to plan, process, store, and use data and ensures data quality and security;<sup>63</sup> and (ix) a system for viewing and generating statistical and analytical reports that will make it possible to process data contained in the Marangatú and SOFIA systems for reporting, public policy design, and decision-making.

- 1.25 **Component 2. Technology platform, data, and information security (US\$15.9 million).** To guide the digital transformation of the DNIT and provide technology support for the processes strengthened with the program,<sup>64</sup> financing will be provided for: (i) implementation of a Information Technology Strategic Plan that sets medium- and long-term objectives for integration of the tax and customs ecosystems, and deployment of a technology architecture to guide the digital evolution of the DNIT;<sup>65</sup> (ii) optimization of the tax and customs information systems through the development of new modules, providing information technology support for the optimized processes (paragraph 1.24); (iii) implementation of an integration, interoperability, and analytics platform that

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<sup>56</sup> Throughout its various stages, in all customs regimes, and all modalities.

<sup>57</sup> Guarantees that can be required in customs clearance, seized goods, and summary proceedings.

<sup>58</sup> The proposal may be based on work done by the DNA with World Bank support in 2020.

<sup>59</sup> Equipping the central laboratory to strengthen the analysis of sensitive goods for Paraguay's foreign trade, such as fuels, textiles, and agricultural products.

<sup>60</sup> Purchase and installation of a high-capacity scanner. The DNIT will budget resources for its maintenance, beginning in the first year of its operation.

<sup>61</sup> The RUC will include taxpayers and persons related to customs activity.

<sup>62</sup> The model will define the functions of the Antismuggling Unit and the Jeroviaha Unit and its coordination with the DGIF.

<sup>63</sup> Information security refers to the intra-agency domain.

<sup>64</sup> Outputs (ii) and (iii) of this component build on and supplement the developments planned in Component 1.

<sup>65</sup> Based on microservices, according to [Gartner-Microservices-Architecture](#) recommendations.

spans the unified management and exchange of data among the main tax and customs systems and outside parties,<sup>66</sup> a digital identity mechanism, a data factory model [18] for developing data processing models,<sup>67</sup> and the implementation of a data lake<sup>68</sup> that integrates the repositories of the tax and customs ecosystems; (iv) strengthening of the DNIT's data processing capacity by increasing storage and data processing capacity<sup>69</sup> and designing a new data center;<sup>70</sup> and (v) implementation of a cybersecurity model based on Zero-Trust<sup>71</sup> and a cybersecurity and cyber-resilience strategy to provide the DNIT with prevention, response, and recovery capabilities in the event of cybersecurity incidents.

- 1.26 **Component 3. Improvement of institutional capacities and human talent management (US\$2.8 million).** To strengthen institutional capacities, financing will be provided for: (i) the strengthening of strategic management, supporting implementation and follow-up for the DNIT's institutional strategic plan,<sup>72</sup> and an external and internal institutional communication plan, to enhance the image and public knowledge of the entity and promote staff engagement; (ii) the implementation of a change management plan that will address resistance to institutional change. To promote effective human resources management, financing will be provided for: (iii) a comprehensive human talent management model with elements reflecting gender and inclusion of persons with disabilities, which includes: a dictionary of skill profiles, a performance evaluation and variable pay system, a career plan, a career progression structure, a gender equity policy, and a policy on the inclusion of persons with disabilities;<sup>73</sup> and the implementation of the DNIT's ethics code. In terms of education and training, financing will be provided for: (iv) strengthening of ISEF organization, including the definition of a curriculum and the implementation of a virtual education platform; and the implementation of an ongoing education and training program with elements reflecting gender and inclusion of persons with disabilities,<sup>74</sup> and improvements to the existing virtual training platform.

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<sup>66</sup> Governmental and customs users of the country that consume DNIT data.

<sup>67</sup> Used for revenue collection services, auditing, risk management, reporting, and studies.

<sup>68</sup> Repository for the storage of structured, semistructured, and unstructured data.

<sup>69</sup> Equipment with Energy Star or equivalent certification. The DNIT will budget resources for equipment maintenance, beginning in the second year of operation.

<sup>70</sup> The DNIT plans to build a new data center in the next few years, and the program will support the design of the corresponding infrastructure (preinvestment study). The designs must adhere to the guidelines of the document, "Orientación técnica para la alineación de las operaciones del Grupo BID con el AP. Tecnologías de información y comunicación para el desarrollo de la economía digital" [19]. These criteria will be addressed by adhering to sustainable construction certification guidelines (e.g., LEED BD+C: Data Centers, LEED O+M, EDGE Building applied to data centers, BREEAM applied to data centers and Energy Star or equivalent).

<sup>71</sup> The Zero-Trust model provides a robust and adaptable defense, which is essential for protecting sensitive information and maintaining trust [20].

<sup>72</sup> Including a balanced scorecard tool.

<sup>73</sup> Including onboarding plans that are sensitive to different types of disability, which will support the entity's targets (persons with disabilities representing 5% of staff by 2028).

<sup>74</sup> The DGTH will be responsible for implementation.

- 1.27 **Program management, evaluation, and audit (US\$2.6 million).** The program resources will finance: (i) the technical and fiduciary coordination team; (ii) midterm and final evaluations of the program; and (iii) audit.
- 1.28 **Categories of expenditure.** The program will finance: (i) consulting services (individual and firms), US\$16,707,920 (55.69%); (ii) goods, US\$12,208,000 (40.69%); (iii) nonconsulting services, US\$1,034,080 (3.45%); and (iv) works, US\$50,000 (0.17%) ([required link 3](#)).
- 1.29 **Beneficiaries.** The direct beneficiaries are: (i) the DNIT and other government institutions, which will have additional resources for implementing public policies to support growth, productivity, and the reduction of poverty and inequality; (ii) DNIT staff, who will benefit from integrated human talent management policies and will have more access to training; (iii) taxpayers, who will have better conditions for meeting their tax obligations; and (iv) the private sector, which will have higher quality customs and tax management services. Citizens generally will be indirect beneficiaries of the program since they will have access to additional public works and services as a result of increased tax revenue intake.

### C. Key results indicators

- 1.30 The general development objective will be measured through the following impact indicators: (i) tax revenue intake as a proportion of GDP; and (ii) the ratio of the DNIT's operating budget relative to the amount of revenue collected. The specific development objective will be measured through the following outcome indicators: (i) the percentage of GGII processes systemized; (ii) the percentage of GGA processes systemized; and (iii) the percentage of crosscutting processes systemized.
- 1.31 **Economic analysis.** The program's economic analysis employed the cost-effectiveness analysis methodology, based on the cost incurred by the DNIT to obtain its total revenue intake. The analysis concluded that implementing the program will make DNIT tax and customs management more effective, lowering the average cost of generating one guaraní of revenue from 0.0143 in the no-project scenario to 0.0141 in the project scenario. The program is also expected to increase revenue intake by 0.75% of GDP relative to the base-case scenario, and the cost/revenue ratio is expected to reach 0.0136 in 2030. The sensitivity analyses and robustness calculations confirm that the program is cost-effective ([optional link 1](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Financing modality.** This operation will be financed with an investment loan under the project specific loan modality because it finances a project that will be fully specified at the time of its approval by the Bank with estimated cost, preliminary design, and technical, financial, and economic feasibility.
- 2.2 **Amount and financing.** The amount of the loan will be US\$30 million, to be financed from the Bank's Ordinary Capital resources. The distribution is shown in Table 1.

**Table 1. Program estimated costs (US\$000s)**

Components/Subcomponents	IDB	%
<b>1. Strengthening of tax and customs processes</b>	<b>8,700</b>	<b>29.0</b>
1.1 Tax processes	1,091	3.6
1.2 Customs processes	4,881	16.3
1.3 Crosscutting processes	2,728	9.1
<b>2. Technology platform, data, and information security</b>	<b>15,900</b>	<b>53.0</b>
2.1 Integration of the tax and customs ecosystems	8,398	28.0
2.2 Strengthening of the technology infrastructure	3,330	11.1
2.3 Cybersecurity and cyber-resilience strategy	4,172	13.9
<b>3. Improvement of institutional capacities and human talent management</b>	<b>2,800</b>	<b>9.3</b>
3.1 Strengthening of planning capacities	1,527	5.1
3.2 Integrated human talent management	517	1.7
3.3 Training, professional development, and ongoing training	755	2.5
<b>Project management (PCU)</b>	<b>1,980</b>	<b>6.6</b>
<b>Midterm and final evaluation</b>	<b>170</b>	<b>0.6</b>
<b>Audit</b>	<b>300</b>	<b>1.0</b>
<b>FOPREP<sup>75</sup> (0.5% investment)</b>	<b>150</b>	<b>0.5</b>
<b>Total</b>	<b>30,000</b>	<b>100.0</b>

Notes: (a) The amounts are indicative; (b) the amounts in the cost table include local taxes, which will be financed with proceeds of the loan in accordance with the Bank's policies.

- 2.3 **Disbursement schedule.** The loan disbursement period will be six years. The execution period was based on the average time taken to design and implement the activities proposed in the program and Paraguay's institutional characteristics in the design and planning of operations [21].

**Table 2. Disbursement schedule (US\$ million)**

Components	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
<b>IDB (Total)</b>	<b>0.63</b>	<b>4.84</b>	<b>7.57</b>	<b>6.96</b>	<b>6.74</b>	<b>3.25</b>	<b>30.00</b>
<b>%</b>	2.1	16.1	25.2	23.2	22.5	10.8	100.0

**B. Environmental and social safeguard risks**

- 2.4 In accordance with the Environmental and Social Policy Framework (GN-2965-23), the operation was classified as category "C" because it is expected to cause minimal or no negative environmental or social impacts.

**C. Fiduciary risks**

- 2.5 Two medium-high fiduciary risks were identified that could delay execution: (i) failures in establishing effective governance for program management, including intra-agency coordination issues, could result in coordination difficulties

<sup>75</sup> Paraguay Preinvestment Fund (Law 6490/2020).

between the GGII and GGA, entailing delays in the schedule of legacy processes, and crosscutting outputs in particular; and (ii) insufficient knowledge of the Bank's payment system and/or policies could cause delays in financial and/or procurement processes and expenditure accountability mechanisms, affecting the adequate performance of program activities and full utilization of resources. These risks will be mitigated, firstly, by maintaining a dialogue with the DNIT's senior authorities on the program's strategic importance, including provisions in the program [Operating Regulations](#) to promote coordination, and contracting a professional with the loan proceeds to support program implementation, after the loan contract has been signed. Secondly, the program coordination unit (PCU) will contract financial management and procurement professionals with knowledge and experience on projects financed by multilateral agencies and will ensure coordination with the Bank to receive early training on procurement, financial, and operational policies.

**D. Other risks**

- 2.6 **Institutional environment (medium-high).** If the DNIT's authorities, executives, and staff fail to take ownership of the scope of the program, then internal resistance could emerge, jeopardizing the timely execution of activities and achievement of the expected outcomes. To mitigate this risk: (i) an internal communication strategy will be implemented, beginning in the first year of execution, to communicate the program's objectives and scope; and (ii) a change management plan will be implemented, beginning in the first year of execution, to reduce resistance to institutional changes and the modernization of tax and customs management.
- 2.7 **Goods and services (medium-high).** If no market analysis is conducted to verify the availability and cost of the technology goods and services for the purpose of establishing effective management strategies and modalities, then the execution of the outputs associated with technology modernization could be delayed. To mitigate this risk: (i) training will be provided for the PCU in market studies and procurement modalities under Bank policies; and (ii) experts in the preparation of terms of reference for technology goods and services will be contracted using technical cooperation resources (paragraph 1.17) before the start of program execution.
- 2.8 **Sustainability (medium-high).** If no resources are anticipated for the maintenance of equipment and technology, then the expanded storage and processing capacity could be compromised, putting some of the processes created or optimized under the program at risk. To mitigate this risk: (i) technology contracting and procurement will be coordinated with the Ministry of Information and Communication Technologies; (ii) support and maintenance activities will be performed for the technology investments included in the programming of Component 2 (forecast for one year); (iii) the DNIT has reached an agreement with the Bank that it will budget the corresponding financial resources beginning in the second year of operation of the equipment, for which Law 7143 allocates institutional revenue; and (iv) program Component 2 includes the development of the Information Strategic Technology Plan, which mitigates the technical sustainability risk of the interventions.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** The borrower and executing agency will be the National Tax Revenue Directorate (DNIT).<sup>76</sup> The Republic of Paraguay will be the guarantor of the borrower's obligations. The guarantee will be limited exclusively to the DNIT's financial obligations arising from the loan contract (including principal payments, interest payments, and fees) but will not cover performance obligations (paragraph 3.4). The DNIT satisfies the legal<sup>77</sup> and financial<sup>78</sup> eligibility requirements of the Bank's Operational Policy OP-301, Eligible Borrowers.
- 3.2 For execution, a program coordination unit (PCU) will be established, reporting to the DNIT's Executive Division. The PCU will be responsible for coordinating and supporting all activities related to program execution. It will have a general coordination unit and specialists in monitoring and evaluation, financial management and procurement, and other areas. It may also have a technical coordination team of specialists in human resources, tax management, customs management, and information and communication technologies (ICT), who will act as liaison with the DNIT technical units and contribute to speedier execution of the program. The program's financial management will be the responsibility of the General Directorate of Administration and Finance (DGAF) in coordination with the PCU.
- 3.3 The PCU will be the Bank's direct interlocutor with the following main functions: (i) ensuring technical and operational coordination of the program; (ii) programming interventions; (iii) arranging approval and financing for the interventions; (iv) conducting procurement and contracting processes; (v) supporting supervision of the formulation, execution, and evaluation of the interventions; (vi) ensuring intra-agency coordination at the DNIT; and (vii) monitoring and updating the program management tools.
- 3.4 **Partial exception to the policy on Guarantees Required from the Borrower.** Approval of a partial exception to Operational Policy OP-303, Guarantees Required from the Borrower (GP-104-2) is requested from the Board of Executive Directors, such that the sovereign guarantee of the Republic of Paraguay will apply solely to the financial obligations of the borrower, including principal repayments and payment of interest and fees; the sovereign guarantee will be waived in

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<sup>76</sup> As the DNIT was created only recently, this is its first operation executed with the Bank. The [institutional capacity analysis](#) confirmed that the DNIT possesses the institutional capacity for execution of the program. Its main recommendations included the need to create a PCU with enough strengthening in fiduciary issues. Improvement actions were identified, taking these aspects into consideration (paragraphs 2.5 and 3.2).

<sup>77</sup> Information provided in writing by the DNIT.

<sup>78</sup> The DNIT is an agency with the financial capacity to meet its obligations to the Bank, which has its own assets and institutional resources allocated by law. Article 17 of Law 7143/2023 establishes that the DNIT shall have the following institutional income: (i) 0.7% of the revenue collected under its jurisdiction; (ii) 0.5% of the customs value of imported goods, as well as the other fees for customs services and service fees charged by the designated delegations abroad; (iii) 50% of the fines imposed for customs misdemeanor for difference, fraud, and nonpayment of domestic taxes; (iv) 50% of the proceeds obtained from the auction of goods confiscated for smuggling; and (v) the resources allocated in accordance with the General Budget of the Nation.

relation to the borrower's performance obligations. This request is justified because the Government of Paraguay has stated that it can only guarantee the borrower's financial obligations.<sup>79</sup> The DNIT has separate legal status and the legal authority to perform the planned activities under the program, as well as its own assets and administrative, technical, and financial autonomy. This is supported by the institution's administrative, financial, economic, and operational autonomy in relation to the Republic of Paraguay and the favorable findings of its institutional capacity assessment.

- 3.5 **Program Operating Regulations.** The program will be governed by [Operating Regulations](#), which will include: (i) the program's organizational structure; (ii) technical and operational arrangements for program execution; (iii) programming, monitoring, and evaluation arrangements; (iv) guidelines for financial, audit, and procurement processes; (v) details of the executing agency's functions and the responsibilities of other relevant actors in the processes planned under the program; and (vi) details of the activities included in the program's components.
- 3.6 **Special contractual conditions precedent to the first disbursement of the financing. As contractual conditions precedent to the first disbursement of the loan proceeds, the borrower will provide evidence, to the Bank's satisfaction, that: (i) the program [Operating Regulations](#) have been approved and have entered into force on the terms previously agreed upon with the Bank; and (ii) the program coordination unit (PCU) has been created with sufficient technical, administrative, fiduciary, and financial capacity, and the necessary core staff of the PCU have been contracted or appointed, as appropriate, including: (a) a general coordinator; (b) a procurement specialist; and (c) a financial specialist, on the terms previously agreed upon with the Bank.** These conditions are essential to ensure the effective execution of the program.
- 3.7 **Fiduciary agreements and requirements.** Annex III describes the guidelines for procurement execution and financial management that will apply to the program. Procurements financed with proceeds of the loan will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-15). All procurements will be included in, and executed according to, the procurement plan. The executing agency and the Bank have agreed on a procurement plan for the first 18 months of execution. No advance procurement is planned. All procurement and/or contracting processes will be subject to ex ante review by the Bank. The loan proceeds may be disbursed in the form of advances of funds and direct payments to the vendor. For the advance of funds modality, disbursements will be based on a financial plan covering the project's actual liquidity needs for up to 180 days. Disbursements must be justified for at least 80% of the total accumulated balances pending justification, using the Bank's formats.

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<sup>79</sup> Information provided by the Ministry of Economy and Finance. See Law 7143 Establishing the DNIT and Law 1535 on the Financial Administration of the State. The Board of Executive Directors has authorized partial exceptions of the same scope in other operations in Paraguay ([5502/OC-PR](#), [5023/OC-PR](#), [4690/OC-PR](#), and [4568/GN-PR](#)) and elsewhere in the region ([5857/OC-EC](#), [4358/OC-BR](#), [3661/TC-CO](#), [CR-X1014](#), [3271/OC-ES](#), and others).

The principles and criteria established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12) will be taken into consideration for financial management.

- 3.8 **Audited financial statements.** The executing agency will deliver the program's annual audited financial statements to the Bank within 120 days after the end of each fiscal period during the original loan disbursement period, or as extended. The audit will be performed by an independent audit firm acceptable to the Bank. The scope and other related aspects of the audit will be governed by the Financial Management Guidelines for IDB-financed Projects (OP-273-12), or the version in effect at the time of execution. The last report will be delivered within 120 days after the date stipulated for the last disbursement of the loan.

**B. Summary of arrangements for monitoring results**

- 3.9 **Monitoring.** The executing agency will prepare reports on the progress and results of the activities under its responsibility. The monitoring arrangements will include the [procurement plan](#), the multiyear execution plan ([MEP](#)), the annual work plan ([AWP](#)), the Results Matrix (Annex II), the progress monitoring report, and the risk management plan. Within 60 days after the end of each six-month period, the executing agency will deliver six-monthly reports to the Bank, covering progress achieved, results obtained, and an action plan for the next six months. The first MEP and AWP will be submitted to the Bank before the launch workshop. The MEP will contain full program planning and the critical path of milestones or actions to be executed for the loan to be disbursed on schedule. The content of the AWP will reflect the guidelines established by the Bank. The second and subsequent MEPs and AWP will be delivered to the Bank no later than 30 November of each year during the original disbursement period, or as extended.
- 3.10 **Evaluation.** The program will be evaluated against the annual targets and indicators for the outcomes and outputs specified in the Results Matrix by comparing results before and after. The [monitoring and evaluation plan](#) calls for an independent midterm evaluation, 90 days after the date on which the loan contract has been in effect for 42 months, or 90 days after the date on which 50% of the loan proceeds have been disbursed, whichever occurs first; and a final evaluation, to be delivered to the Bank within 90 days after the date on which 90% of the loan proceeds have been disbursed. The evaluation reports will serve as inputs for the project completion report (PCR), which will examine the achievement of results, measured in terms targets met and performance of the indicators established in the Results Matrix. The evaluation presented in the PCR will analyze whether the financed investments were effective and contributed to achievement of the specific objectives. Details of the program evaluation, including the attribution analysis of the indicators, are presented in detail in the monitoring and evaluation plan. The PCR will be delivered within the time frame specified in the Development Effectiveness Matrix or other applicable Bank policies.
- 3.11 **Impact evaluation.** The project calls for an impact evaluation using the randomized controlled trial method. This will identify the causal impact of the project's investments in the mass control model and the tax and customs integrated risk management model, given its potential to improve compliance and increase tax revenue intake as a percentage of GDP. The findings will contribute to knowledge about the impacts of the digital transformation and the relevant use of analytics in tax and customs management. The evaluation will be performed and

financed by the Bank, supported by the executing agency. The impact evaluation proposal with the timeline and budget are presented in the monitoring and evaluation plan.

Development Effectiveness Matrix		
Summary		PR-L1192
<b>I. Corporate and Country Priorities</b>		
<b>Section 1. IDB Group Institutional Strategy Alignment</b>		
Operational Focus Areas		-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Regional integration
[Space-Holder: Impact framework indicators]		
<b>2. Country Development Objectives</b>		
Country Strategy Results Matrix	GN-2958	Boost the mobilization of public and private resources for development
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
<b>II. Development Outcomes - Evaluability</b>		Evaluable
<b>3. Evidence-based Assessment &amp; Solution</b>		8.7
3.1 Program Diagnosis		1.9
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.4
<b>4. Ex ante Economic Analysis</b>		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		2.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
<b>5. Monitoring and Evaluation</b>		8.4
5.1 Monitoring Mechanisms		2.8
5.2 Evaluation Plan		5.5
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		C
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison.
Non-Fiduciary	Yes	Monitoring and Evaluation National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	PR-T1362

The program is structured as a specific investment loan. The amount totals US\$30 million, fully financed by the Bank with ordinary capital resources, and it is expected to be disbursed over six years. The general development objective (GO) is to improve the capacity for generating tax and customs revenue, through the sole specific development objective (SDO) of enhancing the efficiency of the National Directorate of Tax Revenues (DNIT).

Considering Paraguay's historically low tax revenues (compared to Latin America and the Caribbean) and the worsening fiscal situation and public debt observed since the health crisis, the main problem this operation aims to address is the limited capacity for generating tax and customs revenues due to—in part—operative inefficiencies. The operation is relevant, as the government established the DNIT last year (through the integration of the SET and the DNA) as part of its reform in the fiscal area. Despite the potential benefits of economies of scale, the DNIT still faces significant limitations in its management processes and requires substantial technological investments. The Results Matrix is consistent with the project's vertical logic and includes three Result Indicators that are deemed appropriate considering the SDO and the set of proposed products and activities. The activities are grouped into three components, two of which (strengthening processes, and technological platform, data, and information security) are directly aligned with the scope of the SDO, while the third—related to institutional capacities—would support the activities of the other two.

The monitoring and evaluation plan includes an adequate budget and measures for tracking and monitoring the proposed indicators. The associated timeline is realistic considering the proposed timing for delivering the products. The program proposes a reflective ex-post evaluation that includes a review of the theory of change and a before-and-after methodology to assess the performance of the indicators at the outcome and impact levels. The program also proposes an experimental impact evaluation to strengthen the method of attribution, which is associated with an impact indicator (tax collection). The methodology proposes to estimate the causal effect on the behavior of high-risk taxpayers and would include 5,000 companies randomly assigned to control and treatment groups throughout the intervention.

The program presents a Cost-Effectiveness Analysis (CEA) that compares the operational cost of the DNIT plus the cost of the program with the total effective tax collection (the measure of effectiveness used). The CEA concludes that the program is cost-effective when using the non-implementation of the project as the counterfactual scenario. The result indicates that, thanks to the program, tax collection will increase sufficiently to cover the program's costs. The CEA is appropriate, supports the main assumptions used, and includes sensitivity analyses regarding relevant uncertain parameters. Both features provide robustness to the analysis, which is considered sufficient as its conclusions do not vary under scenarios deemed conservative.

## RESULTS MATRIX

<b>Project objective:</b>	The specific development objective is to improve the efficiency of operations of the National Tax Revenue Directorate (DNIT). Achieving this will contribute to the program's general development objective of improving tax and customs revenue generation capacity.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
<b>General development objective: Improve tax and customs revenue generation capacity</b>							
Effective total tax revenue intake/GDP	Percentage	10.2%	2023	2030	12.0%	Source: Revenue intake report issued by the General Directorate of Economic Studies of the Executive Division (DGEE-GE) and GDP data from the Central Bank of Paraguay.	<a href="#">Monitoring and evaluation plan</a>
DNIT operating budget/Total tax revenues	Percentage	1.43%	2023	2030	1.36%	Source: Reports issued by the General Directorate of Administration and Finance (DGAF) (Administration and Finance Unit (UAF) and Administration and Finance Subunit (SUAF)) through the Integrated Accounting System (SICO) and DGEE-GE revenue intake report.	

**SPECIFIC DEVELOPMENT OBJECTIVES**

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 End of project	Means of verification	Comments
<b>Specific development objective: To improve the efficiency of operations of the DNIT</b>											
Systemization <sup>1</sup> of procedures of the General Domestic Taxes Division (GGII)	Percentage	37	2023	37	37	37	40	50	60	DGNMI-GE report	<a href="#">Monitoring and evaluation plan</a>
Systemization of procedures of the General Customs Division (GGA)	Percentage	4	2023	4	4	10	20	25	30	DGNMI-GE report	
Systemization of crosscutting procedures <sup>2</sup>	Percentage	6	2023	6	6	6	6	15	30	DGNMI-GE report	

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<sup>1</sup> [Monitoring and evaluation plan.](#)

<sup>2</sup> [Monitoring and evaluation plan.](#)

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 End of project	Means of verification	Comments
<b>Component 1. Strengthening of tax and customs processes</b>											
1.1 Tax compliance facilitation model implemented	Model	0	2024	0	0	0	1	0	1	DNIT report	
Milestone 1. System for automation of digital document issuance implemented	System	0	2024	0	0	1	0	0	1	DNIT report	
Milestone 2. System for prefilling VAT returns implemented for large and medium-scale taxpayers	System	0	2024	0	0	1	0	0	1	DNIT report	
Milestone 3. Technology solution for the foreign trade electronic invoice implemented	Technology solution	0	2024	0	0	0	1	0	1	DNIT report	
1.2 Data-driven mass control model implemented	Model	0	2024	0	0	1	0	0	1	DNIT report	
1.3 Reengineering of customs processes implemented <sup>3</sup>	Reengineering	0	2024	0	0	0	1	0	1	DNIT report	<a href="#">Monitoring and evaluation plan</a>
Milestone 1. Reengineering of customs management and control processes implemented	Reengineering	0	2024	0	0	0	1	0	1	DNIT report	
Milestone 2. Reengineering of critical processes to support customs operations implemented	Reengineering	0	2024	0	0	1	0	0	1	DNIT report	
Milestone 3. Regulatory framework (updating of the Customs Code) designed	Framework	0	2024	0	0	0	1	0	1	DNIT report	

<sup>3</sup> [Monitoring and evaluation plan](#).

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 End of project	Means of verification	Comments
1.4 Customs control processes strengthened	Processes	0	2024	0	0	0	1	2	3	DNIT report	
Milestone 1. Seals model for physical traceability of freight improved	Model	0	2024	0	0	0	0	1	1	DNIT report	
Milestone 2. Customs laboratory strengthened	Laboratory	0	2024	0	0	0	1	0	1	DNIT report	
Milestone 3. Nonintrusive inspection system implemented	System	0	2024	0	0	0	0	1	1	DNIT report	
1.5 Taxpayer Master File (RUC) strengthened	Register	0	2024	0	0	0	1	0	1	DNIT report	<a href="#">Monitoring and evaluation plan</a>
1.6 Tax and customs integrated risk management model implemented	Model	0	2024	0	0	0	1	0	1	DNIT report	
1.7 Tax and customs inspection, audit, and enforcement model implemented	Model	0	2024	0	0	0	0	0	1	DNIT report	
Milestone 1. Reengineering of tax and customs inspection, audit, and enforcement processes and procedures implemented	Reengineering	0	2024	0	0	0	0	1	1	DNIT report	
Milestone 2. Operational intervention model to support customs inspection implemented	Model	0	2024	0	0	0	0	1	1	DNIT report	
1.8 Data governance model implemented	Model	0	2024	0	0	0	0	1	1	DNIT report	<a href="#">Monitoring and evaluation plan</a>
1.9 Statistical and analytical display and reporting system implemented	System	0	2024	0	0	1	0	0	1	DNIT report	
<b>Component 2. Technology platform, data, and information security</b>											
2.1 Information technology strategic plan implemented	Plan	0	2024	0	1	0	0	0	1	DNIT report	

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 End of project	Means of verification	Comments
2.2 Tax and customs information systems optimized	Annual plan	0	2024	1	1	1	1	1	6	DNIT report	<a href="#">Monitoring and evaluation plan</a>
2.3 Integration, interoperability, and analytics platform implemented	Platform	0	2024	0	0	0	0	0	1	DNIT report	
Milestone 1. Integration and interoperability mechanisms implemented	Annual plan	0	2024	1	1	1	1	1	6	DNIT report	<a href="#">Monitoring and evaluation plan</a>
Milestone 2. Digital identity mechanism implemented	Mechanism	0	2024	0	0	0	0	1	1	DNIT report	
Milestone 3. Data factory model implemented	Model	0	2024	0	0	1	0	0	1	DNIT report	<a href="#">Monitoring and evaluation plan</a>
Milestone 4. Advanced analytics platform enabled at the DNIT	Platform	0	2024	0	0	0	0	1	1	DNIT report	
2.4 DNIT data processing capacity strengthened	Stage	0	2024	0	1	0	1	1	4	DNIT report	
2.5 Cybersecurity model implemented	Model	0	2024	0	0	0	0	1	1	DNIT report	
Milestone 1. Cybersecurity architecture and solutions improvement plan implemented	Plan	0	2024	0	0	0	0	1	1	DNIT report	
Milestone 2. Cybersecurity and cyber-resilience strategy implemented	Strategy	0	2024	0	0	0	0	1	1	DNIT report	<a href="#">Monitoring and evaluation plan</a>
<b>Component 3. Improvement of institutional capacities and human talent management</b>											
3.1 Strategic management model strengthened	Model	0	2024	0	0	0	0	0	2	DNIT report	
Milestone 1. Strategic planning model strengthened	Model	0	2024	0	0	1	0	0	1	DNIT report	
Milestone 2. Institutional communication plan implemented	Plan	0	2024	0	0	0	0	0	2	DNIT report	

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 End of project	Means of verification	Comments
3.2 Change management plan implemented	Plan	0	2024	0	0	1	0	0	1	DNIT report	
3.3 Comprehensive human talent management model with elements reflecting gender and inclusion of persons with disabilities, implemented <sup>4</sup>	Model	0	2024	0	0	1	0	0	1	DNIT report	Output aligned with gender and diversity/persons with disabilities. See <a href="#">monitoring and evaluation plan</a> .
Milestone 1. Human talent management model with elements reflecting gender and inclusion of persons with disabilities, implemented	Model	0	2024	0	0	1	0	0	1	DNIT report	Aligned with gender and diversity/persons with disabilities. See <a href="#">monitoring and evaluation plan</a> .
Milestone 2. Ethics code implemented	Ethics code	0	2024	0	1	0	0	0	1	DNIT report	-
3.4 Education and training program with elements reflecting gender and inclusion of persons with disabilities, implemented	Program	0	2024	0	0	1	0	0	1	DNIT report	Output aligned with gender and diversity/persons with disabilities. Includes development of training plans for persons with disabilities and updating of protocols against gender harassment and workplace violence.

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<sup>4</sup> Includes activities for development and implementation of the Gender Equity Policy and Policy on the Inclusion of Persons with Disabilities.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 End of project	Means of verification	Comments
Milestone 1. Higher Institute of Fiscal Studies strengthened	Institute	0	2024	0	0	1	0	0	1	DNIT report	
Milestone 2. Staff training program with elements reflecting gender and inclusion of persons with disabilities, implemented	Program	0	2024	0	0	1	0	0	1	DNIT report	Aligned with gender and diversity/persons with disabilities. Includes development of training plans for persons with disabilities and updating of protocols against gender harassment and workplace violence.

Country: Paraguay

Division: FMM

Operation number: PR-L1192

Year: 2024

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** National Tax Revenue Directorate (DNIT)

**Operation name:** Program for Consolidation of the National Tax Revenue Directorate (DNIT)

### I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

#### 1. Use of country system in the operation<sup>1</sup>

◆ Budget	● Reports	◆ Information systems	● National competitive bidding (NCB)
◆ Treasury	● Internal audit	◆ Shopping	◆ Other: System of National Accounts
◆ Accounting	● External control	● Individual consultants	◆ Other: Statistical systems of the Ministry of Economy and Finance and the DNIT

#### 2. Fiduciary execution mechanism

◆ Special features of fiduciary execution	The executing agency will be the National Tax Revenue Directorate (DNIT). A program coordination unit (PCU) will be established, reporting to the DNIT's Executive Division. The PCU will be responsible for the program's operational and fiduciary management, which will receive fiduciary support from the General Directorate of Administration and Finance (DGAF). The PCU will coordinate with the DNIT's technical units.
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#### 3. Fiduciary capacity

Fiduciary capacity of the executing agency	An institutional capacity analysis was done to assess the DNIT's fiduciary capacity. As the DNIT was created only recently, it has not previously executed Bank financing. The analysis concluded that this new PCU will require support and strengthening in terms of the key staff to be contracted in the operational and fiduciary areas. This is considered a crosscutting risk trigger for achievement of the program's objectives in terms of the initially estimated scopes, time frames, and costs (quality). This risk will be mitigated as indicated in point 4.
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<sup>1</sup> Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation.

**4. Fiduciary risks and risk response**

Risk taxonomy	Risk	Risk level	Risk response
Organizational structure	Failures in establishing effective governance for program management, including intra-agency coordination issues, could result in coordination difficulties between the General Domestic Taxes Division (GGII) and the General Customs Division (GGA), entailing delays in the schedule of legacy processes, and crosscutting outputs in particular.	Medium-High	A dialogue will be maintained with the DNIT's senior authorities on the program's strategic importance, provisions will be included in the program Operating Regulations to promote coordination, and a professional will be contracted with the loan proceeds to support program implementation, after the loan contract has been signed.
Internal processes	Insufficient knowledge of the Bank's payment system and/or policies could cause delays in financial and/or procurement processes and expenditure accountability mechanisms, affecting the adequate performance of program activities and full utilization of resources.	Medium-High	The PCU will contract financial management and procurement professionals with knowledge and experience on projects financed by multilateral agencies and will ensure coordination with the Bank to receive early training on procurement, financial, and operational policies.

5. **Policies and guidelines applicable to the operation:** Financial: document GN-2811-1 (OP-273-12). Procurement: documents GN-2349-15 and GN-2350-15, and OP-272-3, as subsequently updated.

6. **Exceptions to policies and guidelines:** None.

**II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT**

<p><b>Exchange rate:</b> For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(i). For the purpose of determining the equivalency of expenditures incurred in local currency chargeable against the local contribution, or of reimbursements of expenditures chargeable against the loan proceeds, the exchange rate will be the rate in effect on the effective date on which the borrower, the executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.</p>
<p><b>Type of audit:</b> The PCU will deliver the annual financial statements, with specific terms of reference acceptable to the Bank, within 120 days after the end of each fiscal period. The final audit report will be delivered within 120 days after expiration of the current time limit for the last disbursement.</p>

### III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

◆	Bidding documents	<p>Works, goods, and nonconsulting services procured under the Bank's procurement policies (GN-2349-9) and subject to international competitive bidding (ICB) will use the Bank's standard bidding documents or those agreed upon between the executing agency and the Bank for the specific procurement. Consulting services will be selected and contracted in accordance with the consultant selection policies (GN-2350-15) using the standard request for proposals issued by the Bank or a request for proposals agreed upon between the executing agency and the Bank for the specific selection. For procurements below the country thresholds, the National Public Contracting Directorate (DNCP) and the Bank have agreed on documents that can be downloaded from the DNCP website. The Project Team Leader will be responsible for reviewing technical aspects of the procurements.</p>								
◆	Use of country systems	<p>The Public Contracting Information System (SICP) will be used to advertise all ICB and NCB processes. The online reverse auction (SBE) system may be used for the procurement of goods and nonconsulting services in amounts below the ICB threshold set by the Bank, as approved by the Board of Executive Directors. The procurement plan will indicate the procurements to be executed through the country system within the approved scope. If the scope of the Board's approval for use of the country system is expanded, it will be applicable to the operation.</p>								
◆	Recurrent expenditures	<p>To create the necessary conditions for the PCU to perform its functions, financing will be provided for expenditures incurred on utilities and communications, bank charges, notices, photocopies, postage, etc. The expenditures in question are to be financed within the annual budget approved by the Bank and incurred following the executing agency's procedures, provided that they do not violate the fundamental principles of competition, efficiency, and economy. Financing will also be provided for the costs of external consultants and incremental personnel costs incurred by the DNIT specifically related to program implementation.</p>								
◆	Procurement supervision	<p>The supervision method will be ex ante, as is the country's standard practice. For procurements to be executed using the country system, supervision will be conducted using the country's national supervision system. The threshold amounts for international bidding are as follows:</p> <table border="1" data-bbox="587 1627 1367 1787"> <thead> <tr> <th data-bbox="587 1627 760 1707">Executing agency</th> <th data-bbox="760 1627 959 1707">Works</th> <th data-bbox="959 1627 1187 1707">Goods/Services</th> <th data-bbox="1187 1627 1367 1707">Consulting services</th> </tr> </thead> <tbody> <tr> <td data-bbox="587 1707 760 1787">PCU</td> <td data-bbox="760 1707 959 1787">US\$5,000,000</td> <td data-bbox="959 1707 1187 1787">US\$500,000</td> <td data-bbox="1187 1707 1367 1787">Firms: US\$200,000</td> </tr> </tbody> </table>	Executing agency	Works	Goods/Services	Consulting services	PCU	US\$5,000,000	US\$500,000	Firms: US\$200,000
Executing agency	Works	Goods/Services	Consulting services							
PCU	US\$5,000,000	US\$500,000	Firms: US\$200,000							

◆	Records and files	The executing agency will maintain record-keeping systems containing complete and ordered documentation of procurement processes at all precontract, contract, and postcontract stages. The rules on record-keeping call for documents to be stored in accordance with the Bank's procurement policies.
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### Main procurements

Procurement description	Selection method	Estimated date	Estimated amount (US\$000s)
Procurement of endpoint threat detection and response tools (includes installation service)	ICB	03/01/2027	1,026.00
Procurement of microsegmentation and traffic control tools for implementation of the Zero Trust technology (includes installation service)		03/01/2027	1,273.00
Procurement of processing, storage, and networking equipment for the new data center (with Energy Star seal)		06/01/2028	2,915.00
Procurement of nonintrusive equipment – fixed portal (includes installation and integration with customs systems and control and monitoring center)		08/01/2028	3,000.00
Services for implementation of the external and internal communication plan (including printed materials and media)	NCB	10/01/2025	100.00
Service for the implementation of technical and leadership skills training programs	NCB	07/01/2026	283.56
Consulting firm for the evaluation (as-is) and reengineering of customs processes (to-be), including information technology and support requirements (guarantees, seized goods, and summary processes), for later automation in Component 3.	Quality- and cost- based selection (QCBS)	10/01/2026	900.00
Consulting firm for design and implementation of an interoperability platform.		07/01/2026	725.00
Consulting firm for implementation of the data factory model, including data modeling and development of display dashboards.		01/02/2026	1,689.00
Software development services firm and delivery of profiles under the software		06/01/2026	4,000.00

Procurement description	Selection method	Estimated date	Estimated amount (US\$000s)
factory model			
General coordinator	Individual consultant selection (by open invitation)	07/01/2025	191,184

For further details, see the [procurement plan](#).

Procedures	Justification of use
Electronic reverse auction	The Bank has approved the online reverse auction (SBE) country subsystem for use in Bank-financed projects within the ranges currently eligible for the shopping method. In the case of off-the-shelf goods or services, the shopping method or the SBE may be used instead of NCB. In this case, the procurement processes for goods and services have estimated amounts below US\$50,000.00.

#### IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

◆	Programming and budget	The PCU will centralize coordination of execution. The PCU will use the zero-based budgeting system for budget programming, administration, and execution.
◆	Treasury and disbursement management	Disbursements will be made through advances of funds, which must be corroborated through the submission of a monthly detailed financial plan for a period of up to six months and another plan for an extended time. These will be used to determine the actual demand of the program as derived from the multiyear execution plan, annual work plan, and procurement plan. The second and subsequent disbursements will require justification of at least 80% of the advanced amount. A special bank account will be maintained for the program's exclusive use. The disbursement mechanism will be electronic, using the Fiduciary Interface, and the currency for managing the operation will be the U.S. dollar. The exchange rate agreed upon by the executing agency for accountability purposes will be the exchange rate on the effective date on which the respective payments are incurred, unless the borrower decides otherwise during the loan negotiation. The operation will work mainly with a fiscal period of six months.

◆	Accounting, information systems, and reporting	<p>Although Paraguay uses the accrual accounting principle, cash accounting is used for accountability reporting on IDB-financed projects. The PCU will have access to the Integrated Financial Administration System (SIAF). The country systems do not issue the necessary reports for the Bank, so different systems are used to produce them, which creates additional work for the PCU.</p> <p>The policies and guidelines applicable to the operation will be supplemented by the program Operating Regulations, with the documented definition of workflows and internal controls.</p>
◆	Internal control and internal audit	<p>The DNIT was created by Law 7143 of 4 August 2023 through a merger of the Office of the Undersecretary of State for Taxation (SET) and the National Customs Directorate (DNA).</p> <p>The internal control practices and policies established and applied previously by the former institutions were integrated, adopted, and expanded by the new DNIT, to guarantee the continuity and strengthening of internal control mechanisms.</p> <p>In the domain of internal control, the latest report of the Internal Control Standard Model of Paraguay (MECIP), period 2024, stated that the DNIT has achieved a rating corresponding to a LOW MANAGED maturity level. This result reflects the existence of a developing control environment and the partial implementation of operational processes within the internal control system (ICS). This is a functional ICS that allows for more controlled risk management and establishes a framework that, with appropriate adjustments by the authorities, will yield continuous improvements in future evaluations.</p>
◆	External control and financial reports	<p>The executing agency will select and engage external audit services on the terms of reference previously agreed upon with the Bank, specifying the type of review, and its timing and scope. The executing agency will deliver annual audit reports on the program. These financial statements include: the statement of cash received and disbursements made, the statement of cumulative investments, the notes to the financial statements, and the project's management statement. The audit report will include an evaluation of the ICS. The cutoff date will be 31 December, and the delivery deadline will be 120 days later. The delivery deadline for the final report will be 120 days after the date of the last disbursement.</p> <p>The independent audit firm will be selected from among candidates rated eligible or eligible-plus, and will be paid with loan proceeds. The selected external auditor and the auditing standards to be applied will be acceptable to the Bank.</p>
◆	Financial supervision of the operation	<p>The Bank's financial specialist will conduct both on-site and desk reviews. The auditor will verify that the resources are being executed in accordance with the Bank's fiduciary rules and policies and conditions stipulated in the program Operating Regulations. Fiduciary supervision visits in respect of financial management will include verification of the fiduciary arrangements used for project administration, and tracking of the implementation of recommendations issued by the International Accreditation Forum (IAF), when applicable.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_/\_/24

Paraguay. Loan \_\_\_\_/OC-PR to the Dirección Nacional de Ingresos Tributarios.  
Program for Consolidation of the National Income Tax Office (DNIT)

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 Dirección Nacional de Ingresos Tributarios, as borrower, and with the Republic of Paraguay, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Program for Consolidation of the National Income Tax Office (DNIT). Such financing will be for the amount of up to US\$30,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_\_ 2024)