

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PARAGUAY**

**SUPPORT FOR BUSINESS DEVELOPMENT SERVICES TO  
PARAGUAYAN EXPORTING COMPANIES**

**(PR-L1139)**

**LOAN PROPOSAL**

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## ELECTRONIC LINKS

### REQUIRED

1. [Multiyear execution plan](#)
2. [Annual work plan](#)
3. [Monitoring and evaluation plan](#)
4. [Procurement plan](#)

### OPTIONAL

1. [Program economic analysis](#)
2. [Itemized budget](#)
3. [Institutional Capacity Assessment System](#)
4. [Bibliographic review of export promotion instruments](#)
5. [Report on results of the survey of Paraguayan companies through ConnectAmericas](#)
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## ABBREVIATIONS

ARP	Asociación Rural del Paraguay [Rural Association of Paraguay]
BDS	Business development services
CPC	Cámara Paraguaya de la Carne [Paraguayan Meat Board]
DGEEC	Dirección General de Estadística, Encuestas y Censos [General Directorate of Statistics, Surveys, and Censuses]
FDI	Foreign direct investment
GDP	Gross domestic product
ICAS	Institutional Capacity Assessment System
LAC	Latin America and the Caribbean
MIC	Ministry of Industry and Trade
MSME	Micro, small, and medium-sized enterprises
NPV	Net present value
PEC	Project Evaluation Committee
PEU	Program execution unit
PNE	Plan Nacional de Exportación [National Export Plan]
REDIEX	Red de Inversiones y Exportaciones [Investments and Exports Network, Ministry of Industry and Trade]
SENACSA	Servicio Nacional de Calidad y Salud Animal [National Animal Quality and Health Service]
SCSP	Sistema de Contrataciones del Sector Público [Public Sector Procurement System]
SME	Small and medium-sized enterprises
WAL	Weighted average life
WEF	World Economic Forum

## PROJECT SUMMARY

### PARAGUAY SUPPORT FOR BUSINESS DEVELOPMENT SERVICES TO PARAGUAYAN EXPORTING COMPANIES (PR-L1139)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Paraguay			<b>Flexible Financing Facility<sup>(a)</sup></b>	
			<b>Amortization period:</b>	25 years
<b>Executing agency:</b> Ministry of Industry and Trade (MIC), acting through the Investments and Exports Network (REDIEX)			<b>Original WAL:</b>	15.08 years <sup>(b)</sup>
			<b>Disbursement period:</b>	5 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Grace period:</b>	7 years
<b>IDB (OC):</b>	10 million	100%	<b>Inspection and supervision fee:</b>	(c)
			<b>Interest rate:</b>	LIBOR-based
			<b>Credit fee:</b>	(c)
<b>Total:</b>	10 million	100%	<b>Currency of approval:</b>	United States dollars from the Bank's Ordinary Capital (OC)
Project at a Glance				
<b>Project objective/description:</b>				
<p>The program's general objective is to contribute to the increase and diversification of Paraguayan exports. The specific objectives are to: (i) expand the export basket and markets served; (ii) build management capacity in trade intelligence and promotion; and (iii) increase and diversify the supply of exportable products in the border region.</p>				
<b>Special contractual conditions precedent to the first disbursement:</b>				
<p>The following will be special conditions precedent to the first disbursement: (i) entry into force of the program Operating Regulations, including a fiduciary appendix, a manual of REDIEX responsibilities and procedures applicable to the program, and the appendix on the modality of direct transfer of resources to the private sector, according to the terms previously agreed upon with the Bank; (ii) formation of the program's Project Evaluation Committee (PEC), according to the criteria set in the program Operating Regulations; and (iii) appointment of the executive coordinator, procurement specialist, financial specialist, monitoring and evaluation specialist, director and heads of business platforms, and Component III coordinator (see paragraph 3.7).</p>				
<b>Contractual special execution conditions:</b>				
<p>One year into program execution: (i) the program's management and monitoring system has been implemented; and (ii) the program's electronic platform is up and running (see paragraph 3.7).</p>				
<b>Exceptions to Bank policy:</b>				
None.				
Strategic Alignment				
<b>Challenges:</b> <sup>(c)</sup>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
<b>Crosscutting themes:</b> <sup>(d)</sup>	GD <input type="checkbox"/>	CC <input 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> The borrower has requested an irregular payment schedule with a weighted average life of 15.08, based on a signature day of 15 May 2017. This WAL may be shorter depending on the final signature date of 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. PROJECT DESCRIPTION AND RESULTS MONITORING

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

- 1.1 Paraguay has displayed strong economic performance in recent years. Gross domestic product (GDP) grew at an average annual rate of 5% in the period 2004-2014, exceeding the average of 3.7% for Mercosur and 3.6% for Latin America and the Caribbean (LAC),<sup>1</sup> in a setting of sound macroeconomic management with moderate levels of fiscal deficit, inflation, and public debt.<sup>2</sup> This is largely attributable to a rise in exports,<sup>3</sup> the extent of open trade practices,<sup>4</sup> an international setting of favorable commodity prices, and an ever-evolving production matrix with significant expansion of industrial sectors such as offshore assembly, processed foods,<sup>5</sup> and apparel.
- 1.2 However, the pace and sustainability of the growth exhibited in recent years are threatened by a number of factors, notably export growth, which has been affected by the decline in global demand—slowdowns in the major destination countries for Paraguayan exports and deteriorating financial conditions worldwide<sup>6</sup>—and the fall in commodity prices. Export volumes have also declined, as have the numbers of export products, companies, and markets. According to a review of the literature and interviews by the project team, the main causes of this export dynamic include: (i) limited business capacity; (ii) limited institutional capacity; and (iii) territorial disparities, all of which hinder expansion and diversification of the supply of exportable products.
- 1.3 **Export trend in Paraguay.** After uninterrupted growth for the last 14 years, Paraguayan exports fell for the first time in 2015, totaling US\$8.831 billion and declining by 13% with respect to the previous year. In particular, the price of three products declined sharply: oilseeds (-30%), vegetable oils and pellets (-22%), and meat products (-9%), which collectively account for 70% of originating product exports. There is also a high degree of concentration in the type of products exported (66% are of agricultural origin)<sup>7</sup> and the number of exporters (5 companies account for 52% of shipments), giving Paraguay one of the highest export concentration ratios in the region.<sup>8</sup> In the past decade, Paraguay has experienced a significant

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<sup>1</sup> Economic Commission for Latin America and the Caribbean (ECLAC). Database – CEPALSTAT (February 2016).

<sup>2</sup> Paraguay ranks 54th (out of 144 countries); macroeconomic environment pillar, World Economic Forum (WEF), Global Competitiveness Indicators 2014-2015.

<sup>3</sup> During 2008-2014, the country experienced 6% growth in exports. Paraguay is the world's largest organic sugar exporter, the fourth-largest soya exporter, the second-largest stevia exporter, the fifth-largest soybean oil exporter, the fifth-largest chia exporter, and the sixth-largest meat exporter. Source: PNS 2013.

<sup>4</sup> Paraguay's degree of open trade practices is 69%, which is higher than the average for the countries of Mercosur (25%), the Pacific Alliance (55%), and the rest of LAC (53%). Paraguay has entered into 24 investment promotion and protection agreements and 3 tax agreements to avoid double taxation. Source: Observatorio de Economía Internacional [Observatory of International Economics] (OBEI).

<sup>5</sup> In 1995, processed foods accounted for 44% of Paraguayan exports, and unprocessed agricultural products accounted for 37%. In 2014, processed foods represented 65% of the country's exports, while unprocessed agricultural products represented 2%. Source: World Bank, 2016.

<sup>6</sup> International Monetary Fund (IMF) (2016A): World Economic Outlook.

<sup>7</sup> Main exports, 2014: soybeans (US\$2.305 billion), soybean flour (US\$1.109 billion), beef (US\$2.179 billion), and soybean oil (US\$480 million).

<sup>8</sup> 2013 data. Source: Urmeneta (2016).

reduction in the number of export firms, from 1,200 in 2006 to a mere 700 in 2014. This means that the proportion of companies engaging in exports has decreased from 0.3% in 2006 to 0.1% in 2014.<sup>9</sup> A lack of diversification is also apparent in the number of export destinations (Mercosur represents 41% of all exports; the European Union, 20%; and the Russian Federation, 11%, the country's leading export partners being Brazil, Russia, Argentina, and the United States). This makes Paraguayan exports more vulnerable to changes in international demand and prices.

- 1.4 **Business capacity.** Low levels of business capacity are a distinctive feature of the Paraguayan productive structure, where a preponderance of firms have limited productivity and low levels of internationalization. The Paraguayan economy consists of 224,242 economic units, employing 799,153 people. Small and medium-sized enterprises (SMEs) account for 96.9% of all businesses<sup>10</sup> and for 61.6% of all jobs in the economically active population. However, the SME share of exports has clearly declined in recent years as the number of exporting SMEs has gone from approximately 1,100 in 2006 to 600 in 2014.<sup>11</sup> At the same time, owing to various implementation and information failures, there is limited SME demand for business development services (BDS) despite evidence that services of this type are effective in improving the international positioning of SMEs. In addition, Paraguayan SMEs are not very competitive. According to the Global Competitiveness Index (GCI), the country ranks 118th out of 140 world economies.<sup>12</sup> Specifically, Paraguay is respectively ranked 124th and 134th in the Business Sophistication and Innovation subindexes, and 109th out of 189 countries in the Ease of Doing Business subindex.<sup>13</sup> Similarly, the limited availability of human capital with the qualifications required to address business needs is evidenced by the country's ranking in the Higher Education and Training pillar (115th) and in the Local Availability of Training Services component (128th out of 140 countries). This shortcoming is even more pronounced in the border region, where fewer services are offered by the Servicio Nacional de Promoción Profesional [National Professional Advancement Service].<sup>14</sup>
- 1.5 **Institutional capacity.** The Investments and Exports Network (REDIEX), Paraguay's export and investment promotion agency, was created by Executive Decree 4328/05<sup>15</sup> to implement the National Export Plan (PNE). Networking with all key government and business stakeholders, universities, and civil society

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<sup>9</sup> The average amount exported by company rose from US\$2.8 million in 2002 to US\$9.4 million in 2013.

<sup>10</sup> 92% are microenterprises and small businesses.

<sup>11</sup> 2011 Economic Census data.

<sup>12</sup> WEF.

<sup>13</sup> Obstacles to foreign trade include: geographic location, insufficient and inadequate infrastructure, and limited availability of human resources with the qualifications required by businesses.

<sup>14</sup> The National Professional Advancement Service is operated by the Ministry of Justice and Labor and primarily deals with the government's employment policy. However, the scope of service encompasses the nation's capital and the Central Department but does not extend to meeting demand elsewhere in the country.

<sup>15</sup> Dated 2004.

organizations,<sup>16</sup> REDIEX seeks to generate joint action to boost product exports and attract new investment for Paraguay's social and economic development. In 2014, REDIEX became part of the organizational structure of the Ministry of Industry and Trade (MIC), reporting to the Office of the Vice Minister for Industry, weaving it more tightly into the institutional fabric. Having developed a successful, one-of-a-kind mechanism for public-private interaction in Paraguay, REDIEX has become the key resource and support for assistance and internationalization of Paraguayan businesses.<sup>17</sup> Collaborative bodies were created in the public sector (ministries, departments), the private sector (firms, trade groups, associations), and academia (research institutes) to spur priority sector competitiveness, the business climate, and implementation of a public policy agenda. As a result, strategic plans or competitiveness matrixes were developed for each one of the priority sectors, to be implemented in the short, medium, and long term, establishing the role of each actor and the frequency of meetings of members.<sup>18</sup> Nonetheless, launching and developing export promotion agencies is a gradual and highly dynamic process, affected by changes in market and business demand and requiring sustained, long-term strengthening efforts. In Paraguay, there is still room for REDIEX to improve, especially in the areas of monitoring and evaluation, dissemination of outcomes and success stories, development of business intelligence based on analysis and statistics to add value to its business development instruments, interagency coordination with governments, departmental councils, and operators in the border region,<sup>19</sup> and level of technical sophistication in the service offered to clients.

- 1.6 **Territorial concentration and disparities.** The country's development has been uneven, with marked differences in the socioeconomic development of subregions and disparities in the positioning of the different territories in global value chains. Specifically, economic activity and export firms are heavily concentrated (48%) in the central part of the country.<sup>20</sup> This is partly due to institutional capacity and regional coordination shortcomings that have prevented business development policies from covering the entire country. In view of this, a targeted effort is required to foster BDS and relevant training for firms in regions that have a high productive potential but historically have been underserved, focusing on their specific needs and problems. According to data from Paraguay's National Department of Tourism,

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<sup>16</sup> The main actors in the foreign trade area that interact with REDIEX are ministries (foreign relations, agriculture, labor and social security, public health and social welfare, public works and communications, National Navigation and Ports Administration); institutes (National Animal Quality and Health Service, National Food and Nutrition Institute, INTN, SENAIVE, IPTA, INFONA, DINAPI); universities; sector departments (SEAM, SENATUR, SENATICs, CONACYT); chambers of commerce; producer and service industry trade groups and associations; local governments (provinces and municipalities); and public- and private-sector financial institutions.

<sup>17</sup> According to Ons (2011), REDIEX acts as de facto coordinator with programs of other ministries.

<sup>18</sup> One example of public/private coordination is reflected in the interagency work led by REDIEX in the meat sector, along with the National Animal Quality and Health Service (SENACSA), the Ministry of Agriculture, the Rural Association of Paraguay (ARP), the Paraguayan Meat Board (CPC), and sector firms, which succeeded in recovering Paraguay's status as a foot and mouth disease free country where vaccination is practiced, after the 2011 outbreak that closed international markets to exports of Paraguayan beef for a period of three years. Likewise, the ARP and CPC are currently pushing for the creation of the National Meat Institute in a clear effort to establish an institutional framework for maintaining and improving the country's health status, as well as open up new markets.

<sup>19</sup> In the case of institutions in the border region, specific collaboration agreements will be entered into for implementation of Component III with the various entities involved in training and dissemination activities.

<sup>20</sup> 2011 Census.

the border region (particularly Ciudad del Este) is the country's second most important access point; in 2011, it accounted for 16.6% of all tourist arrivals in Paraguay, 58% of exports, and 42% of imports.<sup>21</sup> Additionally, according to the diagnostic assessment prepared by the Getúlio Vargas Foundation, human capital in the border region lacks the skills required by businesses, few training offerings are available, access to BDS by the business sector is limited, and both the city and the border region in general have a negative image.<sup>22</sup> This region has been especially hard hit by the slowdown in global trade. Unemployment there has reached 10.5%, almost double the national rate of 5.3%, and unemployment for women is 12.7%. This gender inequality is largely due<sup>23</sup> to entrenched family roles and responsibilities (housework and family responsibilities: domestic and caregiving burdens)<sup>24</sup> that stand in the way of an educational and career path for women in the region ([optional electronic link 8](#)).

- 1.7 **Outcomes of the Program to Support Paraguayan Exports I.**<sup>25</sup> Phase I of this program 1916/BL-PR, executed by REDIEX and financed by the Bank, achieved the following main outcomes: (i) 12 new international markets opened; (ii) knowledge transfer to more than 3,300 businesspeople by means of training, workshops, seminars, and national and international forums; (iii) 210 business development projects completed, benefiting more than 600 firms and involving a total counterpart contribution of US\$4 million from businesses;<sup>26</sup> (iv) 22 international trade missions; (v) 4 business matchmaker events, with the participation of more than 1,500 domestic and foreign firms; and (vi) 29 international trade fairs, with the participation of 172 Paraguayan companies, leading to closed business deals for a total of US\$147 million. In addition, the creation of an export single window simplified the export process and the continuity of PNE implementation.<sup>27</sup> At the impact level, according to estimates performed to measure the effect of the program's assistance, beneficiary firm exports were 19% higher than non- beneficiary firm exports.<sup>28</sup>
- 1.8 A survey of Paraguayan businesses, including beneficiary firms, conducted through [ConnectAmericas](#) ([optional electronic link 5](#)) showed a high level of satisfaction with the program (in excess of 88%) and the BDS offered. Of particular note is the rating given for support to participate in trade missions and fairs, obtain international certification, and prepare business plans or market studies.
- 1.9 **Lessons learned from the Program to Support Paraguayan Exports I:**  
(i) Greater efforts are needed to serve firms in different sectors and geographic

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<sup>21</sup> Data from the General Directorate of Statistics, Surveys, and Censuses (DGEEC), 2014A.

<sup>22</sup> [Optional electronic link 9](#).

<sup>23</sup> Unemployment is 5.89% for women, versus 4.9% for men. Source: Ongoing Household Survey (EPH) (2015). Only 52% of working age women are active, compared to 73.8% for men. Source: UN Women (2015).

<sup>24</sup> Despite progress in narrowing gender gaps in education and workforce integration in Paraguay, the challenge of geographic reach persists, with surveys showing rural sector indicators well below urban indicators. Source: UN Women (2015).

<sup>25</sup> Loan 1916/BL-PR.

<sup>26</sup> As of July 2016, this is equivalent to 40% of the program total. [Optional electronic link 10](#) provides a list of the projects and beneficiaries of program 1916/BL-PR.

<sup>27</sup> The plan was produced by a coordinated national network of actors from the public sector, private sector, and academia.

<sup>28</sup> This estimate was performed using data provided by BCP at the firm, product, destination, and year levels, as well as the REDIEX database. The program final evaluation is currently in preparation.

locations: 82% of the beneficiary firms in phase I of program 1916/BL-PR were concentrated in the city of Asunción,<sup>29</sup> and there was only limited outreach to more geographically isolated businesses with less access to internationalization support instruments. At the same time, there is great potential for expanding exports from new sectors, such as global services,<sup>30</sup> where firms have expressed a high demand for BDS;<sup>31</sup> (ii) there is a need to better manage the project support process, which requires having a monitoring and evaluation tool in place. This would allow greater efficiency in resource allocation, better response time to businesses, and more effective decision-making. This finding matches the recommendation arising from the ConnectAmericas survey and the conclusion reached by Geldres-Weiss and Carrasco-Roa (2016),<sup>32</sup> who argue that export promotion programs become more effective when the largest possible amount of data is collected from participating firms, the data are processed, cases and beneficiaries are tracked, and the programs' impact is better evaluated; (iii) the procurement processes for goods and services required by the beneficiary firms need to be streamlined and simplified: crucial to this is a mechanism for direct transfer of resources to the private sector. The execution of program 1916/BL-PR began with a centralized mechanism through which the program execution unit (PEU) managed each procurement, creating an administrative bottleneck inside the MIC. Once the problem was identified and examined, the resource allocation mechanism was converted to a direct transfer system, whereby selected business projects are eligible to receive nonreimbursable funding, pursuant to the agreement signed between PEU/REDIEX and the project applicant business or entity, in the form of advances or reimbursements of funds. This helped to streamline and shorten project execution timeframes; (iv) firms were found to require different types of support depending on their maturity and exporting experience, but the regulatory framework of program 1916/BL-PR was limited in its ability to offer gradations of treatment; (v) a comprehensive communication and dissemination strategy for the export process is necessary that incorporates technology and the dissemination of success stories and business development instruments to maximize the program's reach and effectiveness. The most effective communication methodology has turned out to be peer-to-peer communication, achieved through business testimonials, business networking events, and promotion events. This has also been validated by the ConnectAmericas survey, which concluded that beneficiary firms have a more favorable general perception of REDIEX (86% versus 82%).

- 1.10 **The Bank's involvement.** This program is associated with and supplements the actions envisaged in the Investment Promotion Program (loan 3131/OC-PR), the overall objective of which is to help increase foreign direct investment (FDI) in Paraguay with a sector approach that promotes job creation. As a result of this new program, greater coordination is expected between activities and teams focused on attracting investments and on promoting exports. In addition, this program is associated with the activities envisaged in the technical cooperation operation Fostering Crossborder Integration between Paraguay and Brazil

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<sup>29</sup> REDIEX database and survey conducted through ConnectAmericas.

<sup>30</sup> Paraguayan exports of "other business services" totaled US\$2.7 million in 2013 (0.3% of total service exports). Source: BCP.

<sup>31</sup> According to the ConnectAmericas survey, 33% of the nonbeneficiary firms operate in the service sector, and 100% of these firms would be interested in becoming beneficiaries of a new program.

<sup>32</sup> Geldres-Weiss, V. and J. A. Carrasco-Roa, 2016.

(ATN/FG-15511-PR), the specific objective of which is to promote competitive international positioning of Paraguayan companies. This program will also supplement the efforts of the Scholarship Program (loan 3491/OC-PR), which seeks to address the advanced human capital needs of the private sector. Specifically, the businesses supported by this program are expected to be able to create job opportunities for the advanced human capital being trained under the Scholarship Program. In turn, the businesses supported by this program will have access to the benefits provided by the Consejo Nacional de Ciencia y Tecnología [National Science and Technology Council] in the area of technological innovation through the Paraguayan Business Innovation Project (loan 3602/OC-PR).

1.11 **Effectiveness of export promotion programs.** Achieving higher export development levels that can keep the economy on a growth path in the medium and long term requires diversifying firms by sector and by geographic reach. This involves expanding the supply of goods and services for export, improving their quality, and developing new, differentiated, and innovative products based on the competitive advantages of the country's production base and the opportunities offered by new markets. In addition, the evidence suggests that there is room for strengthening the contribution of SMEs to this foreign trade diversification process in view of their significant share of the business fabric, the introduction of new products or services, and the opening of new markets.<sup>33</sup> Agosín (2009)<sup>34</sup> finds that export diversification in LAC can account for up to 50% of the difference in growth rates between LAC and Asia in the period 1980-2003. In addition, the literature shows a broad consensus as to the effectiveness of export promotion programs.<sup>35</sup> For example, Lederman, Olarreaga, and Paton (2006)<sup>36</sup> conclude that the average return of export promotion agencies in Latin America is US\$70 for every US\$1 invested.<sup>37</sup> Cadot, et al. (2012),<sup>38</sup> Freixanet (2012)<sup>39</sup> and Freixanet and Ayob (2014)<sup>40</sup> also indicate that the beneficiary firms of these programs experienced a positive and sustainable long-term impact in terms of export diversification and opening of new export markets. This is more pronounced when the firms requesting support seek to diversify their products and expand their markets beyond increasing foreign sales. Volpe (2010)<sup>41</sup> looks at several different export promotion programs resembling the one proposed in Paraguay and concludes that: (i) the case of Peru shows that participating businesses experienced higher growth; (ii) in Costa Rica, the program had an effect for firms that were already exporting; (iii) in Uruguay, the program was effective for penetrating new markets within the region and for introducing differentiated products; and (iv) in Chile, several programs appear to have had a greater effect on smaller firms, which usually encounter higher barriers in the form of information asymmetries. In general, the positive effects seem to be

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<sup>33</sup> Integration and Trade Sector Framework Document, 2016.

<sup>34</sup> Agosín, 2009. Revista CEPAL 97.

<sup>35</sup> The existence of these programs is justified based on the theory of externalities and other export-related market failures (Kanda, et al., 2013).

<sup>36</sup> Lederman, Olarreaga, and Paton, 2006. World Bank.

<sup>37</sup> In addition, they note that success stories share certain institutional features such as a broad-based administrative structure and a focus on nontraditional exports, with a pronounced cross-sector approach.

<sup>38</sup> Cadot, O., A. M. Fernandes, J. Gourdon, and A. Mattoo, CEPII, Working Paper No. 2012-30.

<sup>39</sup> Freixanet, J., *International Business Review*, 2012.

<sup>40</sup> Freixanet, J., and A. H. Ayob, 2014. *Evaluation and Program Planning* 46, 2014, 38-46.

<sup>41</sup> Volpe, 2010. IDB. *Special Report on Integration and Trade*.

greater when programs are combined to deliver support to exporters at the various stages of the export development process, and when exporters are interested not only in boosting exports but also in contributing to export diversification.

- 1.12 **The program's strategy.** As indicated above (paragraph 1.7), program 1916/BL-PR was successful in terms of the support provided to firms, increasing export volumes and opening new markets for the businesses involved, as well as creating an institutional structure with innovative mechanisms for public-private coordination unique in Paraguay. These achievements and lessons learned, as well as the aforementioned set of problems, have made it possible to identify a series of issues that require improvement and areas that require strengthening to lock in the impacts achieved in the first phase. Specifically, the new program will introduce a significant quality upgrade in the type of BDS provided to businesses, focusing more on geographic and sector diversification and working to help increase and diversify Paraguayan exports in terms of products/services, markets, and firms. This will rely on a strategy of disseminating the outcomes and instruments made available by the program, particularly in the border region, and putting greater emphasis on SMEs. In addition, the program will seek to build the capacity of REDIEX to implement export promotion policies in the medium and long term. To this end, the development of innovative instruments to serve the needs of Paraguayan firms and an efficient information system for better data tracking, monitoring, evaluation, and mining will become part of the program. In addition, the program will introduce tools for the management of trade intelligence and promotion, training and certification of skills and export products, and information and communication technologies. Efficient and streamlined procurement systems will continue to be used for the beneficiary firms. Lastly, the new program will be aimed at improving interagency coordination, particularly with entities in the border region, to promote an increase in exports, sharpen the technical skills of the work force, and improve the region's image. Accordingly, the program will seek to introduce international best practices in the area of export promotion.
- 1.13 **Strategic alignment.** This program is aligned with the Bank's country strategy with Paraguay for the period 2014-2018 (document GN-2769), specifically in the priority area of productive development (paragraph 3.22), contributing to the country's global and regional competitive integration through competitive internationalization of its exporting firms, making them more productive and competitive. The operation is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008)<sup>42</sup> and is aligned with the development challenge of enhancing the region's economic integration through the outcome indicators for "number of export products" and "export destination countries," with the productivity and innovation challenge through the outcome indicator for "number of days taken to approve business projects," and with the crosscutting area of institutional capacity and rule of law through the outcome indicator for "percentage of firms assisted by REDIEX satisfied with the services and information received." The program is also aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6) and its indicators for the growth rate of exports of goods and services (as a percentage of GDP compared to countries in the region), increase in FDI (received in the border region), and beneficiaries of on-the-job training programs, women beneficiaries of economic empowerment initiatives (through training to improve their workforce integration or positioning within the business), MSMEs provided with

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<sup>42</sup> Chapter 2B.3 2.10 + 3.7b of the 2015 update.

nonfinancial support (through BDS), public- and private-sector professionals trained in economic integration (technical specialists trained and participants who successfully complete the training), government effectiveness (reduction in project approval timeframes), and work in the border region. The program is aligned with the Sector Strategy to Support Competitive Regional and Global Integration (document GN-2565-4) and consistent with the Integration and Trade Sector Framework Document (document GN-2715-6), specifically as it relates to the need for export promotion programs,<sup>43</sup> and with the Corporate Results Framework indicators for “growth rate of the value of total exports of goods and services,” “women beneficiaries of economic empowerment initiatives,” “micro/small/medium enterprises provided with nonfinancial support,” and “professionals from the public sector trained.”

- 1.14 Additionally, at the national level, the program is aligned with the National Development Plan 2014-2030 <sup>44</sup> in major focus area 3: “Paraguay’s positioning in the world,” and specifically strategy 3.2: “Attraction of investment, foreign trade, and the country’s image.” The program is also aligned with the Government Plan 2013-2018, which has as strategic objectives: (i) fighting poverty; (ii) inclusive economic growth (productive development and decent employment); and (iii) Paraguay’s positioning the world.

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

- 1.15 **Objective.** The program’s general objective is to contribute to the increase and diversification of Paraguayan exports. The specific objectives are to: (i) expand the export basket and markets served; (ii) build management capacity in trade intelligence and promotion; and (iii) increase and diversify the supply of exportable products in the border region.
- 1.16 The main actions to meet these objectives are as follows:
- 1.17 **Component I. Business development services for exports (US\$6,000,000).** The objective is to boost the efforts of Paraguayan companies to expand the export basket, adding new products or services and reaching new markets and adding value to traditional export sales, by providing a set of innovative business development services (BDS) to lock in the gains from program 1916/BL-PR and reach new companies, particularly SMEs.
- 1.18 The program will focus on six business platforms: (i) food, (ii) manufactures, (iii) logistics, (iv) forest products, (v) tourism, and (vi) services and new businesses, in accordance with the current REDIEX organizational and operations manual approved by ministerial resolution,<sup>45</sup> recruiting active private-sector participation and coordinating with other government entities. To streamline and achieve greater efficiency and impact in the implementation of support actions targeting the selected sectors or business platform, the program will rate applicant firms by the

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<sup>43</sup> Chapter 3B.3.15-3.21.

<sup>44</sup> Instrument approved by Decree 2794.

<sup>45</sup> Pursuant to Resolution 204 (March 2014), business platforms organize sectors with high export potential, linking them with REDIEX, universities, and relevant agencies in order to enhance the cluster’s competitiveness. They are an organizational efficiency mechanism used by REDIEX to group together and channel BDS. This does not mean that there is a sector targeting mechanism, since the program is designed to have a broad, multisector scope.

development level of their exporting process and offer a BDS menu reflecting the firms' various stages of internationalization.<sup>46</sup>

- 1.19 Specifically, the program will support individual and partnering business projects<sup>47</sup> by providing BDS in the following major areas identified in the export business plans: (i) technical assistance and specialized training to improve the export capacity and increase the export volume of Paraguayan firms; (ii) export technology transfer<sup>48</sup> through outbound business technology missions, inbound missions by international experts, and training abroad for specialists and businesspeople; and (iii) development of new markets, products, or services to support businesses in prospecting, penetrating, and consolidating their presence in international markets, favoring the export processes and the quality of their products or services (such as through support for participation in trade missions, inbound missions, trade fairs, and dissemination and advertising in international markets).
- 1.20 The beneficiaries will be firms (for-profit or not-for-profit corporations, export firms or firms with export potential registered with the MIC export single window, and chambers/associations of export firms) that receive financial or technical assistance from the program. Direct beneficiaries will be classified under the following export development categories: (i) firms with exporting experience; (ii) firms with limited exporting experience that have an exportable product or service and have not had success in the export process or have exported sporadically; and (iii) firms with exporting potential that have or are developing a good or service with features or attributes that would enable them to enter the international market as direct exporters or as indirect exporters, i.e., as suppliers for an export firm.<sup>49</sup> Evaluated and selected business projects will be funded through a nonreimbursable public-private cofinancing arrangement (paragraph 3.6), as follows:

Classification of firms	Maximum cofinancing by project type	
	Partnering projects	Individual projects
Firm with exporting potential	85%	75%
Firm with limited exporting experience	60%	70%
Firm with exporting experience	50%	40%

- 1.21 Applications for BDS under both component I and component III will be submitted via the Web platform on a rolling basis and considered and evaluated by the heads of platform on a first-come, first-served basis. To be eligible, projects must include: (i) an environmental assessment performed by an MIC specialist; (ii) a previously approved export diagnostic (tool used by REDIEX to assess the capacity to export on a sustained basis); and (iii) a business plan,<sup>50</sup> which contains the firm's systematic

<sup>46</sup> Feriante (2012) recommends differentiating the various stages of internationalization of companies.

<sup>47</sup> Firms, either individually or in partnership (collectives comprised of three or more firms). Support will also be provided to supply chain projects for the development of business partnerships and strengthening of the chains.

<sup>48</sup> Consists of a field visit (typically outside a country or region) to become acquainted with good production and management practices for a specific sector.

<sup>49</sup> Firms with limited export experience or with export potential: refers to MSMEs.

<sup>50</sup> A document that provides a business strategy for breaking into international markets with a description of activities and products. Preparing a business plan is an essential prerequisite when presenting a business project.

- set of competitive adaptation activities and its products for international market penetration. Once a firm or group of firms is declared eligible, it will prepare a proposal for the project to be cofinanced. The selected projects will be sent to the Project Evaluation Committee (PEC). The PEC will either approve or deny cofinancing for firms<sup>51</sup> or groups of firms based on technical and eligibility criteria described in the program Operating Regulations.
- 1.22 Once a business project has been declared eligible, the criteria for selection and evaluation will be: (i) potential impact on exports and employment; (ii) consistency with the business plan of the firm or group of firms; (iii) replicability of the project at other firms in the same or other sectors; (iv) positive externalities on the exports of other firms in the same or other sectors; (v) the technical and financial capacity of the firm(s); (vi) knowledge of the target market on the part of the firm(s); (vii) the firm's geographic location: a greater weight will be given to firms outside the capital area; and (viii) gender: priority will be given to women-run businesses.<sup>52</sup>
- 1.23 **Component II. Management capacity-building in trade intelligence and promotion (US\$1,530,000).** The objective is to build management capacity at REDIEX in trade intelligence and promotion, in order to facilitate the delivery of more and better information to the beneficiary firms, disseminate business support instruments and outcomes, and maintain a program monitoring and evaluation system.
- 1.24 The main activities to be financed by the program are:
- (i) **Electronic platform to support export firms and firms with export potential.** Platform design and implementation will include: (i) information on the BDS offered by the program for the various types or sizes of firm; (ii) relevant trade information on major destinations and export requirements;<sup>53</sup> and (iii) results and success stories of beneficiary firms.
  - (ii) **Monitoring and evaluation system.** Design of a program monitoring and evaluation system that provides process, outcome, and output indicators, as well as gender-based statistics and data analysis,<sup>54</sup> for better strategic decision-making by the program execution unit (PEU), and design of execution mechanisms such as diagnostic assessment and project design and execution that make it possible to document experience.
  - (iii) **Human capital improvement plan.** Financing for the design and implementation of a plan to train and develop the skills of the technical team (at the organization and other institutions involved) in the area of export promotion, such as sector regulatory frameworks, trade-oriented

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<sup>51</sup> Beneficiary entities that obtain cofinancing through the program will be responsible for entering into a cofinancing agreement that establishes the project objectives, activities to be financed, and the execution and disbursement modality, managing and implementing the projects for which they receive program resources in the form of an advance (direct transfers to the firm from REDIEX) or reimbursement of funds (against the respective accounting for expenditures).

<sup>52</sup> Businesses in which 50% or more of the shares or the management and board positions are held by women.

<sup>53</sup> Durmusoglu, et al. (2012) notes that this is particularly useful for firms that have never exported.

<sup>54</sup> This will make it possible to identify gaps, causes, and factors, as well as the specific needs of women beneficiaries, to be considered when structuring the BDS offerings to be provided by REDIEX.

intellectual property, international marketing and business intelligence, statistics and data analysis, use of information and communication technologies, and other training needs identified to improving the functioning of the program.

- (iv) **Promotion of business development instruments.** Financing for activities to disseminate the program BDS available to improve the export capacity of Paraguayan firms. In particular, it will introduce new instruments to benefit SMEs with limited exporting experience<sup>55</sup> as well as those with exporting potential.<sup>56</sup> To this end, the outcomes achieved will be publicized, and best practices and successful business experiences will be documented.

1.25 **Component III. Increase and diversification of the supply of exportable products in the border region (US\$1,500,000).** The objective is to generate pilot actions leading to an increase and diversification of the supply of exportable products, greater integration of Paraguayan firms with foreign firms, and increased attraction of export investment in the country's border region through the decentralization of BDS.

1.26 The main activities will be:

- (i) **BDS to promote exports in the border region.** Firms located in the border region and operating in priority sectors under technical cooperation operation ATN/FG-15511-PR<sup>57</sup> will be supported through a set of BDS to be provided under a public-private cofinancing arrangement and the mechanism for direct transfer of resources to the private sector (as in component I and subject to the same eligibility, selection, and evaluation criteria).
- (ii) **Region image positioning strategy.** In coordination with country branding and other investment promotion activities under the Investment Promotion Program (loan 3131/OC-PR), actions will be financed to promote the image of the border region, to improve how it is perceived abroad. This will lead to increased investment in priority sectors in the border region that favor exports.
- (iii) **Technical training activities for border region firms.** Training activities will focus on the needs and requirements of businesses operating in the priority productive sectors. Both current and potential employees will receive training, to narrow the gap between business demand and educational offerings. In addition, priority will be given to training activities aimed at women-led businesses or including a gender strategy designed to increase women's workforce integration and improve employability, adapting to the issues, interests, and hours of availability of this target group. The eligibility criteria for firms will be the

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<sup>55</sup> Firms that, with or without program support, have an exportable product or service but have so far been unsuccessful in the export process, or have succeeded in exporting but only sporadically.

<sup>56</sup> Firms that have or are developing a product or service with features or attributes that would enable them to enter the international market as direct exporters or as indirect exporters, i.e., as suppliers for an export firm.

<sup>57</sup> As part of the technical cooperation operation's activities and in line with the diagnostic study on supply chains in the border region ([optional electronic link 9](#)), the sectors identified as having the greatest potential are the maquila, apparel, textile, and tourism sectors.

same as in component I, in addition to describing how the training will help boost exports or attract investment.

### C. Key results indicators

- 1.27 The [Results Matrix](#) presents the program's impact, outcome, and output indicators. In all cases, baseline and target values are identified along with sources of information and means of verification. The program's expected impact is to achieve an increase in exports leading to greater diversification of markets, products, and firms. Based on the matrix, the expected outcomes by the end of program execution are: (i) an increase in the number of businesses served by REDIEX and their satisfaction percentage; (ii) expansion of REDIEX's capacity in terms of export promotion and response time to businesses; (iii) an increase in the percentage of projects assisted by REDIEX that actually lead to exports; and (iv) improvement in business sector capabilities in the border region. In particular, by the end of the program, exports are expected to account for 50% of the country's GDP.
- 1.28 Net benefits in terms of the program's incremental social net present value (NPV) have been estimated at US\$56 million, and the internal rate of return (IRR) at 59%. A 10-year evaluation horizon was used, and a cost-benefit analysis<sup>58</sup> was done for the program as a whole. Sensitivity tests were then performed, modifying the estimates of the program's impact on a set of key variables and using several different discount rates. The social NPV sensitivity analysis shows that the most likely NPV is US\$33 million and reflects the importance of sector growth rates for the program, in both the with- and without-program scenarios. A detailed description is available in the program economic analysis ([optional electronic link 1](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Costs and financing

- 2.1 The total cost of the program is US\$10 million, to be financed by the Bank from Ordinary Capital resources. Table I shows the consolidated budget by component, and the itemized budget is available in [optional electronic link 2](#). The expenditure categories to be financed include the financing of taxes.

Table I. Budget Estimate in US\$<sup>59</sup>

<b>Component I – Business development services for exports</b>	<b>6,000,000</b>
1.1. Cofinancing of activities to improve the internationalization of firms	6,000,000
<b>Component II – Management capacity-building in trade intelligence and promotion</b>	<b>1,530,000</b>
2.1 Electronic platform to support export firms	1,250,500
2.2 Technical team capacity-building	100,000
2.3 Promotion of BDS and outcomes	179,500
<b>Component III – Increase and diversification of the supply of exportable products in the border region</b>	<b>1,500,000</b>
3.1 Support for and diversification of the export basket in the border region	1,080,000
3.2 Improvement in perceptions of the border region	315,000

<sup>58</sup> The methodology used takes a partial equilibrium approach and measures the benefits created under the various components (chapter 2 of [optional electronic link 1](#)).

<sup>59</sup> The projected costs in the cost and financing table include local taxes.

3.3 Training activities based on business demand	105,000
<b>Administration, audit, and evaluation</b>	<b>970,000</b>
Program administration	790,000
Financial and management audit and evaluation	180,000
<b>Total</b>	<b>10,000,000</b>

**B. Risks of the operation**

- 2.2 **Environmental and social safeguard risks.** No major impacts are expected. The operation was classified as category “C” according to the Environment and Safeguard Compliance Policy (Operational Policy OP-703) and application of the safeguard filters. This program is also expected to have a positive social impact to since it prioritizes export promotion activities that create jobs and reduce poverty in the most vulnerable segments of society.
- 2.3 **Fiduciary risks.** The Institutional Capacity Assessment System (ICAS) was used to assess the program’s fiduciary risks. The analysis and tabulations yielded an average score of 79.32/100, equivalent to medium development with medium risk. Based on this analysis and the areas for improvement indicated by the diagnostic assessment associated with the risk of “weak operational, internal control, and accountability management,” the following measures have been identified: (i) prepare an manual of executing agency procedures and coordination with other MIC agencies; (ii) implement a program management and monitoring system; (iii) perform an external audit of operations for targets met and accountability of beneficiary firms; and (iv) update and maintain the automated financial/accounting information system.
- 2.4 **Other risks.** The program anticipates difficulties in the interagency coordination of activities. For this reason, there is a need for clear coordination arrangements to prevent delays in execution of the operation. The program calls for a public-public and public-private work platform to be created, to mitigate any coordination and synergy failures that may arise among the stakeholders involved in the program. Another identified risk is associated with low demand for projects in the priority sectors. To mitigate this risk, a strategy for publicizing the BDS promotion plan and the program outcomes will be designed and implemented, as well as a Web-based operational platform to disseminate and monitor demand of potential beneficiaries. Lastly, there may be delays in the start of program execution since, under Paraguayan law, legislative confirmation is required before the loan contract can become effective. This risk will be mitigated by publicizing the outcomes and impacts of program 1916/BL-PR and the program targets, closely tracking the legislative process and advocating for the program as a top priority.
- 2.5 **Sustainability.** With regard to institutional sustainability, as indicated in paragraph 1.5, in 2014 REDIEX became part of the MIC organizational structure, which solidified its institutional status and made the government’s export promotion efforts more sustainable. This program will consolidate the stewardship of the program, which already has a long-term contract with the MIC, ensuring greater sustainability in terms of strategic planning and institutional memory. At the technical level, REDIEX will keep its current structure, reinforcing its specialized operational roles through the new program, introducing technology to professionalize its BDS offerings, and contributing to greater sustainability by developing manuals of operations, responsibilities, and organizational procedures. The strategy adopted by

REDIEX thus far, which involved hiring external consultants, has struck a good balance between management and promotion expenditures. In addition, international experience indicates that agencies of this type prefer to use private-sector contractors in their early years, such that they resemble a consulting rather than civil service operation. Looking beyond the program, the MIC will need to sustain the support to REDIEX over time, absorbing 25% of REDIEX human resources costs annually into the national general budget, to build up installed capacity within the ministry. In terms of sustainability of the program outcomes, the beneficiary firms are expected to gradually gain experience, capacity, and appreciation of the value of internationalization. This will develop a critical mass of businesses growing and diversifying their exports while at the same time working to add other businesses and suppliers to the country's exporting base.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of agreed execution arrangements

- 3.1 **Borrower and executing agency.** The borrower for this operation will be the Republic of Paraguay. The executing agency will be the Ministry of Industry and Trade (MIC), acting through the Investments and Exports Network (REDIEX) and, in turn, through the program execution unit (PEU), which will have overall responsibility for program direction, supervision, administration, and evaluation, and that the program objectives are met.
- 3.2 **Execution mechanism.** The PEU of the Investment Promotion Program (loan 3131/OC-PR), located at REDIEX, will also be responsible for overall administration and monitoring of this program, mirroring the execution arrangements of program 1916/BL-PR. The same PEU will act as the Bank's counterpart and program representative vis-à-vis other entities. Accordingly, the PEU will be strengthened to ensure proper execution of the program. REDIEX will support the PEU in delivering the following services: legal advice on policies and procedures, financial and accounting support, information technology services, human resource administration, and logistics services, and others. In addition to the activities described under the components, the program will finance expenditures related to administration, management and financial audits, and midterm and final evaluations.
- 3.3 **Single-source selection.** The program will leverage the installed capacity for project management of the executing agency members through single-source selection for the positions of director and heads of business platforms and PEU staff, as provided in the procurement plan ([required electronic link 4](#)), on the justification of policy document GN-2350-9, paragraph 5.4(a), tasks that are a continuation of previous work, on which the consultants' performance was highly satisfactory, and for which the consultants were selected competitively. This will streamline implementation, ensure institutional memory, and minimize the learning curve that would be involved, if new consultants were contracted on a competitive basis, given the experience required and specific features of the program. In addition, four consulting engagements each year will be contracted via single-source selection for technical and logistical support<sup>60</sup> for trade missions, on the justification of policy document GN-2350-9, paragraph 3.10(c), very small assignments.

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<sup>60</sup> Refers to services under US\$100,000.

- 3.4 The primary responsibilities of the PEU will be to: (i) coordinate and oversee the overall execution of the program; (ii) prepare the required technical and financial reports for submission to the Bank and provide it with the required information on operational and financial control, including disbursement requests and their supporting documentation; (iii) implement the recommendations arising from consulting engagements, including the midterm and final evaluations and audits; (iv) maintain an effective monitoring and supervision system, as well as a record-keeping system of the supporting documentation for expenditures and investments; (v) perform any other applicable task as provided the program Operating Regulations and the loan contract; and (vi) coordinate with other institutions for implementation of the program.
- 3.5 **Selection and evaluation of business projects.** Once a firm or group of firms has been declared eligible (paragraph 1.21), it will prepare a proposal for the project to be cofinanced. These proposals will be reviewed by the heads of the business platforms at REDIEX in terms of relevance and consistency of the activities in relation to the business plan, project objectives, outcome indicators, and feasibility of measurement and verification. The selected projects will be submitted to the Project Evaluation Committee (PEC) for evaluation pursuant to the criteria set in the program Operating Regulations. The PEC will be a technical body made up of the REDIEX Director-General and representatives of the private sector as permanent members, as well as two other members appointed by the MIC. Once a project is approved, a cofinancing agreement will be signed by REDIEX and the representatives of the applicants. For example, projects will be supported in the global services sector, which has significant potential and has seen annual export growth of 124% in the past decade, according to UNCTAD data in Paraguay.
- 3.6 **Execution arrangements for business projects.** Business projects will be executed under the modality of direct transfer of resources to the private sector based on a cofinancing agreement entered into between PEU/REDIEX and the respective project applicant businesses or entities, which must satisfy the conditions of the program Operating Regulations, Annex I, "Procedure for transfer of resources to the private sector" and identifying the necessary factors to guarantee completion of the planned activities and make disbursements in the form of advances or reimbursements of funds ([optional electronic link 7](#)).
- 3.7 **Program implementation arrangements.** The following will be special contractual conditions precedent to the first disbursement of the loan proceeds: (i) entry into force of the program Operating Regulations, including a fiduciary appendix, a manual of REDIEX responsibilities and procedures applicable to the program, and the appendix on the modality of direct transfer of resources to the private sector, according to the terms previously agreed upon with the Bank; (ii) formation of the program's Project Evaluation Committee (PEC), according to the criteria set in the program Operating Regulations; and (iii) appointment of the executive coordinator, procurement specialist, financial specialist, monitoring and evaluation specialist, director and heads of business platforms, and Component III coordinator. The special execution conditions will be as follows: one year into program execution: (i) the program management, monitoring, and supervision system has been implemented; and (ii) the program's electronic platform is up and running. The program Operating Regulations include: (i) the program's objectives and organizational structure; (ii) the execution structure and distribution of responsibilities; (iii) the outcome

programming, monitoring, and evaluation system; and (iv) the guidelines for the financial, audit, and procurement processes ([optional electronic link 7](#)). The annexes and appendices to the Operating Regulations will include at least: (i) the program Results Matrix; (ii) the Fiduciary Agreements and Requirements; (iii) the monitoring and evaluation plan; (iv) the itemized budget; (v) a fiduciary appendix; (vi) an appendix on the modality of direct transfer of resources to the private sector; and (vii) a manual of executing agency responsibilities and procedures applicable to the program.

## **B. Procurement**

3.8 The MIC, acting through REDIEX and, in turn, through the PEU, will be responsible for conducting the processes of selection, contracting, supervision, and acceptance for program procurements. For this loan, REDIEX will conduct program procurements in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and Policies for Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), and make use of the country electronic reverse auction and competitive bidding subsystems of Paraguay's Public Sector Procurement System (SCSP) (Law 2051/03), within the thresholds approved by the Bank's Board of Executive Directors. The program sector specialist will be responsible for reviewing the technical specifications for procurements during the preparation of selection processes. **Country systems:** Pursuant to document GN-2538-11 of 20 September 2013, use of the SCSP electronic reverse auction and competitive bidding subsystems in Bank-financed operations will apply to procurements conducted by REDIEX within the thresholds approved by the Board of Executive Directors of the Bank. Contracts for amounts equal to or above these thresholds will be governed by the Bank's procurement policies (document GN-2349-9). 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.

3.9 **Program audits.** REDIEX will keep specific, effective accounting and financial records for the management of program resources separate from other resources managed by the executing agency. Such records must allow program financial transactions to be identified by source of funds, and must be compatible with the general accounting procedures of the Republic of Paraguay. REDIEX will prepare the program financial statements at the close of each fiscal year and deliver them annually to the Bank duly audited by an independent audit firm acceptable to the Bank. REDIEX will properly file and reference the original documents of procurement process and contracts for review by the IDB and program auditors.

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

3.10 The monitoring and evaluation plan will track the operation's implementation in accordance with the targets and progress indicators identified in the Results Matrix and Operating Regulations (which will include a fiduciary appendix). REDIEX will be responsible for monitoring and evaluation of the program's outcomes and impacts, using the following mechanisms: (i) project execution plan; (ii) six-monthly status reports including indicators to monitor impacts, outcomes, the execution of components, and compliance with environmental programs and requirements; (iii) a midterm evaluation report, once 50% of the total loan amount has been disbursed, or after 24 months of execution; and (iv) a project completion report, including an ex post economic evaluation, once 80% of the total has been disbursed. The

difference-in-differences method is proposed for evaluating the impact of assistance to businesses through BDS. These activities are described in detail in the monitoring and evaluation plan ([required electronic link 3](#)).

Development Effectiveness Matrix			
Summary			
<b>I. Strategic Alignment</b>			
<b>1. IDB Strategic Development Objectives</b>		Aligned	
Development Challenges & Cross-cutting Themes		-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Regional Context Indicators		-Intraregional trade in goods (%) -Growth rate of the value of total exports of goods and services (%) -Foreign direct investment net inflows as percentage of GDP (%) -Government effectiveness (average LAC percentile)	
Country Development Results Indicators		-Beneficiaries of on-the-job training programs (#) -Micro / small / medium enterprises provided with non-financial support (#) -Professionals from public and private sectors trained or assisted in economic integration (#)	
<b>2. Country Strategy Development Objectives</b>		Aligned	
Country Strategy Results Matrix		GN-2769	Enhance the productivity and competitiveness of firms.
Country Program Results Matrix			The intervention is not included in the 2016 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
<b>II. Development Outcomes - Evaluability</b>		Evaluable	Weight
		7.7	Maximum Score
			10
<b>3. Evidence-based Assessment &amp; Solution</b>		8.6	33.33%
3.1 Program Diagnosis		2.4	
3.2 Proposed Interventions or Solutions		3.6	
3.3 Results Matrix Quality		2.6	
<b>4. Ex ante Economic Analysis</b>		5.5	33.33%
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0	
4.2 Identified and Quantified Benefits		0.0	
4.3 Identified and Quantified Costs		1.5	
4.4 Reasonable Assumptions		0.0	
4.5 Sensitivity Analysis		0.0	
<b>5. Monitoring and Evaluation</b>		8.9	33.33%
5.1 Monitoring Mechanisms		2.3	
5.2 Evaluation Plan		6.7	
<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		C	
<b>IV. IDB's Role - Additionality</b>			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)		Yes	Financial Management: Budget. Procurement: National Public Bidding.
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality		Yes	A gender strategy was defined to promote the participation of women on training courses.
Labor		Yes	It is expected that the training courses will promote labor insertion in the border areas of the country.
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	The "Program for Border Integration for Paraguay and Brazil" (PR-T1183), which has the objective of promoting the international insertion of Paraguayan firms.
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	The evaluation of export promotion will use the difference-in-difference methodology, relying on a more disaggregated data compare to what is common in the literature.

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

The "Program to Support Paraguayan Exports II" has the objective of contributing to increase and diversify the exports of Paraguay. The diagnostic identifies three main problems: (a) limited entrepreneurial capacities; (b) opportunities for improving the institutional capacity of the agency tasked with export promotion (REDIEX); and (c) limited supply of entrepreneurial promotion services and low levels of human capital in the border zones of the country with high potential for exports and for attracting foreign direct investment. The proposed solutions include non-reimbursable support services for firms, and capacity building for REDIEX. The outputs and outcome indicators are SMART, although some baseline values are not available.

The cost-benefit analysis relies on a partial equilibrium model. The main costs are the support services provided by the program to firms and to REDIEX. Two main benefits are considered: (i) the increase in exports thanks to the services offered by REDIEX; and (ii) the increase in employment thanks to the higher foreign direct investment in the border areas of the country. However, the analysis that was carried-out presents some limitations remain. In particular, the consistency between the benefits quantified in the cost-benefit analysis and the indicators in the results matrix is not clear; in addition, some of the assumptions do not seem reasonable. For example, contributions of the firms supported by the program are not considered as costs; such limitations may explain the program's high rate of return (59%).

The monitoring and evaluation plan is adequate. For the monitoring of indicators, mechanisms that allow tracking outputs and outcome indicators have been identified and have been budgeted. The evaluation plan relies on the quasi-experimental methodology of difference-in-difference relying on administrative data from the Central Bank and REDIEX. The impact evaluation will not apply to all the outcome indicators in the results matrix, which is considered a possible limitation. The plan does not provide alternative approaches for conducting the attribution analysis at project closure of the indicators that are not contemplated in the impact evaluation.

## RESULTS MATRIX

<b>Program objectives</b>	The program's general objective is to contribute to the increase and diversification of Paraguayan exports. The specific objectives are to: (i) expand the export basket and markets served; (ii) build management capacity in trade intelligence and promotion; and (iii) increase and diversify the supply of exportable products in the border region.
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Impact indicators	Baseline	Final target	Source	Comments
<b>Impact I – Increase in Paraguayan exports</b>				
Share of the value of Paraguayan exports in the country's GDP	46.8%	50%	BCP	<b>Baseline:</b> Represents exports of goods and services as a percentage of 2015 GDP (US\$8.831 billion), including exports from the binational hydropower plants (Yacyretá and Itaipú) and re-exports. Final target in 2021.
<b>Impact II – Diversification of export markets</b>				
Export market concentration ratio	0.359	0.3	UNCTAD	<b>Baseline:</b> Represents the 2015 normalized Herfindahl-Hirschman index for export markets. <b>Note 1:</b> In terms of economic blocs, Mercosur is the primary export destination (41%), followed by the European Union (17%), Asia (11.3%), and the rest of Europe (10.4%). Final target in 2021.

Outcome indicators	Baseline	Final target	Source	Comments
<b>Component I – BDS for exports</b>				
Number of export products of beneficiary firms in the last year	153	158	UNCTAD	<b>Baseline:</b> Establishes the average number of products exported between 2010 and 2014 according to the 3-digit SITC system. <b>Note 1:</b> The objective is to maintain a growth trend given the fluctuations observed in the past decade. Final target in 2021.
Average value of exports of the program beneficiary firms in the last year	US\$2.1 billion	US\$2.52 billion	REDIEX internal information	<b>Baseline:</b> Constructed using information from program 1916/BL-PR as a proxy; reflects the average value of exports of the assisted firms from 2009 to 2015. Since there is no systematic record showing the evolution of the assisted firms, the baseline will be adjusted in the first year of execution.

Outcome indicators	Baseline	Final target	Source	Comments
				The target is for 2012 and was calculated on the basis of the rate of change of the firms assisted under the previous program (26%).
<b>Component II – Management capacity-building in trade intelligence and promotion</b>				
Average number of days taken to approve BDS business projects	25	15	REDIEX CRM information	<b>Baseline:</b> The number of business days from presentation of the project on the REDIEX platform with the documents required for evaluation is derived from the data provided by REDIEX. The baseline will be taken in year 1 to validate this information. Final target in 2021.
Percentage of firms assisted by REDIEX satisfied with the services and information received	82%	86%	REDIEX annual satisfaction survey	<b>Baseline:</b> Result of ConnectAmericas satisfaction surveys in 2016. Final target in 2021.
<b>Component III – Increase and diversification of the supply of exportable products in the border region</b>				
Percentage of individuals trained who obtain employment at formal businesses assisted by the program in the border region	0	8%	Survey and record of participants Report by businesses	<b>Baseline:</b> Trained individuals who obtain formal employment in the universe of businesses selected on the basis of the diagnostic study of the technical cooperation operation. The baseline will be constructed in the first year. Final target is for 2021.
Percentage of individuals trained who improve their employment position at formal businesses assisted by the program in the border region	0	20%	Survey and record of participants Report by businesses	<b>Baseline:</b> Trained individuals who are promoted in the universe of businesses selected on the basis of the diagnostic study of the technical cooperation operation. The baseline will be constructed in the first year. Final target is for 2021.
Percentage of women trained who obtain employment at formal businesses assisted by the program in the border region	0	15%	Survey and record of participants Report by businesses	<b>Baseline:</b> Trained individuals who obtain formal employment in the universe of businesses selected on the basis of the diagnostic study of the technical cooperation operation. The baseline will be constructed in the first year. Final target is for 2021.
Percentage of women trained who improve their employment position at formal businesses assisted by the program in the border region	0	15%	Survey and record of participants Report by the businesses	<b>Baseline:</b> Trained individuals who are promoted in the universe of businesses selected on the basis of the diagnostic study of the technical cooperation operation. The baseline will be constructed in the first year. Final target is for 2021.
Value of exports to countries of the region by beneficiary firms in the border region in priority sectors	0	10%	MIC – Report by the National Maquila Export Industry Council (CNIME) and REDIEX information	<b>Baseline:</b> No baseline value available. The baseline will be constructed in the first year. Final target is for 2021.

Output indicators	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Source	Total
<b>Component 1 – BDS for competitive improvement of exporting firms</b>								
<b>1.1. Cofinancing of actions to improve the competitiveness of the firms</b>								
Number of projects to benefit MSMEs with exporting potential	0 <sup>1</sup>	2	6	7	6	4	REDIEX annual report	25
Number of projects to benefit SMEs with limited exporting experience	0	4	12	12	11	11	REDIEX annual report	50
Number of projects to benefit businesses with exporting experience	220	4	13	13	12	12	REDIEX annual report	54
<b>Component 2 – Management capacity-building in trade intelligence and promotion</b>								
<b>2.1 Electronic platform to support export firms</b>								
Design and implementation of electronic platform with information on BDS and program outcomes	0	1	0	0	0	0	REDIEX annual report and document explaining the platform	1
Implementation of a management, monitoring, and supervision system for beneficiaries and the program	0	1	0	0	0	0	REDIEX annual report and system use manual	1
<b>2.2 Capacity building for the technical team</b>								
Number of courses offered to technical specialists	0	10	10	0	0	0	REDIEX annual report	20
<b>2.3 Promotion of BDS instruments and outcomes</b>								
Diagnostic assessments of export capacity of potential beneficiary firms	0	71	71	71	71	71	REDIEX annual report	355
BDS dissemination workshops conducted in Asunción and in the border region	0	6	6	6	2	2	REDIEX annual report	24
Communication and awareness campaign aimed at women to disseminate BDS in Asunción and border region	0	0	2	2	2	2	REDIEX annual report	8
Client satisfaction survey	0	1	1	1	1	1	REDIEX	5
<b>Component 3 – Increase and diversification of the supply of exportable products in the border region</b>								
<b>3.1 Support for strategic sectors according to BDS – established in component I</b>								
Projects for businesses established in the border region	20	0	8	9	8	8	REDIEX annual report	33
<b>3.2 Improvement in perceptions of the border region</b>								
Border region promotion events aligned with the country brand	0	3	5	5	5		REDIEX annual report	18

<sup>1</sup> There is no baseline because program 1916/BR-PR did not differentiate businesses by export development. The type of financing focused primarily on larger firms. This is applicable to all output indicators without a baseline.

Output indicators	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Source	Total
<b>3.3 Technical training activities in the border region</b>								
Number of training courses for businesses	0	2	2	2	2	2	Training record report	10
Number of training courses aimed at women <sup>2</sup>	0		1	1	1	1	Training record report	4

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<sup>2</sup> There is no baseline indicator because these courses have never been offered before in Paraguay.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country:</b>	Paraguay
<b>Project number:</b>	PR-L1139
<b>Name:</b>	Support for Business Development Services to Paraguayan Exporting Companies
<b>Executing agency:</b>	Ministry of Industry and Trade (MIC), acting through the Investments and Exports Network (REDIEX)
<b>Prepared by:</b>	Raul Lozano and Mariano Perales (fiduciary specialists)

### **I. EXECUTIVE SUMMARY**

- 1.1 The institutional evaluation for the project's fiduciary management was based on: (i) the country's fiduciary context; (ii) the results of the fiduciary risk evaluation; (iii) the Institutional Capacity Assessment System (ICAS) update analysis of the MIC for operation PR-L1139; (iv) meetings with the staff of the various areas of the MIC; (v) the use of country systems, current status. The fiduciary agreements for procurement and financial management to be applied for program execution were prepared as a result of that assessment.

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

- 2.1 In general, the country financial management systems have a medium level of development. They need to be supplemented for execution of Bank-financed programs in the areas of specific financial reports, which are produced through auxiliary accounting systems. The tools for financial control, such as SIAF, SICO, and other subsystems, allow the executing agencies to arrange for transfers of payments to suppliers of goods and services through the central bank under acceptable conditions. Their integration will enable the SIAF to produce the audited financial statements for the programs in the near future. In the meantime, parallel systems are being used. External control is currently performed through private audit firms. However, we are working with the Office of the Comptroller General of the Republic so that, in the short term, it will be in a position to take over the auditing of Bank-financed programs.

### **III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 3.1 The Ministry of Industry and Trade (MIC) is an agency of Paraguay's central government responsible for the industry and commerce sector and reporting to the Ministry of Finance. The executing agency will be REDIEX, utilizing the same

execution arrangements as operation 1916/BL-PR, as described in paragraph 3.2 of the loan proposal.

- 3.2 According to the ICAS analysis, the high risk areas are concentrated in CONTROL, whereas in other areas such as planning, procurement, financial/administrative management, and control of projects in execution, the risks are medium and substantial.

#### **IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 4.1 The ICAS evaluations show that the opportunities for improvement at the MIC for this and future programs should focus on:
- a. Strengthening the areas of planning, execution, and control; reinforcing the accounting and internal audit functions; and
  - b. Reviewing and updating processes from procurement to cash management.
- 4.2 Procurement management:
- a. The ICAS evaluation yielded a score of 86.21% for the Goods and Services Administration System, which is equivalent to satisfactory development and low level of risk. This score is attributable to the experience of the PEU staff, which has been in place since operation 1916/OC-PR and is currently executing operation 3131/OC-PR and a component of 3354/OC-PR.
  - b. Procurements will be minimal, considering that plans call for disbursing 60% of the loan proceeds under component I through the various types of instruments and the direct transfer mechanism, as described in the program Operating Regulations.
  - c. While risk is low according to the risk analysis and the ICAS evaluation, existing procurement procedures are communicated verbally from one staff member to another, making it impossible to integrate the goods and services procurement stage with the contract administration stage.
  - d. Therefore, we recommend including the following requirement (actions recommended in ICAS, numbers 10 and 11) as a condition precedent to eligibility: manual or set of instructions approved by MIC resolution, including the rules and procedures to be followed in the goods and services procurement processes consistent with current legal requirements and Bank procedures, as well as those related to the responsibilities for the goods and services delivery functions as part of the payment certification process. At the very least, this manual should identify the stages of the procurement process to be conducted by the entity.

#### **V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT**

- 5.1 To streamline negotiation of the contract by the project team and, principally, the Legal Department (LEG), the agreements and requirements to be included in the Special Provisions are given below.
- a. Program execution will require the following as conditions precedent to the first disbursement of the loan proceeds:

- (i) Manual of procedures for the executing agency, including finance- and procurement-related fiduciary considerations, prepared and approved by the MIC authorities.
  - (ii) Program Operating Regulations approved as a condition precedent to the first disbursement.
- b. Special execution conditions:
- (i) Web platform for BDS up and running, making it possible to monitor output and outcome indicators and project presentations, manage the database of potential beneficiaries, evaluate their exporting potential, and integrate them with other monitoring and evaluation systems used by REDIEX.
  - (ii) Within the first six months of execution, all of the executing agency's units involved in procurement must have both the minimum human resources to operate and sufficient physical space, with the furniture and equipment required to perform their duties and the proper technology infrastructure to efficiently conduct the procurement processes.

## VI. FIDUCIARY AGREEMENTS AND REQUIREMENTS FOR EXECUTION

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

### 1. Procurement execution

- (i) **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 procured using the Bank's standard bidding documents (SBDs). Bidding processes subject to national competitive bidding (NCB) will be conducted using national bidding documents agreed upon with the Bank. The program sector specialist will be responsible for reviewing the technical specifications for procurements during the preparation of selection processes.
- (ii) **Selection and contracting of consultants:** Consulting service contracts under the program will be procured using the standard request for proposals (RFP) issued by, or agreed upon with, the Bank. The program sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services. Initially, four contracting processes are planned that involve single-source

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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.

selection and are applicable to the exception indicated in paragraph 3.10(c).<sup>2</sup>

- (iii) **Individual consultant selection:** The program calls for direct recontracting of eight individual consultants who are currently providing services at the PEUs of programs 1916/BL-PR and 3131/OC-PR and who were originally selected for the aforementioned operations on a competitive basis.<sup>3</sup>
- (iv) **Advance procurements/retroactive financing:** None planned for this operation.
- (v) **Domestic preference:** Not planned for this operation.
- (vi) **Use of country systems:** Under document GN-2538-11 of 20 September 2013, use of the SCSP electronic reverse auction and competitive bidding subsystems in Bank-financed operations will apply to:
  - All contracts for goods and nonconsulting services eligible for use of the electronic reverse auction system under the SCSP, for amounts below the threshold set by the Bank for use of the shopping method for off-the-shelf goods (for reference, US\$250,000).
  - All works contracts for amounts below the threshold set by the Bank for use of the shopping method for complex works (for reference, US\$250,000), and contracts for goods and nonconsulting services up to the threshold set by the Bank for use of the shopping method for complex goods and services (for reference, US\$50,000), including contracts for amounts exceeding the thresholds set under national provisions for use of the competitive bidding method.
  - Contracts for amounts equal to or higher than the aforementioned thresholds will be governed by Bank policies (document GN-2349-9).
  - Section 1 of the Bank's policies (document GN-2349-9) will remain applicable to all executed contracts, regardless of amount or procurement method.

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<sup>2</sup> Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9), paragraphs 3.9 et seq.: Single-source selection must be duly justified.

<sup>3</sup> Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9), paragraphs 3.9 et seq.: Single-source selection must be duly justified.

## 2. Table of threshold amounts (US\$ thousands)

Works			Goods <sup>4</sup>			Consulting services	
ICB (*)	NCB (**)	S	ICB (*)	NCB (**)	S	International advertising consulting services	100% national short list
≥ 3,000	250 to 3,000	<250	≥ 250	50 to 250	<50	>200	<200

(\*) For simple works and off-the-shelf goods in an amount below the threshold for ICB, shopping is the recommended method.

(\*\*) Complex works or goods in an amount below the threshold for NCB may be procured through the shopping method.

## 3. Main procurements – IDB policies

Activity	Type of bidding	Estimated date	Estimated amount US\$ thousands
<b>Consulting services</b>			
Design and launching of the platform	QBS	Dec/2017	202
<b>Individual consulting engagements</b>			
The program calls for 21 individual consulting engagements, 8 of which will involve recontracting members of the program execution unit	3CV/SSS	Sep/2017 to Jun/2021	1.598

## 4. Procurement supervision

6.2 All procurement and/or contracting processes governed by the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) will be subject to ex ante review by the Bank. All procurement and/or contracting processes governed by the SCSP electronic reverse auction and competitive bidding subsystems (document GN-2538-11) will be subject to ex post review by the Bank.

## 5. Special provisions

6.3 As indicated in the final paragraph of Chapter IV.

## 6. Records and files

6.4 Program reports will be prepared and filed using the agreed formats or procedures, which will be described in the program Operating Regulations.

## VII. FIDUCIARY AGREEMENTS AND REQUIREMENTS FOR FINANCIAL EXECUTION

7.1 **Programming and budget.** The MIC will centralize the coordination of execution through REDIEX, which will serve as PEU. The PEU will receive logistical support from the MIC's other directorates and units.

7.2 Budget programming, administration, and execution are performed by the Directorate of Administration and Finance under the zero-based budgeting system.

<sup>4</sup> Includes nonconsulting services.

- This area prepares detailed disbursement plans on the basis of actual timing, cross-referenced with technical activities and fiduciary processes, describing the degree of progress in such activities; as well as disbursement requests under the financial planning system with more assertive advances and renewals, which must also be aligned with the annual work plan, procurement plan, budget, and other tools.
- 7.3 **Accounting.** Accrual accounting will be used; however, accountability processes for programs partially financed by the IDB will operate on a cash basis. The SIAF is the principal manager for budgetary and accounting transactions, connected to the SICO accounting subsystem, which with other subsystems enables information to be downloaded and reports prepared that can be accessed by the Bank and other sources of financing, through the integrated invoicing, disbursement, and accounting system.
- 7.4 **Information systems.** The executing agency has several internal and external information systems. The fact that they are not integrated means that longer times are required to prepare and issue reports, although the MIC has been meeting its responsibilities. Support is needed to integrate its reporting systems, so that it can integrate project planning and execution tools.
- 7.5 **Disbursements and cash flow.** Program funds will be disbursed in the form of advances, which are to be corroborated through submittal of an itemized monthly financial plan for a period of six months, and a longer term plan, to determine the program's actual demand based on the project execution plan, annual work plan, and procurement plan. The second and subsequent disbursements will be made once justification has been provided for 80% of previously advanced funds. The financial plan will be coordinated in advance with the technical unit, in order to coincide with the actual timing of procurement processes and disbursements to the ministry.
- 7.6 **Internal control and internal audit.** It was agreed that progress on implementation of the Standardized Internal Control Mechanism of Paraguay (MECIP) at the MIC will be reported periodically to the Bank. In the event that the MECIP is not applicable, the MIC will be required to show strengthening of the internal audit unit through a short-term plan that ensures active monitoring of program execution.
- 7.7 **External control and reports.** The executing agency, acting through the DCP, will deliver annual audited statements of the program, to be produced by the Office of the Comptroller General of the Republic or an independent audit entity acceptable to the Bank, in accordance with terms of reference previously approved by the Bank.
- 7.8 **Financial supervision plan.** Financial supervision will be three-pronged: (i) control of disbursement reports and review visits; (ii) onsite supervision visits scheduled by the Bank; and (iii) financial information taken from the financial statements and the delivery of execution reports.
- 7.9 **Execution mechanism.** The PEU at the MIC will be responsible for the following, in accordance with the terms and conditions stipulated in the sole annex to the contract and in the program Operating Regulations: (i) the program Operating Regulations will be consistent with MIC and Bank policies and procedures and with

the country's laws and financial practices; (ii) approval and implementation of the program Operating Regulations by the PEU to the Bank's satisfaction will be a condition precedent to the first disbursement; and (iii) any changes to the program Operating Regulations will require the Bank's no objection.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/16

Paraguay. Loan \_\_\_/OC-PR to the Republic of Paraguay  
Support for Business Development Services to  
Paraguayan Exporting Companies

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 a program of support for business development services to Paraguayan exporting companies. Such financing will be for an amount of up to US\$10,000,000 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 \_\_\_ \_\_\_\_\_ 2016)

LEG/SGO/CSC/IDBDOCS: 40674126  
Pipeline No.: 40674126