

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PARAGUAY**

**DIGITAL AGENDA SUPPORT PROGRAM**

**(PR-L1153)**

**LOAN PROPOSAL**

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Proposed resolution

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LINKS
<b>REQUIRED</b>
1. <a href="#">Multiyear execution plan</a> and <a href="#">annual work plan</a>
2. <a href="#">Monitoring and evaluation plan</a>
3. <a href="#">Environmental and social management report (ESMR)</a>
4. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Analysis of determinants related to Components 1 to 4</a>
2. <a href="#">Additional references to projects and studies that support the empirical evidence</a>
3. <a href="#">Itemized budget</a>
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6. <a href="#">Assessment of compliance with the Public Utilities Policy (GN-2716-6)</a>
7. <a href="#">Environmental and social management plan (ESMP) for the Digital District</a>
8. <a href="#">Draft Operating Regulations for the program</a>
9. <a href="#">Public consultation report</a>
10. <a href="#">Safeguard policy filter (SPF) and safeguard screening form (SSF)</a>

## ABBREVIATIONS

AWP	Annual work plan
ESMP	Environmental and social management plan
HIS	Sistema de Información de Salud [Health Information System]
ICTs	Information and communication technologies
Mbps	Megabits per second
MECIP	Modelo Estándar de Control Interno para Instituciones Públicas del Paraguay [Paraguayan Public Institutions Standard Model for Internal Control]
MITIC	Ministerio de Tecnología de la Información y Comunicación [Ministry of Information and Communication Technology]
MSPBS	Ministerio de Salud Pública y Bienestar Social [Ministry of Public Health and Social Welfare]
OECD	Organization for Economic Cooperation and Development
PEU	Program execution unit
SCSP	Paraguayan Public Sector Procurement System
SENATICS	Secretaría Nacional de Tecnologías de la Información y Comunicación [National Secretariat of Information and Communication Technologies]
SNC	Servicio Nacional de Catastro [National Property Records Service]

**PROJECT SUMMARY  
PARAGUAY  
DIGITAL AGENDA SUPPORT PROGRAM  
(PR-L1153)**

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Paraguay			<b>Flexible Financing Facility<sup>(a)</sup></b>	
			<b>Amortization period:</b>	24 years
<b>Executing agency:</b> The borrower, acting through the National Secretariat of Information and Communication Technologies (SENATICS) or any Executive agency that replaces it and is acceptable to the Bank, at the borrower's request.			<b>Disbursement period:</b>	6 years
			<b>Grace period:</b>	6.9 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital):</b>	130,000,000	100	<b>Credit fee:</b>	<sup>(c)</sup>
			<b>Inspection and supervision fee:</b>	<sup>(c)</sup>
			<b>Weighted average life:</b>	15.25 years
<b>Total:</b>	130,000,000	100	<b>Currency of approval:</b>	United States dollars
Project at a Glance				
<p><b>Project objective/description:</b> To improve the competitiveness of the Paraguayan economy and the quality of public services provided to citizens and companies. To this end, the program has the following specific objectives: (i) to reduce the transactions costs involved in accessing public services for citizens and companies; (ii) to increase the use of information and communication technologies (ICTs) and incentivize business innovation and linkages; (iii) to increase access to broadband by expanding connectivity and improving service quality; and (iv) to strengthen the institutional framework and operational capacity of government to foster the development of the Digital Agenda.</p>				
<p><b>Special contractual conditions precedent to the first disbursement of the loan:</b> The executing agency will present evidence to the Bank of: (i) the creation of the program execution unit (PEU), the appointment or contracting of the general director for the program and the financial and procurement specialist, in accordance with terms previously agreed upon with the Bank; (ii) the creation of the program's strategic advisory committee, in accordance with terms previously agreed upon with the Bank; and (iii) the entry into effect of the program <a href="#">Operating Regulations</a>, in accordance with terms previously agreed upon with the Bank (paragraph 3.6). For the special fiduciary contractual conditions, see Annex III, paragraph 5.2.</p>				
<p><b>Special contractual conditions of execution</b> will be: (i) prior to tendering the design and construction of the Digital District works described in Component 2, the executing agency will provide evidence that it has legally owned the property where construction will take place for at least thirty years and that it has the authority to lease or sublease such property; (ii) prior to starting the Digital District works, the executing agency will have obtained approval for the respective governance framework, in accordance with terms previously agreed upon with the Bank (paragraph 3.7); and (iii) prior to tendering international access to broadband (Component 3), the executing agency will have obtained approval for the governance framework that regulates and allows interconnection with local telecommunications providers, in accordance with terms previously agreed upon with the Bank (paragraph 3.8). For the special environmental contractual conditions, see Annex B to the environmental and social management report (<a href="#">ESMR</a>).</p>				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:<sup>(d)</sup></b>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
<b>Crosscutting themes:<sup>(e)</sup></b>	GD <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>	

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate 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> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 The Paraguayan economy has been experiencing a significant and extended period of growth. The average rate of growth of gross domestic product over the period from 2010 to 2016 was 6%.<sup>1</sup> However, when it comes to competitiveness, the country lags far behind. For the 2017-2018 period, Paraguay has ranked 112th out of 137 countries in the Global Competitive Index.<sup>2</sup> In the medium and long term, to gradually reduce its dependence on agricultural commodities, the country needs to diversify, make the productive matrix more competitive, and strengthen the regulatory and institutional framework.<sup>3</sup>
- 1.2 At the same time, Paraguay must contend with the poor quality of the public services used by individuals and businesses, which is primarily reflected in the level of the people's and businesses' satisfaction when they conduct transactions with the government. In 2015, Paraguayan citizens' satisfaction was 4.6 on a scale of 1 to 10, compared to a regional average of 4.8 and 6.8 in the United States.<sup>4</sup> It is also reflected by the low use of digital channels to perform transactions. In 2017, only 2.15% of the people who reported having conducted at least one transaction the previous year did so completely or partially online.<sup>5</sup>
- 1.3 To address these challenges and take advantage of the opportunities provided by the development and use of new technologies, Paraguay formulated a National Information and Communications Technologies (ICT) Plan, also known as the 2017 Digital Agenda, which identifies the actions that should be taken across the board to increase the use of ICTs, thereby improving the quality of life of people and the competitiveness of companies.<sup>6</sup> The National Secretariat of Information and Communications Technologies (SENATICS) is the ministerial institution of the executive branch of government responsible for coordinating the implementation of

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<sup>1</sup> This rate can primarily be explained by the performance of the poorly diversified agricultural exports sector, whose vulnerability and volatility has been controlled through prudent macroeconomic management policies. Country Strategy with Paraguay 2014-2018 (document GN-2769).

<sup>2</sup> Global Competitiveness Index, World Economic Forum, [Report 2017-2018](#).

<sup>3</sup> International Monetary Fund – IMF (2016), Article IV and WEF (2017), Global Competitiveness Report 2016-2017.

<sup>4</sup> The [American Customer Satisfaction Index](#) methodology considers satisfaction to be a direct consequence of service quality. For the satisfaction indicator, see: *Simplifying Lives: Quality and Satisfaction in Public Services*, Pareja, Alejandro et al. (2016).

<sup>5</sup> Source: Encuesta Latinobarómetro 2017. Citizens' satisfaction with the online channel is higher compared to other channels and is very close to their satisfaction with private sector services. See Morgeson, Forrest "Citizen Satisfaction" p. 142.

<sup>6</sup> The Digital Agenda includes three areas: Digital government; Inclusion, Ownership and Use; and Innovation and Competitiveness. It also identified five enablers: Security; Policies and Standards; Access and Infrastructure; Capacity-Building, and Legal Framework. The publication and distribution of the Digital Agenda document is currently restricted.

- the Digital Agenda, formulating ICT policies, and promoting access to and the use of these policies in the public sector and in society.<sup>7</sup>
- 1.4 The low level of competitiveness and poor quality of public services provided to people and businesses is the overall problem identified by this program, which it will help to resolve. This problem stems from the following specific issues: (i) high transaction costs in accessing public services; (ii) little investment in ICTs by companies; (iii) limited access to broadband and poor quality of service;<sup>8</sup> and (iv) a new institutional framework and low operational capacity to implement the Digital Agenda.
  - 1.5 The high transaction costs involved in using public services<sup>9</sup> are reflected in processes such as forming a company, obtaining an identity document, paying taxes, and accessing health, education, and social welfare services, among others. This problem is illustrated by the average cost of renewing an identity card, which in 2017 was US\$94 [\[optional link 1, 1.1\]](#), and the average cost of forming and registering a company, which was US\$3,600 that same year [1.1]. The main determinants of this problem are: (i) an outdated regulatory framework for developing digital government [1.2]; (ii) limited availability of national online services [1.3]; (iii) limited coverage and digitization of priority services offered by the government, such as the Health Information System (HIS) of the Ministry of Public Health and Social Welfare (MSPBS) [1.4], and the National Property Records System (SNC) [1.5]; (iv) lack of general-use applications for public sector agencies to be able to conduct online transactions and procedures [1.6]; (v) limited financing for specific digital government projects of the various public agencies [1.7]; (vi) uneven availability of services through the different channels (online, telephone, and in-person) [1.8]; and (vii) insufficient protection of digital space [1.9].
  - 1.6 The low level of investment in ICTs made by Paraguayan companies is expressed as a percentage of companies that invest in ICTs, which was 10% in 2017, far below the percentages in other countries in the region (22% in Argentina or 28% in Peru) [\[optional link 1, 2.1\]](#). The main determinants of this problem are: (i) limited financing available for private investment in digital transformation activities [2.2]; (ii) insufficient supply of ICT human talent [2.3]; (iii) weak ecosystem for supporting enterprises in the preincubation and incubation stages [2.4]; (iv) lack of services aimed at promoting a quality ICT industry, particularly for the software and information technology segments [2.5]; (v) insufficient promotion of the development of ICT applications in the productive sector [2.6]; and (vi) poor coordination between public, private, and knowledge institutions for developing digital innovation initiatives [2.7].

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<sup>7</sup> SENATICS was created in 2013 by Law 4,989 and has the following functions: (i) promote the delivery of services that use ICTs and mass use of digital government; (ii) incentivize and promote ICT development, research, and innovation; (iii) ensure the launch and efficient use of infrastructure, seeking expansion and national coverage; and (iv) promote cybersecurity. Currently (September 2018), a bill is in the National Congress to “create the Ministry of Information and Communication Technology (MITIC) and draft its charter, in order to replace SENATICS and the Secretariat of Information and Communication for Development.” When the law is passed, SENATICS will become the Vice Ministry of Information and Communication Technologies, and will take over all of its functions and responsibilities. In the document, a reference to “SENATICS” only refers to that entity, whereas in the executing agency it means SENATICS or the Executive agency replacing it that is acceptable to the Bank, at the borrower’s request.

<sup>8</sup> Understood as megabits per second (Mbps), a measurement of the amount of data transmitted per second.

<sup>9</sup> According to the Global Competitiveness Index, World Economic Forum, 2017-2018, “Inefficient Government Bureaucracy” is the fourth most problematic factor for doing business.

- 1.7 Limited access to broadband is reflected in two ways: (i) the high cost of Mbps (US\$87.7), higher than the average amounts for the Southern Cone and the Organization for Economic Cooperation and Development (OECD), which are US\$20.7 and US\$2.83, respectively; and (ii) the small number of connected lines, which in 2017 were 3.14 for fixed broadband and 39.2 for mobile per 100 inhabitants, compared with 13 and 82 in the Southern Cone and 29 and 87 in the OECD. The main determinants of this problem are: (i) insufficient digital infrastructure [[optional link 1](#), 3.1]; and (ii) limited international traffic capacity [3.2].
- 1.8 The fledgling institutional framework and limited operational capacity for implementing the Digital Agenda is reflected by the fact that the institutional capacity to implement digital transformation is weak and needs to be fortified. SENATICS currently needs to improve 8 of the 22 powers and duties set out in Law 4989/13 [[optional link 1](#), 4.1]. The main determinants are: (i) SENATICS' management model needs to be adapted to the new institutional framework in order to perform the duties of its mission [4.2]; (ii) internal management processes must be optimized [4.3]; (iii) technical-operational capacity must be strengthened to meet the demand for existing services, as well as those needed for implementation of the Digital Agenda [4.4]; (iv) key institutions in the public ecosystem needs to develop qualified ICT human talent [4.5]; and (v) the relative lack of awareness among citizens and businesses regarding the digital services offered by the government, which affects the use of these services, along with a greater need for more information and education about them.
- 1.9 **Lessons learned.** For each of the specific problems identified, the empirical evidence from projects financed by the Bank or applied research studies is described below:
- a. There is international evidence of the benefits produced by programs aimed at simplifying and digitizing administrative transactions for users [[optional link 2](#), 1.1, 1.2 and 1.3]. The Chile Atiende Program (3298/OC-CH) [1.4], which takes a multichannel approach, has generated the following savings: (i) 10,600,000,000 Chilean pesos in 2014 in the cost of public transportation fares, labor productivity, and alternative cost of time based on wages not received; (ii) 2,165,000 hours in wait times; and (iii) 4,167,000 trips in 2014.
  - b. There is evidence of the benefits to the economy resulting from programs that promote increased investment in ICTs in the productive sector [[optional link 2](#), 2.1, 2.2 and 2.3]. In the SME Competitiveness Support Program (2923/OC-AR), one of the lessons learned was the need to involve the ecosystem's agents (mentors, incubators, accelerators) to support entrepreneurs, thus becoming a necessary addition to seed capital funds. In the Technical Innovation Program V (4025/OC-AR), it was shown that stimulating private investment in innovation through competitive funding is a relevant mechanism for improving proposals and transparency in the allocation of resources. In the Program to Support Future Entrepreneurs (2775/OC-UR), one of the lessons learned was the importance of strengthening the ecosystem in order to create and develop innovative and dynamic new ventures.
  - c. The evidence shows that the benefits of increasing the penetration, adoption, and effective use of broadband services lead to increased social inclusion and economic benefits [[optional link 2](#), 3.1, 3.2, and 3.4]. Due to the impact of connectivity on economic and social development, governments in the region

have decided to act to improve connectivity along the same lines as the intervention proposed in this operation. For example, the introduction of the backbone in Peru, which was supported by the technical cooperation project that financed the feasibility study of the backhaul and last mile network (ATN/OC-14367-PE) contributed to the country's regional integration of urban and rural areas. This project made it possible to connect 180 provincial capitals and 22 regional capitals, which contributed to the goal of achieving universal broadband service. The development of a holistic model with actions tied to the access, adoption, and use of broadband systems at both the backhaul and last mile level has been identified as a best practice in the region [3.5 and 3.6].

- d. The interventions that address the need for institutional strengthening are validated by national and international empirical evidence. The Bank had a successful experience with the Civil Service Support Program (1776/OC-PR) implemented with the Paraguayan Ministry of Public Administration [[optional link 2](#), 4.1]. Through this operation, there was a significant increase in the efficiency and productivity of the public sector. At the international and conceptual level, it produced an extensive bibliography where the benefits obtained from investing in human capital can be studied, while providing appropriate tools and attempting to achieve consistency between job profiles and duties performed [4.2].
- 1.10 As for operations currently in execution in Paraguay, the proposed program complements operation 1776/OC-PR by integrating the systems of the Ministry of the Interior, the National Police, and other institutions (Office of the Public Prosecutor and Ministry of Justice), the possibility of better sector coordination, and the interoperability of government agencies. The program is also linked to the technical cooperation project "Support for the Process to Simplify Transactions for Citizens" (ATN/OC-16322-PR), which will help prioritize the main transaction processes to be digitized and simplified. The proposed program complements the program "Support for Early Childhood Development" (2667/OC-PR), which has supported the expansion of a georeferenced information system to monitor pregnant women and children under the age of five.
  - 1.11 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the challenge of productivity and innovation by increasing access to and the use of ICTs and increasing access to broadband by expanding connectivity and improving service quality. The program is also aligned with the following crosscutting areas: (i) institutional capacity and rule of law, by improving the quality of public services, developing the institutional framework, and building operational capacity, which are necessary to support the Digital Agenda; and (ii) climate change and environmental sustainability. Approximately 6.9% of the operation's resources are invested in climate change mitigation activities, according to the [joint methodology of the multilateral development banks for tracking climate finance](#). These resources contribute to the IDB Group's target of increasing the financing of climate-change related projects to 30% of all approvals and operations by the end of 2020. The program also contributes to the Corporate Results Framework (CRF) for 2016-2019 (document GN-2727-6) through the indicator government agencies benefited by projects that strengthen technological and management tools to improve the delivery of public services. The program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) in the components Enhancing

SME Productivity and Growth; Institutions for Innovation and Technological Development; and Public Sector Management and Finance. The program is also aligned with the Innovation, Science, and Technology Sector Framework (document GN-2791-8) in the area of the ability of Latin American economies to take full advantage of the digital economy potential. It is also aligned with the Bank's Country Strategy with Paraguay 2014-2018 (document GN-2769) through the following strategic objectives: (i) enhance the productivity and competitiveness of firms; and (ii) improve the effectiveness, transparency, and integrity of public entities. The program is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2).

- 1.12 **Compliance with the Public Utilities Policy.** The program is consistent with the principles of the Public Utilities Policy (document GN-2716-6) and satisfies the economic evaluation and financial sustainability conditions. Specifically, the program: (i) has a feasibility study that helped identify minimum-cost technological solutions, thus ensuring the appropriate cost-efficiency combination for the population; (ii) is based on a holistic approach, using the Digital Agenda as the starting point and building infrastructure based on the identified needs; and (iii) supports the development of broadband technology that will provide access to cost-effective solutions ([See assessment of compliance with the policy](#)).

**B. Objectives, components, and cost**

- 1.13 **Program objective.** The objective is to improve the competitiveness of the Paraguayan economy and the quality of public services provided to citizens and companies. To this end, the program has the following specific objectives: (i) to reduce the transactions costs involved in accessing public services for citizens and companies; (ii) to increase the use of information and communication technologies (ICTs) and incentivize business innovation and linkages; (iii) to increase access to broadband by expanding connectivity and improving service quality; and (iv) to strengthen the institutional framework and operational capacity of government to foster the development of the Digital Agenda.
- 1.14 **Component 1. Digitizing processes and improving the delivery of services provided by the public sector (US\$32.6 million).** Financing will be provided for the following activities: (i) systematic review of regulations on digital government and strategic sectors, and proposed update;<sup>10</sup> (ii) reengineering, simplification, and digitization of national services provided by the public sector;<sup>11</sup> (iii) digitization of

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<sup>10</sup> Including the implementation of a framework for analyzing the regulatory impact and impact of reviewing the body of regulations, for the purpose of reducing regulatory costs. For more on the impact of regulatory improvement on service quality and transaction costs, see [Governments that Serve](#) (Farias, P. ed.). The strategic sectors will be identified by looking at the use of procedures administered by these sectors vis-à-vis citizens, companies, and vulnerable populations.

<sup>11</sup> The processes and services to be digitized and simplified will be selected based on the following criteria: (i) frequency of use; (ii) relevance in the respective sector; and (iii) they serve vulnerable social groups. There will also be a focus on processes that help women (access to social programs or birth registry) and entrepreneurs (start-up of companies).

operations management processes in priority public sectors;<sup>12</sup> (iv) development and implementation of digital applications for general government use;<sup>13</sup> (v) implementation of the government innovation laboratory (GobLab) to support the development of specific digital government projects;<sup>14</sup> (vi) adoption of a multichannel service model, to improve in-person, digital, and telephone channels;<sup>15</sup> and (vii) strengthening of the national cybersecurity framework.<sup>16</sup>

- 1.15 The executing agency will support the public sector entities that are the beneficiaries of this component and that meet the eligibility criteria and requirements specified in the program's Operating Regulations.<sup>17</sup> For projects that cost more than US\$500,000, the executing agency and the public sector beneficiary entity will sign a collaboration framework agreement; once the details of the specific project(s) have been defined, they will sign a subsidiary agreement for each one. When the project is completed, the parties will sign a transfer and maintenance agreement. The model agreements will be part of the Operating Regulations. For projects with a cost under US\$500,000, no framework agreement is required. In general, the Bank's statement of no objection will be required prior to the execution of each subsidiary agreement, unless this requirement is exempted in the Operating Regulations. The executing agency may also initiate and execute the activities included in this component that fall within its sphere of competence and do not require coordinating agreements with other public sector entities, in which case it may carry out the respective procurement processes.
- 1.16 **Component 2. Improving ICT investment by supporting youth, entrepreneurs, and companies (US\$29.6 million).** In order to improve and increase ICT investment, financing will be provided, in some cases on a competitive basis, for the following activities: (i) up-front financing and/or provision of specialized services for the startup and/or development of innovative digital enterprises;<sup>18</sup> (ii) an increase in

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<sup>12</sup> Especially the HIS and the SNC. The digitization of HIS processes will help improve the quality of care as a result of fewer medical errors, greater control of processes, and timely access to information at both the case and policy levels. In the case of the SNC, the intervention focuses on the implementation of a multichannel customer service system; migration/updating of the Property Development System platform; digitization of files for online access, and design and development of an Integrated Property Information and Tax Management System. This latter system would establish a flow of information with the municipios and the National Public Records Bureau.

<sup>13</sup> Particularly platforms for: (i) verification of identity, digital signature, and electronic notification; (ii) electronic files management; (iii) administrative management for municipios; (iv) National Transaction Processes and Services Portal; (v) online payment gateway; (vi) National Geoportal and updating of features of the interoperability platform, among others.

<sup>14</sup> Initially identified projects are: (i) support for the development of a single system for beneficiaries of social programs; (ii) development of an agricultural producers system; (iii) Internet of Things for the use of connectivity tools, sensors, and information systems in order to manage them at the municipal level; and (iv) "big data" and "data analytics" to take advantage of public sector data.

<sup>15</sup> Including the management of service quality, through periodic surveys of citizen satisfaction and process transaction costs.

<sup>16</sup> Includes: (i) review of regulatory framework; (ii) management of incidents and investigations through the Security Operations Center; (iii) implementation of a security team for critical infrastructure; and (iv) capacity-building at the national level.

<sup>17</sup> Specifically, for outputs 1.2, 1.3, 1.4, 1.5, and 1.6 in the Results Matrix.

<sup>18</sup> Including: (i) seed capital to cofinance the startup of new innovative digital enterprises; (ii) promotion of digital based entrepreneurship, including the training of entrepreneurs, investors, mentors, and fund managers; and (iii) support for attracting foreign initiatives and ventures.

the supply of human capital by promoting youth, training of ICT professionals, and improvement of digital training programs;<sup>19</sup> (iii) implementation of services to promote the ICT industry;<sup>20</sup> and (iv) implementation of sector digital transformation projects.<sup>21</sup> The component will also finance the creation and management of a Digital District that will facilitate collaboration between institutions, small and medium-sized enterprises, and the digital technologies sector, and will include: (a) the joint development of a management model with the private sector; (b) coworking, incubation, and accommodation of digital enterprises; (c) applied research center, extension, and transfer of digital technologies; (d) office space for the executing agency; and (e) launch and initial operation of the Digital District (including design, supervision of works, and equipment).<sup>22</sup>

1.17 To deliver the nonreimbursable funds required for the activities included in this component,<sup>23</sup> the executing agency will use the competitive funding or open window mechanisms, in accordance with the procedures described in the Operating Regulations. The criteria for selecting projects will cover a minimum of the following: technical viability and quality, bidders' capacity, and expected impacts and outcomes. The procedures for the selection and allocation of funds will comply with the principles of competitiveness, transparency, and equal opportunity. The specific terms of each competitive bidding process will require the Bank's no objection. The technical analysis of proposals will be performed by technical experts who will have the qualifications specified in the Operating Regulations. Eligible proposals examined will be forwarded to the Project Selection Committee for consideration. The Operating Regulations will spell out the functioning of the Project Selection Committee and the process to formalize decisions on the allocation of funds. The executing agency will sign an agreement with the respective beneficiaries; the contents of this agreement will be specified in the Operating Regulations.<sup>24</sup> The executing agency will also be able to initiate and execute those activities described in this component that fall within its sphere of competence and do not require nonreimbursable funds, and it will carry out the respective procurement procedures for that purpose.

1.18 **Component 3. Expanding the use of broadband and improving its quality and price (US\$47.9 million).** This component seeks to improve the accessibility and

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<sup>19</sup> Through: (i) National Olympiads to identify and support youth with digital skills; (ii) certification of people with digital skills obtained by taking short courses; and (iii) cofinancing of partnership projects with universities and tertiary institutions to transform available courses for training human resources in digital technologies. In this activity, emphasis will be placed on the participation of women, building synergies with the technical cooperation project Support for the Creation of a Ciudad Mujer Program in Paraguay (ATN/JF-15379-PR).

<sup>20</sup> Especially quality management and tax advice for software exports. These outputs would be implemented by trade associations in the ICT sector.

<sup>21</sup> Such as: (i) integrated financial scoring system; (ii) productivity measurement systems for pork and poultry chains, and (iii) dynamic pricing platform for agricultural products.

<sup>22</sup> The Digital District will be located in the city of Asunción. Its construction will take into consider topics such as energy efficiency and water saving measures, including: (i) use of energy-efficient lightbulbs; (ii) use of renewable energies; (iii) façade insulation; (iv) lighting controls; (v) low-flow faucets; and (vi) gray water treatment and recycling systems, etc. It is estimated that the implementation of these measures will lead to savings of at least 20% in electricity, 20% in water, and 20% energy in construction materials, meaning the Digital District could be considered a "green building."

<sup>23</sup> Specifically for outputs 2.1 to 2.8 of the Results Matrix.

<sup>24</sup> This agreement will clearly state that expenses will be eligible as of the date it is signed.

quality of broadband services and increase the low penetration of these services. To ensure that the program impacts the entire digital ecosystem, the following activities, among others, will be financed: (i) construction of new last-mile networks, connecting public sites and buildings;<sup>25</sup> (ii) implementation of a new government data center (that will offer the government's private cloud service), Internet Exchange Point (IXP), and Network Operation Center (NOC); and (iii) acquisition of Indefeasible Rights of Use (IRU) for international access through two countries.

- 1.19 **Component 4. Strengthening the institutional framework and the government's capacity to develop the Digital Agenda (US\$13.4 million).** Financing will be provided for the following and other activities: (i) development and implementation of a new management model for the executing agency;<sup>26</sup> (ii) development of costing models to set prices for the services offered to other public entities, operating systems, and tools for assessing service quality; (iii) design, development, and implementation of an enterprise resource planning (ERP) software program;<sup>27</sup> (iv) strengthening of technical and operational capacity by adding technical specialists who will support the mission-based management units, the costs of which will be gradually absorbed by the executing agency's budget;<sup>28</sup> (v) ICT training for staff of key institutions in the public ecosystem, with the potential development of a certificate in ICT;<sup>29</sup> and (vi) awareness-raising and digital literacy campaigns that target residents and small businesses.<sup>30</sup>
- 1.20 In addition to the amounts indicated in the preceding paragraphs, the estimated administrative cost of the program is US\$6.5 million, of which US\$5.4 million is for program management and US\$1.1 million is for monitoring, evaluation, and audits.
- 1.21 **Main beneficiaries.** The main beneficiaries will be citizens and companies that will benefit from more efficient public services and from improvements in broadband quality and coverage. Citizens, entrepreneurs, and companies will also benefit from activities that promote investment in ICTs in the productive sector. Finally, public servants and institutions that comprise the public digital ecosystem will benefit from modernization and the new capacities facilitated by the program.

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<sup>25</sup> With an emphasis on public sites and the network of MSPBS health centers in large and medium-sized municipios (Categories 1 and 2 pursuant to [Decree 3250](#) of 2015). This component will also finance the expansion of the Digital Television Network in order to provide digital TV services to all citizens, as well as the government's digital media platform.

<sup>26</sup> Including: (i) in-depth situational assessment and design proposal for the new model; (ii) new institutional strategic plan; (iii) tools for redefining the new institutional management model; (iv) change management strategy; and (v) consolidation activities. The first four activities will be financed by the technical cooperation project "Support for the Digital Agenda" (ATN/OC-16802-PR) and will be key inputs for the execution of this component.

<sup>27</sup> Enterprise Resource Planning is an integrated management system for controlling processes through human resources, financial-accounting, production, and logistics management modules.

<sup>28</sup> The financing will gradually be absorbed starting the third year after the specialists are contracted. The activity also considers the financing of legal issues related to this procurement process and proposed agreements with the Ministry of Finance and the Technical Planning Secretariat, for inclusion in the executing agency's payroll and organizational structure.

<sup>29</sup> The certificate's universe will include 16 ministries, 17 secretariats, and 31 autonomous agencies.

<sup>30</sup> The campaigns will promote the adoption and use of technologies, given the expanded supply of digital services resulting from the program.

## C. Key results indicators

- 1.22 **Expected impacts and outcomes.** The main impact of the operation will be improved competitiveness and higher quality of public services. This will be the result of the following and other outcomes: (i) lower transaction costs of public services for citizens and companies; (ii) greater use of ICTs by companies; (iii) an increase in the number of users connected to higher quality broadband services; and (iv) strengthening of key institutions for digital development.
- 1.23 **Economic analysis.** Program benefits will be seen in three areas: (i) improved government services as a result of online processes will reduce the costs paid by citizens when they conduct government transactions; (ii) greater use of ICTs by companies will enhance their productivity; and (iii) increased connectivity will mean better coverage and lower broadband costs for citizens and companies.<sup>31</sup> The economic analysis yields a cost-benefit ratio of US\$1.46, an internal rate of return of 21% (higher than the IDB threshold of 12%), and a net present value of US\$43.2 million. The sensitivity analysis with more conservative assumptions yields results that exceed the thresholds for each indicator ([Economic Analysis](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 This operation is structured as a specific investment loan charged to the Bank's Ordinary Capital, in the amount of US\$130 million. There is no local counterpart contribution. The executing agency plans to execute all activities over a period of six years. The execution period was estimated based on the infrastructure required for the data center and its start-up and on building the capacity of the institutions involved in the program.

Table 1. Budget by source

Component	IDB/loan (US\$)*	%
<b>Component 1:</b> Digitizing processes and improving the delivery of services provided by the public sector	32,600,000	25.08
<b>Component 2:</b> Improving ICT investment by supporting youth, entrepreneurs, and companies	29,600,000	22.77
<b>Component 3:</b> Expanding the use of broadband and improving its quality and price	47,900,000	36.85
<b>Component 4:</b> Strengthening the institutional framework and the government's capacity to develop the Digital Agenda	13,400,000	10.30
<b>Administration, monitoring, audits, and evaluation</b>	<b>6,500,000</b>	<b>5.00</b>
<b>Total</b>	<b>130,000,000</b>	<b>100</b>

\* These amounts include local taxes, in accordance with the Bank's policies.

<sup>31</sup> The cost considered in the economic analysis is the total amount of the loan, i.e. US\$130 million, since all activities are essential for producing the expected benefits.

**Table 2. Tentative disbursement schedule (US\$)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	TOTAL
IDB	2,282,667	16,936,360	33,672,250	42,282,650	25,165,028	9,661,045	<b>130,000,000</b>
% per year	2%	13%	26%	33%	19%	7%	<b>100%</b>

**B. Environmental and social risks**

- 2.2 Any negative environmental and/or social impacts caused by the program are expected to be temporary and localized, and there are adequate existing measures in place to control them. For this reason, in accordance with the Environment and Safeguards Compliance Policy (OP-703), the program has been classified as a category “B” operation. Furthermore, in accordance with the Disaster Risk Management Policy, (OP-704), the program has a “medium” risk due to the country’s vulnerability to earthquakes, floods, and fires, particularly in the area where the Digital District will be located.
- 2.3 The program activities that could potentially cause negative environmental and/or social impacts are related to the deployment of last-mile networks and construction of the Digital District. In the first case, nine of the planned connection networks will be deployed in areas located in protected areas that are considered essential for biodiversity in Paraguay. However, interventions have already taken place in these areas. In addition, fiber optics will be installed using existing infrastructure. Therefore, no significant negative impacts are expected in these critical habitats.
- 2.4 The Digital District will be constructed in a vacant lot with no nearby towns, so no physical or economic displacement is expected. The program’s environmental and social management plan ([ESMP](#)) specifies measures for preventing and controlling environmental impacts caused by the construction and operation of the facilities, which include a wastewater treatment plant. The ESMP was published on the Bank’s website in June 2018, and a consultation process with the main parties involved in the program took place in July 2018 prior to the analysis mission. Participants in the consultation process expressed their agreement with the program and did not raise any concerns or make any relevant recommendations. The [consultation report](#) is available on the Bank’s website. With this report, the consultation requirements to proceed with the operation’s preparation phase have been met.

**C. Fiduciary risks**

- 2.5 A risk management exercise was carried out with the participation of SENATICS officials,<sup>32</sup> in which the following medium risks were identified: (i) SENATICS does not have experience in the execution of projects financed by the IDB. Additional complexity lies in coordinating the processes in order to execute the different components with the different beneficiaries of each one. A mitigation measure is strengthening the unit responsible for procurement by adding staff with experience and knowledge in multilateral organization policies as well as specific courses and workshops on IDB procurement policies; and (ii) if the required tools are not developed for financial management and procurement, such as appropriate accounting systems and experienced staff, then execution, administrative, and procurement processes will be delayed. Mitigation measures include: (i) the program execution unit (PEU) should be strengthened with qualified staff and through training

<sup>32</sup> This exercise was conducted as part of the use of the Institutional Capacity Assessment Platform.

in financial management and auditing; and (ii) a financial and accounting information system should be implemented to record transactions and produce the information required by the IDB.

**D. Other project risks**

2.6 In addition to the above, the following risks were identified:

- a. **Development.** High risks are: (i) if legislative approval of the project does not occur in the first half of 2019, its eligibility will be delayed. To mitigate this risk, the situation will be monitored in coordination with the government to ensure that it is approved in the Legislative Assembly; and (ii) if there is no effective coordination between the executing agency and the beneficiaries, there may be delays and cost overruns. To mitigate this risk, the following measures are planned: (i) development, distribution, and compliance with functions and procedures manuals; (ii) dissemination of information about the project among beneficiaries; (iii) the contracting and appointment of individuals who have the required professional profiles; (iv) the timely appointment of PEU staff. A medium risk identified is that if no governance plan and business model are defined for the distribution of international connectivity, users will not benefit from its advantages. To mitigate this risk, a governance plan and business model should be approved before beginning the competitive bidding for rights of use for international connectivity.
- b. **Fiscal sustainability.** A high risk is that if the Ministry of Finance does not authorize the budget items for adding more human resources to the executing agency, the continuity of the contracted staff will not be achieved. This will be mitigated by: (i) conducting negotiations with the Ministry of Finance to ensure that the executing agency's budget starting the third year of execution has sufficient budget appropriations to finance part of the staff already contracted with the program's resources; and (ii) finding alternative ways to generate own income by selling to other public institutions services that are currently provided by SENATICS free of charge.
- c. **Public management and governance.** A medium risk is that if the beneficiary citizens and sectors are not involved in the execution of the projects to be prioritized by GobLab, these projects may not meet user needs. To mitigate this risk, a methodology for the operation of GobLab and also management tools will be developed (selection criteria and identification of proposals and procedures).

### III. IMPLEMENTATION AND MANAGEMENT PLAN

**A. Summary of implementation arrangements**

- 3.1 **Execution mechanism.** The executing agency will be the borrower, acting through SENATICS or any Executive agency replacing it that is acceptable to the Bank, at the borrower's request.<sup>33</sup>
- 3.2 The objectives, components, and activities to be financed by the program will not be affected by the possible conversion of SENATICS to the Vice Ministry of Information and Communication Technologies, since not only will it retain all of its functions and

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<sup>33</sup> See paragraph 1.3, footnote 7

responsibilities, its ability to coordinate with other entities in the public sector will be strengthened.

- 3.3 The executing agency will be responsible for execution vis-à-vis the Bank. The program is aligned with the executing agency's legal mandate and existing administrative and operating structure. The applicable regulations state that the executing agency is responsible for managing the execution of the program in all matters related to the implementation of plans and projects associated with the Digital Agenda that are financed by this program. In this respect, the Minister of SENATICS or equivalent authority of the executive branch agency that replaces it will have the following duties and functions: (i) formulate the program's strategic guidelines; (ii) monitor and supervise its implementation; and (iii) review and approve the following documents before the PEU sends them to the Bank: (a) annual work plan (AWP); (b) procurement plan and any modifications thereto; (c) semiannual progress reports; (d) audited financial statements; (e) midterm evaluation report; and (f) final evaluation report.
- 3.4 To perform these duties, the executing agency will have the support of:
- a. At the policy-strategic level, the Strategic Advisory Committee, which will be chaired by the head of the executing agency or his or her appointee, and will be comprised of the heads of the following institutions or the persons designated by them: the Ministry of Finance, the National Communications Commission, the Ministry of Education and Science, the Ministry of Industry and Commerce, and the Ministry of Public Health and Social Welfare. The committee's main duties and functions will be: (i) advise the executing agency on the formulation of the program's strategic guidelines; (ii) promote interagency coordination as required for execution of the different program components; and (iii) support and monitor the execution of the different program activities, especially the launch of the Digital District.<sup>34</sup> The functioning of this committee will be spelled out in the Operating Regulations.
  - b. At the tactical level, a Committee for the Selection of Projects with Competitive Funds to be financed under Component 2, which will be comprised of two representatives of the executing agency, an ICT expert, and two representatives of the private sector. The work involved in reviewing and preselecting the best proposals submitted will be the responsibility of the unit in charge of this component, whereas final selection will be the responsibility of this Committee.
  - c. At the operations level, there will be a PEU that will report to the executing agency's highest institutional authority and will be in direct contact with the Bank. This PEU will be responsible for planning and monitoring processes, as well as for managing projects, procurement processes, financial, environmental and social matters, and communications. The PEU will execute the program based on the technical guidelines defined by the executing agency's specialty units (i.e. divisions that have substantive responsibilities in the relevant areas for program component) in each of the different components<sup>35</sup> and in the Operating Regulations. This PEU will have a general

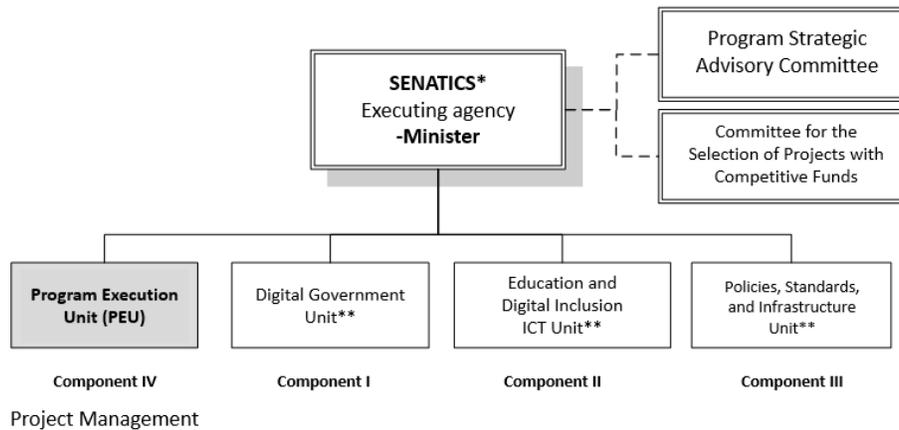
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<sup>34</sup> This committee will be formed by presidential decree.

<sup>35</sup> Digital Government Unit, Component 1; Education and Digital Inclusion ICT Unit, Component 2; and Policies, Standards, and Infrastructure Unit, Component 3 (or any units replacing them); and the PEU, Component 4.

program manager and a minimum of the following individuals: (i) planning and monitoring specialist; (ii) procurement specialist; (iii) administrative-financial specialist; (iv) environmental and social management specialist; (v) communications specialist (as needed); (vi) legal specialist (as needed); and (vii) a coordinator for Component 4. To execute the program, technical specialists will be financed for each component as set out in the Operating Regulations.

Figure 1. Executing agency's structure for execution



\* or the Executive agency replacing it  
\*\* or any names that may be given to these units in the future

- 3.5 The general program manager will have the following duties: (i) liaison with the Bank; (ii) planning and monitoring; (iii) management of Component 4; (iv) procurement management;<sup>36</sup> (v) management of program resources, including the processing of disbursement requests, and preparation of reports on the use of resources; (vi) preparation and forwarding of the following documents to the Bank (after approval by the Minister of SENATICS or equivalent authority of the Executive agency replacing it): the multiyear execution plan, AWP, procurement plans and any modifications thereto, semiannual progress reports, audited financial statements, midterm evaluation report, final evaluation report, and any other documents specified in the Operating Regulations; and (vii) supervision of the management of the program's environmental and social aspects.
- 3.6 **Special contractual conditions precedent to the first disbursement of the loan:** The executing agency will present evidence to the Bank of: (i) **the creation of the program execution unit (PEU), the appointment or contracting of the general director for the program and the financial and procurement specialist, in accordance with terms previously agreed upon with the Bank**, a contractual condition required to ensure that key management and senior staff are in place to implement project management, procurement management, and financial management processes; (ii) **the creation of the program's strategic advisory committee, in accordance with terms previously agreed upon with the Bank**, to ensure the interagency coordination required to execute the components and support execution of the various program activities; and (iii) **the entry into effect of the program [Operating Regulations](#), in accordance with terms previously agreed upon with the Bank**, which is key for ensuring the successful execution of the program, as these will establish detailed guidelines and procedures to be followed by the executing agency.
- 3.7 **Special contractual conditions of execution of Component 2.** With respect to the creation and management of the Digital District, there must be evidence that the borrower has legal possession of the property, as well as a framework that defines

<sup>36</sup> The PEU will have autonomy in managing procurement processes, and will have PEU/POUs status (Procurement Operations Units) vis-à-vis the National Public Procurement Bureau.

the governance and the delivery of services that will be available. Therefore, special contractual conditions of execution will be that: (i) prior to tendering the design and construction of the Digital District works as described in Component 2, the executing agency will provide evidence that it has legally owned the property where the construction will take place for at least 30 years<sup>37</sup> and that it has the authority to lease or sublease such property;<sup>38</sup> and (ii) prior to starting the Digital District works, the executing agency will have obtained approval for the respective governance framework, in accordance with terms previously agreed upon with the Bank.

3.8 **Special contractual conditions of execution of Component 3.** International access to broadband through two countries will require a regulatory framework for interconnection with local telecommunications providers, under terms consistent with the Bank's Public Utilities Policy (document GN-2716-6). Therefore, a special contractual condition for execution will be that prior to tendering international access to broadband (Component 3), the executing agency will have obtained approval for the governance framework that regulates and allows interconnection with local telecommunications providers, in accordance with terms previously agreed upon with the Bank.

3.9 **Procurement of works, goods, and consulting and nonconsulting services.** The procurement processes financed by the loan proceeds will be carried out in accordance with the policies set out in documents GN-2348-9 and GN-2350-9. The use of the electronic reverse auction and competitive bidding subsystems of the Paraguayan Public Procurement System will apply to the operation under the terms set forth in the Fiduciary Agreements and Requirements (Annex III).

3.10 **Audits.** During the execution period, the PEU will submit the program's audited financial statements on an annual basis, under the terms stipulated by the Bank. The program will require the selection of an eligible independent audit firm acceptable to the Bank. The annual audited financial statements will be submitted 120 days after the end of the fiscal year, and the closing statements will be submitted within 120 days after the date set for the last disbursement.

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

3.11 **Monitoring system.** To measure the program's progress and assess the achievement of its objectives, the outcome and output indicators described for each component in the Results Matrix and reflected in the progress monitoring report will be used. The executing agency will be responsible for keeping data collection and monitoring systems. The [annual work plan](#) will include: (i) an estimated [budget](#); (ii) an updated [procurement plan](#); (iii) the indicators specified for the Results Matrix; (iv) the planned activities; and (v) an execution timetable. In addition, the executing agency will submit semiannual progress reports within 60 days after the end of each

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<sup>37</sup> This period of legal possession is warranted due to the limitations set by laws in the country and because according to the program's economic analysis, it takes 25 years to recover the investment (see [economic analysis spreadsheet](#)).

<sup>38</sup> To date the following documents have been produced on the transfer of ownership of the land: (i) Report of the Heritage Department of the Command of the Military Forces, which identifies the property, the real property account, and the owner ; (ii) Ruling of the Army Department of Legal Affairs, which specifies the usufruct for valuable consideration as the appropriate cooperation and consideration concept under current law; and (iii) Report of the Heritage Directorate of the Chiefs of Staff, which states that no other type of project will be carried out in the area requested by SENATICS and that there is no technical or legal impediment to the requested area.

six-month period. The tools to be used to monitor the program are described in the [monitoring and evaluation plan](#).

- 3.12 **Monitoring by the Bank.** Administrative missions and inspection visits will be conducted. The Bank agrees that the executing agency will use the progress monitoring report, which includes an estimate of disbursements and the physical targets and results achieved. A meeting with the executing agency and the Bank will be conducted annually to discuss: (i) progress made in the activities described in the AWP; (ii) fulfillment of the indicators established in the Results Matrix; (iii) the AWP for the following year; and (iv) the procurement plan for the next 12 months and potential modifications of budget appropriations for each component. The executing agency agrees to maintain a monitoring and evaluation system for all components, to be used as a basis for preparing the reports and information to be sent to the Bank. The executing agency will have a specialist in charge of monitoring its activities ([monitoring and evaluation plan](#)).
- 3.13 **Evaluation.** The Results Matrix and the [monitoring and evaluation plan](#) will be used to evaluate the program. There will be a midterm and final evaluation of the program covering technical, administrative, and financial issues, as well as an ex post cost-benefit analysis. The midterm evaluation will be performed when at least 40% of the loan proceeds have been disbursed, or when three years have elapsed since the effective date of the loan contract (whichever occurs first). The final evaluation will be performed when at least 90% of the loan proceeds have been disbursed. The purpose of the final evaluation is to verify the level of fulfillment of the targets set for each of the expected outcomes and outputs in each component.
- 3.14 **Impact evaluation.** The proposed assessment methodology is a randomized controlled study, which will use phased implementation of the Health Information System (HIS).<sup>39</sup> The main objectives of this assessment are to: (i) measure the impact of the HIS tool on public health indicators; and (ii) measure the effectiveness of Internet connectivity on the performance and capacities of hospitals in Paraguay. This is expected to generate evidence for making policy recommendations on the effect of implementing a digital government application in a specific sector such as health care.

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<sup>39</sup> Since no hospital can be excluded from the HIS platform for ethical reasons, phased implementation lends itself to a random impact assessment design because it selects the order in which the HIS is introduced in the hospitals. The first phase will use a treatment group of hospitals, and the other will be the control group, which will make it possible to determine the causality of the HIS on public health indicators. In the final phase, all public hospitals will have the platform.

Development Effectiveness Matrix		
Summary		
<b>I. Corporate and Country Priorities</b>		
<b>1. IDB Development Objectives</b>	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
<b>2. Country Development Objectives</b>	Yes	
Country Strategy Results Matrix	GN-2769	Enhance the productivity and competitiveness of firms, and improve the effectiveness, transparency, and integrity of public entities.
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 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>		
<b>3. Evidence-based Assessment &amp; Solution</b>	Evaluable	
3.1 Program Diagnosis	9.2	
3.2 Proposed Interventions or Solutions	3.0	
3.3 Results Matrix Quality	4.0	
4. Ex ante Economic Analysis	2.2	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	9.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	3.0	
4.4 Sensitivity Analysis	0.0	
4.5 Consistency with results matrix	2.0	
5. Monitoring and Evaluation	1.0	
5.1 Monitoring Mechanisms	10.0	
5.2 Evaluation Plan	2.5	
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury. Procurement: Information System, Price Comparison.
Non-Fiduciary		
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	Support to the Digital Agenda of Paraguay (PR-T1255)

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

**Support to the Digital Agenda Program (PR-L1153)**  
**Evaluability note**

The main goal of the operation is to improve the competitiveness of the Paraguayan economy and the quality of the public services offered to citizens and enterprises. To achieve this, the proposal defines four specific areas of intervention. The first area proposes a reduction of the transactional cost of accessing public services through the digitalization of services and processes. The second area proposes an incentive for enterprises to increase their investment in communication and information technologies. The third area proposes to increase access to broadband connectivity. It also proposes to improve the quality of internet service. The fourth area proposes to strengthen the government institutional framework to allow for a digital agenda.

The project proposal diagnosis describes a high transactional cost for renewing an ID: US\$ 94 per document to citizens [IDB, 2018]. Additionally, the diagnosis presents limitations associated to connectivity such as low speed and quality in data transmission compared with LAC. The diagnosis also finds low investment in ICT and a weak institutional framework for the government to develop a digital agenda. Overall, the diagnosis identifies problems and their causes. The solutions are aligned to the problems. There is no evidence on effectiveness for some proposed solutions in the country. Some outputs and results indicators are not SMART because the unit of measure is different to the name of the output indicator.

The economic analysis provides a quantification of some economic benefits. It quantifies benefits associated to the reduction in the transactional cost of two key public services, increase in the ICT use by enterprise and an increase of the broadband users. The assumptions on the magnitude of the expected benefits are not based on evidence. The costs include maintenance and investments associated to the loan. The analysis concludes the project has a net present value of US\$43 million.

Monitoring relies on reports by multiple government agencies with a majority of indicators provided by SENATICS. The evaluation plan includes an impact evaluation. The evaluation aims to quantify the effect of the HIS (Health Information System) on public health outcomes and public hospital performance.

## RESULTS MATRIX

<b>Project objective:</b>	To improve the competitiveness of the Paraguayan economy and the quality of public services provided to citizens and companies. The specific objectives are: (i) to reduce the transactions costs involved in accessing public services for citizens and companies; (ii) to increase the use of information and communication technologies (ICTs) and incentivize business innovation and linkages; (iii) to increase access to broadband by expanding connectivity and improving service quality; and (iv) to strengthen the institutional framework and operational capacity of government to promote the development of the Digital Agenda.
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### EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
<b>IMPACT #1. Improved competitiveness and higher quality of public services</b>												
Citizen satisfaction with transaction processes	Scale of 1 to 10	4.6 <sup>1</sup>	2015			5.3			6.0	6.0	Published reports on survey results	Measured only twice: in year 3 and at the end.
Citizens that conduct online transactions	%	2.15 <sup>2</sup>	2017			5.0			15.0	15.0	Published reports on survey results	Measured only twice: in year 3 and at the end.
Global Competitiveness Indicator (World Economic Forum)	Points	3.7 <sup>3</sup>	2017			3.75			3.8	3.8	WEF report	

<sup>1</sup> 2015 Simplifying Lives Survey.

<sup>2</sup> Latinobarómetro public opinion survey.

<sup>3</sup> The estimated Global Competitiveness Indicator score for Paraguay in 2017 was 59.19, which puts it at 106th out of 137 countries (*Doing Business*). Source: [World Economic Forum Report](#), page 246.

**EXPECTED OUTCOMES**

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
<b>OUTCOME #1: Lower transaction costs of public services for citizens and companies</b>												
Average cost of renewing identity card	US\$	94 <sup>4</sup>	2017			82			70	70	Report on measurement taken using the same methodology applied in 2018	
Average cost of opening a business	US\$	3,600 <sup>5</sup>	2017			3,000			2,700	2,700	Report on measurement taken using the same methodology applied in 2018	
<b>OUTCOME #2: Greater use of ICTs by companies</b>												
Companies that invest in ICTs	Percentage	10 <sup>6</sup>	2013			10.5			11.0	11.0	National Survey of Business Innovation in Paraguay	
<b>OUTCOME #3: Increase in the number of users connected to higher quality broadband services</b>												
Cost per Mbps	US\$/Mbps	20	2016			7.24			4.18	4.18	Broadband development index - IDBA (IDB)	
Number of fixed broadband lines per 100 inhabitants	%	3.35	2016			5.37			5.80	5.80	IDBA (IDB)	
<b>OUTCOME #4: Strengthening of key institutions for digital development</b>												
SENATICS's compliance with	%	36	2018			50			73	73	Audited report on	SENATICS currently

<sup>4</sup> IDB, 2017. Rodrigo, Delia and Jonatas Dos Santos. Medición de Costos Administrativos de Trámites Ciudadanos y Empresariales en Paraguay.

<sup>5</sup> IDB, 2017.

<sup>6</sup> National Survey of Business Innovation in Paraguay , 2013.

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Article 12 of Law 4,989/13 <sup>7</sup>											achievement of institutional targets prepared by SENATICS	performs 8 of its 22 duties and is expected to perform at least 16. The new duties would be: (i) issue guidelines for optimizing interoperability processes; (ii) coordinate inter-agency activities to fully integrate public services; (iii) promote the use of ICTs in the country's communities; (iv) supervise the public procurement of ICTs; (v) help other institutions with ICT procurement processes; (vi) formulate personal and government information protection policies and a security organization system, and propose a national

<sup>7</sup> In the event of a legal change, the current bill essentially includes the powers and duties set out in Law 4,989/13.

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
												security policy; (vii) identify technological improvements and specify the equipment, programs, and means of connectivity for the MEC; and (viii) implement an operating and maintenance system and provide technical assistance on the equipment and connectivities procured.

**OUTPUTS**

Outputs	Unit of measure	Baseline year (2018)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final Target	Means of verification	Comments
<b>Component #1. Digitizing processes and improving the delivery of services provided by the public sector</b>											
1.1 Proposed regulations on digital government and strategic sectors, drafted	# regulations	0	-	2	3	3	2	-	10	Proposed regulations documents	Includes regulations on personal data protection, telecommunications, e-commerce, digital government, innovation, and cybersecurity.
1.2 Services simplified and digitized.	# services	0	-	10	20	40	40	10	120	Annual reports indicating the list of simplified processes, and for each one, the simplified processes or steps or records digitized	
1.3 Health Information System (HIS <sup>8</sup> ), digitized	% of the HIS digitized	25	-	10	20	25	10	10	100	Annual progress reports	
1.4 Plan for improving the services provided by the National Property Records System, implemented	% of progress made in planned actions	0	-	20	45	25	10	-	100	Annual progress report	
1.5 General-use digital applications developed and implemented	# applications	0	-	-	2	3	3	2	10	Final report on each general-use application implemented	Includes verification of digital identity, digital signature, electronic file, electronic notification, geoportal, municipios management platform, procedures and transactions portal, updating of elements of the interoperability platform and online payment gateway.

<sup>8</sup> Health Information System.

Outputs	Unit of measure	Baseline year (2018)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final Target	Means of verification	Comments
1.6 Government innovation laboratory to support the development of specific digital government projects, implemented	# projects	0	-	2	4	7	5	2	20	Final reports on each project	Although competitive bidding processes will be launched, there are already two prioritized projects in this output: a consolidated register of social program beneficiaries, and a consolidated register of rural producers.
1.7 Multichannel service model, implemented	# model	0	-	-	-	-	-	1	1	Program status report (PSR)	
1.8 National Cybersecurity System, strengthened	% system progress	0	-	10	10	50	20	10	100	Final reports on: (i) proposed regulatory improvements, (ii) implemented SOC and strengthened CERT, (iii) critical infrastructure, and (iv) technical strengthening.	Includes: review of regulatory framework, protection of critical infrastructure, incidence response (CERT), monitoring and analysis (SOC), and strengthening of technical capacities.
<b>Component #2. Improving ICT investment by supporting youth, entrepreneurs, and companies</b>											
2.1 Digital entrepreneurs financed with seed capital	# digital entrepreneurs	0	-	20	40	50	50	10	170	PSR	Resources will be transferred to the selected entrepreneurs, in accordance with the guidelines included in the program Operating Regulations for that purpose.
2.2 Activities to promote digital entrepreneurship, carried out	# activities	0	-	5	11	15	10	6	47	PSR	
2.3 Foreign digital initiatives, attracted	# initiatives	0		10	20	10	10	-	50	PSR	
2.4 Youth with digital talent, identified	# youth	0		450	450	450	450	-	1,800	Report on Olympiads	
2.5 People trained and certified in digital skills	# people	0		300	300	300	20	-	920	Report on training courses List of participants	

Outputs	Unit of measure	Baseline year (2018)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final Target	Means of verification	Comments
2.6 Partnership projects to improve training programs in digital technologies, executed	# projects	0		1	2	2	1	-	6	Management and accountability report, per project	
2.7 Services for the ICT industry, implemented	# services	0	-	2	3	3	2	-	10	Management and accountability report, per project	
2.8 Sector digital transformation projects, implemented	# projects	0	-	2	8	8	2	-	20	Management and accountability report, per project	
2.9 Digital District in operation	# District	0	-	-	-	-	-	1	1	PSR	Financing over two years for the operation and maintenance of the District is planned.
<b>Component #3. Expanding the use of broadband and improving its quality and price</b>											
3.1 Public sites and buildings, connected	# public sites and buildings	251	-	70	93	121	104	2	641	PSR	
3.2 Data Center in operation	# data center	0	-	-	-	-	-	1	1	PSR	
3.3 Rights of use for international connectivity, acquired	# gigabytes/second	0	-	-	-	100	-	-	100	Service certification reports	
<b>Component #4. Strengthening the institutional framework and the government's capacity to develop the Digital Agenda</b>											
4.1 New institutional management model, designed and implemented	# system	0	-	-	-	-	-	1	1	PSR	This output should be developed in compliance with the Paraguayan Standard Model for Internal Control (MECIP).
4.2 Costing models, operating systems, and tools to measure the quality of corporate services, developed	# consulting service	0	-	-	-	2	1	-	3	Approved final reports of consulting service	
4.3 Integrated IT Management System, implemented	# system	0	-	-	-	-	-	1	1	Operation reports produced by the system	

Outputs	Unit of measure	Baseline year (2018)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final Target	Means of verification	Comments
4.4 Technical and operational capacity of SENATICS, <sup>9</sup> strengthened	# incremental staff / year	0	25	45	65	55	35	15	240	Contracts signed Management reports	80 professionals will be financed over 36 months in 4 groups: Group 1 in year 1 #25; Group 2 in year 2 #20; Group 3 in year 3 #20; Group 4 in year 4 #15.
4.5 ICT staff of key institutions in key institutions in the public ecosystem, trained	# people	0	-	-	50	80	80	40	250	Report on trainings conducted Attendance list	A certificate in ICT will be developed.
4.6 Educational activities for citizens on the use of digital processes, carried out	# activities	0	-	5	5	5	5	5	25	Reports on implementation of educational activities	

<sup>9</sup> SENATICS or other executive branch body acting as its replacement that is acceptable to the Bank.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country:</b>	Paraguay
<b>Project name:</b>	Digital Agenda Support Program
<b>Project number:</b>	PR-L1153
<b>Executing agency:</b>	The borrower, acting through the National Secretariat of Information and Communication Technologies (SENATICS) or any Executive agency replacing it that is acceptable to the Bank, at the borrower's request
<b>Prepared by:</b>	Fernando Glasman, Bruno Candia, and Jorge Luis González (Fiduciary Specialists)

### **I. EXECUTIVE SUMMARY**

- 1.1 The institutional assessment for the fiduciary management of the program was based on: (i) the country's fiduciary context; (ii) the Institutional Capacity Assessment; and (iii) the findings of the fiduciary risk evaluation. As a result of this assessment, the fiduciary agreements applicable to the execution of the program were prepared.

### **II. THE COUNTRY'S FIDUCIARY CONTEXT**

- 2.1 In general, the country systems for financial management have a medium level of development. Nevertheless, these systems need to be supplemented for the execution of projects financed by the Bank. Specific financial reports are prepared through subsidiary accounting systems. Financial control tools such as the Integrated Financial Management System (SIAF), the Integrated Accounting System (SICO), and other subsystems allow the executing agency to manage payment transfers to vendors under acceptable conditions through the Central Bank of Paraguay (BCP). External control procedures are currently performed through private audit firms.
- 2.2 Progress has been made in the National Public Procurement System in recent years in the area of efficiency and transparency, as a result of the creation of its governing body, the National Public Procurement Bureau (DNCP), which facilitated the implementation of a transaction procurement platform with electronic procedures such as the electronic reverse auction (SBE), a vendor system, and the Statistical Information System (SIE). In Bank-financed operations, the Public Procurement Information System (SICP) has been used, along with the country's electronic reverse auction and competitive bidding subsystems for the amounts and categories specified in the agreement on the use of these subsystems, signed on 17 June 2014.

### **III. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 3.1 The executing agency will be the borrower, acting through SENATICS or any Executive agency replacing it that is acceptable to the Bank, at the borrower's request.
- 3.2 In terms of institutional capacity, the program execution unit (PEU) will need support in technical and operational areas since it does not have previous experience in the

execution of loans financed by multilateral organizations and in serving different beneficiaries, which could delay the PEU's response capacity.

#### IV. FIDUCIARY RISK ASSESSMENT AND MITIGATION MEASURES

- 4.1 As a result of the Institutional Capacity Assessment, the following opportunities for improvement were identified:
- (i) Strengthening of accounting and internal control in the Bank's financial management policies.
  - (ii) Strengthening of procurement by adding staff trained in the Bank's procurement policies.
- 4.2 **Procurement management.** A medium risk that was identified is that SENATICS does not have experience in the execution of IDB-financed projects. Additional complexity lies in coordinating the processes in order to execute the different components and the different beneficiaries of each one. As a mitigation measure, the unit responsible for procurement needs to be strengthened by adding staff with experience and knowledge about the policies of multilateral organizations, as well as through specific workshops and courses on IDB procurement policies.
- 4.3 **Financial management.** A medium risk is that if the tools required for financial and procurement management are not developed, such as appropriate accounting systems and experienced staff, then execution, administrative, and procurement processes will be delayed. As mitigation measures: (i) the PEU needs to be strengthened with qualified staff or through training in financial management and auditing; and (ii) a financial and accounting information system should be implemented to record transactions and produce the information required by the IDB.

#### V. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF CONTRACTS

- 5.1 The following agreements and requirements should be considered in the special conditions: for the purposes of Article 4.10 of the General Terms and Conditions, the parties agree that the exchange rate will be the one indicated in section (b) (i) of that article. The agreed-upon exchange rate will be the rate that is in effect on the date when the currency of approval or the currency of the disbursement is converted to the local currency in the borrower's country.
- 5.2 **Special contractual conditions precedent to the first disbursement of the loan: The executing agency will present evidence to the Bank of the existence of an accounting system that is able to produce the reports required by the Bank.** This condition is specified in order to ensure the systematized recording and accounting processes needed to produce the reports required by the Bank and for auditing purposes.

#### VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 The applicable procurement policies for this loan are set out in documents GN-2349-9 and GN-2350-9. The Bank's Board of Executive Directors also approved (document GN-2538-11) the use of the electronic reverse auction and competitive bidding subsystems of Paraguay's Public Procurement System (Law 2051/03). The

use of other country systems accepted subsequent to approval of the program will be implemented automatically, and so stated in the [procurement plan](#).

**A. Procurement execution**

6.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank. The program sector specialist will be responsible for reviewing the technical specifications of procurement items. Initially, there are no selection processes involving single-source selection.

6.3 **Selection and contracting of consultants.** Contracts for consulting services arising under the program will be executed using the standard request for proposals issued by or agreed upon with the Bank. The program sector specialist is responsible for reviewing the terms of reference for contracting consulting services.

a. **Selection of individual consultants.** Individual consultants will be selected in accordance with the procurement policies set out in document GN-2350-9.

b. **Training.** Procurement workshops will be held.

c. **Use of national procurement system.** Pursuant to document GN-2538-11 of October 2013, the use of the electronic reverse auction and competitive bidding subsystems of Paraguay's public sector procurement system (SCSP) in Bank-financed operations will apply:

(i) To all contracts for goods and nonconsulting services subject to the use of the electronic reverse auction procedure under the SCSP and involving amounts below the Bank's established threshold for the shopping method for off-the-shelf goods (for reference, US\$250,000).

(ii) To all contracts for works involving amounts below the Bank's established threshold for use of the shopping method for complex works (for reference, US\$250,000), and to contracts for goods and nonconsulting services up to the amount established by the Bank for the use of the shopping method for complex goods and services (for reference, US\$50,000).

(iii) Contracts for amounts greater than or equal to the aforementioned amounts will be governed by Bank policies (document GN-2349-9).

6.4 Section 1 of the Bank policies (document GN-2349-9) will continue to be applicable to all executed contracts, regardless of amount or procurement method. Any system or subsystem that is subsequently approved will be applicable to this operation. The operation's procurement plan and updates thereto will indicate which contracts are to be executed through the approved country systems.<sup>2</sup>

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<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) paragraph 1.1: Nonconsulting services are treated as goods.

<sup>2</sup> If another system or subsystem is approved by the Bank, it will be applicable to the operation, in accordance with the loan contract.

**Table 1. Thresholds for international competitive bidding and international shortlist (US\$)**

Method	ICB works	ICB goods and nonconsulting services	International shortlist - consulting services
Threshold	3,000,000	250,000	200,000

**Table 2. Amounts by procurement category**

Category	Amount
Works	20,320,296
Consulting firms	33,955,133
Goods and nonconsulting services	36,201,763
Individual consultants	11,247,200
Others	25,588,608
Training	2,687,000
<b>Total</b>	<b>130,000,000</b>

- 6.5 **Procurement supervision.** All procurement policies governed by procurement policy documents GN-2349-9 and GN-2350-9 will be subject to ex ante review by the Bank, taking into account the Ministry of Finance's position on this subject. Supervision of all procurement policies governed by the electronic reverse auction and competitive bidding subsystems of the SCSP (document GN-2538-11) will be conducted through the country system.<sup>3</sup>
- 6.6 **Records and files.** The systems, formats, and procedures used by or agreed upon with the Bank should be used for the preparation and filing of program reports.

## VII. FIDUCIARY AGREEMENTS AND REQUIREMENTS FOR FINANCIAL EXECUTION

### A. Financial management

#### 1. Programming and budget

- 7.1 The PEU, reporting to SENATICS and in coordination with the Bureau of Administration and Finance (DGAF) will centralize the coordination of execution, supported by other departments and units of SENATICS, as necessary.
- 7.2 The PEU and DGAF of SENATICS will be responsible for budget programming, administration, and execution, under the zero-based budget system.
- 7.3 **Accounting and information systems.** The country uses the modified cash basis accounting principle. However, cash basis accounting is used for the accountability process of IDB-financed projects.
- 7.4 **Information systems.** The PEU will have access to the SIAF through the DGAF. However, the country systems do not produce the reports necessary for the Bank. These reports are prepared using different systems, which entails additional work for the PEU.
- 7.5 **Disbursements and cash flow.** Project disbursements will typically be made through advance of funds, which must be corroborated through the monthly submittal of one detailed financial plan for up to six months, and one for a longer period, which can be used to determine the program's actual needs based on the multiyear execution plan, the annual work plan, and the procurement plan. The

<sup>3</sup> Depending on the scope of the system used, supervision may be supplemented by program audits. If so, it should be mentioned in this Annex.

- second and subsequent disbursements will be subject to justification of at least 70% of the previous advance. This percentage is warranted due to the different beneficiaries of each of the program components. If requested, disbursements may also be made as direct vendor payments or reimbursements for payments made.
- 7.6 **Exchange rate.** The exchange rate agreed upon with the executing agency for accounting purposes will be the monetization rate, unless the Ministry of Finance, in its capacity as borrower, otherwise decides during the negotiation of the loan.
- 7.7 **Internal control and internal audit.** The evaluation of the Paraguayan Standard Model for Internal Control (MECIP) conducted by SENATICS indicates an adequate level of performance. However, the internal audit office does not include Bank-financed projects in its audit plan.
- 7.8 **External control and reporting.** The executing agency will deliver annual program audit reports prepared by an independent audit firm accepted by the Bank, in accordance with terms of reference previously approved by the Bank. The program's audited financial statements include a cash flow statement, statement of accrued investments, notes to these financial statements, and the statement from program management team (executing agency). The audit report will include an evaluation of the internal control system. The program will require the selection of an eligible independent audit firm. External audits will be covered by the loan proceeds, estimated at US\$320,000 over the planned six years of execution of the loan. The annual audited financial statements will be submitted 120 days after the end of the fiscal year, and the closing statement will be submitted within 120 days after the date set for the last disbursement.
- 7.9 **Financial supervision plan.** Financial supervision may be adjusted based on program execution and audit reports.

**Table 3. Financial Supervision Plan**

<b>Nature/Scope</b>	<b>Frequency</b>
Ex post review of disbursements	1 per year
Financial audit and delivery of audited financial statements	Annual
Review of disbursement requests and attached reports	2 to 3 per year
Inspection visit/analysis of the execution agency's internal controls and control environment	Annual

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Paraguay. Loan \_\_\_/OC-PR to the Republic of Paraguay  
Digital Agenda Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the program Digital Agenda Support Program. Such financing will be for an amount of up to US\$130,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_ \_\_\_\_\_ 2018)

LEG/SGO/CSC/EZSHARE-746870777-11354  
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