

Paraguay Public Expenditure and Financial Accountability Report (PEFA - Repeat Assessment)

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MAIN ABBREVIATIONS AND ACRONYMS

Currency unit = Guaraní (G\$). USD 1 = G\$ 4,900
Fiscal year: 1 January to 31 December

| | |
|----------|--|
| AECID | Spanish acronym for Spanish International Cooperation for Development Agency |
| ANDE | Spanish acronym for National Electricity Administration |
| APP | Annual Procurement Plan |
| BCP | Spanish acronym for Central Bank of Paraguay |
| BNF | Spanish acronym for National Development Bank |
| BPE | Board of Public Enterprises |
| CA | Central Administration |
| CAF | Spanish acronym for Andean Development Corporation |
| CAPASA | Cañas Paraguayas S.A. |
| CGR | Spanish acronym for National Audit Office |
| COPACO | Spanish acronym for Paraguayan Communications Company |
| CPAF | Classification of Public Administration Functions |
| CPAR | Country Procurement Assessment Report |
| CSJ | Spanish acronym for the Supreme Court |
| DA | Decentralized Administration |
| DDP | Directorate of Debt Policy |
| DES | Directorate of Economic Studies |
| DFA | Development Financing Agency |
| DFP | Directorate of Fiscal Policy |
| DGAF | Directorate General of Administration and Finance |
| DGB | Directorate General of Budget |
| DGCPD | Directorate General of Credit and Public Debt |
| DGIC | Directorate General of Information and Communications |
| DGLT | Directorate General of Large Taxpayers |
| DGPA | Directorate General of Public Accounting |
| DGR | Directorate General of Revenue |
| DGSP | Directorate General of Standards and Procedures |
| DGSSC | Directorate General of Statistics, Surveys and Censuses |
| DGT | Directorate General of the Treasury |
| DGTC | Directorate General of Tax Control |
| DMFAS | Debt Management and Financial Analysis System of UNCTAD |
| DSA | Debt Sustainability Analysis |
| EB | Executive Branch |
| EC | European Commission |
| ESSAP | Spanish acronym for Water Distribution and Sewerage Service |
| ESSP | Economic and Social Strategic Plan |
| ET | Excise Tax |
| EU | European Union |
| EUD | European Union Delegation in Paraguay |
| FEPASA | Spanish acronym for Paraguayan Railways PLC |
| FMU | Financial Management Unit |
| FOCEM | Spanish acronym for Mercosur Structural Convergence Fund |
| FONPLATA | Spanish acronym for Financial Fund for the Development of the Plata Basin |
| FPS | Financial Public Sector |
| GAP | Government Action Plan |
| GDP | Gross Domestic Product |
| GTZ | German Technical Cooperation Agency |
| HR | Human Resources |
| IAS | International Audit Standards |
| ID | PEFA indicator |
| IDB | Inter-American Development Bank |
| IFA | Integrated Fiduciary Assessment |

| | |
|----------|---|
| IFAD | International Fund for Agricultural Development |
| IFIs | International Financial Institutions |
| IIA | Institutional Internal Audit |
| IMF | International Monetary Fund |
| INDERT | Spanish acronym for National Institute of Rural and Land Development |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IPS | Spanish acronym for Social Security |
| IPT | International Public Tender |
| IRACYS | Spanish acronym for Income Tax on Commercial, Industrial and Service Activities |
| JICA | Japanese International Cooperation Agency |
| LAFE | Spanish acronym for State Financial Management Law |
| LB | Legislative Branch |
| MDAs | Ministries, Departments and Agencies |
| MoF | Ministry of Finance |
| MOL | Municipal Organic Law |
| MPHSW | Ministry of Public Health and Social Welfare |
| NAQHS | National Animal Quality and Health Service |
| NDC | National Directorate of Customs |
| NDPP | National Directorate of Public Procurement |
| NFPS | Non-Financial Public Sector |
| NGAOE | National General Auditing Office of the Executive |
| NPT | National Public Tender |
| OPEC | Organization of Petroleum Exporting Countries |
| PE | Public Enterprises |
| PEFA | Public Expenditure and Financial Accountability |
| PETROPAR | Petróleos Paraguayos |
| PFM | Public Finance Management |
| PFM-PR | Public Finance Management Performance Report |
| PFS | Public Finance Statistics of the IMF |
| PFSM | Public Finance Statistics Manual of the IMF (2001) |
| PGN | Spanish acronym for General State Budget |
| PIT | Personal Income Tax |
| PPSD | Public Policies for Social Development |
| PSICM | Paraguayan Standardized Internal Control Model |
| RMS | Revenue Management System |
| RTR | Resources Transfer Request |
| RUC | Spanish acronym for Taxpayer Identification Number |
| SAI | Supreme Audit Institution |
| SAU | Sector Analysis Unit |
| SET | Spanish acronym for State Sub-Secretariat for Taxation |
| SFP | Spanish acronym for Secretariat of the Civil Service |
| SIABYS | Spanish acronym for Integrated System of Goods and Services |
| SIAF | Spanish acronym for Integrated Financial Management System |
| SIARE | Spanish acronym for Integrated State Resource Management System |
| SICO | Spanish acronym for Integrated Accounting System |
| SICP | Spanish acronym for Public Procurement Information System |
| SINARH | Spanish acronym for Integrated National Human Resource System |
| SIPP | Spanish acronym for Integrated Budget Programming System |
| SITE | Spanish acronym for Integrated Treasury System |
| SSEAF | Spanish acronym for State Sub-Secretariat for Financial Management |
| SSEI | Spanish acronym for State Sub-Secretariat for Economy and Integration |
| TSA | Treasury Single Account |
| TSP | Spanish acronym for Technical Secretariat of Planning |
| UGAM | Unified Government Audit Manual |
| UMEP | Spanish acronym for Public Enterprises Follow-up Unit |
| UNCTAD | United Nations Conference on Trade and Development |
| USAID | United States Agency for International Development |
| UTD | Spanish acronym for Technical Unit for Decentralization |
| VAT | Value Added Tax |

VUI
WB

Spanish acronym for one-stop shop for importers
World Bank

PREFACE

This report is a second assessment (*repeat assessment*) of public finance management performance in Paraguay, based on the standardized measurement framework (PEFA),¹ and covers the performance of the Central Government during fiscal years 2007-2008 and 2009. This “PEFA assessment” was prepared in a coordinated way by the European Commission (EC), the Inter-American Development Bank (IDB) and the World Bank (WB), from the findings of a 24 day mission carried out by a group of three experts, hired in accordance with the type of framework contracts financed by the EC, who visited the city of Asuncion in September and October 2010. The PEFA assessment team was led by Federico Guala with the technical assistance of Luis Anconetani and Delia Grisolia.

Quality control was provided in two stages: firstly, through the State Sub-Secretariat for Financial Management (SSEAF) of the Ministry of Finance of Paraguay, and the EC/IDB/WB Reference Group, led by Claudio Salinas (EC), Marco Formentini (EC), Pierre-Yves Baulain (EC) and Eric Dejoie (EC), Mariano Perales (IDB), Tulio Correa (IDB) and Alexandre Arrobbio (WB); secondly, through the PEFA Secretariat. It should be noted, however, that the authors of the report are solely responsible for its contents.

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¹ “Public expenditure and financial accountability”. www.pefa.org. The first PEFA assessment carried out in Paraguay covered the fiscal period 2004-2006 and was part of the Integrated Fiduciary Assessment (IFA), published in 2008.

SUMMARY ASSESSMENT

The general aim of this Report on Public Finance Management Performance in Paraguay, hereinafter referred to for simplicity as PEFA assessment (2011), is to provide an updated tool for analysis and assessment of the systems, procedures and practices associated with Public Finance Management (PFM) in the scope of the Central Government of the Republic of Paraguay, through the systematic application of PEFA methodology, based on 28+3 high level performance indicators.

In a similar way to the first PEFA assessment carried out in the country, which was part of the Integrated Fiduciary Assessment (IFA) published in 2008, this assessment (repeat assessment) arises from the call of the Ministry of Finance, through the State Sub-Secretariat for Financial Management (SSEAF), to the main agents of foreign cooperation, including the European Commission (EC), the Inter-American Development Bank (IDB), and the World Bank (WB), to prepare a reference framework to promote dialogue and help strengthen the PFM of the Central Government and thus help increase the efficiency, effectiveness and transparency of public expenditure.

It can be expected that this assessment will provide the Government of Paraguay with a strategic tool to facilitate its task of:

- analyzing the main strengths and weaknesses associated with PFM, using as an empirical basis the fiscal performance of the Central Government over the last three years (2007 to 2009);
- verifying any progress and/or setbacks regarding functioning of the systems, procedures and practices associated with PFM, based on the results of the previous assessment, covering the period 2004-2006, for which it is also essential to take into account:
 - that the ratings given to each dimension of each indicator were based at all times on processing of information available using objective criteria, based on the observation of financial data, dates, regulations, etc., and completely independently of the ratings assigned by the previous assessment;
 - that the simple comparison of PEFA indicator ratings may in some cases lead to erroneous conclusions, due to possible differences in interpretation and access to information between the two assessments; and
 - that the PEFA methodology based on 31 performance indicators sometimes does not prove entirely “permeable” to reflect any possible changes that have occurred, especially when only three years have elapsed between one assessment and the other;
- strengthening dialogue with IFIs and donors in the PFM area of the Central Government, seeking the coordinated support of the former in the reform efforts promoted by the Government; and
- formulating a series of prioritized measures to continue gradually progressing in the reform of the country’s PFM, also taking into account contextual factors, lessons learned over recent years, and other relevant factors.

After the completion of this assessment, which—in accordance with the format established by the PEFA reference framework available since June 2005 and applied in over 150 countries—presents in addition to the measurement of PFM performance indicators, a descriptive section on the country

background information and another on the public sector reform process, the intention is to try to create a “pool of shared information” between the Government and the main IFIs and donors, which constitutes just one of the three components considered by the “*strengthened approach*” of support for PFM reforms sponsored by the PEFA Secretariat. The other two components of this approach are: (i) a “Government strategy and plan of action for PFM reform”; and (ii) a “multi-year program of support for the reform strategy of the Government prepared in a coordinated way between IFIs and donors”.

Integrated assessment of PFM performance

According to the main findings identified by this assessment regarding the performance of the Central Government of Paraguay during fiscal years 2007, 2008 and 2009, the PFM of the country is in a state of intermediate development.

In line with several of the results of the 2008 IFA, this assessment identifies the main challenges of the PFM of the Central Government of Paraguay with the credibility of budgeted expenditure; the multi-year perspective in fiscal planning; monitoring of aggregate fiscal risk; tax administration, and the effectiveness of the control system. This reflects, to a certain extent, the relatively short time that has elapsed between the two assessments, and also, as will be duly analyzed in several sections of this document, the presence of structural factors that are beyond the scope of PFM and affect broader aspects related to the governability of the country.

Thus, the global ratings assigned to the 28 PFM performance indicators provided by the PEFA methodology turned out to be, in general terms, similar to those obtained for the previous assessment, covering the period 2004-2006. In fact, 13 indicators retained the same rating, and the others, in most cases, underwent only slight changes —addition (deletion) of the “+” sign or assignment of the next higher (lower) rating on the four point scale.

Notwithstanding the similarities found in the general diagnosis of the two assessments —an expected result by the way— it is very important to note certain peculiarities. Firstly, 8 of the 28 indicators identified (PI-2, 8, 9, 13, 15, 20, 21 and 22) showed an improvement in the rating, substantiated by a scrutiny of reliable and accurate information. This shows clear progress in terms of PFM reform by the Government in recent years, even more so if the fact is taken into account that several of the improvements identified were associated with areas considered in both assessments as critical for continuing to strengthen the country’s PFM (e.g. PI-9; PI-13 and 15; PI-20 and 21).

Secondly, in the case of the 7 remaining indicators that according to this assessment show a slightly lower rating than that assigned by the previous assessment, in no case was a reversal observed in PFM performance by the Central Government; the “deterioration” observed was due more to differences in interpretation and access to the information, or —as in the particular case of PI-3— to the impact of the economic crisis of 2009.

We present below in summarized form the main results for the performance of PFM systems, procedures and practices, ordered according to the six critical dimensions defined by the PEFA methodology, and providing, at the same time, a comparative overview in relation to the initial assessment, which was part of the IFA published in 2008.

Budget credibility

On the expenditure side, the budget credibility of the Central Government continues to be low, to judge by the systematic and significant sub-execution of primary expenditure, intensified in recent years, although not sufficiently to lead to a change in the rating in relation to the one obtained in the first assessment.

Although sub-execution of public expenditure by the Central Government can be partly explained by a drop in actual revenue collections due to the impact of the economic crisis of 2009, the persistence of this phenomenon is due to the effect of factors of a structural kind, of which it is worth mentioning, on the one hand, frequent passing in the Congress of budget laws that assume expenditure above the resource estimates presented by the Executive, which usually leads to the subsequent application of strict financial and cash management programs by the latter; and on the other hand, major constraints on the Ministries, Departments and Agencies (MDAs) when implementing their budgeted expenditure, even within the limits established by the financial plan and the cash plan assignments.

With regard to this point, it is also important to point out that, during the three years analyzed, the Central Government sub-executed both current and capital expenditure, although the low execution of the latter was consistently the main cause of sub-execution of aggregate expenditure.

The combination of the actions of the Congress during the budget approval process, which tends to put upward pressure on public spending by making use of broad powers, which make it possible to influence, for example, the number of positions and the amount of the salaries of public employees, on the one hand, and the efforts of the Ministry of Finance to maintain aggregate fiscal discipline, as well as the constraints on MDAs when implementing their expenditure, on the other, ends up eroding to a large extent the utility of the budget year as a management tool to facilitate the implementation of public policies considered to be priority.

On the other hand, it could be seen (as in the IFA of 2008) that the redistribution of funds between the main categories of primary expenditure of the Central Government defined in the budget has contributed marginally to the variation therein over and above its variation in aggregate terms. However, it should be noted that this outcome is partly due to the fact that the aggregate variation in expenditure has been substantive, notwithstanding the fact that some MDAs have shown annual deviations (average) of over 20% during 2007-2009: Central Bank of Paraguay (BCP), (31.2%); Social Security Institute (SSI), (26.7%); Presidency of the Republic, (24.5%); and Petróleos Paraguayos (PETROPAR), (20.5%).

On the revenue side, however, the annual budget of Paraguay is a more accurate and credible tool, since the actual revenue in recent years has been very similar to that forecast in the annual budget laws, by virtue of the fiscal prudence of the Ministry of Finance when estimating resources during budget preparation and of the good performance regarding tax collection in a context of strong economic expansion.

This was different to the situation observed in 2009, when actual revenue only reached 81.2% of revenue estimated in the budget, leading to a drop in the indicator rating compared to that recorded in the 2004-2006 period, which, it should be made clear, is due solely to the impact of the economic crisis on revenue collection.

The breakdown of the revenue categories of the Central Government made it possible to delve a little deeper into other outstanding aspects related to this last result. Firstly, the decline in the revenue from Decentralized Entities (DE) —financed to around 90% by “institutional resources”, and which all together account for around 50% of the General State Budget— and especially from the state enterprise, PETROPAR, was the main cause of the drop in the (domestic) revenue of the Central Government in 2009. Meanwhile, the Central Government Administration, financed primarily by “treasury resources”, collected —despite the crisis and resulting abrupt change in prevailing economic conditions— 99.5% of the sum budgeted for that year, which poses certain questions in terms of the ability of the Ministry of Finance to accurately forecast the resources of the treasury.

As for payment arrears, this assessment carried out a more detailed numerical analysis than the previous one, which made it possible to dispense with the restricted concept of “floating debt”, use the classifier by object of expenditure, and identify an age profile for each category. The rating of

PI-4 remained unchanged with regard to the previous assessment, due to the fact that the stock of arrears in recent years was between 2% and 10% of total expenditure, and that the measurement of arrears, although possible in detailed form, is still restricted to the scope of Central Administration, following the partial coverage of the Integrated Financial Management System (SIAF).

| PI | Credibility of the budget | Rating 2004-2006 | Rating 2007-2009 |
|------|--|------------------|------------------|
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | C | C |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | B | A |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | A | B |
| PI-4 | Stock and monitoring of expenditure payment arrears | C+ | C+ |

Comprehensiveness and Transparency

The Central Government's budget information is broken down according to administrative classifications (by entities), by object of expenditure, in economic terms, by source of financing, by programs and by functions. This functional classification makes it possible to obtain the degree of breakdown required by the methodology of Government Finance Statistics and Classification of the Functions of Government of the IMF (GFS/COFOG). Meanwhile, the classification of the expenditure program has limited openness and cannot be assimilated at the level of a sub-functional breakdown of GFS/COFOG.

Other cross-cutting subjects that yielded expected results in this assessment and which, despite certain differences in measurement, reaffirmed to some extent those found in the initial PEFA assessment, were: the relatively low extent of extra-budgetary operations (PI-7); public access, by appropriate means, to 3 of the 6 items considered by the methodology as "key fiscal information" (PI-10); and the need to continue progressing towards greater supervision of aggregate fiscal risk (PI-9), an area in which the Government has recently implemented measures aimed at improving the management and control of public enterprises.

A deficit was apparent, however, with regard to the information included in the bills of the General State Budget (PGN) and their respective messages (PI-6). This subject was not properly covered in the first assessment and plays a very important role with regard to the transparency of the budgetary process. In particular, the accounting presentation of the General State Budget, which concerns the Central Government, is limited, failing to distinguish between the financial and non-financial public sector, and failing to present the result of the fiscal balance of the Central Government and, therefore, failing to inform properly about financial uses and applications according to the results of that balance.

The absence of complete and clearly presented fiscal information, submitted annually by the Executive to the Congress through the budget bill, can be linked to some extent to the principle of fiscal prudence proclaimed by the Ministry of Finance, in a context characterized by: (i) eagerness of the Congress to increase public expenditure; (ii) absence of anticyclical institutional tools—for example, a "structural" budget formulated according to the average yield of the agricultural sector—and of automatic stabilizers,—for example, a taxation scheme with a high participation of income tax—in an economy historically subject to strong external and internal shocks; and (iii) possible realization of contingent State liabilities, primarily through Public Enterprises and the financial sector, in a framework of inadequate supervision and control of fiscal risks (PI-9).

Finally, with regard to inter-governmental fiscal relations (PI-8), which in the case of Paraguay refers to the relationship of the Central Government with 237 municipalities, which do not even represent (collectively) 5% of expenditure by the consolidated public sector, an improvement was seen compared to the first assessment, partly related to progress in 2009 regarding the number of municipalities submitting their financial statements to the Ministry of Finance for consolidation, and partly to differences in interpretation and access to information.

| PI | Comprehensiveness and Transparency | Rating 2004-2006 | Rating 2007-2009 |
|-------|--|------------------|------------------|
| PI-5 | Classification of the budget | B | B |
| PI-6 | Comprehensiveness of information included in budget documentation | C | C |
| PI-7 | Extent of unreported government operations | B+ | B |
| PI-8 | Transparency of inter-governmental fiscal relations | D+ | C+ |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities | C | C▲ |
| PI-10 | Public access to key fiscal information | A | B |

Policy-Based Budgeting

In Paraguay there is an annual budget calendar, established in the LAFE and its regulatory standards, which was respected in 2007-2009, including the timely approval of the State National Budget by Congress. Moreover, the budget guidelines prepared by the MoF offer clear guidelines and ceilings for the preparation of drafts by MDAs which are financed with treasury resources. However, these ceilings do not have the prior approval of the sectoral ministries, which participate in the review of budget drafts after their consolidation by the Treasury, sometimes leading to disagreements within the Executive about the allocation of public expenditure among the different sectors.

Through decree 8215/06, the Ministry of Finance was authorized to formulate—in coordination with the MDAs—the multi-year “referential” budget (MRB) of the Central Government. Its initial implementation, which covered the 2007-2009 period, presented certain shortcomings, reported in the first assessment, and which concerned the development of technical / institutional capacities to guarantee, among other things, the preparation of medium-term macroeconomic and fiscal forecasts; improvements in the strategic management and planning of public investment, strengthening its link with the budget process, etc. During the analysis period covered by this assessment, these shortcomings were still observed, and the use of the MRB has been limited, although it is important to mention the recent Government efforts to implement multi-year periods of fiscal sustainability and public debt.

| PI | Policy-Based Budgeting | Rating 2004-2006 | Rating 2007-2009 |
|-------|---|------------------|------------------|
| PI-11 | Orderliness and participation in the annual budget process | A | B+ |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | D+ | D+ |

Predictability and Control in Budget Execution

Appropriate administration of tax resources is a key factor for guaranteeing the predictability of budget execution. It was found, on the one hand, that the Government, making use of the available technological advantages and breakthroughs, has made many efforts in recent years to improve public access to useful information for managing tax procedures and queries (PI-13). It should be noted, however, that Paraguay being a country with a significant informal economy, where the

effectiveness of tax education campaigns is limited by the lack of a “culture” of tax compliance, the use of modern tools by the State to inform taxpayers about their tax liabilities is part of an incipient process in the country, and therefore its scope and effectiveness is expected to progress gradually over time.

On the other hand, although indicator PI-14 retained the same rating as in the previous assessment, it is important to mention doubling of the number of tax audits on firms catalogued as “large taxpayers” carried out by the State Sub-Secretariat for Taxation in 2009. It is also important to highlight the improvement shown in the rating of indicator PI-15, following the progress made since 2007 in terms of tax collection reconciliation between the SET, the NDC and the DGT.

The predictability of the allocation of funds to commit expenditure by the MDAs (PI-16) was favored by the early and orderly application of spending limits established by the financial plan, passed by decree within 60 days of enactment of the Budget Law, but at the same time it was affected by a high number of reallocations of expenditure, which may to some extent affect the integrity of resource allocation. This situation reflects a very similar picture to the one described by the first assessment.

Neither were there any significant changes between the two assessments in terms of the recording and management of cash balances, debt and guarantees (PI-17), the DGCPD being observed to have carried out recording and reconciliation of all the debt operations, both internal and external, on a quarterly basis through the Integrated Debt Management and Financial Analysis System (DMFAS), and the DGT to have carried out the consolidation of cash balances on a weekly basis or even more frequently, although it uses an ad-hoc procedure to do so, since the software module of the Treasury (SET) does not allow the automatic calculation of consolidated balances.

The low effectiveness of the control system was identified as the greatest challenge for PFM in Paraguay by the IFA of 2008. In this assessment, mention was made, for example, of deficiencies in internal control structure and procedures, which weakened performance in most of the expenditure categories concerning salaries and goods and services, and also of the lack of qualified staff, harmonized standards and procedures, and institutional independence, which affected the internal audit function. This assessment reached similar conclusions, although major progress was observed recently, in particular: (i) the introduction of the Standard Model of Internal Control for Paraguay (PSICM), released in 2009 within the scope of the Central Government; and (ii) institutional strengthening of the National General Auditing Office of the Executive (NGAOE) and of several Institutional Internal Audits (ISI).

With regard to public procurement and acquisitions, progress was made through the creation in 2007 of the National Directorate of Public Procurement (NDPP) as an independent and autonomous body under the Presidency of the Republic, although this did not lead to an improvement in the rating of indicator PI-19 in comparison with the previous assessment.

| PI | Predictability and Control in Budget Execution | Rating 2004-2006 | Rating 2007-2009 |
|-------|--|------------------|------------------|
| PI-13 | Transparency of taxpayer obligations and liabilities | C+ | B |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | C | C |
| PI-15 | Effectiveness in collection of tax payments | D+ | A |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | C+ | C+ |
| PI-17 | Recording and management of cash balances, debt and guarantees | B+ | B+ |
| PI-18 | Effectiveness of payroll controls | D+ | D+ |
| PI-19 | Competition, value for money and controls in procurement | B+ | B+ |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | D+ | C |
| PI-21 | Effectiveness of internal audit | D+ | C |

Accounting, Recording and Reporting

The improvement observed during 2007-2009 in the timeliness and regularity of reconciliation of accounts carried out by the DGT with regard to the rating obtained is due essentially to differences in interpretation and access to information, which, on the other hand, also demonstrated the lack of sectoral studies on resources (in cash or in kind) transferred and effectively received by the basic service delivery units of the country.

It was possible to verify, on the other hand, that the DGPA consolidates the records on budget execution by the Central Government on the basis of the information prepared in a timely fashion, every month, by the MDAs, using the SIAF accounting system (SICO). However, as indicated in the first assessment, the quality and reliability of the records is still affected in some cases by deficiencies in internal control, for example, due to the limited interaction between the main financial information systems of the State and, in particular, to the lack of an integrated system for the management of goods and services (SIABYS).

In addition it was observed, also in line with the findings of the IFA of 2008, that the DGPA carried out the annual consolidation of the financial statements of virtually all the public sector entities in the annual financial report, which was submitted on time—before 30 April each year—to the National Audit Office (CGR), and which includes complete information about revenue, expenditure, financial assets and liabilities of each entity and agency of the State, although this report is still submitted in accordance with the requirements of national accounting standards.

| PI | Accounting, Recording and Reporting | Rating 2004-2006 | Rating 2007-2009 |
|-------|---|------------------|------------------|
| PI-22 | Timeliness and regularity of accounts reconciliation | C+ | B+ |
| PI-23 | Availability of information on resources received by service delivery units | C | D |
| PI-24 | Quality and timeliness of in-year budget reports | C+ | C+ |
| PI-25 | Quality and timeliness of annual financial statements | C+ | C+ |

External Scrutiny and Audit

In a similar way to results of the IFA of 2008, the main challenges regarding the external control function in Paraguay according to the findings of this assessment regarding the practices in force during the 2007-2009 period are related to: (i) partial coverage of audit and high concentration of audits based exclusively on financial aspects; (ii) delays in the sending of audit reports by the CGR

to Congress for scrutiny, with the exception of the annual financial report; (iii) lack of compliance by both houses of Congress with the constitutional mandate and with the LAFE, which requires them to rule on the annual financial report and on the report and opinion provided by the CGR on the same; and (iv) purely formal follow-up (if any), of the audit recommendations.

In addition, by virtue of greater access to information, for this assessment it was possible to calculate the exact times for the submission of audit reports to Congress by the CGR and it was observed that there are major limitations regarding the scope of the scrutiny made by the Legislature on the Budget Bill submitted annually by the Executive, due both to the shortcomings in the technical analysis by the former and to the limitations to the information provided by the latter (PI-6).

| PI | External Scrutiny and Audit | Rating 2004-2006 | Rating 2007-2009 |
|-------|--|------------------|------------------|
| PI-26 | Scope, nature and follow-up of external audit | C+ | C |
| PI-27 | Legislative scrutiny of the annual budget law | B+ | C+ |
| PI-28 | Legislative scrutiny of external audit reports | D+ | D+ |

Assessment of the impact of PFM weaknesses

The impact of the main weaknesses limiting the proper operation of PFM systems and practices in Paraguay is discussed below with regard to budgetary outcomes, classified according to three levels: aggregate fiscal discipline, strategic allocation of resources, and efficient provision of services by the State.

Aggregate fiscal discipline

The fiscal prudence promoted by the Ministry of Finance through its resource estimates during formulation of the budget, and through the implementation of its annual financial plan and the cash plan allocations subject to monthly changes in effective collection, have been more than enough in recent years to maintain aggregate fiscal discipline.

However, under the findings of this assessment, there are several reasons for believing that the aggregate fiscal discipline of the Central Government may be affected, above all in a context of adverse economic conditions, due primarily to the impact of the following factors:

- Integrity between data on human resources and on payroll clearance is not assured, there being no systemic control to integrate and harmonize the processes of initial loading of staff data (files module of the SINARH), with the wage settlement process, and finally with the processes inherent to payment through the banking network (PI-18). This must be analyzed bearing in mind also the powers of the National Congress to increase the salary allocations established in the budget bill submitted by the Executive. The normal practice of Congress to increase salary expenditure without identifying additional sources of resources can lead to a displacement (“*crowding out*”) of investment expenditure, via adjustment of the financial and cash plan, as has occurred on various occasions in the past, or, moreover, can affect the balance of fiscal accounts.
- The supervision and control of the fiscal or quasi-fiscal behavior of some autonomous public agencies and of Public Enterprises is still a concern (PI-9). On the one hand, no reports are prepared that could give an overview estimate of the aggregate fiscal risk faced by the Central Government, nor is there any information to allow the measurement of possible payment arrears by the Decentralized Entities that form part of the latter, including Public Enterprises (PI-4). On the other hand, it should be remembered that the possible adverse fiscal situations the Government may face due to possible losses by Public Enterprises—note that PETROPAR was the main cause of the drop in the country’s tax revenue in 2009—, or due to the possible

increase of exoneration in the quasi-fiscal relationship between the Treasury and the BCP, another problem must be added: the short and medium-term risks for the tax authorities involved in the parliamentary initiatives that increase fixed Government spending without the consideration of additional genuine income, such as the recent Act 3728/09 on Elderly Persons that is already in force.

Strategic allocation of resources

Paraguay is a country that does not yet have adequate institutional tools to establish a clear link between the preparation of specific policy measures —according to strategic priorities— and the formulation of the annual budget, let alone a multi-year fiscal framework elaborated on the basis of priority targets for the allocation of public expenditure (PI-12). Moreover, as described in a recent public report annexed to the annual budget draft for 2011, “*budget formulation in Paraguay is characterized as being incremental, on the basis of allocations from previous years, and a significant percentage of expenditure is allocated to maintaining operational structures, especially with regard to personnel costs*”.

The strategic allocation of resources is limited when the annual budget ends up being a credibility tool restricted by the systematic sub-execution of public expenditure, which also increases considerably if you consider the “current budget” which results from adding the budget extensions taking place over the year (PI-1). Neither do the following help in this respect: the high number of budget reallocations (PI-16); the “late” participation of line ministers in the determination of budget ceilings distributed to the MDAs (PI-11); the lack of information on resources effectively received by the basic service delivery units (PI-23); and last, but by no means least, the limitations of the (internal and external) control system that reduce the likelihood of the fiscal resources being allocated to meet their legitimate purposes (PI-18, 20, 21, 26, 27 and 28).

Efficient service delivery

There are several ways in which the systems, practices and procedures which make up PFM performance have an impact on the efficient delivery of services by the Central Government of Paraguay. These include:

- Little strategic planning during the budgeting process (PI-12).
- Low capacity to implement the budget, especially with regard to capital expenditure, which in turn is closely related to: i) payment arrears, which have proved to be significant in some years, although there is only partial information on the aggregate amount thereof (PI-4); and ii) excessive bureaucratization of processes and low inter-institutional coordination.
- Frequent budget reallocations during the current fiscal year (PI-16).
- Lack of relevant information on resources effectively received by basic service delivery units (PI-23), which is partly related to the lack of targeted studies, and partly to mediocre development of programmatic classification of expenditure (PI-5).
- Shortcomings in the internal control system and their impact on the efficiency of salary and non-salary expenditure (PI-18 and 20). In this respect, of particular relevance are the partial coverage of the Integrated Financial Management System (SIAF), and the ineffectiveness of the Integrated State Resource Management System (SIARE), which establishes integration of the SIAF with the Integrated National Human Resource System (SINARH) — a human resource management system which performs very poorly— and of the SIABYS (goods and services management system as yet unimplemented).
- Constraints affecting the internal audit function (PI-21), —for example, lack of professional independence of +IIA auditors and lack of an audit analysis based on the identification of

risks— although mention should be made, on the other hand, of recent Government efforts to improve human resource training and introduce standardized auditing rules and procedures.

Prospects for reform planning and implementation

Paraguay is a very young democracy, which opened a new institutional phase, based on a democratic regime, following the enactment of the 1992 Constitution.

Following this turning point, the main challenge in terms of State reform has been the modernization and strengthening of public administration and management, which was significantly debased as a result of practices inherited from the past, in order to achieve greater transparency, efficiency and effectiveness in the implementation of public policies, which in turn makes it possible to increase the coverage and improve the quality of the delivery of basic services to society.

In recent years, the Central Government has taken major steps towards consolidating PFM through several initiatives, primarily through the actions of the Ministry of Finance, the main institutional driving force behind reform of the public sector in general and reform of PFM in particular.

It is very important to note, in this respect, that the process of reform and modernization of the public administration in Paraguay has become even stronger following the change of Government in late 2008, which positions it as a State policy, as announced in one of the pillars of the Economic and Social Strategic Plan (ESSP) 2008-2013, formulated by the Ministry of Finance.

During the analysis period of this assessment (2007-2009), important progress has been made in the following areas, which in many cases have also established additional activities for strengthening institutions and human resource training, and have had the technical and financial support of IFIs and donors:

- Tax administration
- Internal control and internal audit
- Cash management
- Control and supervision of Public Enterprises
- Public procurement

It is to hope that the Ministry of Finance initiative to carry out a new PEFA assessment (*repeat assessment*) will help to create a “pool of information” or updated general analysis, making it possible to identify priorities and continue progressing gradually in the reform of the country’s PFM, also bearing in mind contextual factors, lessons learned over recent years, and other relevant factors.

The sustainability of the reform and modernization of the State in Paraguay over time is now a fact, thanks to the ongoing efforts made in recent years. However, the depth and pace of implementation of the changes will depend, among other factors, on the agreements that can be reached between the key economic, social and political players of the country to strengthen the foundations of acceptable governability.

Summary analysis of ratings in the IFA and in this assessment

| Indicator | Rating 2004-2006 | Rating 2007-2009 |
|---|---------------------|---------------------|
| A. PFM-OUT-TURNS: Credibility of the budget | | |
| PI-1. Aggregate expenditure out-turn compared to original approved budget | C | C |
| PI-2. Composition of expenditure out-turn compared to original approved budget | B | A |
| PI-3. Aggregate revenue out-turn compared to original approved budget | A | B |
| PI-4. Stock and monitoring of expenditure payment arrears | C+ | C+ |
| B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency | | |
| PI-5. Classification of the budget | B | B |
| PI-6. Comprehensiveness of information included in budget documentation | C | C |
| PI-7. Extent of unreported government operations | B+ | B |
| PI-8. Transparency of inter-governmental fiscal relations | D+ | C+ |
| PI-9. Oversight of aggregate fiscal risk from other public sector entities | C | C▲ |
| PI-10. Public access to key fiscal information | A | B |
| C. BUDGET CYCLE | | |
| C. i) Policy-Based Budgeting | | |
| PI-11. Orderliness and participation in the annual budget process | A | B+ |
| PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting | D+ | D+ |
| C. ii) Predictability and Control in Budget Execution | | |
| PI-13. Transparency of taxpayer obligations and liabilities | C+ | B |
| PI-14. Effectiveness of measures for taxpayer registration and tax assessment | C | C |
| PI-15. Effectiveness in collection of tax payments | D+ | A |
| PI-16. Predictability in the availability of funds for commitment of expenditures | C+ | C+ |
| PI-17. Recording and management of cash balances, debt and guarantees | B+ | B+ |
| PI-18. Effectiveness of payroll controls | D+ | D+ |
| PI-19. Competition, value for money and controls in procurement | B+ | B+ |
| PI-20. Effectiveness of internal controls for non-salary expenditure | D+ | C |
| PI-21. Effectiveness of internal audit | D+ | C |
| C. iii) Accounting, Recording and Reporting | | |
| PI-22. Timeliness and regularity of accounts reconciliation | C+ | B+ |
| PI-23. Availability of information on resources received by service delivery units | C | D |
| PI-24. Quality and timeliness of in-year budget reports | C+ | C+ |
| PI-25. Quality and timeliness of annual financial statements | C+ | C+ |
| C. iv) External Scrutiny and Audit | | |
| PI-26. Scope, nature and follow-up of external audit | C+ | C |
| PI-27. Legislative scrutiny of the annual budget law | B+ | C+ |
| PI-28. Legislative scrutiny of external audit reports | D+ | D+ |
| D. DONOR PRACTICES | | |
| D-1. Predictability of Direct Budget Support | C+ | D+ |
| D-2. Financial information provided by donors for budgeting and reporting on projects and program aid | D+ | D+ |
| D-3. Proportion of aid that is managed by use of national procedures | C | D |

1. INTRODUCTION

1.1 Objective of the Public Finance Management Performance Report

The general objective of this report, hereinafter referred to for convenience as “PEFA assessment”, is to provide an updated tool for the analysis and assessment of the systems, procedures and practices associated with Public Finance Management (PFM) within the scope of the Central Government of the Republic of Paraguay, through the systematic application of the PEFA methodology, based on 28+3 high level performance indicators.

In a similar way to the first PEFA assessment carried out in the country, which was part of the Integrated Fiduciary Assessment (IFA) published in 2008, this assessment (repeat assessment) arises from the call of the Ministry of Finance, through the State Sub-Secretariat for Financial Management (SSEAF), to the main agents of foreign cooperation, including the European Commission (EC), the Inter-American Development Bank (IDB), and the World Bank (WB), to prepare a reference framework to promote dialogue and help strengthen the PFM of the Central Government and thus help increase the efficiency, effectiveness and transparency of public expenditure.

It is hoped that through this consultative process, which is among other initiatives in promoting the elaboration of this PEFA assessment, the Government of Paraguay will be able to avail itself of a strategic tool to facilitate its task of:

- i. analyzing the main strengths and weaknesses associated with PFM, using as an empirical basis the fiscal performance of the Central Government over the last three years (2007 to 2009);
- ii. obtaining a more robust and detailed baseline on PFM performance in the country, making use of a more intensive work methodology than the one associated with the first assessment;
- iii. verifying possible progress and/or setbacks regarding functioning of the systems, procedures and practices associated with PFM, taking as a basis the results of the previous assessment covering the 2004-2006 period, for which it is also essential to take into account:
 - that the ratings given to each dimension of each indicator were based at all times on processing of information available using objective criteria, based on the observation of financial data, dates, regulations, etc., and completely independently of the ratings assigned by the previous assessment;
 - that the simple comparison of PEFA indicator ratings may in some cases lead to erroneous conclusions, due to possible differences in interpretation and access to information between the two assessments; and
 - that the PEFA methodology based on 31 performance indicators sometimes does not prove entirely “permeable” to reflect any possible changes that have occurred, especially when only three years have elapsed between one assessment and the other;²
 - strengthening dialogue with IFIs and donors in the PFM area of the Central Government, seeking the coordinated support of the former in the reform efforts promoted by the Government, considering the increasing channeling of external financial aid through instruments that presuppose more autonomous fiduciary

² The narrative of the indicators presented in Section 3 and the text of Section 4 on “Public Sector Reform” try to minimize this constraint.

management by the latter, such as direct budget support programs, programmatic loans for the development of public policies, etc.; and

- formulating a series of prioritized measures to continue gradually progressing in the reform of the country's PFM, also taking into account contextual factors, lessons learned over recent years, and other relevant factors.

After the completion of this assessment, the intention is to try to create a “pool of shared information” between the Government and the main IFIs and donors, which constitutes just one of the three components of the “strengthened approach” of support to PFM reforms sponsored by the PEFA Secretariat. The other two components of this approach are: (i) a “Government strategy and plan of action for PFM reform”; and (ii) a “multi-year program of support to the reform strategy of the Government prepared in a coordinated way between IFIs and donors”.

1.2 Process of preparing the PFM-PR

As mentioned above, this PEFA assessment (repeat assessment) arises from the call of the Ministry of Finance, through the State Sub-Secretariat for Financial Management (SSEAF), to the main external cooperation agents, including the European Commission (EC) —in charge of general coordination and financing— to the Inter-American Development Bank (IDB), and to the World Bank (WB), to develop a consultative process to help strengthen the PFM of the Central Government.

The three cooperating institutions made up a “reference group”, which actively interacted with the SSEAF and among themselves during all stages linked to the process of preparation of this assessment, i.e. in the stage of preparation of the terms of reference (ToRs) and subsequent selection of the group of experts; throughout the field phase, which involved holding several meetings and discussions, in addition to information / training and final workshops established in the ToRs; and during the review stages of the draft document and presentation and dissemination of the final document.

The SSEAF assumed institutional leadership for carrying out this assessment, confirming its commitment to continue progress made in the improvement and strengthening of PFM in the area of the Central Government. This institutional leadership, led at the highest political level by the Minister of Finance and the Vice-Minister of State for Financial Management, and put into practice through the committed work of the directors general in charge of key areas such as budget, accounting, treasury and public debt, was of fundamental importance in guaranteeing the quality of the whole process, assuring both access of the key mediators to essential information, as well as the detailed review and discussion of the results obtained.

Also noteworthy was the adoption by the Government of the use of the PEFA methodology, which was partly linked to the positive reception and dissemination of the IFA of 2008, —which led at the time to the development of a Government Action Plan (GAP)— and partly to the stability, despite the major political shift brought about by the change of Government in 2008, of most of the technical and managerial teams within the scope of the SSEAF. This meant, for example, that during the phase prior to the field phase several key management offices of PFM had at their disposal, through electronic media, a list of indicators related to their respective areas of competence, which enriched the subsequent exchanges and discussions between the group of experts and officials of these areas during the workshops for the start of the mission in Asunción.

The field phase had a duration of 24 consecutive working days, between 20 September and 16 October 2010,³ and was carried out in very good conditions, largely due to the excellent responsiveness and assistance to the group of experts by the SSEAF, which included, among other

³ In accordance with the provisions of the ToRs, 6 working days a week were counted.

services, the provision of a fully equipped office and the coordination of the agenda of meetings, and also due to the coordination efforts of the European Union Delegation (EUD) in Asunción. In summary, several of the main activities carried out at the time are listed below:

- Introductory presentation by the head of the group of experts, with the participation of the Vice-Minister of State for Financial Management, directors of all the key areas associated with the PFM of the country, representatives of the reference group consisting of the EU, the IDB and the WB, and of several other international cooperation agencies (IMF, AECID and GTZ).
- Preliminary workshop (information / training, in accordance with the ToRs), lasting two days, which was attended by various Government officials and representatives of the reference group. The group of experts presented details of different aspects of the PEFA methodology, and several exchanges were held on the preliminary information base prepared by the Government.
- Videoconference held between the head of the group of experts and authorities from the macroeconomic support unit of EuropeAid – Cooperation Office of the European Commission E-1. This took place in the EUD headquarters in Asunción, and was attended by its highest authorities.
- Presentation by the head of the group of experts on the PEFA methodology in general, and of the scrutiny and external audit indicators in particular, in the conference hall of the National Congress. The organization of this event was the initiative of a group of national legislators, members of the Commission of Accounts and Control of Budget Execution of the House of Representatives, and in particular, of their president; it was attended by legislators, advisors and representatives of the reference group.
- 27 meetings held between the Government and the group of experts, 17 of which took place within the scope of the Ministry of Finance,⁴ and 10 outside the same.

The preparation of the report involved a highly participative process, in which 2 stages can be clearly distinguished, which facilitated quality control of the same. Firstly, on completion of the first draft report by the team of experts, this was distributed for review to the Government —through the State Sub-Secretariat for Financial Management (SSEAF) of the Ministry of Finance— and to the Reference Group (EC/IDB/WB). Secondly, a version including the changes proposed after review of the draft report, called the preliminary final report, was submitted for review by the PEFA Secretariat. The preparation of the final report has been possible after regular and effective dialogue between the team of experts —who are solely responsible for its contents— and all other parties mentioned above.

1.3 Methodology for the preparation of the report

The analysis of this assessment is based on the application of the methodology offered by the reference framework for PFM performance measurement (“PEFA methodology”), which involves the consideration of 28+3 high level performance indicators presented in section 3.⁵

The collection of the information required for the application of the PEFA methodology was carried out primarily during the mission in the city of Asunción, and included financial data, regulations, dates for the implementation of particular processes, etc., covering fiscal years 2007, 2008 and 2009, and even 2010 in some cases.

⁴ Includes the three Sub-Secretariats of the Ministry of Finance: SSEAF, SSEI and SET.

⁵ This methodology, prepared by the PEFA program, has been applied in over 150 countries since June 2005. For more information see www.pefa.org

The preparation methodology was based on two cornerstones: (i) the use of factual evidence to support the ratings of the 28+3 indicators;⁶ y (ii) the intensive use of workshops, consultations, meetings, etc. between the group of experts, the Government, the reference group and other donors, for the discussion and analysis of results.

1.4 Scope of the assessment as provided by the PFM-PR

The scope of this assessment covers the scope of the Central Government of Paraguay, which includes the Central Administration (CA) and the Decentralized Administration (DA) of the Government.

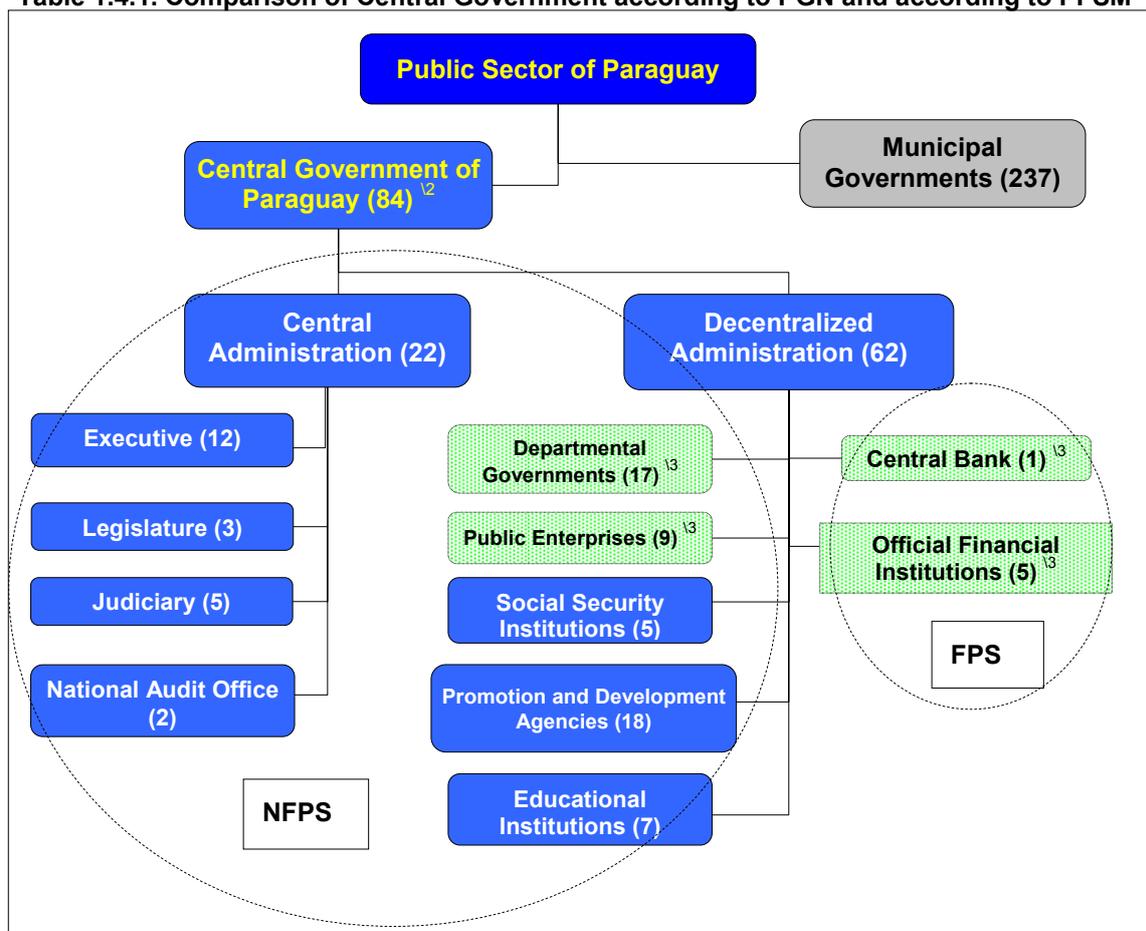
The CA and the DA represent jointly over 95% of the consolidated public sector of the country, and constitute the two main components of the (annual) General State Budget (PGN). The CA consists of 22 entities, and comprises the three powers of the State and the National Audit Office (CGR). The DA consists of another 62 entities, which include, among others, 9 public enterprises, 6 financial institutions, and 17 governments of departments.

The consolidation of financial institutions of the State, public enterprises, and governments of departments within the “Decentralized Administration” of the PGN has led to these entities being considered within the scope of the “Central Government” in the IFA of 2008, and the same criterion has been used in this assessment (“repeat assessment”), in order to permit a comparison of results over time.

It is important, however, to clarify that the strict application of the PEFA methodology suggests defining the scope of the Central Government in accordance with the provisions of the Public Finance Statistics Manual (PFSM) of the IMF (2001), which would lead to a more restricted concept than the one used in the IFA and in this assessment. Table 1.4.1 allows us to compare the scope of the “Central Government” in accordance with the General State Budget (PGN) of Paraguay and in accordance with the provisions of the PFSM of the IMF. Being a centralized country, the finances of the 237 municipalities of Paraguay have a low level of participation in consolidated public expenditure (4.2% in 2009). As they are not part of the PGN, the municipalities are analyzed only in isolated form in the case of some specific indicators (PI-8, 9 and 23).

⁶ See Annex A.1.2 for greater detail on the main sources of information used.

Table 1.4.1. Comparison of Central Government according to PGN and according to PFSM ¹¹



Source: own compilation.

¹¹ The number of entities and agencies is indicated in brackets.

¹² Includes 4 Public Enterprises not included in the budget (ESSAP, COPACO, CAPASA and FEPASA).

¹³ According to PFSM, these entities are not included in the definition of Central Government.

Non-Financial Public Sector (NFPS).

Financial Public Sector (FPS).

**Table 1.4.2. Public Sector of Paraguay
(In billion G\$ and in % of total expenditure)**

| | Nº of entities | Executed Expenditure 2009 | In % |
|---|----------------|---------------------------|---------------|
| Central Administration | 22 | 13.884.4 | 48.7% |
| Decentralized Administration ¹¹ | 58 | 13.456.4 | 47.2% |
| Total Central Government² | 80 | 27.340.8 | 95.8% |
| Municipalities ¹³ | 237 | 1.188.9 | 4.2% |
| Total Public Sector | 317 | 28.529.7 | 100.0% |

Source: own compilation based on the information provided by the SSEAF.

¹¹ Does not include the 4 Public Enterprises not included in the budget (ESSAP, COPACO, CAPASA and FEPASA).

¹² Excludes capital amortizations of the internal and external debt.

¹³ 188 municipalities from a total of 237 were consolidated, financial report 2009.

2. COUNTRY BACKGROUND INFORMATION

This section is of a descriptive nature and provides general information on the Republic of Paraguay, initially with regard to contextual aspects (economic situation of the country, general reform program of the Government), and then with regard to key aspects and characteristics of its PFM system. The information was derived from several recent reports on the economic and social situation of the country, statistics on official public finance, various legal provisions, and other relevant documents.

2.1 Description of the country economic situation

General context

The Republic of Paraguay covers an area of 406,752 km² and has a population of 6.2 million. The Gross Domestic Product (GDP) in 2009 amounted to G\$ 72,300 billion, which is equivalent to approximately USD 14.5 billion

The Paraguayan economy is small compared to its main neighboring countries (Uruguay, Argentina and Brazil)⁷ and has traditionally been very open, besides being characterized by a production structure strongly biased towards the production of primary products, a moderate state presence in compared to most Latin American countries, and associated with low levels of efficiency and coverage in the provision of basic goods and services, and a relatively low provision of physical,⁸ human and financial capital. As a consequence, the positive cycles of the country's economy were driven primarily by favorable external conditions, especially in cases where these conditions were due to increases in the international prices of basic products.

Thus, from 2003 to 2008 Paraguay underwent its greatest economic expansion since the 1970s⁹ due to the presence of extremely favorable international and regional conditions and to adherence to prudent and consistent macroeconomic policies. The actual GDP grew at an average annual rate of 4.6% during this period, driven strongly by agricultural production for export,¹⁰ and this led to an increase in domestic consumption and also in investment expenditure.¹¹

⁷ According to WB data, in 2009 the GDP of Paraguay represented 40.3% of the GDP of Uruguay, 4.7% of the GDP of Argentina and just 0.9% of the GDP of Brazil.

⁸ Unlike several other countries in the region, in its economic history Paraguay does not have any background of protectionist policies associated with the promotion of industrialization of the country (substitution of imports).

⁹ In the 70's the economy of the country was given a strong boost by the expansion of the agricultural frontier and the construction of the Itaipu bi-national hydroelectric dam.

¹⁰ The agricultural sector grew an annual average of 7.5% during the same period.

¹¹ According to data published by the BCP, during the 2003-2008 period, private consumption grew at a (real) average annual rate of 4.9%, whereas public sector consumption did so at a rate of 4.3%, and gross fixed capital formation (total economy) at 8.9%.

Table 2.1.1: Paraguay, selected economic and social indicators (2005-2009)

| Indicators | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|---------|---------|----------|----------|----------|
| I. Economic | | | | | |
| GDP (in millions of current USD) | 7,494.0 | 9,275.0 | 12,222.0 | 16,905.0 | 14,546.0 |
| GDP per capita (in USD) | 1,272.7 | 1,550.1 | 2,010.6 | 2,738.1 | 2,320.2 |
| Real change in GDP | 2.9 | 4.3 | 6.8 | 5.8 | -3.8 |
| Total domestic gross investment (in % of PIB) | 19.8 | 19.6 | 18.0 | 18.1 | 15.5 |
| private sector | 14.8 | 14.7 | 13.4 | 14.3 | 10.1 |
| public sector | 5.0 | 4.9 | 4.6 | 3.7 | 5.4 |
| Net international reserves (in millions of USD) | 1,298.0 | 1,703.0 | 2,462.0 | 2,864.0 | 3,861.0 |
| Consumer price index (annual % change) | 9.8 | 12.5 | 5.9 | 7.5 | 1.9 |
| Exchange rate (G\$ for USD) (annual average) | 6,136 | 5,503 | 5,015 | 4,308 | 4,900 |
| External sector (% of GDP) | | | | | |
| Current account | 0.3 | 1.4 | 1.8 | -2.2 | -1.3 |
| Commercial balance | -6.2 | -6.7 | -4.1 | -6.9 | -7.2 |
| Central Government (% of GDP) | | | | | |
| Total Revenue (excluding financing) | n/d | n/d | 33.8 | 32.9 | 35.4 |
| Grant | n/d | n/d | 0.4 | 0.4 | 0.7 |
| Total Expenditure (excluding amort. of the debt) | n/d | n/d | 31.4 | 29.1 | 36.4 |
| Surplus (+) / Deficit (-) Global | n/d | n/d | 2.4 | 3.8 | -1.0 |
| II. Social and demographic | | | | | |
| Population (in thousands) | 5,888.1 | 5,983.5 | 6,078.8 | 6,174.1 | 6,269.4 |
| Urban population (% of total) | 58.5 | 59.1 | 59.7 | 60.3 | 60.0 |
| Incidence of poverty (%) | 38.6 | 43.7 | 41.2 | 37.9 | n/d |
| Incidence of extreme poverty (%) | 16.5 | 23.7 | 23.2 | 19.0 | n/d |
| Infant mortality rate, under 5 years (c/ 1.000) | 26 | 25 | 24 | 23 | 23 |

Source: own compilation based on information from the SSEAF, BCP, DGSSC and IMF (Article IV, September 2010).

n/a: not available.

The exceptional performance of the country's economy during this period acted as a vicious circle, which was reflected by a consolidated monetary and exchange rate stability, and in an appreciable improvement in public sector savings¹²—which caused a sharp fall in the sovereign debt / GDP ratio¹³— and in the external sector—reflected in the progressive accumulation of international reserves in the Central Bank of Paraguay (BCP).¹⁴

The sudden international financial crisis, along with the severe drought that struck the region, had a great impact on the country's economy in 2009. Real GDP fell by 3.8 percentage points that year, exports fell sharply—primarily agricultural—and imports even more so—due to the effect of the recession on real domestic demand and the drop in intra-regional trade.¹⁵ The global impact of the crisis, although higher than in neighboring countries, was moderated by the use of anticyclical economic policies by the Government.

On the fiscal side, public expenditure grew by 22.8% in 2009 compared to the previous year,¹⁶ which was reflected in a rise in salary expenditure (in a context of very low inflation), but above all in an increase in public investment spending, with a strong orientation towards social programs and services. This was also possible by maintaining a surplus balance for the Central Administration (0.1% of GDP), because the total revenue of the Government experienced an estimated rise of 2%

¹² According to IMF estimates, public sector savings rose by 94% in nominal terms between 2005 and 2009, despite the fall observed last year.

¹³ The public debt of the Central Government, heavily concentrated in loans from international financial institutions (IFIs), fell by 48.5% of the GDP in 2003 to just 15.4% in 2008.

¹⁴ The net international reserve stock of the BCP grew from USD 1,298 million at the end of 2005 (equivalent to 17.3% of the GDP for that year) to USD 3,861 million at the end of 2009 (26.5% of the GDP).

¹⁵ Much of the import demand of Paraguay is destined for re-export to neighbouring countries, especially Brazil, also affected that year by the global crisis and the resulting fall in raw material prices.

¹⁶ This refers to the expenditure of the Central Government, excluding amortization payments on public debt.

of GDP.¹⁷ On the monetary side, the BCP managed the benchmark interest rates of the banking system, reduced legal requirements and opened a short-term assistance service to strengthen the liquidity of the financial system.

The country's economic prospects are very promising for 2010, largely due to the recovery of primary sector activity and of foreign trade. According to official macroeconomic studies, there could be an estimated increase in real GDP of 14.5%.¹⁸

Despite the vigorous and practically uninterrupted economic growth of recent years, Paraguay is still affected by high rates of poverty and inequality. According to official data provided by the DGSSC,¹⁹ the incidence of poverty and extreme poverty observed in urban and rural areas has remained the unchanged if 2008 figures are compared with those obtained in 2005-2006 (see Table 2.1.1). Regarding revenue distribution, Paraguay had a Gini coefficient of 0.54 in 2008, and is characterized as a country with a heavy concentration of ownership, particularly land.

In this context, the provision of basic services by the State, through gradual improvements in the offer and quality of public infrastructure, and in particular the strengthening of public finance management in critical areas related to social expenditure and public investment, are absolute policy priorities.

Overall Government reform program

On the current Administration assuming government in August 2008, the Ministry of Finance, in coordination with the National Economic Team (NET)²⁰ launched the "Economic and Social Strategic Plan (ESSP) 2008/2013". The main aim of this Government Plan was defined as "improving the living conditions of all the country's inhabitants" and it was structured according to 5 strategic objectives:

- kick start economic growth, but with greater creation of employment,
- increase social investment,
- promote diversification of production,
- strengthen State institutions and
- support both micro- and small urban enterprises and family farming.

In turn, there are 8 pillars associated with the ESSP, defined as follows:

- maintenance of macroeconomic stability,
- development of a solid and secure financial system,
- transformation of public enterprises,
- modernization of the Public Administration,
- comprehensive agrarian reform with a revival of family farming,
- development of the country's economic and social infrastructure,

¹⁷ Estimates of the International Monetary Fund – Consultation of Article IV, September 2010. Although tax revenue linked to the external sector fell in 2009, in the same year there was an increase in corporate tax revenue (after settlement of strong gains in 2008) and also in revenue from royalties from the bi-national hydroelectric companies, after the (slight) depreciation of the Guaraní against the US Dollar. To this must be added the effect of progressive improvements in the country's tax administration.

¹⁸ http://www.bcp.gov.py/gee/prel/2010/Informe_Ec_Preliminar_2010.pdf

¹⁹ According to the results of the work on updating and improvement of the methodology for the measurement of poverty in Paraguay, conducted in 2008/2009 by the Directorate General of Statistics, Surveys and Censuses (DGSSC), with the support of the WB.

²⁰ It consists of the Ministry of Finance, the BCP, and the sectoral ministries of Public Works and Communications, Agriculture and Farming, and Trade and Industry.

- strengthening of competitiveness and
- creation of employment and reduction of poverty.

As a complement to this, and not necessarily in coordination with the ESSP, the Presidency of the Republic, through the Cabinet, launched another strategic plan in 2010 called “Public Policies for Social Development (PPSD) 2010-2020”, which has a strong social orientation and was defined on the basis of 4 strategic areas:

- quality of life for everyone,
- social inclusion and eradication of poverty and inequality,
- all-inclusive economic growth, and
- institutional strengthening and efficiency of social investment.

Through these 4 areas, the PPSD has prepared its “solution proposals”, which contain 28 national objectives, 131 prioritized policies, 45 cross-cutting and specific policies and 11 flagship programs.²¹

Rationale for PFM reform

The Government of Paraguay has a clear analysis of the need to carry out a process of reform and strengthening of the country’s public finance management as an essential tool for promoting greater economic and social development through the efficient and effective implementation of public policies. This can be inferred directly, for example, from one of the strategic objectives of the ESSP, “strengthening State institutions”, and from one of its pillars, “modernization of public administration”.

On the other hand, the fundamentals of PFM reform were expressed in the “Government Action Plan for the reform of financial administration and purchasing and procurement” (GAP), published as an annex to the IFA published in 2008. This plan was prepared for the outgoing administration at the time, by the coordination of the Ministry of Finance, and on the basis of the main findings identified by the IFA and other related recent studies. The GAP had the technical support of the World Bank, the IDB, and the European Commission, and was presented for discussion among the various international agencies that support the PFM reform process in Paraguay.

Thanks to the good analysis and ambitious scope, despite the change of Government, the GAP is still an essential reference on the PFM reform agenda of the country. Its structure corresponds to four thematic areas which are intended to reflect the main constraints of PFM in the scope of the Central Government:

- Credibility and efficiency of the budget process;
- Effectiveness of control;
- Aggregate fiscal risk; and
- Management of IFI and donor funding.

Through the preparation and gradual implementation of the ESSP, the current Government Administration has shown its commitment to PFM reform, in line with the key points of reform identified by the GAP, for example, by the creation of an inter-ministerial Council of Public Enterprises (CPE) and a follow-up unit (UMEP); the design and dissemination of the standardized model of internal control of Paraguay (PSICM); its commitment to expand the coverage of the Integrated Financial Management System (SIAF); and other important initiatives mentioned in section 4.

²¹ For further details, see http://www.presidencia.gov.py/gabinetesocial/?page_id=918

2.2 Description of budgetary outcomes

Fiscal performance

The information presented in Table 2.2.1 on budget execution of the Central Government, —called in Paraguay “General State Budget (PGN)— including the corresponding fiscal balance and net financing, was prepared by the group of experts assigned to this PEFA assessment by processing data provided in the annual financial reports prepared by the DGPA.

There it can be observed, in line with in the statements of the previous section, that the Government obtained a clear fiscal surplus in 2007 and 2008, due partly to the procyclicality of tax revenue in years when there was strong economic growth, and partly to the country’s shortcomings in executing budgeted public expenditure, especially that related to investment, and which is analyzed in several other parts of this document. Net financing of the public sector was negative in these two years due to the low use of credit, more than compensated by the payment of external loan repayments, and even so it led to the accumulation of major cash balances.

In 2009 tax revenues remained up,²² and this made it possible to finance the Government’s anticyclical fiscal policy, reflected by an increase in expenditure/GDP of over 7 percentage points compared to the previous year, incurring a moderate deficit of only 1.0% of the GDP.²³ The Government had to resort to the use of credit (mostly domestic), and slightly reduced its cash balances to finance the fiscal deficit recorded during that period.

**Table 2.2.1. Paraguay – Execution of the budget of the Central Government (2007-2009)
(in % of GDP)**

| Budget of the Central Government | 2007 | 2008 | 2009 |
|--|---------------|---------------|---------------|
| I. Aggregate revenue | 33,80% | 32,89% | 35,42% |
| - Own revenue (1) | 33,42% | 32,51% | 34,72% |
| - Grants | 0,37% | 0,38% | 0,69% |
| II. Total expenditure | 31,36% | 29,13% | 36,42% |
| - Non-interest expenditure (2) | 30,31% | 28,40% | 35,65% |
| - Interest expenditure | 1,05% | 0,73% | 0,77% |
| III. Global surplus (+) / Deficit (-) (including grants) (I-II) | 2,44% | 3,76% | -1,00% |
| IV. Primary Surplus (+) / Deficit (-) (1)-(2) | 3,11% | 4,11% | -0,92% |
| V. Net financing | -0,20% | -0,51% | 0,76% |
| - external | -0,64% | -0,68% | 0,25% |
| - domestic | 0,44% | 0,18% | 0,51% |
| VI. Changes in cash (III+V) | 2,24% | 3,25% | -0,24% |

Source: own compilation based on DGPA (SSEAF) and BCP data.

Table 2.2.2 shows the detailed composition of Central Government revenue. Observe firstly the high incidence of non-tax revenue in the total public revenue of the country. Thus, for example, the sum of annual revenues to government coffers by way of revenue from Public Enterprises and from royalties from the bi-national hydroelectric companies (Itaipú and Yacyretá), exceeded total tax collection in two of the three years under review. This highlights the low tax pressure of the country, which, as has been analyzed in many studies, is significantly lower than that of most Latin American countries.

On the other hand, it is worth mentioning what happened in 2009, a year in which real GDP fell by 3.8%, but in which tax revenue increased —VAT, the main tax of the country, showed only a slight decline, which was directly linked to improvements in tax administration, whereas corporate tax (IRACYS) showed a considerable increase, largely due to the “drag” of the settlement of major

²² See the analysis of Table 2.2.2.

²³ Take due account of the fact that in all cases they are our own estimates, due to the lack of official records on the matter.

gains recorded in the previous year—and also non-tax revenue—primarily due to increases in royalties driven by a slight devaluation of local currency, and effective collection of social security contributions.

Table 2.2.2. Central Government of Paraguay: Revenue Collection (2007-2009)
(In billion G\$ and in % of total)

| Central Government Revenue ¹ | 2007 | | 2008 | | 2009 | |
|---|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | G\$ | % | G\$ | % | G\$ | % |
| Tax revenue | 7,043.6 | 34.3% | 8,693.3 | 36.3% | 9,246.2 | 36.8% |
| Value added tax (VAT) | 3,473.6 | 16.9% | 4,464.3 | 18.7% | 4,394.9 | 17.5% |
| IRACYS ² | 1,201.4 | 5.8% | 1,545.6 | 6.5% | 2,158.7 | 8.6% |
| Excise tax on petroleum fuels ³ | 999.4 | 4.9% | 1,019.6 | 4.3% | 1,046.7 | 4.2% |
| Customs tariff on imports | 833.4 | 4.1% | 1,057.3 | 4.4% | 972.9 | 3.9% |
| Other tax revenue | 535.7 | 2.6% | 606.5 | 2.5% | 673.0 | 2.7% |
| Non-tax revenue | 13,516.3 | 65.7% | 15,240.3 | 63.7% | 15,876.2 | 63.2% |
| Operating income (public enterprises) | 5,284.9 | 25.7% | 6,476.4 | 27.1% | 6,045.6 | 24.1% |
| Social Security contributions | 2,291.6 | 11.1% | 2,784.7 | 11.6% | 3,118.6 | 12.4% |
| Royalties ⁴ | 2,047.5 | 10.0% | 1,876.3 | 7.8% | 2,269.0 | 9.0% |
| Recovery of loans | 899.2 | 4.4% | 868.8 | 3.6% | 1,169.6 | 4.7% |
| Operating income (financial sector) | 800.4 | 3.9% | 712.6 | 3.0% | 432.8 | 1.7% |
| Fees and charges | 503.6 | 2.4% | 610.2 | 2.5% | 579.4 | 2.3% |
| Sale of goods and services of the Public Administration | 398.2 | 1.9% | 424.6 | 1.8% | 404.4 | 1.6% |
| Property rental | 433.3 | 2.1% | 467.7 | 2.0% | 582.0 | 2.3% |
| Other non-tax income | 857.6 | 4.2% | 1,019.0 | 4.3% | 1,274.7 | 5.1% |
| Total revenue | 20,559.9 | 100.0% | 23,933.7 | 100.0% | 25,122.4 | 100.0% |

Source: own compilation based on information provided by the SSEAF.

¹ Does not include grants, consolidated transfers, disbursements of external loans or initial cash balance.

² Income tax on commercial, industrial or service activities (IRACYS).

³ Excise tax (ET).

⁴ Royalties and compensations from the bi-national hydroelectric companies Itaipú and Yacyretá.

Over the last three years, the country has maintained a low level of public debt in relation to its gross domestic product. As can be seen in Table 2.2.3, the overall balance of the Central Government debt (external and domestic) at the end of 2009 amounted to USD 2,710.8 million, equivalent to 18.6% of GDP. Almost all the country's public debt has been contracted by the Central Government Administration (CA), whereas the debt corresponding to decentralized entities—public enterprises, and to a lesser extent, State financial institutions—is guaranteed by the Treasury.

80% of the debt balance of the CA recorded on 31/12/09 consisted of foreign debt, and this consisted primarily of IFI loans (62%) and to a lesser extent of bilateral loans granted by foreign countries and their agencies (24%) and of debt instruments in bonds (14%).

Table 2.2.3. Balance of the Public Debt of the Central Government (2007-2009)
(in million USD and % of GDP)

| Public Debt | 31/12/2007 | | 31/12/2008 | | 31/12/2009 | |
|------------------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | USD (million) | % of GDP | USD (million) | % of GDP | USD (million) | % of GDP |
| Central Administration | 2,181.5 | 17.8% | 2,245.7 | 13.3% | 2,374.2 | 16.3% |
| Decentralized Entities | 382.0 | 3.1% | 359.9 | 2.1% | 336.6 | 2.3% |
| Total | 2,563.5 | 21.0% | 2,605.6 | 15.4% | 2,710.8 | 18.6% |

Source: own compilation based on information provided by the SSEAF.

Exchange rate (G\$ for USD) on 31/12 each year, according to BCP quote.

Allocation of resources

The government's strategic plans—ESSP and PPSD 2010-2020—are the overall strategic framework for defining the priorities of public policies, and hence for the allocation of budget

resources. Although there is general agreement in the Government on the priorities to be followed, aimed at achieving sustainable and socially fairer economic growth, the country does not yet have suitable institutional tools for establishing a clear link between the preparation of specific policy measures—according to these priorities—and the formulation of the annual budget,²⁴ and even less so with a multi-year fiscal framework designed on the basis of priority goals for public spending.

Table 2.2.4 presents the execution of budgeted expenditure for the Central Government (2007-2009), following classification by purpose and function in accordance with the 10 functions defined by the GFS/POFOG methodology. This table shows, on the one hand, that despite the substantial increase in spending (particularly in 2009) there were no significant differences in terms of the relative participation of the different functions during the period considered; and on the other hand, that over the last few years the Government allocated around 40% of total expenditure to the category “economic affairs”,²⁵ and another similar proportion to social expenditure (education, health and social security).

Table 2.2.4. Central Government of Paraguay: Executed expenditure allocations - Classification “by purpose and function” (2007-2009) (In billion G\$ and in % of total expenditure)

| Sector ¹ | 2007 | | 2008 | | 2009 | |
|---------------------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | G\$ | % | G\$ | % | G\$ | % |
| Government administration | 1,946.2 | 9.7% | 2,672.7 | 11.7% | 2,618.2 | 9.6% |
| Economic affairs | 8,400.5 | 41.9% | 9,281.4 | 40.7% | 11,067.1 | 40.5% |
| Defense | 474.1 | 2.4% | 533.4 | 2.3% | 612.8 | 2.2% |
| Education | 2,947.3 | 14.7% | 3,471.7 | 15.2% | 3,986.9 | 14.6% |
| Environmental protection | 15.8 | 0.1% | 22.1 | 0.1% | 24.1 | 0.1% |
| Recreation, culture and religion | 19.9 | 0.1% | 27.8 | 0.1% | 31.1 | 0.1% |
| Health | 1,622.2 | 8.1% | 1,793.7 | 7.9% | 2,500.0 | 9.1% |
| Social security | 3,789.3 | 18.9% | 3,973.3 | 17.4% | 5,215.7 | 19.1% |
| Security and public order | 691.0 | 3.4% | 791.3 | 3.5% | 1,070.1 | 3.9% |
| Housing and community services | 135.6 | 0.7% | 221.5 | 1.0% | 214.8 | 0.8% |
| Total Expenditure ² | 20,041.9 | 100.0% | 22,788.9 | 100.0% | 27,340.8 | 100.0% |

Source: own compilation based on information provided by the SSEAF.

¹ Expenditure by purpose and function, aggregated according to functions of the GFS/POFOG methodology.

² Excluding public debt repayments.

Alternatively, if we consider the economic classification of expenditure (Table 2.2.5), it can be seen that during the same period approximately 60% of Central Government expenditure was used to resolve current expenses. Note also that in the scope of the Central Administration, this type of expenditure represented an average of more than three quarters of total expenditure, and that the wage bill exceeded 43% of the total in the three years considered. Another point worth mentioning is the recovery of the relative share of real public investment, which had fallen to 11.4% in 2008 and rose to 15% in 2009. Finally, if we consider only the Decentralized Entities, the information available on budget execution is much less detailed, but allows us to observe that over 60% of total expenditure of these entities consists of capital expenditure —directly linked to activities carried out by Public Enterprises and State financial institutions.

²⁴ As described in the recent “Public Finance Report” attached to the annual budget draft 2011, *budget formulation in Paraguay is characterized as being incremental, based on the allocations of previous years, and a significant percentage of expenditure is used to maintain operational structures, especially with regard to personnel expenses.*

²⁵ Which includes among its most outstanding components the expenditure of the public enterprises of petroleum (PETROPAR) and electricity (ANDE); expenditure linked to the financial public sector (BCP and public banks); and expenditure for the financing of works.

Table 2.2.5. Central Government of Paraguay: Executed expenditure allocations – Economic classification (2007-2009)
(In billion G\$ and in % of total expenditure)

| Category ¹¹ | 2007 | | 2008 | | 2009 | |
|---|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | G\$ | % | G\$ | % | G\$ | % |
| I. Central Administration | | | | | | |
| Current expenditure | 7,950.3 | 77.3% | 8,959.8 | 81.7% | 10,604.3 | 76.4% |
| Wages | 4,456.1 | 43.4% | 5,262.9 | 48.0% | 6,078.7 | 43.8% |
| Social Security benefits | 1,264.0 | 12.3% | 1,370.0 | 12.5% | 1,475.3 | 10.6% |
| Current transfers | 1,005.9 | 9.8% | 1,138.5 | 10.4% | 1,490.4 | 10.7% |
| Goods and services | 692.4 | 6.7% | 703.7 | 6.4% | 1,048.1 | 7.5% |
| Debt interests | 512.6 | 5.0% | 445.1 | 4.1% | 434.5 | 3.1% |
| Other expenditure | 19.3 | 0.2% | 39.7 | 0.4% | 77.3 | 0.6% |
| Capital expenditure | 2,328.1 | 22.7% | 2,005.2 | 18.3% | 3,280.1 | 23.6% |
| Direct and indirect real investment | 1,525.2 | 14.8% | 1,245.6 | 11.4% | 2,076.3 | 15.0% |
| Capital transfers | 640.9 | 6.2% | 739.2 | 6.7% | 1,126.6 | 8.1% |
| Financial investment | 162.0 | 1.6% | 20.3 | 0.2% | 76.0 | 0.5% |
| Sub-Total Central Administration | 10,278.4 | 100.0% | 10,965.0 | 100.0% | 13,884.4 | 100.0% |
| II. Decentralized Entities | | | | | | |
| Current expenditure | 3,900.6 | 40.0% | 4,555.5 | 38.5% | 5,117.5 | 38.0% |
| Capital expenditure | 5,862.8 | 60.0% | 7,268.3 | 61.5% | 8,338.9 | 62.0% |
| Sub-Total Decentralized Entities | 9,763.4 | 100.0% | 11,823.8 | 100.0% | 13,456.4 | 100.0% |
| I + II. Central Government | | | | | | |
| Current expenditure | 11,850.9 | 59.1% | 13,515.3 | 59.3% | 15,721.8 | 57.5% |
| Capital expenditure | 8,190.9 | 40.9% | 9,273.6 | 40.7% | 11,619.0 | 42.5% |
| Total Central Government ¹² | 20,041.8 | 100.0% | 22,788.9 | 100.0% | 27,340.8 | 100.0% |

Source: own compilation based on information provided by the SSEAF.

¹¹ Expenditure by economic classification.

¹² Excluding public debt repayments.

2.3 Description of the legal and institutional framework of PFM

Legal framework of PFM

The regulatory legal framework of the PFM system in Paraguay consists basically of the Constitution of the Republic, the State Financial Management Act (LAFE) and its complementary regulations, and the laws regulating the internal and external control of the State.

The Constitution is the supreme law in Paraguay and prevails over any other rule of the legal system.²⁶ With regard to PFM, it establishes the general framework regarding the political and administrative structure of the country,²⁷ the resources, duties and powers of the Executive and the Legislature on the matter,²⁸ aspects related to the external control of the state exercised by the National Audit Office (CGR), and the creation of the Central Bank of the State.

The LAFE (act 1535/99) and its complementary regulations are the main regulatory framework for PFM, and establish, among other provisions, the use of the Integrated Financial Management System (SIAF), governed by the principle of regulatory centralization and operational decentralization, which covers the areas of budget, investment, treasury, credit and public debt, accounting and control. The institutional coverage of this law includes the Central Administration and Decentralized Entities, in addition to the municipalities, and on matters of accountability, any

²⁶ Art. 137.

²⁷ Art. 156.

²⁸ Art. 202 establishes the duties and powers of Congress, indicating among others: enacting the annual General Budget Law of the Nation; approving or rejecting, in whole or in part, and after a report from the National Audit Office, the details and justification of the revenues and expenditures of public finance over budget execution. Meanwhile, Art. 238 assigns the Executive the responsibility of preparing and presenting for the consideration of the Houses, the annual draft of the General Budget of the Nation, etc.

agency, individual or legal person that receives or manages funds, services or public goods, or has the guarantee of the treasury for its credit operations.

In summary, the Constitution, the LAFE, and the Organic Law of the CGR comprise the regulatory framework of the public finance management and control system. Also of particular relevance are the annual budget laws, the procurement law (2051/03), the civil service law (1626/00), the tax code (2421/04 on Administrative Reorganization and Fiscal Adjustment) and the Customs Code (2422/04), as well as other laws, decrees, regulations and rules that complement this legal framework. A list of the most important rules referred to in the completion of this assessment is shown in Table 2.3.1.

Table 2.3.1: Reference Legal Framework

| |
|--|
| <p>General</p> <ul style="list-style-type: none"> • Constitution of the Republic of Paraguay, 1992. <p>Budget, Treasury, Accounting and Public Credit</p> <ul style="list-style-type: none"> • Act 109/91 – “Which passes with amendments the Decree -Law N° 15 “Which Establishes the Functions and Organic Structure of the Ministry of Finance”. • Act 1535/99 – State Financial Management Act (LAFE). • Decree 8127/00 – LAFE regulations. • Act 1636/00 – Complementary to the LAFE. Establishes the requirement of the application of the “base zero” budget technique for all the Agencies of the Central Government after the General State Budget of 2002. • PGN Laws 3148/06, 3409/07, 3692/08 and 3964/09 – Fiscal Years 2007, 2008, 2009 and 2010. • Decrees regulating the Budget Laws 2007, 2008 and 2009. • Decrees approving the Financial Plan 2007, 2008 and 2009. • Decrees 8215/06, 8770/06, 11377/07, 608/08 and 3323/09 – Multi-year Budget. • Decree 5055/10 – Guidelines for the gradual implementation of the Treasury Single Account. • Act 2336/03 – Restructuring of Public Debt and Issue of Treasury Bonds. • Decree 10064/07 and Resolution of the Ministry of Finance 79/07 – Obligation and procedure for submitting information to the Directorate General of Credit and Public Debt on the financial management of loans, non-reimbursable technical cooperation and grants. <p>Procurement</p> <ul style="list-style-type: none"> • Act 2051/03 – on Public Procurement. • Decree 21909/03 – Regulation of the Government Procurement Act. • Act 3439/07 – Creation of the National Directorate of Public Procurement. <p>Tax Administration</p> <ul style="list-style-type: none"> • Act 125/91 - Taxation. • Act 2421/04 – Tax Code – on Administrative Reorganization and Fiscal Adjustment. • Act 2422/04 – Customs Code. • Decree 4672/05 – Regulating the Customs Code. <p>Control and Audit</p> <ul style="list-style-type: none"> • Act 276/94 – Organic Law of the National Audit Office. • Act 1626/00 – of the Civil Service. • Decree 13245/01 – Regulatory Framework of the General Audit Office of the Executive. • Decree 1249/03 – Regulating the Control and Assessment Scheme of State Finance Management. • Decree 10883/07 – Structure and powers of the AGE. • Decree 962/08 – Standard Model of Internal Control of Paraguay (PSICM). • Unified Government Audit Manual (UGAM). • TESAREKO Manual of the National Audit Office. <p>Legislative scrutiny</p> <ul style="list-style-type: none"> • Internal Regulations of the Senate. • Internal Regulations of the House of Representatives. |
|--|

Other laws referred to

- Act 489/95 – Charter of the BCP.
- Act 3974/10 – Capitalization of the BCP.
- Act 1309/98 – Distribution of royalties and compensations to municipalities.
- Decree 7880/06 – Regulating the distribution of royalties to municipalities.
- Act 429/94 – Transfers by way of gaming and property taxes to municipalities.
- Act 3966/10 – New Municipal Act.
- Act 3984/10 – New plan for distribution of royalties and compensations to departments and municipalities.

Source: own compilation.

Institutional Framework for PFM

The Central Government of Paraguay includes, on the one hand, the agencies of the Central Administration (CA), consisting of the three branches of the State (Executive, Legislature and Judiciary), the CGR, and the Ombudsman; and on the other, 58 Decentralized Entities (DE), which include public enterprises, universities, social security institutions, and the Central Bank of Paraguay (BCP). In this sub-section, we describe the responsibilities assigned to those institutions that play a key role in PFM, within the scope of the Central Government.

Legislature

The different branches of the government are clearly established in the National Constitution and their powers cannot be delegated. The legislature is the Congress, consisting of the House of Representatives (80 seats) and the Senate (45 seats). Besides legislating, passing, rejecting, or introducing amendments to the budget draft submitted by the Executive and exercising external control over the public accounts audited by the CGR, the National Constitution of Paraguay delegates powers to the Congress which in most countries are granted to the Executive, for example, the possibility to influence the number of public positions and salaries, and the approval of external financing operations.

Executive

The Executive includes the President and Vice-President of the Republic, the Ministers and Vice-Ministers of State and their subordinate officials, there also being a Council of Ministers as an advisory body on any issues of public interest that the President of the Republic submits for consideration.

Ministry of Finance

The Ministry of Finance (MF) is the main institution in charge of the administration and management of public finance in the country. It deals, among other things, with formulating the Government's fiscal policy, with the objective of maintaining a balanced budget; controlling the process for formulation of the PGN; preparing the annual financial report of the consolidated public sector; and managing the systems that make up the SIAF. The structure of the MF consists of three sub-secretariats: (i) the State Sub-Secretariat for Financial Management (SSEAF); (ii) the State Sub-Secretariat for Economy and Integration (SSEI); and (iii) the State Sub-Secretariat for Taxation (SET). Also subject to the supreme authority of the MF is the National Directorate of Customs (NDC).

State Sub-Secretariat for Financial Management (SSEAF): is responsible for managing State resources and is the governing body of the SIAF. Within its jurisdiction is the application of legal provisions regarding the PGN, the treasury and public accounting, investment income and assets, and the management of credit and public debt, as well as the enactment of rules and uniform procedures and the software development necessary for the effective management of PFM.

Because of their key role in PFM, we now describe the responsibilities assigned to six of its nine directorates general:

- Directorate General of Budget (DGB). Leads the process of budget planning and programming, its main functions being to regulate, plan, advise, direct, monitor and assess the budget process of all the Ministries, Departments and Agencies (MDAs)²⁹ of the Central Government.
- Directorate General of the Treasury (DGT). Has the responsibility of managing financial resources and its work focuses primarily on establishing the guidelines, systems and procedures for the recording and control of revenue and expenditure. The public treasury function includes the DGT and the institutional treasuries of the MDAs.
- Directorate General of Public Accounting (DGPA). Is responsible for studying and applying systems and procedures related to public accounting; presenting balances and consolidated financial reports —through the annual financial report submitted to the CGR—; and advising and supervising the institutional accounting units.
- Directorate General of Credit and Public Debt (DGCPD). Establishes the directives, systems and procedures for the use of public credit resources and the timely payment of the debt service; gives instructions for the preparation, execution, assessment and follow-up of programs financed by the use of credit, and establishes procedures and manages systems for the recording and control of public debt.
- Directorate General of Standards and Procedures (DGSP). Is responsible for the analysis and updating of the organization and of the administrative procedures for supporting the financial management of Public Sector entities. In this respect, it prepares and implements technical standards inherent to the organization, systems and procedures for the management of State resources, related to the operation of the integrated financial management systems. It is also responsible for the regulatory, technical and methodological framework required for the regulation of the budget, the accounting system and, in collaboration with the SCC, the standards and procedures for the classification of positions and salaries of the staff of MDAs.
- Directorate General of Information and Communications (DGIC). Is responsible for planning, managing and coordinating the information systems of the resource management area of the Central Government, as well as managing the national communications network that unites these systems.

State Sub-Secretariat for Economy and Integration (SSEI): is responsible for the formulation of fiscal policy, public sector debt and the management of relations with national and international financial institutions on matters pertaining to the MF. It is involved in international financial negotiations and bilateral and multilateral economic agreements in general. It also carries out activities for the coordination, design and application of the country's economic policy. It has 4 directorates, the powers of 3 of which, directly linked to PFM, are shown below:

- Directorate of Economic Studies (DES). Performs periodic diagnoses and monitors the economic situation of the country, analyzing national accounts and the fiscal impact of national economic policy measures. It also studies the composition and prioritization of public investments, preparing the macroeconomic guidelines for the preparation of the public budget, in coordination with the Technical Secretariat of Planning (TSP) of the Presidency of the Republic.

²⁹ The MDAs (following the PEFA manual terminology) are equivalent to the “State Agencies and Entities” (SAE) according to the denomination of the public sector of Paraguay.

- Directorate of Fiscal Policy (DFP). Analyses the behavior and evolution of public revenue and expenditure, their effects on national economy and their compatibility with the objectives of economic policy. It also prepares and proposes guidelines and fiscal measures in accordance with the standards established by the MF.
- Directorate of Debt Policy (DDP). Is responsible for formulating the credit and debt policy of the Public Sector, participating in the design of systems for borrowing. It also participates in public debt negotiations and in bilateral and multilateral economic agreements. It is responsible for the relations of the MF with national and international financial institutions.

State Sub-Secretariat for Taxation (SET): is responsible for the application and management of all legal provisions regarding tax charges. In this respect, it is responsible for directing and administering the tax and fiscal management established under Act 125/91 (taxation), and Act 2421/04 (administrative reorganization and fiscal adjustment), as well as the establishment of standards and systems for the administration of taxes and contributions under its responsibility, with regard to settlement, investigation, surveillance, assessment, collection, application of sanctions and attention and processing of resources. Below are the main functions of its three directorates general:

- Directorate General of Revenue (DGR). Is responsible for carrying out all the activities related to the receipt of tax returns, the payment and collection of taxes, and the recording and control of revenue, with the exception of those taxpayers under the control of the Directorate General of Large Taxpayers. It also has the function of directing, supervising and controlling the operation of the national collection agencies located in the interior.
- Directorate General of Large Taxpayers (DGLT). Is responsible for approximately three quarters of the total revenue of the UST.³⁰ If necessary, it deals with the legal procedures, under the patronage of the Bar of the Treasury and the supervision of the Legal Counsel of the SET, for the collection of defaulting tax credits.
- Directorate General of Tax Audit (DGTC). Controls compliance with tax obligations affecting taxpayers and managers, in accordance with the legal provisions applicable to internal and customs taxation, with the exception of those under the control of the Directorate General of Large Taxpayers.

National Directorate of Customs (DNA): is an autonomous body under the supreme authority of the MF, whose structure is based on coordination (administrative and operational for customs investigation, and implementation of projects) and directorates.³¹ This body is responsible for 48% of the country's tax revenue,³² and its functions include the application of customs law and standards regarding classification, origin and value of goods, collection and enforcement of customs duty for the entry or exit of goods from the territory, and the regulation, control and supervision of the entry, stay, movement and exit of persons, means of transport, cargo units and merchandise.

Public enterprises

The PE's in Paraguay play a key strategic role in the country's economy. These enterprises together account for around 30 per cent of the public expenditure of the Central Government, and are responsible for the provision of essential goods and services, including petrol, water, telecommunications and electricity.

³⁰ According to official data from 2009.

³¹ Decree 10447/07 establishes its structure and organization chart.

³² According to official data from 2009.

In 2008, the present Government of Paraguay created a new institutional framework to provide better supervision and follow-up of PEs by the Executive, which included the establishment of a Board of Public Enterprises (BPE), comprising the Ministries of Finance, Trade and Industry, Public Works and the Attorney General's Office, and constituted as a structurally and functionally independent administrative organization, hierarchically subordinated to the Presidency of the Republic, whose internal organs are its Executive Secretariat and the Public Enterprise Monitoring Unit (UMEP).

Central Bank of Paraguay (BCP)

The BCP is a legal entity of public law, with the character of a technical agency with administrative and financial self-sufficiency and regulatory autonomy within the limits set by the National Constitution. As established in its charter,³³ its main objectives are to preserve and ensure the stability of the value of the currency and promote the efficiency and stability of the financial system.

Two issues should be highlighted about the BCP and its relationship with the PFM of Paraguay. The first is concerned with the accounting presentation of the PGN, which does not distinguish between the financial and non-financial public sector. The second is related to the institutional weakness existing in terms of the management of the quasi-fiscal relationship of the BCP with the national treasury.

Auditor General of the Executive (AGE)

Body subordinate to the Presidency, responsible for the internal audit of the Executive. The internal audit function is performed by the AGE, and by the Institutional Auditors (ISICO), coordinated and supervised by the former and hierarchically subordinate to the supreme authority of each MDA.³⁴ The powers of the AGE included ex post audits within the area of the Executive, the consolidation of current plans and recommendations of the ISICO, follow-up of compliance with these plans and recommendations, and in accordance with recent initiatives, follow-up of the progress shown in the dissemination and gradual implementation of the standard model of internal control (PSICM).

National Audit Office (CGR)

The CGR is the country's supreme audit institution (SAI) and is responsible for the external control of the public sector through the National Constitution and its organic law, through which it enjoys functional and administrative independence.³⁵ Its jurisdiction is the consolidated public sector of Paraguay (Central Government and Municipalities). The CGR is responsible for auditing the annual financial report prepared by the Ministry of Finance, and presenting the Congress with its audit report and opinion before 30 August of the year following the fiscal year in question.

Table 2.3.2: Institutional framework of PFM in Paraguay

| Entities | Preparation of budget draft | Approval of budget draft | Budget execution | Internal control | External control |
|--|-----------------------------|--------------------------|------------------|------------------|------------------|
| National Congress | | X | | | X |
| Ministry of Finance | X | | X | | |
| Line ministries, departments and agencies. | X | | X | | |
| Auditor General of the Executive | X | | | X | |
| Institutional Internal Auditors | | | | X | |
| National Audit Office | | | | | X |

Source: own compilation.

³³ Act 489/95.

³⁴ According to the provisions of the SFMA.

³⁵ Article 281 of the National Constitution and article 1 of Constitutional Law 276/94.

Key features of the PFM system

In Paraguay, the fiscal year coincides with the calendar year —1 January to 31 December. The budget process starts at the end of April with the distribution by the Ministry of Finance of the “Decree of budget guidelines” to the MDAs, and ends with the sending of the draft of the General State Budget (PGN) to the Legislature, no later than 1 September.

The Legislature is responsible for the approval of the annual budget law before the year’s end, and also periodically receives the annual financial report, prepared by the Directorate General of Public Accounting (DGPA) and the report and opinion the CGR issues on the same, no later than 15 September of the year following the year in question. However, both houses of the Congress fail to comply with the constitutional mandate issued on this report and opinion.

The Directorate General of the Treasury (DGT) exercises a centralized control over the cash balances through a series of accounts it holds in the Central Bank of Paraguay (BCP), and which include: (i) 2 main accounts (one in G\$ and another in USD) and another 41 complementary accounts for managing treasury resources; and (ii) 241 accounts for managing resources from public credit (internal and external) and from institutional resources.³⁶ The DGT is working on several fronts simultaneously to gradually reduce the number of accounts open and implement a “Treasury Single Account” system (TSA).³⁷

Financial management in Paraguay is organized on the principles of regulatory centralization and operational decentralization. Regulatory centralization is the responsibility of the SSEAF and operational decentralization means that the responsibility for financial operations in the administrative process falls to the MDAs.

These are the principles underlying the Integrated Financial Management System (SIAF), which consists of a set of subsystems with centralized and decentralized operations, interrelated and integrated with each other with the support of computerized systems: Integrated System for Budget Programming (SIPP), Integrated Treasury System (SITE) and Integrated Accounting System (SICO).³⁸

Although there is a legal obligation (in accordance with the LAFE) for all State agencies and entities to report their operations in the SIAF, some social security institutions, the Public Enterprises and the official financial institutions, which account for 39% of the budget of the Central Government,³⁹ use their own recording systems, which then migrate to the SIAF, which can lead to delays and limit the quality and scope of the reports issued by the system.⁴⁰

On the other hand, also under the principles of regulatory centralization and operational decentralization, the SSEAF introduced the Integrated State Resource Management System (SIARE), which consists of the integration of the SIAF with the System for the Management of Goods and Services (SIABYS) and the National System of Human Resources (SINARH). To date, the operation of the SIARE is still limited, as the SINARH has several weaknesses in terms of its legal regulations, and the coverage and quality of its records (see ID-18), while the SIABYS has not yet been implemented.

³⁶ Institutional resources are mostly channelled from the BCP to accounts in the National Development Bank (BNF). These are another 247 accounts.

³⁷ See details in section 4.

³⁸ In accordance with Art. 2 of the SFMA, the comprehensive development of the IFMS also includes the integration of systems for public investment (NPIS, still under development); credit and public debt (DMFAS, operative, but not yet integrated in the IFMS); and control.

³⁹ According to figures from the 2009 budget.

⁴⁰ See Annex A.3.4.

3. ASSESSMENT OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS

This section contains the actual assessment of PFM systems, processes and institutions in the scope of the Central Government of Paraguay, on the basis of information processed using objective criteria, based on factual information (financial data, dates, regulations, etc.), and using the methodology which includes the consideration of 28+3 high level performance indicators, covered by the reference framework for the measurement of PFM performance (PEFA).

The assessment includes the detailed analysis of each dimension for each of the indicators. Specifically, the narrative and supporting information are intended to give a clear diagnosis to justify the rating given to each dimension (A, B, C or D). The methods used to reach the general rating of each indicator, based on the ratings assigned to its respective dimensions, are available in the final version of the PEFA measurement framework, corresponding to 2005.⁴¹

3.1 Credibility of the budget

Indicator PI-1: Aggregate expenditure out-turn compared to original approved budget General Rating "C"

| Dimension | | | Rating |
|---|--------------------------|---|---------------|
| Difference between actual primary expenditure and the originally budgeted primary expenditure. In no more than one of the last three years, real expenditure has shown a deviation of an amount equivalent to over 15% with regard to budgeted expenditure. | | | C |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C | C | Deviations 2004-2006: 1.8%; 15.3%; 10.4%. Deviations 2007-2009: 12%; 14.8%; 16.5%. | No |

The extent to which the Government can execute expenditure as budgeted is a key factor that contributes to its capacity to provide public services in accordance with its policy statements, performance commitments, work plans, etc. In this respect, this indicator compares the actual annual public expenditure of the government with that originally budgeted, as defined in the corresponding annual budget law. More specifically, this indicator is constructed on the basis of primary expenditure, for which two categories are subtracted from total expenditure: payments to the public debt service and expenditure financed through IFI and donor programs.⁴²

Table 3.1.1: Central Government of Paraguay – Primary Expenditure Deviations (*) (2007-2009)

| Year | Budget Law (billion G\$) | Executed \ ¹ (billion G\$) | Deviation (%) |
|------|--------------------------|---------------------------------------|---------------|
| 2007 | 21,125.8 | 18,591.7 | 12.0% |
| 2008 | 25,044.4 | 21,339.2 | 14.8% |
| 2009 | 30,167.9 | 25,196.6 | 16.5% |

Source: own compilation based on information provided by the SSEAF.

(*) Primary expenditure = Total expenditure – (debt service payments + expenditure financed by IFIs and Donors).

\¹ Based on accruals.

The deviation in executed budgeted primary expenditure is summarized in Table 3.1.1 for the case of the Central Government over the past three fiscal years (2007-2009). Figures show a clear trend

⁴¹ <http://www.pefa.org>

⁴² Following the methodology of the PEFA Manual.

towards sub-execution of public expenditure in recent years, which naturally affects the budget credibility as an expression of fiscal objectives and a tool for implementing the fiscal policy of the Government.

To understand this general result better it is useful to first distinguish between the influence of cyclical factors and the influence of structural factors. With regard to cyclical factors, it should be noted that the country suffered a major recession in 2009, of 3.8% of the GDP and that this contraction in the country's economy was due to exogenous factors—the global financial crisis and a heavy drought (see Section 2)—so the sub-execution of public expenditure that year can be partly explained by a fall in actual collection of public revenue with regard to the budget.⁴³ However, it is worth mentioning the anticyclical policy implemented by the Government through public expenditure that year, which contributed to the fact that the deviations recorded were not even higher.⁴⁴

On the other hand, there are structural constraints in the country that consolidate the trend towards the sub-execution of budgeted public expenditure in Paraguay, already detected by the Integrated Fiduciary Assessment (IFA) of 2008 with regard to the 2004-2006 period⁴⁵ and accentuated in the case of the last three years.⁴⁶ At least two of these constraints should be mentioned in terms of their impact on the credibility of the PGN: (i) frequent passing of budget laws that assume expenditure over and above the resource estimates presented by the Executive,⁴⁷ which usually leads to the subsequent application of strict financial and cash management programs by the latter; and (ii) major constraints on MDAs when executing their budgeted expenditure, even within the limits established by the financial plan and the cash plan allocations.⁴⁸

It is also important to mention certain features that help understand this situation better. On the one hand, over the last three years analyses, the Government sub-executed both current expenditure and capital expenditure, although the low execution of the latter was consistently the main cause of sub-execution of aggregate expenditure.⁴⁹ It is also worth mentioning that the deviations indicated in the execution of expenditure are exacerbated when measured in relation to “current” budget figures, i.e. those resulting after adding the changes (increases) introduced during the current fiscal period, which, as has been demonstrated, increased the originally budgeted expenditure by an average of 8% for the period in question (see PI-16).⁵⁰

⁴³ See PI-3 for more details.

⁴⁴ Public expenditure increased by 28% in 2009 compared to 2008, according to the “2009 / 2010 Management Report” of the Ministry of Finance. Part of this increase is shown in the 3rd column of Table 3.1.1.

⁴⁵ Integrated Fiduciary Assessment of Paraguay, document of the World Bank, the Inter-American Development Bank and the European Community, May 2008.

⁴⁶ The average deviations for the 2004-2006 period were significantly lower than those recorded in 2007-2009, despite the fact that the rating for indicator PI-1 is the same in both cases.

⁴⁷ In contrast to the provisions of Art. 23 of the SFMA. In 2008 and 2009 expenditure was approved which was, respectively, 5.9% and 6.3% higher than the budgeted resources

⁴⁸ Annex A.3.1: “Supplementary information for analysis of indicator PI-1”.

⁴⁹ Ibid.

⁵⁰ Ibid.

Indicator PI-2: Composition of expenditure out-turn compared to original approved budget
General Rating “A”

| Dimension | | | Rating |
|---|--------------------------|--|---------------|
| Extent to which variance in primary expenditure composition has exceeded the global deviance of primary expenditure. Variance in expenditure composition did not exceed the global deviation of primary expenditure by five percentage points in any of the last three years. | | | A |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| B | A | Deviations 2004-2006: 4.5%; 0.3%; 5.6%. Deviations 2007-2009: 1.0%; 0.0%; 0.6%. | No |

When expenditure composition differs considerably from that established in the budget, the latter will not be a useful statement for economic policy objectives. To make a measurement for this indicator it is necessary to make an empirical assessment of expenditure execution with regard to the original budget at a sub-aggregate level (ministries and other agencies). Specifically, this indicator shows the extent to which the redistribution of funds among different expenditure categories defined in the budget has contributed to the variation in expenditure,⁵¹ above the variation at an overall level, as measured by the indicator ID-1.

Table 3.1.2: Central Government of Paraguay – Variation in the composition of Primary Expenditure (*) (2007-2009) (in %)

| Year | Sum of variations in the 20 main categories ¹ | Variation in Primary Expenditure ² | Difference |
|------|--|---|------------|
| 2007 | 13.0% | 12.0% | 1.0% |
| 2008 | 14.8% | 14.8% | 0.0% |
| 2009 | 17.1% | 16.5% | 0.6% |

Source: own compilation based on information provided by the SSEAF.

(*)Primary Expenditure = total expenditure – (payments of debt services + expenditure financed by IFIs and donors).

¹ Includes the 20 main entities according to the administrative classification of expenditure, which accumulate approximately 90% of primary expenditure, and a residual category which adds to the others (see Annex A.3.2).

² Indicator PI-1.

As shown in Table 3.1.2, the changes observed in the composition of executed expenditure have not been a significant factor when it comes to explaining the variation with regard to the originally budgeted expenditure in the 2007-2009 period. On the other hand, the sum of deviations measured in absolute value for each of the main 20 sub-categories of expenditure —according to its administrative classification— averaged around an additional half percentage point in relation to the deviation of total primary expenditure recorded during this period. The low variability of primary public expenditure in Paraguay has to do with the inflexibility inherent in the categories related to personal services (heading 100 of the budget classifier) and transfers (heading 800), which accounted for 57.2% of total primary expenditure executed in 2009. The figures are presented in detailed form in Annex A.3.2: “Supplementary information for the analysis of indicator PI-2”.⁵²

⁵¹ Calculated as the weighted mean deviation between effective and originally budgeted expenditure, on the basis of the administrative classification, and using the absolute value of this deviation (see Table 3.1.2).

⁵² This result was naturally influenced by the major deviations in aggregate expenditure, expressed in indicator PI-1. It should be noted, however, that some MDAs showed deviations of over 20% (annual average for the 2007-2009 period): Central Bank of Paraguay (BCP), (31.2%); Social Security Institute (SSI), (26.7%); Presidency of the Republic, (24.5%); and Petróleos Paraguayos (PETROPAR), (20.5%).

**Indicator PI-3: Aggregate revenue out-turn compared to original approved budget
General Rating “B”**

| Dimension | | | Rating |
|--|--------------------------|--|--|
| Actual domestic revenue compared to domestic revenue in the originally approved budget. Actual domestic revenue collection was below 94% of the budgeted domestic revenue in no more than one of the last three years. | | | B |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| A | B | Proportion 2004-2006: 99.8%; 90.6%; 97.2%. Proportion 2007-2009: 94.6%; 96.3%; 81.2%. | Global economic and financial crisis of late 2008. |

The accuracy of tax revenue estimates for the fiscal year budgeted is an essential factor in determining budgetary outcomes, since it is on the basis of this revenue estimate that expenditure allocations are carried out. In this respect, the comparison of budgeted revenue with actual revenue is an overall indicator of the quality of revenue estimates. The fiscal revenue of the Central Government of Paraguay is largely non-tax,⁵³ and is usually classified according to two main categories: treasury resources (46%) and institutional resources (54%).⁵⁴ Table 3.1.3 shows that actual total revenue of the Central Government was over 94% of the total budgeted resources in two of the three years considered (2007 and 2008). The small margin of difference observed between the revenue contained in the Budget Law and the revenue effectively collected by the Central Government during the period in question is due to various factors, including the fiscal prudence shown by the Ministry of Finance when estimating resources during budget preparation, and the effective performance of tax collection in a context of solid economic expansion.

Table 3.1.3: Central Government of Paraguay – Actual revenue as a proportion of budgeted revenue (2007-2009) (*)

| Year | Budget Law ^{\1} (billion G\$) | Actual revenue (billion G\$) | Actual revenue / budgeted revenue (%) |
|------|---|---------------------------------|--|
| 2007 | 21,737.2 | 20,559.9 | 94.6% |
| 2008 | 24,859.1 | 23,933.7 | 96.3% |
| 2009 | 30,921.5 | 25,122.4 | 81.2% |

Source: own compilation based on information provided by the SSEAF.

(*) Domestic revenue only (excluding grants and revenue from foreign financing).

\1 Budget Laws 2007-2009.

The situation observed for fiscal year 2009 is different, where actual revenue was only 81.2% of the revenue estimated in the budget. The general reading of this phenomenon has to do with the sudden change in the economy, following the unexpected global financial and economic crisis that erupted in the last quarter of 2008.⁵⁵ Thus, while the 2009 budget anticipated revenues predicting a global economic growth of 5.0% of GDP, the economy of Paraguay suffered a fall of 3.8% in gross product that same year.

However, there are other specific factors worth mentioning. Firstly, the tendency of the Decentralized Administration (DA) to collect less than the budgeted revenue, detected in the IFA in

⁵³ 63.2% of total revenue in 2009 was of non-tax origin (revenue from the public enterprise sector, royalties from bi-national hydroelectric companies, and social security contributions, among others).

⁵⁴ “Treasury resources” refer to tax and non-tax revenue and any revenue that has no specific pre-established destination, including revenue from royalties and compensations from Itaipú and Yacyretá. Meanwhile, “institutional resources” arise from legal provision, partnership or transfers, including revenue generated by the production of goods or provision of services by different State agencies and entities.

⁵⁵ Note that the Executive sends the Budget Draft to Congress no later than 1 September each year.

reference to the 2004-2006 period, takes on special significance in 2009. The resources collected by the DA, which is financed primarily by “institutional resources”,⁵⁶ amounted to only 66.8% of that forecast,⁵⁷ largely due to the sharp fall in the revenue of the state oil company (PETROPAR).

Secondly, the Central Administration, despite the crisis and resulting abrupt change in prevailing economic conditions, collected around 99.5% of the amount budgeted for that year. This, on the one hand, poses certain questions in terms of the Government’s capacity to anticipate accurately the revenue from “treasury resources”.^{58,59} On the other hand, it reflects the impact on revenue from corporate tax (IRACYS), following strong gains in 2008, in addition to recent achievements in the field of tax administration carried out by the Government, which are considered in the analysis of indicators PI-13 and 14, and in section 4.

Indicator PI-4: Stock and monitoring of expenditure payment arrears
General Rating “C+”

| Dimension | | Rating | |
|--|--------------------------|--|---|
| Stock of expenditure payment arrears (as percentage of actual total expenditure of the corresponding year) and any recent change in the stock. The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. | | C | |
| Availability of data for monitoring the stock of expenditure payment arrears. Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. | | B | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | C+ | Arrears 2004-2006: 5.6%; 5.7%; 8.3%. Arrears 2007-2009: 8.2%; 3.6%; 6.1%. | More detailed information is accessed and the calculation methodology suggested by the manual is used, instead of the approximate concept of “floating debt”. |

Arrears are those spending obligations incurred by the Government with regard to which it is in default, and are a form of financing which is not transparent. A high level of arrears can indicate various problems, such as inadequate control of commitments, cash rationing, inadequate budgeting of contracts and specific items or lack of information.

Two specific aspects should be borne in mind when approaching the subject of arrears in the public sector in Paraguay. Firstly, current regulations refer to a restrictive concept of arrears, through the definition of the “floating debt” of the public sector.⁶⁰ Secondly, the follow-up of arrears by the Directorate General of the Treasury (DGT) is limited exclusively to the scope of the Central Administration (CA). The order of the dimensions of this indicator is reversed below to account for this limitation.

⁵⁶ During 2007-2009, approximately 90% of the expenditure of the DA was financed by “institutional resources” (source 30).

⁵⁷ See Annex A.3.3: “Supplementary information for the analysis of indicator PI-3”.

⁵⁸ Income forecasts that are later reflected in the programming of the PGN corresponding to the following fiscal year are made on the basis of technical studies prepared by the SET, with the collaboration of the SSEI, using data provided by the BCP.

⁵⁹ According to figures from fiscal year 2009, 73.5% of the expenditure of the CA was financed by “treasury resources” (source 10).

⁶⁰ According to Art. 28(c) of the SFMA.

Availability of data for follow-up on the balance of arrears. To assess this dimension it is essential to take into account the partial coverage and fragmented operation of the financial information systems and subsystems of the Central Government, a subject that will be addressed repeatedly throughout this report.⁶¹ For the case of the CA, the DGT has “online” information on arrears—measured from the time at which the obligation of payment is recorded—through two subsystems that make up the SIAF, specifically, the Integrated Accounting System (SICO), and the Integrated Treasury System (SITE).

This information allows the DGT to calculate accurate reliable data on the stock of arrears at any time, and makes it possible to group them according to the classifier “by object of expenditure” and by financial control levels, in addition to obtaining information on the age profile of arrears for each of these categories.⁶²

There are weaknesses, however, with regard to the coverage of information for most entities that make up the Decentralized Administration (DA), including, among others, the public enterprises. These entities send monthly information to the Directorate General of Public Accounting (DGPA) on payments made through their respective institutional treasuries, but with this information it is not possible to calculate possible arrears or measure the age thereof.

⁶¹ See Annex A.3.4: “Description of the financial management systems of Paraguay”.

⁶² It is worth noting, however, that the Treasury carries out this kind of analysis in an “ad-hoc” way, using spreadsheets, and not in an automated way through the SITE module.

Table 3.1.4. Stock of arrears of the Central Administration¹
(classification by object of expenditure) – (in billion G\$ and in % of required expenditure)

| Classification by object of expenditure | 2007 | | 2008 | | 2009 | |
|---|--------------|---------------------|--------------|---------------------|--------------|---------------------|
| | Arrears | % on required total | Arrears | % on required total | Arrears | % on required total |
| Personal services | | | | | | |
| - Wages and salaries ¹² | 234.6 | 6.3% | 104.5 | 2.3% | 140.4 | 2.7% |
| - Other personal services | 12.4 | 1.9% | 5.4 | 0.7% | 5.5 | 0.6% |
| Non-personal services | 42.3 | 16.9% | 29.9 | 10.0% | 26.0 | 6.9% |
| Consumer goods and inputs | 135.9 | 41.2% | 74.9 | 21.9% | 117.8 | 21.1% |
| Inventories | 12.4 | 31.1% | 0.2 | 0.3% | 0.0 | 0.0% |
| Physical investment | 102.2 | 16.8% | 62.0 | 13.4% | 230.4 | 23.2% |
| Financial investment | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% |
| Debt service | | | | | | |
| - Interests ¹² | 8.9 | 2.0% | 22.7 | 6.5% | 7.3 | 2.2% |
| Transfers | | | | | | |
| - Retirement and pensions ¹² | 17.6 | 1.4% | 0.5 | 0.0% | 0.0 | 0.0% |
| - Other transfers | 165.9 | 11.4% | 67.5 | 3.4% | 231.8 | 9.0% |
| Other expenditure | 1.0 | 4.5% | 4.3 | 11.8% | 5.8 | 7.8% |
| Total ¹³ | 733.4 | 8.2% | 372.0 | 3.6% | 765.1 | 6.1% |

Source: own compilation based on information provided by the SSEAF.

¹ Arrears were considered to be all payments made in a period of over 30 days (following request).

² Arrears were considered to be all payments made in a period of over 15 days (following request).

³ Excludes public debt repayments.

Stock of arrears and any recent variation in that balance. The stock of arrears of the CA has shown irregular behavior during the period considered, starting with 8.2% of total expenditure in 2007, dropping to 3.6% in 2008, and rising again to 6.1% in 2009.⁶³ Most of these arrears recorded are related to default payments made to employees, contractors (physical investments), and suppliers of consumer goods and inputs, and also to transfers, other than those made for the payment of retirement and pensions, for example, to municipalities.

3.2 Comprehensiveness and Transparency

Indicator PI-5: Classification of the budget

General Rating "B"

| Dimension | | | Rating |
|--|--------------------------|----------------------------|---------------|
| The classification system used for formulation, execution and reporting of the Central Government's budget. The budget formulation and execution is based on administrative, economic and sub-functional classifications (using at least the 10 main functions of GFS/POFOG) or a standard that can produce consistent documentation according to those standards. | | | B |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| B | B | No | No |

⁶³ The figures used for calculating arrears were obtained starting from the time of the "obligation" of spending, and determining the time lag between the request for transfer of resources to the DGT and actual payment.

A solid budget classification system makes it possible to follow-up on expenditure according to its administrative, economic and functional dimensions and by programs. When standard international classification practices are applied, follow-up on expenditure is made easier.

The budget information of the Central Government, both formulation and execution, is broken down according to administrative classifications (by entity), by object of expenditure, economic classifications, by source of financing, by programs and by functions. The functional classification presents six main categories (purposes),⁶⁴ thirty-six functions, and ninety-five sub-functions, providing the degree of disaggregation required by the GFS/POFOG methodology,⁶⁵ the equivalence of which is presented in the table below.

**Equivalence between the functional classification system of Paraguay
and the GFS/POFOG methodology**

| GFS/POFOG methodology (function) | Methodology of Paraguay (purpose, function or sub-function) |
|-------------------------------------|--|
| Government Administration | Government Administration |
| Economic affairs | Economic Services (except Ecology and Environment) Public Debt Service Regulation and Control Service |
| Defense | Military Defense (Security Service) |
| Education | Education and Culture, except Culture and Sport and Recreation (Social Services) Science, Technology and Broadcasting (Social Services) |
| Environmental protection | Ecology and Environment (Economic Services) |
| Recreation, culture and religion | Culture (Social Services) Sport and Leisure (Social Services) |
| Health | Health (Social Services) |
| Social security | Social Security (Social Services) Promotion and Social Action (Social Services) |
| Security and public order | National Security (Security Service) Detention and Correction (Security Service) Investment in Security (Security Service) |
| Housing and community services | Housing, Town Planning and Community Services (Social Services) |

Source: own compilation based on information provided by the SSEAF.

Meanwhile, the programmatic classification of expenditure has limited inception and cannot be assimilated to the level of sub-functional disaggregation of the GFS/POFOG. For example, only the expenditure in physical investment⁶⁶ is broken down to three levels: “program, sub-program and project”, whereas the rest of public expenditure is classified according to programs with a higher degree of aggregation.⁶⁷

⁶⁴ The six purposes established in this budget classification in Paraguay are: Government Administration, Security Services, Social Services, Economic Services, Public Debt Service and Regulation and Control Service.

⁶⁵ Government Function Classification of the United Nations, and Government Finance Statistics of the IMF.

⁶⁶ Heading 500 in accordance with the classification by object of expenditure, and which accounts for around 8.5% of the aggregate expenditure of the Central Government according to figures from fiscal year 2009.

⁶⁷ The system determines an opening in 4 types of program: 1. “Administration programs” (program); 2. “Action programs” (program-subprogram), 3. “Investment programs” (program-subprogram and project), and 4. “Public debt service programs” (program).

Indicator PI-6: Comprehensiveness of information included in budget documentation

General Rating “C”

| Dimension | | | Rating |
|---|--------------------------|---|---|
| Share of the information (listed below) contained in the budget documentation most recently issued by the Central Government (in order to count in the assessment, the full specification of the information benchmark must be met.). Recent budget documentation fulfills 3-4 of the 9 information benchmarks. | | | C |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C | C | 2006: items 1 (cannot be determined accurately), 4, 6 and 7, listed below, were fulfilled. 2010: improvements are observed regarding the estimate of macroeconomic cases (item 1), and fulfillment of items 6 and 7 is corroborated. | It is not possible to determine compliance with item 4 (balance of the debt), in contrast with the findings of the IFA. |

The annual budget and supporting budget documents, as presented to the Legislature for scrutiny and approval, must provide a complete picture of the fiscal forecasts of the Central Government, the budget proposals, and the deviations of previous years. To be considered complete, the budget documentation must include information on the following aspects:

1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.
2. Surplus or deficit, defined according to GFS or another internationally recognized standard.
3. Financing of the deficit, describing the intended composition.
4. Balance of the debt, including details at least for the beginning of the current year.
5. Financial assets, including details at least for the beginning of the current year.
6. Previous year's budgetary outcomes, presented in the same format as the budget draft.
7. Current year's budget (revised budget or estimated results), presented in the same format as the budget draft.
8. Summarized budget data corresponding to revenue and expenditure in accordance with the main headings of the classifications used (ref. PI-5), including data for the current and previous year.
9. Explanation of the budgetary consequences of new policy initiatives, with estimates of the budgetary impact of all the main amendments to revenue policy and/or other major amendments to expenditure programs.

The analysis of this indicator is based on the information included in the bill of the General State Budget (PGN) 2010 and its respective message, as submitted by the Executive to Congress at the time of the proposal was presented.

In this respect, the message of presentation to the Congress included forecasts on the main macroeconomic variables (item 1),⁶⁸ prepared by the Central Bank of Paraguay (BCP) and the Directorate of Economic Studies of the SSEI, budgetary outcomes for the year before the budgeted year (item 6) and budget execution for the current year (item 7), presented in the same format as the budget. As for the 6 remaining items, these were not part of the information received by Congress from the Executive (budget bill and supporting documents).

⁶⁸ Annual growth (nominal and real) of GDP, annual inflation and expected evolution of the exchange rate between the Guaraní and the US dollar.

The clarity and transparency of the presentation of the PGN bill to the Legislature would benefit greatly in the event of a saving-investment-financing scheme being used, applicable for the entire Central Government. It would also prove much clearer for the purposes of presentation of accounts to be able to distinguish clearly between the public accounting of the Financial Public Sector (BCP and public banks), on the one hand, and that of the Non-Financial Public Sector (NFPS), on the other.

It is worth noting that in September 2010 the Executive sent to Congress (for the first time) the “Public Finance Report”, along with the PGN bill for 2011, in order to enhance fiscal transparency and improve the budget information that accompanies the budget draft. This report contains, among other aspects, estimates of primary and financial deficit (only for the case of the CA), a description of the main guidelines and priorities of Government fiscal policy and multi-year macroeconomic forecasts.

Indicator PI-7: Extent of unreported government operations

General Rating “B”

| Dimension | | | Rating |
|---|--------------------------|----------------------------|---|
| <i>The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports. The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure.</i> | | | B |
| <i>Income/expenditure information on donor-funded projects which is included in fiscal reports. Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.</i> | | | B |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| B+ | B | No | More detailed numerical information is accessed to measure the size of activities not included in fiscal reports. |

Budget reports should cover all budgetary and extra-budgetary activities of the Central Government to provide a complete picture of revenue, expenditure in all its categories, and global financing. This indicator tries to measure the relative size of extra-budgetary operations (i.e. the activities of the Central Government not included in the annual budget law) which, moreover, are not duly reported in other fiscal reports, for example, budget execution reports, the annual financial report, etc.

Level of undeclared extra-budgetary expenditure. Most of the activities of the Central Government are covered by the budget and supplementary reports. In this respect, the PGN and the financial report for 2009 covered the revenue and expenditure of all the public entities of the CA and the large majority of decentralized entities, with just a few omissions with regard to Public Enterprises (PE).⁶⁹

Information on revenue and expenditure related to donor-funded projects which is included in fiscal reports. It was found that repayable external financing (loans) was included in full in the original budget or in subsequent amendments through the enactment of specific legislation during the current fiscal year. As for grants, a sample of information was obtained from several donors

⁶⁹ In 2009, three companies governed according to the standards of private law but the majority of whose shares are held by the State, were outside the scope of the budget: COPACO, FEPASA and CAPASA. Of these three companies, only COPACO (telecommunications company) operates with significant amounts —G\$ 886 billion, slightly more than 3% of the GDP for that year.

operating in the country and it was possible to determine that during the 2007-2009 period, recording thereof in the so-called Debt Management and Financial Analysis System (DMFAS) included, except for some minor exceptions, nearly all the cases studied,⁷⁰ although this result does not allow us to infer that the same occurs with all the grants normally received by the Government, for example, from third countries or from the bi-national hydroelectric companies (Itaipú and Yaciretá).

Indicator PI-8: Transparency of Inter-Governmental fiscal relations

General Rating “C+”

| Dimension | | Rating | |
|--|--------------------------|--|---|
| Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations). The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems. | | A | |
| Timeliness of reliable information to SN governments on their allocations from central government for the coming year. Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable. | | D | |
| Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories. Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | C+ | Dim (iii): 2006: Consolidation begins in 2006, only 50 municipalities consolidate, but the “biggest” are included (approx. 75% of aggregate municipal expenditure). 2009: 188 municipalities consolidate (87% of aggregate municipal expenditure). | Dim (i): More accurate information is accessed about methods for the allocation of resources to municipalities. Dim (iii): it is found that consolidation, although it covers a greater proportion of municipalities, is only ex post, which reduces the rating compared to the IFA. |

Paraguay is a unitary State with a Capital District (Asuncion), 17 departments and 237 municipalities. As the departmental governments are included in the universe of the Central Government,⁷¹ the analysis of sub-national governments is limited exclusively to the municipalities, which, in accordance with the Constitution and current legislation, enjoy administrative and regulatory political autonomy, as well as autarky in the collection and investment of their

⁷⁰ For further details, see Annex A.3.5: “Supplementary information for the analysis of indicator PI-7”.

⁷¹ They are financed exclusively by transfers, and are part of the 58 Decentralized Entities of the Central Government, which is why they are included within the PGN.

resources.⁷² Aggregate municipal expenditure, according to 2009 data, accounted for 4.2% of the total expenditure of the consolidated public sector.⁷³

The Ministry of Finance makes monthly transfers to the municipal governments, which come from three sources: (i) distribution of royalties and compensations from the two bi-national hydroelectric companies (Itaipú and Yacyretá) (369.4 billion G\$ in 2009); (ii) gaming revenue (14.5 billion G\$); and (iii) resources from property tax revenue, redistributed to the municipalities with less resources (14.6 billion G\$).

Transparency and objectiveness in horizontal allocation among sub-national governments. In view of information contained in the previous paragraph, the allocation of the transfers corresponding to each municipality by the Central Government is clear, relatively simple, and regulated by law. The majority—93% according to 2009 data— of these transfers account for the distribution of royalties, and are regulated according to Act 1309/98 and its regulatory decrees, and in the case of gaming and redistribution of property tax, according to Act 426/94.

The DGB and the Directorate General of Administration and Finance (DGAF) of the Ministry of Finance are responsible for the application of the formulas and criteria established by these regulations,⁷⁴ and the latter is responsible for determining the applications to the DGT for the payment of transfers to municipalities in accordance with the “quality of implementation of disbursements” as they are reported on a four-monthly basis by the municipalities themselves to the DGPA.⁷⁵ That is to say, there is an institutional scheme within the MEF that is responsible for making effective the distribution of funds to municipalities in accordance with the provisions of existing rules.

However, it should be noted that there are inefficiencies associated with this transfer process, which on several occasions may cause significant delays between the time at which the bi-national companies settle royalties to the DGT, the time at which the application for the transfer of resources is made, and the time at which the payment of the transfer to a particular municipality becomes effective (see PI-4).⁷⁶ This has prompted the Government to promote the design of an automatic system of transfers to municipalities, which is currently being carried out with the financial assistance of the German Cooperation Agency (GTZ).

Timely supply of reliable information to sub-national governments on the allocations they will receive from the Central Government for the coming year. The annual resources to be transferred to the municipalities are established in the financial plan prepared by the DGB at the beginning of each fiscal year. This plan, adjusted every month according to cash availability, establishes a “ceiling” for the amount to be received by each municipality, on the basis of tax revenue and royalties estimates by the DGB. While it was observed that for 2009⁷⁷ the amount allocated by the financial plan was a reliable indicator of the resources transferred during the fiscal year, this information is communicated to the municipalities once they have completed their budget formulation processes, and thus municipal budgeting is generally based on the resources received in the previous fiscal year.

⁷² Act 3966/10.

⁷³ Considering the execution in 2009 of the 188 municipalities that consolidated expenditure (2009 financial report).

⁷⁴ The distribution of transfers among municipalities is governed in accordance with three criteria: (i) whether or not they belong to the “territory affected” by the construction of the bi-national hydroelectric dams; (ii) population density; and (iii) equal parts.

⁷⁵ “Quality” is measured in this case in accordance with the standards set by Act 1309/98, which establishes that “at least 80% of the revenue received by municipalities as transfers must be used to finance capital expenditure”.

⁷⁶ According to estimates made by the Technical Decentralization Unit (TDU) subordinate to the Ministry of Finance, these delays can reach up to 50 days in some cases.

⁷⁷ According to Decree 1381, of 28 January 2009, regulating the PGN law of 2009.

Extent to which fiscal data referring to the general government are consolidated, by sectoral categories. The consolidation of the fiscal accounts of the Central Government with those corresponding to municipalities was first carried out in the 2006 annual financial report. For the 2009 fiscal year, it was observed that most municipalities sent the DGPA fiscal information⁷⁸ on execution (ex post), but without consolidation at a budgetary level (ex ante), a report which is made available to the public within 8 months of the year's end.⁷⁹ It must be taken into account, additionally, that the consolidation carried out does not include a classification of expenditure by sectors (similar to a functional distribution), but that only a disaggregation of the same is performed in accordance with its object, i.e. the municipal information is sent in a compatible format but less disaggregated than that used by the Central Government.

Indicator PI-9: Oversight of aggregate fiscal risk from other public sector entities

General Rating "C" ▲

| Dimension | | | Rating |
|---|--------------------------|---|---------------|
| Extent of central government monitoring of AGAs and PEs. Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. | | | C |
| Extent of central government monitoring of SN governments' fiscal position. The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete. | | | C |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C | C▲ | The Government that takes office in 2008 creates the BPE and the UMEP seeking greater control and transparency in the management of the country's Public Enterprises. | No |

Sub-national governments, autonomous public agencies, Public Enterprises and financial institutions can create fiscal risks with consequences at a national level. The Central Government must demand and receive quarterly financial statements and end-of-year audited statements from these entities, and monitor the results. The consolidation of the information is important for purposes of supervision and reporting of the aggregate fiscal risk incurred by the Central Government.

Although there is not yet a periodic report from the Central Administration of Government or specific studies carrying out measurements and estimates of the aggregate fiscal risk of the public sector in Paraguay, it is known, through past and present experience, that there are fiscal risks—both explicit and implicit and of a contingent and non-contingent nature—associated with the operation of several decentralized agencies of the Central Government, and that in several cases the consequences of the materialization of these risks can involve considerable costs to the National Treasury.

Extent to which the Central Government monitors autonomous public agencies and public enterprises. The Government does not produce a "global" report that could serve as a reference to estimate the aggregate fiscal risk associated with the operation of autonomous agencies (AA) and Public Enterprises (PE), although in most cases it is possible to have annual reports regarding the

⁷⁸ Of the total of 237 municipalities, 215 sent their financial statements at the end of the year. The consolidation, carried out for 188 of them (due to faults in the information presented), accounted for 87% of aggregate municipal expenditure.

⁷⁹ See indicators PI-10 and 25.

financial performance of each entity. Additionally, specific progress has been recorded with regard to the follow-up and supervision of these entities in recent years which is worth mentioning.

In the case of PE's, which together account for around 30% of GDP, in 2008, with the technical assistance of the World Bank, the Government started a reform of the PE control system, which includes the creation of a new institutional framework through the BPE and the UMEP, the conclusion of management contracts by results between the PEs and the BPE, the development of tools for follow-up on the performance of the companies and the publication of their annual financial statements. This reform showed progress with regard to the institutional framework, the conclusion of four management contracts by results, and the publication of the audits on the 2008 financial statements.⁸⁰

Meanwhile, recent progress has been observed in terms of closer adjustment to the situation in the quasi-fiscal costs incurred by the BCP through the absorption of losses arising from past financial crises and from the recurrent cost of monetary and exchange policy,⁸¹ and a committee for the coordination of public financial institutions has been created in the area of the Ministry of Finance.

Finally, through a recent public report, the Ministry of Finance has highlighted the short and medium-term risks involved for the treasury in parliamentary initiatives "that increase the rigid expenditure of the Government without the compensation of additional real income", such as the recent Act 3728/09 on Elderly Persons, which is now in force.⁸² The aforementioned report estimates the aggregate fiscal cost of several recent parliamentary initiatives⁸³ and warns about the fiscal unsustainability arising from them if no additional measures are taken, such as, for example, an increase in the country's tax burden.

Extent to which the Central Government monitors the fiscal position of SN governments. In Paraguay the risk implied by sub-national finances is to some extent mitigated by the relatively small physical size of the municipalities.⁸⁴ In any case, follow-up of the fiscal position of municipalities is limited to the consolidation of their financial statements in the annual financial report, prepared by the DGPA. Moreover, as mentioned in the analysis of PI-8, the presentation of these financial statements has several shortcomings —high degree of aggregation of the information, lack of information from some municipalities, etc.

⁸⁰ For further details, see Annex A.3.6: "Supplementary information for the analysis of indicator PI-9".

⁸¹ The recently passed "Law of Capitalization of the BCP" (3974/10) provides for the issue of treasury bonds up to a maximum of 6.25% of the GDP of 2009 (approximately USD 1 billion) to be applied only to the capital strengthening of the entity.

⁸² Management Report 2009/2010. Ministry of Finance.

⁸³ Annex A.3.6.

⁸⁴ In 2009, municipal aggregate expenditure amounted to 4.2% of total consolidated public sector expenditure.

Indicator PI-10: Public Access to key fiscal information
General Rating “B”

| Dimension | | | Rating |
|---|--------------------------|----------------------------|--|
| Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met). The government makes available to the public 3-4 of the 6 listed types of information | | | B |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| A | B | No | It was found that the information on the clauses “annual budget documentation” and “procurement” does not meet all the requirements established in the manual. |

The transparency of key fiscal information will depend on the information on fiscal plans, financial situations and results of the sector being easily accessible to the general public, or at least to the relevant interest groups. The items of information to which it is essential for the public to have access include:

Annual budget documentation. The public has access to information on the budget bill presented to the Legislature every year, through the Ministry of Finance website.⁸⁵ However, this information does not meet all the requirements to be considered “complete”, in accordance with the criterion of indicator PI-6.

Budget execution reports during the year. Since 2006, the Ministry of Finance has produced a Budget Execution and Assessment Control Report,⁸⁶ published annually, which is available to the public on the Ministry of Finance website. During the 2009 fiscal year, this report was prepared and presented on a quarterly basis, and was published on the Ministry of Finance website automatically after being formally sent to the control agencies.⁸⁷

End-of-year financial statements. Under current legislation, the DGPA must send the CGR the (annual) financial report before 30 April of the year following the fiscal year concerned. Then, the CGR must send this report, audited, to Congress before 30 August. These procedures and deadlines were met during the period of analysis (2007-2009),⁸⁸ and the audited reports are available to the public from the date of submission to the Legislature.⁸⁹

External audit reports. The audit reports of the CGR, regarding both the annual financial report and sector audits, are available to the public through the website of this institution from the time at which they are sent to Congress, i.e. almost immediately after they are completed.⁹⁰

Awarding of contracts. In accordance with the provisions of the public procurement act (Act 2051/03)⁹¹ information on all public sector awards of works, goods and consulting must be

⁸⁵ www.hacienda.gov.py. The information is available between September and December, i.e. from the time at which the draft is sent to Congress to the approval thereof by the latter (See PI-11).

⁸⁶ Prepared by the DGB, Ministry of Finance.

⁸⁷ Although it was not possible to verify the date of publication of the report for the 1st quarter of 2009, the reports for the 2nd and 3rd quarters were published 30 days after the end thereof, whereas the report for the 4th quarter (coinciding with the end of the year) was published 3 months after the end of the quarter in question.

⁸⁸ For further details see PI-25 and PI-26.

⁸⁹ www.contraloria.gov.py.

⁹⁰ The periods increase if they are considered with regard to the audited period (see indicator PI-26).

⁹¹ And in its regulatory decree 21909/03.

published on the NDPP website, according to the records of the Public Procurement Information System (SICP).⁹² However, the review of this website when preparing this assessment indicated a 6 month delay in the recording of the latest procurement.

Resources made available to primary service units. Information on transfers to primary service units (schools, hospitals, etc.) is not available to the public on the internet or any other appropriate broadcast media. The availability of this information is restricted due partly to the lack of an integrated system for the management of goods and services of the State (SIABYS).

3.3 Policy-Based Budgeting

Indicator PI-11: Orderliness and participation in the annual budget process

General Rating “B+”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|---|
| Existence of and adherence to a fixed budget calendar. A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. | | A | |
| Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent). A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet’s ability to make adjustments. | | C | |
| Timely budget approval by the legislature or similarly mandated body (within the last three years). The legislature has, during the last three years, approved the budget before the start of the fiscal year. | | A | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| A | B+ | No | Lower rating given to dim (ii), given that the Cabinet does not participate in the proposal and preparation of budget ceilings. |

Although the Ministry of Finance generally leads the budget formulation process, the participation of the MDAs and the main political authorities in this process influences the extent to which the budget ends up reflecting macroeconomic, fiscal and sectoral policies. Full participation requires a rising and falling budget process, which covers all the parties in an orderly and timely manner, according to a predetermined calendar.

Existence and degree of compliance with a fixed budget calendar. The budget calendar is established in the LAFE and its regulatory standards,⁹³ and was observed in 2009.⁹⁴ According to this legislation, before 30 April, the Ministry of Finance issues the “Decree on budget guidelines”, containing the general guidelines for the preparation of budget drafts by the MDAs. These entities must then submit their drafts to the Treasury—before 30 June—, which deals with the consolidation

⁹² <https://www.contrataciones.gov.py/sicp/login.seam>

⁹³ Decree 8127/00.

⁹⁴ With the exception of the Supreme Court of Justice (CSJ), which accounted for 3.2% of total expenditure of the CA for 2009 and—in contrast with the SFMA—prepares its own budget and presents it separately to the Legislature.

thereof and the preparation of the draft of the General State Budget (PGN), sent to the Legislature before 1 September.

Clarity and coverage of (and political participation in) the guidelines for the preparation of budget drafts. The budget guidelines prepared by the Ministry of Finance offer clear guidelines and ceilings for the preparation of drafts by the MDAs.⁹⁵ However, under current legislation and practices, these ceilings do not have the prior approval of the sector ministries, which participate in the review of the budget drafts after the consolidation thereof by the Treasury.⁹⁶

Timeliness in the approval of the budget by the Legislature. The Legislature approved the PGN in timely fashion, before the beginning of the budget year, during the 2007-2009 period.⁹⁷

Indicator PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting
General Rating “D+”

| Dimension | | Rating | |
|---|--------------------------|---|---|
| Preparation of multi-year fiscal forecasts and functional allocations. No forward estimates of fiscal aggregates are undertaken. | | D | |
| Scope and frequency of debt sustainability analysis. DSA on external and domestic debt was undertaken at least once during the last three years. | | B | |
| Existence of sector strategies with multi-year costing of recurrent & investment expenditure. Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. | | D | |
| Linkages between investment budgets and forward expenditure estimates. Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared. | | D | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | D+ | Dim (ii): progress is made in 2009-2010 with the performance of multi-year analyses of fiscal sustainability and public debt (DSA). | Dim (i): it was not possible to verify the existence of forecasts for the main fiscal aggregates based on economic classification, as was reported for 2004-2006. |

Decisions on expenditure policy have multi-year consequences and must be related to the availability of resources from a medium-term perspective. Multi-year revenue and expenditure estimates, and the identification of potential sources for the financing of deficit (including the public debt sustainability analysis) should provide the basis for assessing changes in Government economic policy.

Multi-year budgeting was formally introduced in Paraguay through the Decree of the Executive (8215/06), which authorizes the Ministry of Finance to formulate, in coordination with the MDAs, the multi-year budget of the Central Government. The legislation provides that the multi-year budget—which covers the annual budget and subsequent years⁹⁸—shall be for reference purposes only, and shall be passed by Decree—after consulting the economic team—, by the last working day of November at the latest.

⁹⁵ This refers to MDA's financed with “treasury resources” (source 10).

⁹⁶ In some cases, this has caused differences within the Executive regarding the allocation of public expenditure among the various sectors.

⁹⁷ Act 3409 (PGN 2008) passed on 04/12/07; Act 3692 (PGN 09) passed on 17/12/08; and Act 3964 (PGN 2010) passed on 17/12/09.

⁹⁸ Number of years not specified.

The scope of this standard is ambitious, since it establishes, for example, that each MDA, through its respective Financial Management Unit (FMU) should be responsible for the preparation of the multi-year budget draft, and establishes specific responsibilities for different agencies of the SSEAF and the SSEI, and for the Technical Secretariat of Planning (TSP), for its successful implementation.⁹⁹

The implementation of the reference multi-year budget (RMB), in accordance with the established standards, has until now been limited, notwithstanding the progress observed after the incorporation in the 2010 budget law of a specific article establishing this tool.¹⁰⁰ As mentioned in the IFA of 2008, the first RMB (Decree 8770/06), covered the 2007-2009 period, and had several shortcomings, several of which persisted during the analysis period of this assessment.¹⁰¹

Preparation of fiscal estimates and multi-year functional assignments. During the period under analysis, no multi-year forecasts of the PGN, covering at least the main categories of the economic classification of revenue and expenditure, were carried out. The messages of submission of the Budget Draft to Congress include (reference) forecasts of aggregate revenue and expenditure, based on macroeconomic assumptions prepared by the Directorate of Economic Studies of the SSEI, and the BCP.

Coverage and regularity of debt sustainability analyses (DSA). Although Paraguay has significantly reduced its overall debt level in recent years, the Government has taken the initiative of gradually introducing tools for the analysis of fiscal and public debt sustainability. In particular, the SSEAF commissioned implementation of a multi-year DSA exercise in 2009, and in 2010 the SSEI directed the preparation of a similar project.¹⁰² Furthermore, following a recent technical recommendation of the IMF, the Government is currently working on the creation of a "Macro-Fiscal Unit", within the scope of the SSEI, which would be responsible for systematically producing medium-term economic and fiscal forecasts, and for conducting a fiscal sustainability exercise at least once a year.

Existence of sector strategies based on cost analysis. To date there is no background of sector strategies defined according to an analysis of investment costs and associated recurrent costs, and which in turn are compatible with multi-year forecasts for the main fiscal aggregates.

Links between investment budgets and future expenditure estimates. Under the terms expressed in Dimension (iii) of this indicator, there is no clear link between the budgeting of investment expenditure and that of associated current expenditure. The shortcomings in this respect should be considered not only from a multi-year perspective, but also in relation to the lack of a clear link between the annual investment plan (AIP) and the annual budget, something which warns about the major deficit still present in the country in public investment programming (see IFA 2008).

⁹⁹ For further details, see www.hacienda.gov.py/web-presupuesto/index.php?c=32

¹⁰⁰ In 2008 and 2009 the Executive included in the respective PGN drafts a special mention about the reference multi-year budget (RMB), an initiative which later unsuccessful in the legislature. Progress was achieved in the 2010 PGN, when Act 3964 included, in Art. 48, the formulation and approval by the Executive of the RMB of the MDA's on the basis of Decree 8215/06.

¹⁰¹ For the 2008-2010 period (Decree 11377/07) the RMB introduced several exceptions; for 2009-2011 period (Decree 608/08) the presentation of the RMB was postponed to the following year; finally, for the 2010-2012 period (Decree 3323/09) the RMB was also formulated with several conceptual exceptions, and covered only 4 ministries.

¹⁰² The 2009 exercise was financed by the European Union, and the 2010 exercise by the IDB. In both cases, the ratio between total public debt (internal and external) of the country and the GDP was considered as an endogenous variable for making simulations and forecasts.

3.4 Predictability and Control in Budget Execution

The following three indicators are linked to the transparency, effectiveness and efficiency of the Revenue Management System (RMS), which in Paraguay consists of the State Sub-Secretariat for Taxation (SET), responsible for the collection and management of internal taxes, and the National Directorate of Customs (NDC), the agency in charge of taxes associated with foreign trade. According to official data from 2009, the SET collected 52% of the country's tax revenue, and the NDC the remaining 48%.

Indicator PI-13: Transparency of taxpayer obligations and liabilities General Rating "B"

| Dimension | | Rating | |
|--|--------------------------|---|---------------|
| Clarity and comprehensiveness of tax liabilities. Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved. | | B | |
| Taxpayer access to information on tax liabilities and administrative procedures. Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. | | B | |
| Existence and functioning of a tax appeals mechanism. A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | B | Dim (ii): Evident improvement in terms of taxpayer access to tax information. | No |

Clarity and comprehensiveness of tax liabilities. The tax legislation and regulations in force in Paraguay are clear and comprehensive for most of the main taxes,¹⁰³ and are based on a relatively simple scheme, based on just a few taxes (see IFA 2008). Moreover, this legal framework also provides a limited margin of discretion to the Executive for the application of exemptions and the reduction of tax rates for most taxes.^{104,105}

Access of taxpayers to information on responsibilities and administrative procedures in tax matters. The Government, making use of the advantages and technological breakthroughs available, has made many efforts in recent years to improve public access to useful information for managing tax procedures and queries. In the case of the SET, for example, decentralized customer service for the taxpayer has been improved through departmental offices, mostly connected online with the headquarters in Asuncion; the website of the entity was redesigned to make it more accessible,¹⁰⁶ impetus was given to the call-center system, which has received around 100 thousand queries

¹⁰³ An exception in this respect is the case of personal income tax (PIT), introduced after the 2004 tax reform and in force when the IFA was conducted, but whose implementation was suspended in recent years at the initiative of Congress.

¹⁰⁴ Act 125/91.

¹⁰⁵ In the case of VAT, which accounts for approximately 50% of revenue, in recent years, the Government has not made use of the application of preferential rates—in exercise of the powers granted by Acts 125/91 and 2421/04.

¹⁰⁶ <http://www.set.gov.py>. By September 2010, this website had recorded nearly 1.2 million visits.

since August 2009; the number of tax affidavits presented via the Internet increased considerably, etc. Meanwhile, in July 2010, the NDC presented the one-stop shop for importers (VUI) in order to simplify import procedures.¹⁰⁷

However, as indicated in the IFA of 2008, when considering this dimension, it should be remembered that Paraguay is a country with an informal economy of considerable size, where tax education campaigns are limited by the lack of a tax compliance “culture”. Thus, it must be taken into account that the use of modern tools by the State to inform taxpayers about their tax liabilities is part of an incipient process in the country, and hence their scope and effectiveness will gradually progress over time.

Existence and operation of an appeal mechanism in tax matters. The possibility of taxpayers being able to appeal against decisions and assessments made by the tax administration requires an effective mechanism for making complaints and appeals to ensure fair treatment for the taxpayer. In the case of domestic taxes, the administrative application for the appeal on tax matters culminates in the “appeal for reconsideration”, established in Act 2421/04.¹⁰⁸ If the taxpayer files this appeal and the dispute persists, the file is transferred to the contentious administrative courts of the Judiciary of the Republic. According to the statements of the tax authorities, it is essential to redefine the processes regulating this appeal, including the figure of a “prosecutor” for the purposes of delimiting powers and functions now grouped in the figure of the administrative judge, and also the creation of specialized courts.

According to figures provided by the SET, 62 appeals for reconsideration were filed in 2007, 103 in 2008 and just 25 in 2009, although it was not possible to obtain information on appeals won, nor on processing periods or the corresponding agreements or verdicts reached in each case.

Indicator PI-14: Effectiveness of measures for taxpayer registration and tax assessment
General Rating “C”

| Dimension | | Rating |
|---|--------------------------|---|
| Controls in the taxpayer registration system. Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers. | | C |
| Effectiveness of penalties for non-compliance with registration and declaration obligations. Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance. | | C |
| Planning and monitoring of tax audit and fraud investigation programs. There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria. | | C |
| Comparative Analysis | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Other Factors |
| C | C | Dim (iii): The number of tax audits on “large taxpayers” has increased. |

¹⁰⁷ See “Management Report – Accountability 2009-10” published by the Ministry of Finance (<http://www.hacienda.gov.py/web-hacienda/index.php?c=470>).

¹⁰⁸ This amends Act 125/91 and repeals the “appeal” as such. This change, which took place in 2005, is intended to offer the taxpayer faster access to the jurisdictional appeal and hence resolve controversial cases more quickly.

The level of effectiveness in the tax base estimate is determined through the interrelation between taxpayer registration and an accurate estimate of their tax liabilities. The PEFA methodology uses three dimensions to assess this issue.

Taxpayer registration system controls. Currently, the Registry of Taxpayers (RT) of Paraguay includes over 400,000 active taxpayers (including natural and legal persons), which is an increase of approximately 30% compared to the number of taxpayers registered three years ago.¹⁰⁹ The information on taxpayers is stored in a database where all the administrative procedures performed are recorded, which facilitates fiscal control of obligations and payments, with the possibility of obtaining an individual record of each taxpayer.

Meanwhile, the accuracy of the data declared by taxpayers is verified by routine inspections (for example, audits on large taxpayers), spot checks arising from reports, cross checks with the SSI and NDC databases, and also through the verification of the data of each taxpayer—at the time of registration in the RT—with national police records, although so far there are no crossings of tax information with data from the financial sector.

Effectiveness of sanctions for non-compliance with registration and declaration obligations. Despite the fact that both Act 2421/04 (on Administrative Reorganization and Fiscal Adjustment) and Act 2422/04 (Customs Code) clearly establish sanctions for cases of non-compliance with tax obligations, progressing towards a greater effectiveness of these sanctions—which results in a significant decrease in the margins of tax evasion observed in the country today—is an arduous process requiring continuous efforts by the Government, and whose results will be (at best) gradual.¹¹⁰

It was observed that the SET carried out 379 audits between 2007 and 2009, although no information was available on the number of sanctions applied to any possible irregularities. Meanwhile, the NDC reported 134 “investigation files” were carried out in 2008 and 2009, of which only 10 were subject to economic sanctions.

Planning and control of audit programs. The implementation of tax audits and fraud investigations is still at a preliminary stage, and is not based on risk assessment criteria. In the case of both the SET and the NDC, tax audits are of an ex post type. The SET has shown recent progress in terms of the increase in annual audits on large taxpayers,¹¹¹ and also usually bases itself on specific cases, related mainly to evidence or reports from the Credit and Tax Franchise Department of the Jeroviaha Unit of the Public Ministry and from private individuals. Meanwhile, the NDC audits according to internal analysis (not explicit) based on historical irregularities, unusual records, etc.

Finally, it should be mentioned that in 2010 a strategic plan was defined for the Directorate General of Tax Control, framed in the mission, vision and strategic objectives of the SET, and defining quantifiable annual goals for audits and internal controls to be carried out by this agency.

¹⁰⁹ The IFA of 2008 reported 300,000 registered taxpayers.

¹¹⁰ Informality is still an emblematic feature of the country's economic activity. Moreover, according to a study financed by the THRESHOLD program of USAID, VAT evasion (considering only the formal sector of the economy) exceeded 50% in 2007.

¹¹¹ The number of SET tax audits on large taxpayers doubled from 20 firms in 2008 to 40 in 2009.

Indicator PI-15: Effectiveness in collection of tax payments

General Rating "A"

| Dimension | | Rating | |
|---|--------------------------|--|---------------|
| Collection ratio for gross tax arrears. The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections). | | A | |
| Effectiveness of transfer of tax collections to the Treasury. All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. | | A | |
| Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month. | | A | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | A | Dim (iii): improvement observed in terms of tax reconciliations carried out by the SET and the NDC in coordination with the DGT. | No |

Coefficient of gross tax arrears collection. In the case of the SET, although with the information available it is not possible to calculate the collection percentage during the year following the tax arrears at the end of each year, it was observed that the relative weight thereof on the total revenue of this Sub-Secretariat was less than 2% for the 2008-2009 average.

**Table 3.4.1: Percentage of tax arrears
SET 2008-2009 (in million G\$)**

| Items | Arrears 2008 (in millions of G\$) | Arrears 2009 (in millions of G\$) | Average 2008-2009 (in millions of G\$) |
|-------------------------------------|--------------------------------------|--------------------------------------|---|
| Set liabilities (affidavit) | 7,994.5 | 15,649.8 | 11,822.1 |
| Liabilities under credit facilities | 192.9 | 162.6 | 177.8 |
| Liabilities by audit adjustments | 4,404.7 | 103.1 | 2,253.9 |
| Liabilities by debt certificates | 29,838.8 | 47,355.8 | 38,597.3 |
| Total Arrears | 42,430.9 | 63,271.3 | 52,851.1 |
| Total Revenue SET | 3,799,512.0 | 4,763,729.0 | 4,281,620.5 |
| Total Arrears / Revenue (%) | 1.12% | 1.33% | 1.23% |

Source: Own compilation based on information provided by the SET.

Meanwhile, the NDC does not record arrears due to its mode of operation, which includes the custody of goods in transit until the taxes are paid for their release.

Effectiveness of tax collection transfer to the Treasury. Collection of domestic and external taxes is carried out through the private banking network, and the revenue is transferred on a daily basis to the accounts held by the DGT in the BCP.

Regularity of complete accounts reconciliations among estimates, tax collection, arrears records and receipts by the Treasury. As from February 2007, the SET, through its Directorate of Technical Tax Planning, and making use of the process of re-engineering of its computer system, carries out daily reconciliations on the country's tax revenue, broken down by type of tax and by tax collecting bank accounts, in coordination with the DGT. These reconciliations include all stages, from the effective collection of taxes—which is compared with the monthly collection targets, including the consideration of possible arrears—to the effective transfer to the Treasury, according to records held in the SIAF. In the case of the NDC, it was possible to observe a similar process in terms of

bank reconciliations made in the so-called “clearing accounts” (customs revenue) and in the daily orders of transfers to the Treasury accounts, although, as explained in dim (i) "tax arrears" are not considered, due to the non-existence thereof.

Indicator PI-16: Predictability in the availability of funds for commitment of expenditures
General Rating “C+”

| Dimension | | Rating | |
|--|--------------------------|---|---------------|
| Extent to which cash flows are forecast and monitored. A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows. | | A | |
| Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment. MDAs are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. | | A | |
| Regularity and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs Significant in-year budget adjustments are frequent, but undertaken with some transparency. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | C+ | Dim (iii) (annual average): <u>2004-2006</u> <u>2007-2009</u> Changes by law: n/a 47 Changes by dec.: n/a 265 Changes by resol.: 574 937 | No |

This indicator assesses the degree of budget predictability available to the MDAs for effective budget execution based on items such as the forecast and follow-up of cash availability, the reliability and horizon of restrictions to expenditure commitments or the importance of budget reallocations made during the year.

It is important to mention that in accordance with the LAFE,¹¹² the SIAF is governed by the principle of regulatory centralization and operational decentralization. In this respect, although the Ministry of Finance is the coordinating body of the system, the responsibility for the administration and use of the resources assigned by the budget law falls to the MDAs,¹¹³ which require reliable and timely information in order to meet their objectives.

Extent to which forecast and follow-up of cash flows is carried out. The financial and cash planning of the budget execution of the Central Government is coordinated by the Directorate General of Budget (DGB) and the Directorate General of the Treasury (DGT). The financial plan is prepared by the MDAs, taking into consideration the effective allocations and the expenditure execution levels of previous years and the prioritization of expenditure to guarantee the achievement of their objectives and goals. This information is consolidated by the DGB through a general financial planning, passed by Decree —within the 60 days following the enactment of the Budget Law— which establishes the limits to the MDAs for the execution of their expenditure during the year.

Within the limits established by the financial plan, the MDAs prepare their cash plans on a quarterly basis. These plans are consolidated by the DGT in a general cash plan which is adjusted on a monthly basis, according to actual collection, which determines the monthly quotas ultimately assigned to each MDA.

¹¹² SFMA, art. 2.
¹¹³ SFMA, art. 71.

Reliability and horizon of the periodic in-year information provided to the MDAs on expenditure ceilings and commitments. As explained in the first Dimension of this indicator, the MDAs, through the Financial Plan passed by decree of the Executive, from the first two months of each year have the necessary information to commit the year's expenditure within the ceilings established therein.

Regularity and transparency of the adjustments made to budget allocations, which are arranged at a higher level than that of the administration of the MDAs. Adjustments to budget allocations can be made: by law in those cases in which there is an increase in total budgeted expenditure or a reallocation of expenditure among different MDAs; by decree in the case of reallocation of expenditure within the same MDA; or by a resolution of the Ministry of Finance¹¹⁴ in the case of the same program.

Table 3.4.2: Budget amendments (PGN 2007, 2008 and 2009)

| Year | Number of amendments (by type of standard) | | | | Budget adjustments | Initial budget | Variation % |
|--------------------------|---|------------|--------------|--------------|--------------------|-----------------|-------------|
| | Law | Decree | Resolution | Total Amend. | In billion G\$ | | |
| 2007 | 46 | 269 | 939 | 1,254 | 1.1 | 24,937.4 | 4.6 |
| 2008 | 31 | 307 | 984 | 1,322 | 2,585.4 | 29,505.5 | 8.8 |
| 2009 | 63 | 218 | 889 | 1,170 | 3,372.4 | 35,288.9 | 9.6 |
| Sum (2007-09) | 140 | 794 | 2,812 | 3,746 | 7,109.9 | 89,731.8 | 7.9 |

Source: own compilation based on information provided by the SSEAF.

During the last three fiscal years (2007-2009), numerous amendments were made to the respective annual budget laws. As shown in Table 3.4.2, a total of 140 laws were passed, which increased the originally budgeted expenditure by an average of 8% for the period in question. We can also observe, for each of the three years considered, a high number of expenditure reallocations, either by decree or by resolution of the Ministry of Finance. These frequent reallocations, added to those requiring the passing of a law, can affect the integrity of resource allocation established by the budget.

¹¹⁴ Decree 2197/10 amends art. 37 of the regulatory decree of the SFMA, delegating decisions on budget reallocations within the same program to lower ranking officials of the Ministry of Finance.

Indicator PI-17: Recording and management of cash balances, debt and guarantees

General Rating “B+”

| Dimension | | Rating | |
|---|--------------------------|----------------------------|---------------|
| Quality of debt data recording and reporting. Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually. | | B | |
| Extent of consolidation of the government’s cash balances. Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. | | B | |
| Systems for contracting loans and issuance of guarantees. Central government’s contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. | | A | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| B+ | B+ | No | No |

Quality of debt data recording and reporting. In accordance with the provisions of Decree 10342/07, the Debt Management and Financial Analysis System (DMFAS) is the database for the management of the public debt of the MDAs, and the data recorded there shall be considered of a “reference and statistical” nature, as a support system for preparing the official schedule of payments or maturity of the public debt service, which is registered in the SICO.¹¹⁵ The Directorate General of Credit and Public Debt (DGCPD), dependent on the SSEAF, is responsible for the recording and reconciliation of all debt operations, both internal and external, through the DMFAS. This function was found to be carried out in a systematic and reasonably adequate way, on a quarterly basis, for external¹¹⁶ and domestic debt, although in the latter case (primarily National Treasury bonds) it showed certain shortcomings, in the form of errors, omissions or delays in the uploading of data on services and new loans. Meanwhile, it was also possible to observe the preparation by the DGCPD of complete reports on the extent, composition and other main features of public debt, at least once a year, during the 2007-2009 period, although it should be noted that the quality of these reports was partly affected in 2009 due to the shortage of qualified human resources in the this Directorate.

Degree of consolidation of government cash balances. The DGT exercises centralized control over cash balances through a series of accounts it holds in the Central Bank of Paraguay (BCP), which include:¹¹⁷ (i) 2 main accounts (one in G\$ and the other in USD) and another 41 additional accounts for managing treasury resources; and (ii) 241 accounts for managing resources from public credit (domestic and external) and from institutional resources¹¹⁸ (collection of taxes, fees, grants and others).

The DGT carries out the consolidation of cash balances on a weekly or even more frequent basis, although to do so its uses an ad-hoc procedure, through online consultations of the movements of the accounts the institution holds in the BCP, and the use of spreadsheets, since the computer module of the Treasury (SITE) does not permit calculation of consolidated balances. This method

¹¹⁵ i.e., so far there is no integration of the DMFAS module with the IAS/IFMS system.

¹¹⁶ Foreign debt accounts for around 80% of the country’s total balance of public debt (See Section 2 for further details).

¹¹⁷ According to data from September 2010.

¹¹⁸ Institutional resources are mostly channelled from the BCP to bank accounts in the National Development Bank (BNF). These are another 247 accounts.

for the consolidation of balances, although generally effective, is not very efficient due to the considerable number of accounts involved, and can lead to miscalculations.

It should be mentioned, however, that the Treasury has been working on several fronts to provide a solution to this situation. In particular, the DGT achieved the closure of 131 accounts in the Central Bank¹¹⁹ in 2008, and plans the closure of another 29 before the end of 2011. Concomitantly, resolution 305/09 of the Ministry of Finance restricted the opening of new accounts, and Decree 5053/10 established general guidelines for the gradual implementation and operation of a Treasury Single Account (TSA) system.¹²⁰

Finally, for the analysis of this indicator, it should be noted that certain grants are considered to have been made outside the budget, and hence are not part of the “institutional resources” accounts controlled and consolidated by the DGT (see PI-7).

Systems for borrowing and issuing guarantees. Since the passing of the Organic Law of the Ministry of Finance (Act 109/91), which was later ratified by the LAFE in 1999, this ministry, through the Directorate of Debt Policy which is subordinate to the SSEI, leads the borrowing and guarantee issuing activities. In recent years, the Central Government has significantly reduced its level of debt in relation to gross domestic product,¹²¹ and the recent taking out of new loans has been for the purpose of counteracting the effects of the 2009 crisis (see PI-1). Considering that most of the sovereign debt of Paraguay consists of external loans, these institutional arrangements act as an effective limit to prevent the incorrect management of public debt, since the approval thereof requires in all cases the authorization of the supreme authorities of the Treasury and then parliamentary approval.

Indicator PI-18: Effectiveness of payroll controls
General Rating “D+”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|--|
| Degree of integration and reconciliation between personnel records and payroll data. Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. | | D | |
| Timeliness in the introduction of changes to personnel records and the payroll. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month’s payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments). | | A | |
| Internal controls of changes to personnel records and the payroll. Controls exist, but are not adequate to ensure full integrity of data. | | C | |
| Existence of payroll audits to identify control weaknesses and/or ghost workers. Partial payroll audits or staff surveys have been undertaken within the last 3 years. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | D+ | No | Both assessments refer to the sub-sample of entities that use the SINARH for the consideration of dimensions (i) and (ii). |

¹¹⁹ And another 143 accounts at the BNF.

¹²⁰ According to the information provided by the DGT, it is planned that by the end of 2011 the management of the resources of the General Treasury be carried out through the “TSA system”, which will involve the use of 14 physical accounts and 29 scriptural sub-accounts, managed in the current account module of the SITE.

¹²¹ See Section 2.

The Central Government wage bill, using a narrow concept that excludes temporary staff, overtime pay, etc., accounts for around a quarter of the total expenditure of the Central Government.¹²² The effectiveness of control depends on the level of integration and the reconciliation between payroll data and personnel records, and also on the level of internal control and timeliness of changes in personnel records and in the payroll.

Degree of integration and reconciliation between personnel records and payroll data. The personnel database is prepared from a form of positions and amounts called “Personnel Annex”, which is incorporated in the budget law annually and which is reported to the MDAs via the Integrated System of Budget Programming (SIPP). On the basis of this information, the MDAs make a record of personal data associated with each position, which constitutes the “SINARH file” module.¹²³ However, because the SINARH payment module is not yet developed, each MDA carries out monthly payroll payment via its own systems, which later migrate to the SINARH for the purposes of issuing the proof to back the resources transfer request (RTR) to the DGT, registered in the SITE. Finally, the DGT pays the wages through the banking network.

In summary, the integrity between human resource data and payroll payment data is not assured, since the control of the DGT is limited to verifying the correspondence between the RTR, payment—via SITE—and the order for payment or settlement (via SINARH), there being no systemic control to integrate and harmonize the processes of initial uploading of personnel data (file module), with the salary payment process, and finally the processes inherent to the payment through the banking network (module of payments through the banking network). In addition, this limitation must be combined with the influence of another three important factors: (i) the powers of Congress to influence the number of positions and salaries appearing in the Personnel Annex;¹²⁴ (ii) the lack of specific regulations to support the SINARH, which, for example, appoints a governing body responsible for its application,¹²⁵ the performance of periodic controls on the consistency of data, etc.; and (iii) the partial coverage of the SINARH in the area of the Central Government.¹²⁶

Timeliness in the introduction of changes in personnel records and in the payroll. Within the scope of the SINARH, changes in the staff payroll related to additions, deletions and changes are recorded in time to be reflected in the settlement of payments of the following month, which makes it possible to keep retroactive salary adjustments at a low level.¹²⁷ However, the SINARH does not allow for the recording of changes related to new developments that may affect the payment of wages (such as licenses, overtime, etc.). Also, the institutions not incorporated in the SINARH record all changes in their own systems.

¹²² According to execution data from fiscal year 2009 (24.3%). Corresponds to the personal services payroll of the CA and the DA—budget classification subgroups 110 and 160 (salaries and bonuses) and 130 (allowances, bonuses and contributions).

¹²³ 33 MDAs of the Central Government (from a total of 80) used the SINARH in 2009. See Annex A.3.4: “Description of the financial management systems of Paraguay”, Table 2.

¹²⁴ The comparative analysis between the budget bills and budget laws for 2008 y 2009 showed that the increase in the number of positions was 1.2% and 4.7%, respectively, whereas the increase in salary expenditure was 7.3% and 10.7% (See Annex A.3.7: “Analysis of the Personnel Annex, 2008 and 2009”).

¹²⁵ This led to the creation of the Secretariat of the Civil Service (SCS) through Act 1626/00. The SCS carried out a census of public employment in 2003-2004 which gave rise to a database called the “electronic file”. In the regulatory decree of the 2006 budget law, all MDAs were required to send information on the number of employees (temporary contracts and personnel), additions, deletions and changes. Although there have been substantial improvements in recent years, there are still Central Government entities that do not inform the SCS of staff changes. Finally, (in October 2010) there was no link between this human resource database, the SINARH, and the payment of salaries.

¹²⁶ According to data provided by the Directorate General of Rules and Procedures (DGSP) of the Ministry of Finance, the SINARH was being used in 2010 by 33 MDAs (from a total of 82 possible ones in the area of the Central Government, see Annex A.3.4).

¹²⁷ The rating of this dimension of the indicator was based exclusively on the records of the SINARH, as occurred in the IFA of 2008. The 33 MDAs that used the SINARH in 2009 accounted for 55% of the total (budgeted) expenditure of the PGN for that year.

Internal controls of changes in personnel records and in the payroll. The introduction of changes in personnel records and in the payroll related to additions and deletions of officials can only be carried out through decrees of the Central Administration or resolutions of the supreme authority in decentralized agencies, and always within the financial limits and limits to the total number of positions established in the annual budget law. There is also a record for the verification of changes within the scope of the SINARH, and controls between RTRs, settlements and actual payments carried out by the DGT. However, as mentioned in the first Dimension, there is no effective control over the calculation of payroll settlement.

Existence of payroll audits. The planning of the Institutional Internal Audits (ISICO) for 2008 and 2009 included a series of audit projects that included, among other items, the performance of payroll audits. According to a recent survey carried out by the AGE, it was estimated that 74% of all audit projects planned by the ISICO were actually carried out in 2009.

Indicator PI-19: Competition, value for money and controls in procurement

General Rating “B+”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|---|
| Use of open competition for the award of contracts whose value exceeds the monetary threshold established at a national level for small acquisitions. There are accurate data on the method used for the award of public contracts, according to which over 75% of the contracts whose value exceeds the established threshold are awarded in open competition conditions. | | A | |
| Justification of the use of less competitive methods for procurement. When less competitive methods are used, these are justified in accordance with regulatory requirements. | | B | |
| Existence and operation of a complaints mechanism related to procurement. A process (established by the legislation) is applied for the presentation and processing of complaints related to the procurement process, but there is no possibility of entrusting the solution of the complaint to a higher external authority. | | B | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| B+ | B+ | No | Dim (ii): the 2009 crisis led to the use of less competitive methods, although within the framework established by current legislation. |

A good procurement system promotes the efficient and transparent use of public money. The Directorate General of Procurement, created in 2003 under the auspices of the Ministry of Finance,¹²⁸ in 2007 became a national directorate (NDPP), an independent and autonomous body under the Presidency.¹²⁹ According to data obtained from the financial reports of 2007-2009,¹³⁰ approximately 34% of Central Government expenditure is conducted through the public procurement system.

In accordance with the provisions of the aforementioned legislation,¹³¹ before the end of February each year, the MDAs must carry out their Annual Procurement Plan (APP) on the basis of their

¹²⁸ Act 2051/03.

¹²⁹ Act 3439/07.

¹³⁰ The percentage was calculated taking into account the budget execution of the items which according to the budget laws must be carried out via the mechanisms established in Act 2051/03 on Public Procurement.

¹³¹ Art. 12, Act 2051/03.

needs and objectives, budget allocations and ceilings established by the Financial Plan. The APP has a high level of compliance by public entities, as it is directly linked to the budget execution process and is a required condition for each entity to commit and allocate expenditure for the procurement of works and acquisition of goods and services.¹³² The processes related to public procurement are published on the NDPP website and include considerations of all stages. The public procurement act establishing administrative sanctions for cases in which entities or companies fail to comply with the rules established for procurement.

Use of open competition for the award of contracts whose value exceeds the threshold for small acquisitions. The NDPP generates accurate and reliable information¹³³ according to which it was observed that in 2009 89.3% of the total number of contracts whose value exceeds the established threshold¹³⁴ were awarded through open competition processes (national and international public tenders, competitive bidding and direct contracting).¹³⁵ Additionally, it was possible to verify that approximately 90% of the overall amount of public procurement in 2009 was carried out using competitive methods.¹³⁶

Justification of the use of less competitive methods for procurement. As reported in the 2008 IFA, which used the results of the 2007 CPAR, “there are regulatory requirements that establish exceptional conditions in which less competitive methods are used for procurement”.¹³⁷

Sometimes, for example, the need / desirability of purchasing supplies for the maintenance of a valuable asset from the same firm selected through an open competition process for the initial purchase of the asset in question, can give rise to the exceptional condition. It is also possible for exceptional mechanisms to be justified by situations of emergency or force majeure.¹³⁸ Generally speaking, it has been observed during the period under analysis that the use of less competitive methods has been justified in accordance with the regulatory requirements established in Act 2051/03 (art. 33).

Existence and operation of a complaints mechanism related to procurement. As indicated in the IFA of 2008, the legal framework establishes the right of those who participate in procurement processes and third parties to challenge the decisions made by the procurement entities by presenting a complaint to the NDPP, but the possibility of entrusting the solution of the complaint to a higher external authority is not regulated.¹³⁹ Due to the enormous range of possible processes, in practice, complaints come primarily from claims raised by the same companies as those involved in the bidding processes.

¹³² The APP is mandatory for all the MDAs of the Central Government. However, the stage of expenditure commitment via the Integrated System of Public Procurement (ISPP), connected to the SIAF, only covers the 22 entities of the CA and some decentralized entities (see PI-20).

¹³³ This information covers the procurement universe of the entire Central Government and is published on the NDPP website www.contrataciones.gov.py. The NDPP information system was assessed as reliable by the 2007 *Country Procurement Assessment Report* (CPAR).

¹³⁴ The Public Procurement Act (2051/03) establishes a threshold of 20 wages (approximately USD 240) for small purchases.

¹³⁵ See details in Annex A.3.8: “Supplementary information for the analysis of indicator PI-19”.

¹³⁶ Awards by national (43.3%) and international (34.6%) public tender accounted for the bulk of the total amount of state purchases in 2009.

¹³⁷ The IFA of 2008 also states that “the Government recognizes the need to perfect the definition of these requirements, as well as the way in which the Procurement Information System records the operations made in exceptional conditions”.

¹³⁸ The National Electricity Administration (ANDE), in early 2010, purchased generators through exceptional mechanisms after the enactment of an Emergency Energy Act 2009. Because of the 2009 economic crisis, exceptional arrangements were also used which gave preference margins in price competition for purchases by the State of products of national origin.

¹³⁹ Notwithstanding the fact that in some cases of disputes arising from complaints or allegations, external control bodies such as the Attorney General or the CGR can intervene—ex officio or by request of the NDPP.

Indicator PI-20: Effectiveness of internal controls for non-salary expenditure

General Rating “C”

| Dimension | | | Rating |
|---|--------------------------|---|---------------|
| Effectiveness of expenditure commitment controls. Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated. | | | C |
| Comprehensiveness, relevance and understanding of other internal control rules / procedures. Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. | | | C |
| Degree of compliance with rules for processing and recording transactions. Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern. | | | C |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | C | Dim (ii): in 2008, the Standard Model of Internal Control of Paraguay (PSICM) was introduced. | No |

Effectiveness of controls on spending commitments. Art. 22 of the LAFE refers to three stages of budget execution of public expenditure: forecast (financial plan), obligation (accrual) and payment. In 2005, they began recording the commitment stage, as a confirmation of the forecast stage, although with a restricted scope, through the procurement software module that feeds the SICO, and which then covered around 25% of the expenditure of the Central Administration.

Although annual budget laws have referred to the commitment stage since 2005,¹⁴⁰ just after 2008, the procedures for the recording thereof were regulated through a resolution of the Treasury (127/08). The scope of this standard includes “all the agencies and entities of the State”, but in fact its application includes the MDAs integrated in the SICO, which in 2009 accounted for around 61% of the budgeted expenditure of the PGN.¹⁴¹

The SIAF-SICO incorporates control procedures in each stage of expenditure execution, beginning with the budget credit forecast, which is the authorization to carry out the procurement processes. The NDPP itself intervenes as part of the preliminary controls both in the forecast stage and in the commitment in processes of procurement of goods and services.¹⁴² Meanwhile, minor expenditure which is not processed by the NDPP can only be committed within the limits of the Financial Plan.

Comprehensiveness, relevance and understanding of other internal control rules / procedures. At the time of carrying out this assessment, the standardized internal control mechanisms or standards existing in Paraguay —beyond the recording of the commitment stage through the SICO— consist of a set of rules and procedures specified through the regulatory Decree of the annual budget law and specific manuals such as the manual of accounting procedures of the SICO.

In addition, through Decree 962/08, the Government introduced the Standard Model of Internal Control of Paraguay (PSICM), developed with the financial support of the USAID THRESHOLD

¹⁴⁰ Decree 4810/05, art. 35; Act 2869/05, Art. 13; Act 3148/06, Art. 13; Act 3409/08, Art. 25 and Act 3692/09, Art. 19.

¹⁴¹ I.e. major progress has been observed in recent years, but there are still some exceptions (see Annex A.3.4).

¹⁴² This type of control guarantees that expenditure is committed within the established budget limits.

program. The PSICM is based on self-control, self-regulation and self-management; putting it in to practice requires the adoption of a number of principles and values, adequate communication processes, human talent policies, macro-processes and defined processes, plans and institutional and operational programs, policies focused on risk identification, and accountability to the public, among other things.

In 2009 the PSICM dissemination phase began in the area of the Central Government, including the distribution of a procedures manual, and included various training activities for public officials. The implementation of the PSICM in its entirety will require, among other efforts, a strong and continuous political commitment, and due to its ambitious scope, it will be focused initially on the area of 5 ministries.¹⁴³

However, as pointed out earlier in the 2008 IFA, it is important to bear in mind that part of the pending agenda to move towards an effective and efficient internal control system in Paraguay will consist of achieving greater integration in the universe of the SIAF—which comprises the subsystems of budget programming (SIPP), treasury (SITE) and accounting (SICO)—, and, in turn, move towards implementation of the Integrated State Resource Management System (SIARE), presently limited due to the lack of a legal framework permitting the implementation of an Integrated System for the Management of Goods and Services (SIABYS), and the lack of integration between the SIAF and the SINARH.¹⁴⁴

Degree of compliance with rules for processing and recording of transactions. The partial coverage of the SIAF, the limited internal control capacity of the MDAs, and, from a broader perspective, the deficient control environment of the public sector in Paraguay, often limit the degree of compliance with the control rules established for processing and recording transactions. In particular, compliance with procedure and recording standards is guaranteed for transactions conducted by entities integrated in the SICO; in the case of those that come outside this orbit, they are recorded in their own systems which then migrate for consolidation, forming an exception to current regulations.

¹⁴³ Ministries of Finance, Agriculture and Farming, Public Works and Communications, Public Health and Social Welfare, and Education and Culture. These institutions, along with the AGE and the CGR, participated in the preparation of the PSICM manual.

¹⁴⁴ The SIAF includes the Integrated Financial Management System (IFMS), the Integrated System of Human Resources (SINARH), and the System for the Management of Goods and Services (SIABYS).

Indicator PI-21: Effectiveness of internal audit
General Rating “C”

| Dimension | | Rating | |
|---|--------------------------|--|---------------|
| Coverage and quality of the internal audit function. The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards. | | C | |
| Frequency and distribution of reports. Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the Supreme Audit Institution (SAI)—CGR in the case of Paraguay. | | C | |
| Extent of management response to internal audit findings. A fair degree of action taken by many managers on major issues but often with delay. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | C | Dim (i): (a) use of the Unified Government Audit Manual (UGAM) is made obligatory; (b) institutional strengthening of the AGE and of the ISICO; Dim (iii): following adoption of the UGAM, the annual planning of the ISICO includes the follow-up of the recommendations made. | No |

To be effective, the internal audit function should focus on accounting for systematic problems related to: the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets and, finally, compliance with laws, regulations, procedures and contracts.

As pointed out in the 2008 IFA, improving the effectiveness of internal audit has been identified as a challenge for the PFM improvement process in Paraguay. The provisions of the LAFE¹⁴⁵ establish that the internal audit function must be exercised by the Auditor General of the Executive (AGE), which depends on the Presidency, and by the Institutional Auditors (ISICO), which depend on the highest authority of each MDA and, at the same time, are regulated, coordinated and supervised by the AGE.

During the analysis period covered by this assessment, emphasis has been placed on institutional strengthening of the AGE and the ISICO. In this respect, in 2007, the regulatory framework was modified¹⁴⁶ and work was done in the recruitment and training of human resources, and in the improvement of the space and equipment for performing the audit.¹⁴⁷ At the same time, with the support of the USAID THRESHOLD program, in 2007, they started to develop standardized audit manuals to establish the homogeneous application of standards, methods and procedures in line with the international standards in the field.¹⁴⁸

At the end of 2008, the mandatory use of the Unified Government Audit Manual (UGAM) was adopted, for both internal and external control agencies of the Government, and the regulatory Decree of the LAFE was amended,¹⁴⁹ incorporating the rank of minister of the Auditor General del

¹⁴⁵ Art. 61 and 62.

¹⁴⁶ Decree 10883/07 regulates the structure of the AGE and establishes its powers and responsibilities.

¹⁴⁷ During 2007-2008 25 new positions were created in the AGE, mostly with a technical orientation, and in September 2008 the AGE began operating on its own premises.

¹⁴⁸ The CGR, the AGE, and the IIAs of the ministries of Education and Culture, Agriculture and Farming, Public Works and Communications, Public Health and Social Welfare, and Finance participated in this development. A unified government audit manual, and the internal control manuals of the IIAs of the 5 ministries that participated in this process, were prepared.

¹⁴⁹ Through Decree 962/08.

Executive, previously granted by Decree 10883/07, and approving the PSICM as a model to be used throughout the Central Government of Paraguay.

Coverage and quality of internal audit. Internal audit in Paraguay covers all the entities of the Executive,¹⁵⁰ it is ex post, and includes both financial audits and management and performance audits.¹⁵¹ Although the use of the UGAM has been mandatory since 2009 for internal audit activities, the standardization of procedures was found to be limited so far to matters of a formal nature.¹⁵² Meanwhile, the current structure of the ISICO does not guarantee professional independence, which can be violated by the hierarchical dependence of the institutional internal auditor on the supreme authority of the MDA subject to audit.

Frequency and distribution of reports. In accordance with current legal provisions,¹⁵³ the ISICO draw up a report on completion of the audit and send it simultaneously to the unit audited, the supreme authority of the agency, and the AGE. However, the audit reports are not sent to the Ministry of Finance of the CGR. Moreover, the annual audit planning of the AGE and the ISICO does not establish a calendar determining deadlines for issuing these reports.

Extent of management response to internal audit findings. Since the adoption of the UGAM in late 2008, annual planning of the ISICO includes the follow-up of the recommendations made. In this respect, the institution audited must present the IIA with a formal reply to the recommendations and an improvement plan for the implementation of corrective measures. In turn, every six months, each IIA must inform the AGE of the state of progress of the recommendations made and the improvement plans implemented.¹⁵⁴

¹⁵⁰ Equivalent to 48.3% of total executed expenditure of the Central Government for 2009.

¹⁵¹ For example, in the last three years, the IIA of the Ministry of Public Health and Social Welfare (MPHSW) had a staff of 23 auditors, 12 allocated to the implementation of financial audits and 11 to performance audits.

¹⁵² For example, after a visit from the group of experts to the IIA of the MPHSW, it was found that the latter does not yet have staff to comply beyond the formal aspect with the requirements of the standard format required by the AGE in order for the IIAs to perform a risk analysis, for the purposes of prioritizing their audit activities.

¹⁵³ Art. 10 and 11, Decree 1249/03.

¹⁵⁴ The AGE currently consolidates the data received from the IIAs and prepares a semi-annual report, which it submits to the President of the Republic. According to the data published in this report, in the first half of 2010, of 123 institutions analysed, 52 had a “high” or at least “satisfactory” level of compliance with the recommendations made. At all events, it should be noted that the specific implementation of the actions is not fully guaranteed and can be delayed due to the lack of penalties associated with irregularities.

3.5 Accounting, Recording and Reporting

Indicator PI-22: Timeliness and regularity of accounts reconciliation

General Rating “B+”

| Dimension | | Rating | |
|--|--------------------------|--|---|
| Regularity of bank reconciliations. Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. | | A | |
| Regularity of reconciliation and clearance of suspense accounts and advances. Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward. | | B | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | B+ | Dim (i): there has been an increase in the number of MDAs integrated into the SICO (see Annex A.3.4) | Dim (ii): with the information available it is not possible to justify the quarterly reconciliation and clearance of suspense accounts and advances, as reported in the first assessment. |

The timely and regular reconciliation of the data from different sources ensures that the financial reports of the government are reliable. In this respect, the reconciliation of bank accounts and the reconciliation and clearance of accounts for advances are essential (payments for which no expenditure has been recorded).

Regularity of bank reconciliations. All the bank accounts of the Central Government are reconciled at an aggregate and detailed level on a monthly basis with the accounting records of the budget execution, within one month of the period in question. However, there are differences in the modes of recording that are worth highlighting. In the case of the bank accounts managed by the DGT (284 in all),¹⁵⁵ bank movements are recorded daily in the SITE and are automatically reflected in the SICO. In the case of the bank accounts managed by institutional treasuries (247 in all), there are two recording alternatives: (i) the MDAs that record directly in the SICO,¹⁵⁶ and (ii) the MDAs that record in their own systems and “migrate” to the SICO on a monthly basis.¹⁵⁷

Regularity of reconciliation and clearance of suspense accounts and advances. Advances, i.e. cash payments for which expenditure has not yet been recorded, are only authorized for the management of petty cash and revolving funds, and since 2007, also for transfers by way of local contribution funds for projects managed by IFIs and donors.^{158, 159} The remaining balances of these funds are transferred every month, and are cleared by the return of surplus to the respective accounts of origin within two months of the year’s end.

Meanwhile, suspense accounts are used for recording the commitment stage of the expenditure, the authorization and issue of Treasury bonds, and the recording of debt issued by decentralized

¹⁵⁵ See PI-17.

¹⁵⁶ In 2009, of the 80 MDAs of the Central Government, 67 were integrated in the IAS, and 23 in the IAS/SITE.

¹⁵⁷ It was found that in 2009 the conciliations of the jurisdictional treasuries were presented to the DGPA, in accordance with the guidelines provided, in standard format and within the established deadlines.

¹⁵⁸ Payments of advances for civil works were recorded directly as expenditure.

¹⁵⁹ The rendering of petty cash and revolving funds is presented on a monthly basis to the DGT or to the jurisdictional treasuries, according to the origin thereof, whereas the rendering of the use of advance payments (compensation) of the Government for projects financed by IFIs is presented to the Directorate General of Administration of each MDA, also on a monthly basis.

entities and guaranteed by the Treasury. These accounts are cleared and updated on a monthly basis, generally within the four weeks following the end of the month in question, and the balance of outstanding commitments at the end of the year is not transferred to the following year.

Indicator PI-23: Availability of information on resources received by service delivery units
General Rating “D”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|--|
| Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and financing of those units. No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years. | | D | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C | D | No | With the information available, it is not possible to prove the existence of “special surveys”, as reported in the first assessment. |

The availability of information on the resources received by front-line service delivery units, for example, schools and health establishments, is essential to ensure that resources are used for their specific purposes and that these units do not suffer delays or unjustified reallocations.

During the period of analysis, no sectoral studies have been carried out nor has any comprehensive information been collected about resources (in cash or in kind) transferred and actually received by the country’s basic service delivery units. At the same time, the limitations of the programmatic classification of expenditure (PI-5) make it impossible to access disaggregated information on primary schools or primary healthcare establishments.

In particular, the budget and accounting information for primary healthcare establishments is available at a level of “health regions”, which include the 17 departments of the Central Government and the City of Asuncion. Meanwhile, the financial information for the education sector is aggregated by educational level (“elementary”, “primary”, and “intermediate”).

Indicator PI-24: Quality and timeliness of in-year budget reports

General Rating “C+”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|---------------|
| Scope of reports in terms of coverage and compatibility with budget estimates. Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. | | A | |
| Timeliness of the issue of reports. Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. | | A | |
| Quality of information. There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | C+ | No | No |

This indicator focuses on the possible defects and/or virtues of the Government accounts recording system, in order to be able assess its capacity to present comprehensive and detailed reports on budget execution.

Scope of reports in terms of coverage and compatibility with budget forecasts. Records on the budget execution of the Central Government of consolidated by the DGPA based on information prepared by each MDA. In addition, based on the same source of information, the DGB prepares the Report on the Control of Budget Execution and Assessment. The budgetary and accounting classifications used are equivalent, use the same degree of disaggregation as the original budget, and are incorporated into the SICO, which integrates the budget and accounting functions. Therefore, it has been decided that the highest rating (given by the IFA) be maintained for this dimension, considering that the commitment and payment stages are recorded in the large majority of the MDAs that are part of the PGN.¹⁶⁰

Timeliness of the issue of reports. Budget execution reports are prepared by each MDA on a monthly basis and, in most cases, are reported to the DGPA within 15 days of the end of each month, as required by law.¹⁶¹

Quality of information. Budget execution is recorded through the accounting module of the SIAF (SICO), following the standards of the Ministry of Finance. However, the reliability of the records in affected in some cases by internal control deficiencies, for example, due to the poor interrelation between the main financial information systems of the State, and the absence of the SIABYS. These deficiencies, which are generally not highlighted in the reports, although they affect to a certain extent the quality and homogeneity of the information, do not invalidate the basic utility thereof for most of the parties involved.

¹⁶⁰ See Annex A.3.4.

¹⁶¹ Art. 66 of the SFMA.

Indicator PI-25: Quality and timeliness of annual financial statements

General Rating “C+”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|---|
| Completeness of the financial statements. A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. | | A | |
| Timeliness of submission of the financial statements. The statement is submitted for external audit within 6 months of the end of the fiscal year. | | A | |
| Accounting standards used. The statements are presented in consistent format over time, with some disclosure of applicable accounting standards. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | C+ | No | Dim (i): The IFA assigns rating “B”, considering the consolidation partial with the financial statements of municipal governments. However, the scope of this indicator refers exclusively to the Central Government. |

The end-of-year financial statements —consolidated in the annual “financial report” according to the denomination in Paraguay— are essential for ensuring the transparency of the public finance management system. To be considered complete, the financial statements must cover all the ministries, departments and decentralized units. In addition to their coverage, this indicator refers to the timeliness and quality of the records.

Completeness of the financial statements. The DGPA is the body responsible for the consolidation of the financial statements annual report prepared by each MDA of the Central Government. These financial statements include complete information on revenue, expenditure and financial assets and liabilities, in accordance with the provisions of the LAFE.

Timeliness of submission of the financial statements. The DGPA meets the requirements established by the LAFE (art. 68) regarding timeliness of submission of the annual financial report to the CGR, scheduled to take place before 30 April following the end of the fiscal year.¹⁶²

Accounting standards used. The financial report is prepared on the basis of the general guidelines established in the LAFE, its regulatory decree, and the annual budget laws.¹⁶³ The accounting procedures manual of the SICO adopts the accounting principles generally accepted within this legal framework. In addition, the Ministry of Finance issues an annual resolution,¹⁶⁴ with details of budgetary, accounting and financial standards and procedures, as well as those for equity, credit and debt, and procurement for the end of each fiscal year, also in accordance with the aforementioned legal provisions. Although the submission of the annual financial report only partially includes the statements and requirements of the IPSA N° 1,¹⁶⁵ in Paraguay, legal accounting standards in line with international standards have not yet been established for the public sector.

¹⁶² The report was submitted on 13 April 2009 and 12 April 2010 for fiscal years 2008 and 2009, respectively.

¹⁶³ Articles 54 to 58 of the LAFE and articles 86 to 95 of its regulatory decree (8127/00).

¹⁶⁴ For example, resolutions of the Ministry of Finance 161/08 and 392/09.

¹⁶⁵ This standard refers specifically to the submission of financial statements.

3.6 External Scrutiny and Audit

Indicator PI-26: Scope, nature and follow-up of external audit General Rating “C”

| Dimension | | Rating | |
|---|--------------------------|----------------------------|---|
| Scope/nature of audit performed (incl. adherence to auditing standards). Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. | | C | |
| Timeliness of submission of audit reports to Legislature. Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) A formal response is made, though delayed or not very thorough, but there is | | C | |
| Evidence of follow-up on audit recommendations. A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | C | Cannot be determined. | Dim (ii): with regard to “other audit reports”) 2004-2006: the rating “B” is given without specific back-up information. 2009: the rating “C” is given after the analysis of quantitative information referring to this period. |

The CGR is the supreme audit institution (SAI) of the country and is responsible for the external control of the public sector through the National Constitution and its law, through which it enjoys functional and administrative independence.¹⁶⁶ In 2008, the CGR obtained quality certification for its processes and also in the same year adopted the use of the Unified Government Audit Manual¹⁶⁷ in the framework of implementation of the PSICM.¹⁶⁸

Scope / nature of the audit performed. All the resources and expenditure of the consolidated public sector of Paraguay (Central Government and Municipalities) are within the jurisdiction of the CGR. However, according to the data reported by this institution, the scope of external audit activities included 59% of the PGN in 2009. Moreover, the audits performed are almost exclusively of a financial type,¹⁶⁹ and only in exceptional cases—mostly prompted by blatant reports or events of public importance—are management audits performed.^{170,171}

Timeliness of submission of audit reports to the Legislature. The CGR has until 30 August to submit to Congress its opinion on the annual financial report sent to it by the DGPA of the Ministry of Finance before 30 April each year, i.e. it has a deadline of 4 months following its receipt for submission thereof. During 2007-2010, the CGR met this schedule. As for the other audit reports, it was found, based on information provided by the Directorate of Planning and Reporting of the CGR,

¹⁶⁶ Art. 281 of the National Constitution and art. 1 of organic law 276/94.

¹⁶⁷ In line with international audit standards IAS and INTOSAI.

¹⁶⁸ The CGR plays an active role in the implementation and dissemination of the PSICM.

¹⁶⁹ These audits cover all the revenue and expenditure of the audited entities and comply with audit standards in force in the country—following the practices of the CGR audit manual, called *Tesarekó*. However, they are mostly transaction control audits not focused on the processing of systemic issues.

¹⁷⁰ It was only possible to verify the existence of six management audits of the CGR during the analysis period (2007-2009).

¹⁷¹ The planning for 2011 includes verification audits of the information related to the execution of physical targets reported in the budget.

that of a total of 131 reports completed by 31 August 2010 and referring to fiscal years 2007-2009, 72% were sent to Congress within the 12 months following the end of the period in question.¹⁷²

Evidence of follow-up on audit recommendations. From 2009, on the basis of the provisions of a manual for internal use,¹⁷³ the stage of follow-up of audit recommendations was formally incorporated in the audit processes. In this respect, all the audited entities have a 30 day deadline to send, in standard format, a plan of improvement to be implemented in relation to the recommendations made. This deadline can be extended at the discretion of the auditing team, depending on the complexity of the points on which improvement is to be implemented. The audit reports and the improvement plans submitted by the audited entities are collected by the Sector Analysis Unit (SAU) of the CGR, responsible for the planning of follow-up activities, which are part of the general planning of the audit for the following year.

According to these data, the SAU includes in its annual audit planning “proof of compliance” with the improvement plan, or orders the audit to be repeated, depending on the quantification of risk in each case.¹⁷⁴

Although the changes introduced from 2009 onwards undoubtedly mean a step forward in the management and planning of the follow-up of audit recommendations, it is not yet possible to verify whether these changes may have an impact on the effectiveness of the follow-up, which, as pointed out in the IFA of 2008, is limited partly due to the lack of regulatory standards defining a code of penalties for irregularities associated with the management of public resources, and partly due to the existence of a deficient control environment.¹⁷⁵

¹⁷² 19.6% of the audits considered for this analysis were submitted after the 12 month period following the termination of the period concerned.

¹⁷³ In order to standardize and improve the processes for conducting audits, in 2008, the CGR implemented the use of an internal procedures manual called *Tesarekó*.

¹⁷⁴ The activities for the assessment of the Improvement Plan are the responsibility of the same teams of auditors that gave rise to the recommendation, whereas recurrent audits are carried out by the teams appointed for that purpose.

¹⁷⁵ As revealed by the “Diagnostic Study of the CGR” recently carried out by the IDB, the implementation of the standardized processes is not fully and effectively reflected in the jobs carried out by the institution in question. In particular, “the work papers do not leave clear and adequate information on the audit procedures or checks carried out, the size of the sample selected, the conclusions reached, or the work of supervision carried out thereon”. Moreover, in terms of human resource capacities, the CGR “has failed to establish minimum requirements for the training and updating of its officials according to their experience and level of responsibility”.

Indicator PI-27: Legislative scrutiny of the annual budget law
General Rating “C+”

| Dimension | | Rating | |
|--|--------------------------|----------------------------|--|
| Scope of the legislature’s scrutiny. The legislature’s review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. | | C | |
| Extent to which the legislature’s procedures are well-established and respected. The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. | | A | |
| Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined). The legislature has at least two months to review the budget proposals. | | A | |
| Rules for in-year amendments to the budget without ex-ante approval by the legislature. Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected. | | A | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| B+ | C+ | No | Dim (i): greater access to information made it possible to determine that the rating “C” is more appropriate for this dimension than the rating “B” assigned by the previous assessment. |

The Legislature has the power to authorize government expenditure, a power it exercises through the passing of the annual budget law. The exercising of this power is not effective if the Legislature does not carefully review and discuss the law, which will undermine the government’s accounting to the electorate. The effectiveness of this scrutiny is determined through the assessment of its scope, its internal procedures, its correct implementation within the established times, and the rules that determine the amendments to the budget of the current year.

Scope of the legislature’s scrutiny. The scope of the scrutiny carried out by the Legislature of Paraguay on the annual budget law sent by the Executive is conditioned by two main factors: on the one hand, due to the limitations of the information sent by the Executive (PI-6); on the other, due to the limitations of Congress itself with regard to its technical capacity for the analysis of economic and financial affairs.

In this respect, multi-year or medium-term considerations are excluded from scrutiny, due to the incipient status of multi-year budgeting in the country (PI-12). On the other hand, considerations of economic policy by the Legislature during the budget approval phase are very restricted, since there is a high bias towards the consideration of political aspects over and above those of a technical nature. Finally, the detailed review of revenue and expenditure is limited to those cases in which the Executive presents detailed information, which is not necessarily what happens in practice, as could be analyzed in timely fashion in indicator PI-6.

Extent to which the legislature’s procedures are well-established and respected. The procedures of the Legislature for the review of the budget are clearly established in the National Constitution and regulatory standards. In accordance with the legal provisions, a Bicameral Commission is formed

annually for discussing the Budget.¹⁷⁶ In addition, in the Senate, there is a (permanent) Commission of Finance, Budget and Accounts, and in the House of Representatives, an (advisory) Commission on the Budget. The Constitution and related regulations clearly define procedures and deadlines for the budget review phase, including various alternatives for cases of general and particular approvals, objections by one or both Houses, total rejection, etc. It should be mentioned that all these procedures have been strictly respected in practice, leading to approval at the end of the PGN—before the end of December, in accordance with the provisions of articles 207, 208 and 216 of the National Constitution.

Adequacy of time for the legislature to provide a response to budget proposals. Congress has a deadline of nearly four months to review the budget draft, from 1 September to 20 December, in accordance with the Constitution.

Rules for in-year amendments to the budget without ex-ante approval by the legislature. The LAFE and the respective annual budget laws clearly define the responsibilities and procedures for increasing and reprogramming the expenditure items established in the annual budget law during the current fiscal year. Within this legal framework, which is respected in all cases, increases and administrative reallocations of expenditure are subject to the consideration of Congress.

Indicator PI-28: Legislative scrutiny of external audit reports

General Rating “D+”

| Dimension | | Rating | |
|---|--------------------------|----------------------------|---------------|
| Timeliness of examination of audit reports by the legislature (for reports received within the last three years). Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. | | D | |
| Extent of hearings on key findings undertaken by the legislature. In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. | | C | |
| Issuance of recommended actions by the legislature and implementation by the executive. Actions are recommended, but are rarely acted upon by the executive. | | C | |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| D+ | D+ | No | No |

In accordance with the National Constitution, the Legislature is the supreme organ of control over the management of public finance and is responsible for the scrutiny of budget execution. To fulfill its functions, the Legislature must have at its disposal in a timely fashion the external audit reports, on which it may rule in favor or against, and must have powers to challenge the responsible parties regarding the conclusions of these reports.

Timeliness of examination of audit reports by the legislature. The legislature must review and issue on the annual financial report and the report and opinion made by the CGR on the same, before 15 December¹⁷⁷ of the year following the period in question. In accordance with the provisions of the law, the review process is conducted by a Bicameral Commission consisting of five representatives and five senators, who have an unextendable time limit of 45 days to issue, counted from the date

¹⁷⁶ For treatment of the PGN 2011, underway during the preparation of this assessment, the Bicameral Budget Commission is integrated by 29 representatives and 22 senators, distributed in turn in 5 sub-commissions covering the different entities of the Central Government.

¹⁷⁷ Art. 282 of the National Constitution and art. 70 of the SFMA, amended by art. 1 of Act 2515/04.

of receipt of the reports sent by the CGR. Then, each House has a 30 day deadline to make a ruling.¹⁷⁸

During the 2007-2009 period, although they had the opinion of the Bicameral Commission, the house of representatives and the senate did not fulfill the constitutional mandate of issuing on the annual financial report or the Report and Opinion made by the CGR on the latter.¹⁷⁹

Extent of hearings on key findings undertaken by the legislature. Hearings are only held with the Ministry of Finance, generally related to the findings of the CGR or certain specific issues detected by the Bicameral Commission.

Issuance of recommended actions by the legislature and implementation by the executive. The Legislature makes recommendations based on the conclusions of the CGR and of the opinion of the Bicameral Commission. These recommendations sometimes even affect changes carried out by the Legislature itself during the phase of approval of the Budget Bill for the following year. However, there is no systematic follow-up to allow the determination of the degree of implementation of the recommendations made.

3.7 Donor practices

Indicator D-1: Predictability of Direct Budget Support General Rating “D+”

| Dimension | | | Rating |
|--|--------------------------|--|---|
| Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature. In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%. | | | B |
| In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) - The requirements for score C (or higher) are not met. | | | D |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C+ | D+ | 2007-2009: The Government and donors have achieved satisfactory results in terms of annual predictability of direct budget support operations. | Dim (ii): it was found that IFIs and donors do not provide the Government with quarterly disbursement estimates. The individual approval mechanism for loan and external grant operations is still a restriction in this respect. |

Direct budget support consists of all external aid provided to the Treasury in support of the public budget in general (general budget support) or for specific sectors, generally through sectoral loans. This indicator measures the annual differences between the amounts of budget support actually received and that originally programmed by the IFIs and donors.

The first point to consider, and one which is indeed crucial for interpreting this indicator correctly in the institutional context of the country, is that indicator D-1 (like indicator D-2) assumes, by

¹⁷⁸ For cases in which the Houses rule differently, the same criterion is applied as that used for the enactment of the laws, established in Art. 206 of the National Constitution.

¹⁷⁹ In 2007, the Bicameral Commission ruled to approve the Report and Opinion of the CGR and reject the financial report. In 2008, the aforementioned Commission ruled to reject both reports. At the time of this study, the Bicameral Commission has been formed for the review of the 2009 reports.

construction, that programming by the country's main IFIs and donors is closely linked to the annual budget process, which is not the case in Paraguay, where external funding is authorized "case by case" by the Legislature,¹⁸⁰ and not through the approval of an "overall annual quota", based on estimates of the executive on the financing needs of the public sector for the following year, and reflected in the budget law.

Thus, external credit operations are generally approved through specific laws which lead to budget increases during the current fiscal year, and their planning is not usually linked to the annual budget calendar, particularly if we are dealing with financial instruments of direct budget support such as sectoral loans or loans for the implementation of policies, which are often used as a financial palliative for the Government in times of crisis. Meanwhile, the individual approval mechanism for external financing operations usually leads to situations of the opposite kind, i.e. cases in which the Legislature expands or withdraws the approval of an operation planned by the executive during the preparation of the budget for the coming year.¹⁸¹

Despite the limitations mentioned, it was found during the period under analysis that the Government, primarily through the Directorate of Debt Policy (DDP) which is dependent on the SSEI, was able to work in a coordinated way with the main international financial cooperation agents to achieve an acceptable degree of predictability in terms of the management of direct budget support operations, previously agreeing on amounts and conditions and then, having circumvented the phase of approval by Congress, achieving disbursement levels very similar to those planned.

Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature. The assessment was able to compare the forecast and execution information of three DBS operations during the 2007-2009 period. One of them was related to the disbursement of the first tranche of a programmatic direct budget support loan (PDPL) of the WB, amounting to USD 100 million, in September 2009. This operation was prepared in the multi-year financial framework defined by the WB country strategy, its amount and method of disbursement were agreed by the staff of this institution and the Treasury authorities in advance and in a coordinated way, and the Government was able to dispose of the funds within the expected times, when the country required external funds to finance its countercyclical policy to tackle the economic crisis. The two remaining operations consisted of EC grants for the implementation of DPS programs.¹⁸²

The results of the numerical analysis related to these 3 DPS operations indicate a marginal sub-execution of the planned disbursements (less than 3% of the total) for 2007-2009, due to the sub-execution of 2008 (12.5%) caused by delays in the meeting of performance targets of the Government associated with the release of funds of the "variable tranches" of the EC grant to support the fight against poverty (see Table 3.7.1).

¹⁸⁰ As stipulated in the National Constitution, in article 202.

¹⁸¹ For example, during the phase of approval of the 2009 PGN, they excluded the consideration of a sectoral loan of the IDB for the Financing of the Financial Development Agency (DFA), for USD 50 million, which had been included in the articles of the bill sent by the Executive for the same year.

¹⁸² The first called ALA/2006/018-053 – "Program to support the fight against localized poverty" (EUR 23 million of budget support and EUR 1 million of technical assistance), and the second program, approved 2009, is called DCI-ALA/2009/227-173 – "Program of support to the educational sector in Paraguay" (EUR 54 million, of which 52 million is budget support and 2 million technical assistance).

Table 3.7.1: Direct Budget Support — Planned and actual disbursements (2007-2009) (in millions of USD)

| Operation | Year 2007 | | | Year 2008 | | | Year 2009 | | | TOTAL period | | |
|-----------------------------|-------------|-------------|---------------|-------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | planned | actual | % exec. | planned | actual | % exec. | planned | actual | % exec. | planned | actual | % exec. |
| <i>EC grant</i> | | | | | | | | | | | | |
| - 2006/018-53 ¹ | 10.3 | 10.3 | 100.0% | 11.3 | 9.9 | 87.5% | 11.5 | 9.3 | 81.3% | 33.0 | 29.5 | 89.2% |
| - 2009/227-173 ² | | | | | | | 14.4 | 14.4 | 100.0% | 14.4 | 14.4 | 100.0% |
| <i>WB loan</i> | | | | | | | | | | | | |
| - PDPL ³ | | | | | | | 100.0 | 100.0 | 100% | 100.0 | 100.0 | 100% |
| Total | 10.3 | 10.3 | 100.0% | 11.3 | 9.9 | 87.5% | 125.8 | 123.7 | 98.3% | 147.4 | 143.8 | 97.6% |

Source: own compilation based on data provided by the EC and WB.

¹ EC program of support to the fight against localized poverty.

² EC program of support to the educational sector.

³ First tranche of a WB programmatic loan for direct budget support.

In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) As could be observed in the field mission, the IFIs and donors do not provide the Government systematically with quarterly estimates of disbursements.

Indicator D-2: Financial information provided by donors for budgeting and reporting on project and program aid
General Rating “D+”

| Dimension | | Rating |
|---|--------------------------|--|
| Completeness and timeliness of budget estimates by donors for project support. At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification. | | C |
| Frequency and coverage of reporting by donors on actual donor flows for project support. Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget. | | D |
| Comparative Analysis | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Other Factors |
| D+ | D+ | Dim (i): an improvement is observed, on finding that IFIs and donors provide complete budget estimates to the DGCPD during the budget preparation process. Dim (ii): with the information available it is not possible to prove the existence of “quarterly reports on all the disbursements made with regard to at least 50% of all budget estimates for projects with external funding”, as reported in the first assessment. |

Completeness and timeliness of budget estimates by donors for project support. The SSEAF, through the DGCPD, receives disbursement estimates sent by IFIs and donors during the annual budget draft preparation stage, i.e. at least 4 months before the beginning of the year (see Table 3.7.2). At all events, it should be made clear that these estimates, although indicative of the overall annual amount planned to be disbursed in the following year, are not usually presented by the corresponding institutions with a breakdown consistent with the budget classification of the Government.

Table 3.7.2: Budget estimates submitted by IFIs and donors and execution of external financing ¹ (2009) (in millions of USD)

| | (1) Estimates ² | (2) Execution ³ | (2) / (1) in % |
|--------------|----------------------------|----------------------------|----------------|
| IDB | 100.0 | 95.4 | 95.4% |
| JICA | 52.9 | 63.9 | 120.8% |
| SPAIN | 4.3 | 7.5 | 172.5% |
| FOCEMF | 42.3 | 6.2 | 14.7% |
| FONPLATA | 27.5 | 4.9 | 17.8% |
| GTZ | 5.8 | 2.7 | 46.5% |
| CAF | 8.8 | 2.4 | 27.2% |
| CE | 2.9 | 2.3 | 77.1% |
| AECID | 1.6 | 2.2 | 136.3% |
| WB | 28.5 | 0.9 | 3.3% |
| IFAD | 1.9 | 0.2 | 10.6% |
| OPEC | 3.5 | 0.0 | 0.6% |
| BRAZIL | 1.3 | 0.0 | 0.0% |
| Total | 281.3 | 188.6 | 67.1% |

Source: own compilation based on information provided by the SSEAF.

¹ Projects financed by IFIs and donors, including bilateral and multilateral external cooperation agencies. Excluding Direct Budget Support.

² Information received by the DGCPD during the annual budget draft preparation process.

³ According to DMFAS data.

Frequency and coverage of reporting by donors on actual donor flows for project support. At the moment, there is no mechanism or timetable established for IFIs and donors to provide the Government with quarterly reports on disbursements made during the following fiscal year. According to the quantitative information available, it was possible to observe that the execution of annual external credit linked to projects financed by IFIs and donors amounted to 67% of that planned for fiscal year 2009 (see Table 3.7.2).

Indicator D-3: Proportion of aid that is managed by use of national procedures
General Rating "D"

| Dimension | | | Rating |
|---|--------------------------|--|---------------|
| Overall proportion of aid funds to central government that are managed through national procedures. Less than 50% of aid funds to central government are managed through national procedures. | | | D |
| Comparative Analysis | | | |
| General Rating 2004-2006 | General Rating 2007-2009 | Changes in PFM Performance | Other Factors |
| C | D | Proportion 2004-2006: 60% (approx.). Proportion 2007-2009: 18.3%. | No |

The purpose of this indicator is to establish the overall proportion of aid funds (external loans and grants) for the Central Government which are managed by the use of national systems with regard to four areas: procurement, payments and accounting, auditing, and reporting.

The estimate of the proportion of external funds that were managed in the four areas mentioned by the use of national systems during the last three years (2007-2009) yielded a result of 18.3%, and was carried out by simply considering the sum of the disbursements of DBS operations in relation to the total disbursement of resources of external origin accumulated during those years.

**Table 3.7.3: Proportion of foreign aid managed by national systems
(2007-2009) (in millions of USD)**

| | Year 2007 | | Year 2008 | | Year 2009 | | 2007-2009 | |
|--------------------------------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|
| | Amount | en % |
| Direct Budget Support ^{\1} | 10.3 | 5.2% | 10.3 | 6.4% | 123.9 | 28.7% | 144.5 | 18.3% |
| Other loans and grants ^{\2} | 186.6 | 94.8% | 149.6 | 93.6% | 307.7 | 71.3% | 643.9 | 81.7% |
| Total | 196.9 | 100.0% | 159.9 | 100.0% | 431.6 | 100.0% | 788.4 | 100.0% |

Source: own compilation based on information provided by the SSEAF.

\1 Programmatic loan of the WB and 2 EC grants (Poverty and Education Sector).

\2 Investment programs and grants.

The use of this procedure is due to the fact that in the case of investment loans and other specifically orientated financial instruments linked with foreign aid, reporting, auditing and, in some cases, procurement, are carried out according to specific procedures regulated and controlled by the IFI / donor that provides the financing.

4. THE PUBLIC SECTOR REFORM PROCESS

The results of the polls in Paraguay in 2008, for the first time in 61 years, led to the victory of a Government administration outside the Colorado Party, and this momentous change has taken place in an orderly fashion, which represented a very important step for the consolidation of the country's democratic institutions.

Despite this highly significant political shift, in several cases, it was possible to ensure the continuity of most of the public sector reform processes —and in particular of those linked to PFM reform— started by the outgoing Government administration, since most of the authorities of the Ministry of Finance, the leading institution conducting these changes, remained or were restored within the scope of the latter. This is a very positive aspect which should be highlighted, since it positions the reform of the public administration in Paraguay as a State policy, as announced in one of the pillars of the Economic and Social Strategic Plan (ESSP) 2008-2013.

Meanwhile, as discussed in greater depth in the IFA of 2008 and in several other related studies and reports, it should be pointed out that the progress of public sector reform in Paraguay is condition in many cases by the presence of structural restrictions which affect the institutional quality and governability of the country, for example, high levels of politicization and corruption in the civil service, poor inter-institutional communication and coordination, lack of rules for human resource management, etc.

Finally, it is very important to bear in mind that the relation between Congress and the executive has been a major constraint to furthering the public sector reform agenda in Paraguay in recent years, forcing the executive in many cases to reduce the scope thereof to processes that minimize legal change.

4.1 Overview of recent and ongoing reforms

Despite having the Government Action Plan (GAP), Annex to the IFA of 2008, the PFM reform process in Paraguay in recent years has not followed an orderly process responding to a unified and agreed strategic plan, reason why this sub-section is divided according to the main areas of reform.

Taxation. In 2004, the Government carried out a major tax reform whose cornerstones were the passing of a new tax law (Act 2421/04 on Administrative Reorganization and Fiscal Adjustment) and a new Customs Code (Act 2422/04). The legislative modernization allowed for several specific developments towards the clarification of processes, the elimination of certain exemptions, the definition of fines and penalties, etc., but was not yet able to achieve its primary objective of increasing the country's tax burden,¹⁸³ while moving towards a more equitable tax structure, for example, by the implementation of the Personal Income Tax (PIT). Many attempts by the executive to enforce this tax, which have included in recent times a strong campaign of citizen awareness through the press and official publicity, have been systematically blocked by Congress.¹⁸⁴

At the same time, the Government has made progress in the implementation of reforms aimed at improving tax administration, by enhancing taxpayer assistance, to take in several points away from the capital of the country; a substantial increase in the number of entries in the RT; greater efficiency in VAT collection through the appointment of more companies as withholding agents,

¹⁸³ Measured as total annual tax revenue in relation to GDP. The average of this ratio in Paraguay in the last three years amounts to 12%, and is positioned as one of the lowest in Latin America.

¹⁸⁴ From 2005 to the time of completion of this assessment, Congress had passed 5 laws to postpone the application of the PIT, and the latest parliamentary initiative postponed its application until January 2013.

and, especially in the last two years, greater focus on the implementation of control and auditing tasks and processes.¹⁸⁵

Public enterprises. In 2008, with the assistance of the World Bank, the Government initiated a reform in this key sector of the country's economy,¹⁸⁶ seeking to establish principles of transparency and the effective financial supervision of PEs by the State, and to strengthen the business and financial management thereof, in order to increase the coverage and quality of their services. The most salient aspects of this reform initiative are highlighted below:

- Establishment of a Board of Public Enterprises (BPE), comprising the ministries of Finance, Trade and Industry, and Public Works, and the Attorney General's Office, and constituted as structurally and functionally independent administrative organization, hierarchically subordinated to the Presidency of the Republic.
- Establishment of a Public Enterprise Monitoring Unit (UMEP) as executing agency for the BPE, constituted within the organizational structure of the Ministry of Finance, reporting to the State Sub-Secretariat for Economy and Integration (SSEI) and with the rank of Directorate.
- Signing of performance management contracts between the UMEP and the PEs. The management contracts were designed by technical staff of the UMEP in coordination with each company, and are structured according to the definition of medium-term strategic objectives and specific goals linked to the achievement of those objectives. Four of the country's nine PE's have now signed their management contracts.
- Introduction of the requirement for each PE to publish its audited financial statements annually. In 2009, the UMEP received and reviewed the audited financial statements of eight PE's for 2008, dealt with their publication on the Internet,¹⁸⁷ and generated, in a manner consistent with the results obtained, certain mitigation measures. The same process is currently underway in relation to the audits of the financial statements for 2009.
- In order to give these changes to the institutional framework greater sustainability and effectiveness over time, the Government currently plans to: (i) submit to Congress a bill giving statutory force to the new institutional framework comprising the BPE and the UMEP; and (ii) strengthen and train the human resources of the UMEP, through the definition and standardization of the technical profile associated with its organization.

Internal control and internal audit. In 2008, with the assistance of USAID, the Government developed the manual of the Standard Model of Internal Control for the public enterprises of Paraguay (PSICM). The PSICM is based on self-control, self-regulation and self-management. Putting it into practice requires principles and values, suitable communication processes, human talent policies, macro-processes defined processes, as well as institutional and operational plans and programs, policies focused on risk identification, and accountability to the public, among other things. In 2009 the dissemination and training phase of the PSICM was started, and its implementation will be focused to begin with in the area of 5 ministries of the executive.

¹⁸⁵ For example, in the area of the SET, 379 audits were carried out between 2007 and 2009, and in 2009 the requirement for the (temporary) tax compliance certificate was introduced to carry out procedures such as the issue of passports, obtaining and re-financing of bank credits, notary procedures, etc.

¹⁸⁶ The PEs of Paraguay together account for around 30 per cent of the public expenditure of the Central Government, and are responsible for the provision of essential goods and services, including oil, water, telecommunications and electricity.

¹⁸⁷ <http://www.hacienda.gov.py/web-sseei/index.php?c=322>

Meanwhile, major progress has also been observed in terms of the coverage of the SIAF. Since 2007 the incorporation of 36 Decentralized Entities (DE) of the Central Government into the Integrated Accounting System (SICO) has been observed, which led to a significant increase in its coverage. Meanwhile, 13 DEs, which are characterized by being financed primarily by Treasury resources, were incorporated into the Treasury system (SITE), another of the main components of the SIAF, in 2009 and the first half of 2010.

At all events, the modernization of the SIAF and its expansion to all the agencies and entities of the Central Government involves a gradual implementation process, in which the Government is working with the technical and financial assistance of the IDB and the EC, and which involves the acquisition of new equipment, the implementation of new technological tools, the training of staff, etc.

Finally, as could be observed throughout this report, the agenda of outstanding reforms in this area is much broader and aims to achieve full operation of the Integrated State Resource Management System (SIARE), which interconnects the SIAF with the human resources system (SINARH) and the goods and services system (SIABYS).¹⁸⁸

As for the internal audit function, during the period of analysis emphasis has been placed on the institutional strengthening of the AGE and the ISICO. In this respect, in 2007 the regulatory framework was changed¹⁸⁹ and work was carried out on the incorporation and training of human resources, and on the improvement of space and equipment for conducting audits.¹⁹⁰ At the same time, with the technical and financial support of USAID, in 2007, the preparation of standardized auditing manuals was started, to establish the homogeneous application of standards, methods and procedures in line with the international standards in the field.¹⁹¹ At the end of 2008, the use of the Unified Government Audit Manual (UGAM) became mandatory, for both the internal and external control bodies of the Government, and the regulatory decree of the LAFE was amended¹⁹² giving the Auditor General of the executive the rank of minister and approving the PSICM as a model to be used throughout the Central Government of Paraguay.

Public Procurement. In 2007, amendments were made to the 2003 public Procurement scheme,¹⁹³ by the enactment of Act 3439/07. The main change originating from this standard is the creation of the National Directorate of Public Procurement (NDPP), as an autonomous autarchic institution dependent on the executive, with powers to design and issue the general policies that State agencies and entities must observe on public procurement, and to verify compliance with the same. The charter that governs the organization, structure and functions of the NDPP is also established in the new law. In 2008, this national directorate achieved the international quality certificate (ISO-9001) for the processes established for the fulfillment of its functions.

Management of public investment. With the support of the IDB, the Government is currently working on the design of the so-called National Public Investment System (NPIS). The introduction of improvements related to the management of public investment is a priority objective in the country's PFM reform agenda, for several reasons, including:

- Lack of a suitable legal / institutional framework.
- Lack of capacities for the assessment of projects and other pre-investment tasks.

¹⁸⁸ See Annex A.3.4: "Description of the financial management systems of Paraguay".

¹⁸⁹ Decree 10883/07. Regulates the structure of the AGE and establishes its powers and responsibilities.

¹⁹⁰ During 2007-2008, 25 new positions were created for the AGE, mostly with a technical orientation, and in September 2008, the AGE started operating on its own premises.

¹⁹¹ The CGR, the AGE, and the IIAs of the ministries of Education and Culture, Agriculture and Farming, Public Works and Communications, Public Health and Social Welfare, and Finance, participated in this development.

¹⁹² Through Decree 962/08.

¹⁹³ Act 2051/03.

- Lack of institutional coordination between the Technical Secretariat of Planning (TSP) and the DGB; in particular, lack of integration of the process of investment project formulation with the budget calendar.
- Persistence in the low execution of public funds to finance investment expenditure.
- Lack of adequate mechanisms for the follow-up, control and ex post assessment of investment projects by the systems of the country.

In this context, the public investment levels recorded in Paraguay in recent years have been relatively low, especially if they are compared with those of other countries in the region. On the other hand, a significant proportion of the public investment projects of Paraguay¹⁹⁴ is financed by resources from foreign aid (through loans or grants), which are assessed and approved individually, and therefore their planning is not part of the process of preparation of the PGN.

Treasury Single Account. The DGT exercises centralized and periodic control over cash balances through a number of accounts it holds in the Central Bank of Paraguay (BCP). However, the number of accounts the Treasury currently holds in the BCP is excessive (approximately 300, among main accounts, complementary accounts and those intended for the management of resources from public credit and from the entities). The general treasury has been working on several fronts to address this situation. In particular, it achieved the elimination of 131 accounts in the Central Bank¹⁹⁵ in 2008, and plans the elimination of another 29 before the end of 2011. Concomitantly, Resolution 305/09 of the Ministry of Finance restricted the opening of new accounts, and Decree 5053/10 established the general guidelines for the gradual implementation and operation of a Treasury Single Account (TSA) system.¹⁹⁶

Multi-Year Economic Planning. The Government, through the Directorate of Fiscal Policy of the SSEI and with the technical assistance of the IMF, is working on the design of a medium-term macro-fiscal framework (MMF). The main measures to be considered are the following:

- Creation of a Macro-fiscal Unit, which must have trained technical staff; specifically, experts in macro-economic and fiscal modeling, and with good econometric training.
- Preparation of medium-term macro-economic and fiscal forecasts (three years), including: tax revenue estimates in accordance with a base scenario; current and investment expenditure estimates according to the revenue; and forecasts under alternative scenarios to identify costs associated with possible fiscal risks.
- Preparation (at least once a year) of fiscal and public debt sustainability exercises, and estimation of tax expenditure.
- Preparation of an annual fiscal policy report, which must be used as a basis for the preparation of the budget and by sent to Congress as supplementary information to the Budget draft. This report shall include agreed targets on GDP growth, inflation and other relevant macro-economic variables, and explain their link with the main fiscal and monetary policies the Government hopes to implement. The report must also serve as a useful tool for identifying possible fiscal risks arising from unexpected changes in basic economic variables (sensitivity analysis).

Quasi-fiscal relationship Treasury - BCP. The historic debt of the National Treasury with the BCP is estimated to be around USD 1,400 million, and responds primarily to capital losses assumed by

¹⁹⁴ Over 50% of the total, according to 2007 data.

¹⁹⁵ And another 143 accounts in the NDB.

¹⁹⁶ According to information provided by the DGT, it is planned that by the end of 2011 the management of General Treasury resources be carried out through the "TSA system", which will involve the use of 14 physical accounts and 29 scriptural sub-accounts, which will be managed in the current accounts module of the SITE.

the issuer during past financial crises and the accumulation of liabilities linked to the issue of drafts for monetary and exchange policy regulation. In this situation, partially compensated by the accrual of interests from the accumulation of cash balances over recent years in the accounts held by the Treasury in the BCP, the “BCP Capitalization Law” was recently passed, art. 8 of which empowers the executive to issue and keep in circulation Treasury bonds up to a maximum value of 6.25% of the gross domestic product (GDP) of 2009 (USD 15,538 million), which amounts to around USD 971.1 million, to be applied solely for the capital strengthening of the entity. In return, the Central Government will receive goods previously credited to the assets of the monetary entity as a result of various financial crises.

4.2 Institutional factors supporting the planning and application of reforms

The reform of the Paraguayan State, in its broadest sense, i.e. acknowledging the need to increase the efficiency, effectiveness and transparency of public sector performance in order to move towards a path of sustainable and equitable economic growth, has become, in recent years, a State policy.

The Ministry of Finance has been the main institutional driver of public sector reform in general and of PFM reform in particular. Also worthy of note is the Government’s initiative to achieve a consensus regarding the priorities of PFM reform through the 2008 Government Action Plan for financial management and procurement reforms (GAP). The process of preparation of the GAP was led by the State Sub-Secretariat for Financial Management (SSEAF), under the Treasury, had the technical support of the World Bank, the IDB and the European Commission, and was presented and discussed among the various international agencies that support the PFM reform process in Paraguay.

As mentioned in Section 2, the GAP, thanks to its good diagnostic and broad scope, is now still an unavoidable reference with regard to the PFM reform agenda in the country. Nevertheless, the GAP would benefit from an updating which considered, for example, the formulation of a series of prioritized measures—suitably agreed between the Government, the main agents of the international financial community, and other interested parties in the PFM reform of the country—based on the consideration of contextual factors, lessons learned from recent years, and the results provided by this assessment.

Annex A.1.1. Comparative Analysis IFA (2004-2006) and PEFA (2007-2009)

Table 1. Summarized analysis of the changes between this assessment and the IFA

| Indicator | Method | IFA | PEFA | Changes in PFM Performance | Other Factors |
|---|--------|-----|------|--|--|
| A. PFM- OUT-TURNS: Credibility of the budget | | | | | |
| PI-1. Aggregate expenditure out-turn compared to original approved budget | M1 | C | C | Deviations 2004-2006: 1.8%; 15.3%; 10.4%. Deviations 2007-2009: 12%; 14.8%; 16.5%. | No |
| Dimension i | | C | C | | |
| PI-2. Composition of expenditure out-turn compared to original approved budget | M1 | B | A | Deviations 2004-2006: 4.5%; 0.3%; 5.6%. Deviations 2007-2009: 1.0%; 0.0%; 0.6%. | No |
| Dimension i | | B | A | | |
| PI-3. Aggregate revenue out-turn compared to original approved budget | M1 | A | B | Proportion 2004-2006: 99.8%; 90.6%; 97.2%. Proportion 2007-2009: 94.6%; 96.3%; 81.2%. | Global economic and financial crisis of late 2008. |
| Dimension i | | A | B | | |
| PI-4. Stock and monitoring of expenditure payment arrears | M1 | C+ | C+ | Arrears 2004-2006: 5.6%; 5.7%; 8.3%. Arrears 2007-2009: 8.2%; 3.6%; 6.1%. | More detailed information is accessed and the calculation methods suggested by the manual are used, instead of the approximate concept of "floating debt". |
| Dimension i | | C | C | | |
| Dimension ii | | B | B | | |
| B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency | | | | | |
| PI-5. Classification of the budget | M1 | B | B | NO | NO |
| Dimension i | | B | B | | |
| PI-6. Comprehensiveness of information included in budget documentation | M1 | C | C | 2006: items 1 (cannot be determined accurately), 4, 6 and 7, listed below, were complied with. 2010: improvements are observed in terms of the estimation of macroeconomic assumptions (item 1), and compliance with items 6 and 7 is corroborated. | It is not possible to determine compliance with item 4 (outstanding debt), in contrast with what was reported in the IFA |
| Dimension i | | C | C | | |
| PI-7. Extent of unreported government operations | M1 | B+ | B | NO | More detailed numerical information is accessed to measure the size of the activities not included in fiscal reports. |
| Dimension i | | A | B | | |
| Dimension ii | | B | B | | |
| PI-8. Transparency of inter-governmental fiscal relations | M2 | D+ | C+ | | |
| Dimension i | | D | A | | More accurate information is accessed on methods of resource allocation to municipalities. |
| Dimension ii | | D | D | | |
| Dimension iii | | B | C | 2006: Consolidation began in 2006, only 50 municipalities consolidate, but these include the "biggest" (approx. 75% of aggregate municipal expenditure). 2009: 188 municipalities consolidate (87% of aggregate municipal expenditure). | It is found that consolidation, although it covers a larger proportion of municipalities, is only ex post, which reduces the rating compared to the IFA. |
| PI-9. Oversight of aggregate fiscal risk from other public sector entities | M1 | C | C▲ | The Government that took office in 2008 created the BPE and the UMEP, seeking greater control and transparency in the management of the country's Public Enterprises. | No |
| Dimension i | | C | C | | |
| Dimension ii | | C | C | | |

| Indicator | Method | IFA | PEFA | Changes in PFM Performance | Other Factors |
|---|-----------|-----------|-----------|---|---|
| PI-10. Public access to key fiscal information | M1 | A | B | No | It was found that information on the clauses "annual budget documentation" and "award of contracts" does not meet all the requirements established in the manual. |
| Dimension i | | A | B | | |
| C. BUDGET CYCLE | | | | | |
| C. i) Policy-Based budgeting | | | | | |
| PI-11. Orderliness and participation in the annual budget process | M2 | A | B+ | No | |
| Dimension i | | A | A | | |
| Dimension ii | | B | C | | Lower rating given in this dim., given that the Cabinet does not participate in the proposal and preparation of budget ceilings. |
| Dimension iii | | A | A | | |
| PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting | M2 | D+ | D+ | | |
| Dimension i | | C | D | | It was not possible to prove the existence of forecasts for the main fiscal aggregates based on economic classification, as reported for 2004-2006. |
| Dimension ii | | C | B | Progress is made in 2009-2010 with the performance of multi-year analyses of fiscal and public debt sustainability (DSA). | |
| Dimension iii | | D | D | | |
| Dimension iv | | D | D | | |
| C. ii) Predictability and Control of Budget Execution | | | | | |
| PI-13. Transparency of taxpayer obligations and liabilities | M2 | C+ | B | | No |
| Dimension i | | B | B | | |
| Dimension ii | | C | B | Evident improvement in terms of taxpayer access to tax information. | |
| Dimension iii | | C | C | | |
| PI-14. Effectiveness of measures for taxpayer registration and tax assessment | M2 | C | C | | No |
| Dimension i | | C | C | | |
| Dimension ii | | C | C | | |
| Dimension iii | | C | C | Increased number of tax audits on "large taxpayers". | |
| PI-15. Effectiveness in collection of tax payments | M1 | D+ | A | | No |
| Dimension i | | A | A | | |
| Dimension ii | | A | A | | |
| Dimension iii | | D | A | Improvement found in terms of tax reconciliations carried out by the SET and the NDC in coordination with the DGT. | |
| PI-16. Predictability in the availability of funds for commitment of expenditures | M1 | C+ | C+ | | No |
| Dimension i | | A | A | | |
| Dimension ii | | A | A | | |
| Dimension iii | | C | C | Annual average: 2004-2006 2007-2009 Changes by law: n/a 47 Changes by dec.: n/a 265 Changes by resol.: 574 937 | |

| Indicator | Method | IFA | PEFA | Changes in PFM Performance | Other Factors |
|---|-----------|-----------|-----------|---|---|
| PI17. Recording and management of cash balances, debt and guarantees | M2 | B+ | B+ | NO | NO |
| Dimension i | | B | B | | |
| Dimension ii | | B | B | | |
| Dimension iii | | A | A | | |
| PI-18. Effectiveness of payroll controls | M1 | D+ | D+ | No | Both assessments refer to the sub-sample of entities using the SINARH for the consideration of dimensions (i) and (ii). |
| Dimension i | | D | D | | |
| Dimension ii | | A | A | | |
| Dimension iii | | C | C | | |
| Dimension iv | | C | C | | |
| PI-19. Competition, value for money and controls in procurement | M2 | B+ | B+ | No | |
| Dimension i | | A | A | | |
| Dimension ii | | B | B | | The 2009 crisis led to the use of less competitive methods, but within the framework established by current legislation. |
| Dimension iii | | B | B | | |
| PI-20. Effectiveness of internal controls for non-salary expenditure | M1 | D+ | C | | No |
| Dimension i | | C | C | | |
| Dimension ii | | D | C | In 2008 the Standard Model of Internal Control of Paraguay (PSICM) was introduced. | |
| Dimension iii | | C | C | | |
| PI-21. Effectiveness of internal audit | M1 | D+ | C | | No |
| Dimension i | | D | C | (a) The use of the Unified Government Audit Manual (UGAM) becomes mandatory; (b) institutional strengthening of the AGE and of the ISICO. | |
| Dimension ii | | C | C | | |
| Dimension iii | | D | C | After the adoption of the UGAM, the annual planning of the ISICO includes the follow-up of the recommendations made. | |
| C. iii) Accounting, Recording and Reporting | | | | | |
| PI-22. Timeliness and regularity of accounts reconciliation | M2 | C+ | B+ | | |
| Dimension i | | C | A | An increase has been found in the number of MDAs integrated in the SICO (see Annex A.3.4) | |
| Dimension ii | | A | B | | With the information available, it is not possible to prove the quarterly reconciliation and compensation of suspense accounts and advances, as reported in the first assessment. |
| PI-23. Availability of information on resources received by service delivery units | M1 | C | D | No | With the information available, it is not possible to prove the existence of "special surveys", as reported in the first assessment. |
| Dimension i | | C | D | | |

| Indicator | Method | IFA | PEFA | Changes in PFM Performance | Other Factors |
|---|-----------|-----------|-----------|----------------------------|---|
| PI-24. Quality and timeliness of in-year budget reports | M1 | C+ | C+ | No | No |
| Dimension i | | A | A | | |
| Dimension ii | | A | A | | |
| Dimension iii | | C | C | | |
| PI-25. Quality and timeliness of annual financial statements | M1 | C+ | C+ | No | |
| Dimension i | | B | A | | The IFA assigns rating "B", on considering the partial consolidation with the financial statements of municipal governments. However, the scope of this indicator refers exclusively to the Central Government. |
| Dimension ii | | A | A | | |
| Dimension iii | | C | C | | |
| C. iv) External Scrutiny and Audit | | | | | |
| PI-26. Scope, nature and follow-up of external audit | M1 | C+ | C | Cannot be determined. | |
| Dimension i | | C | C | | |
| Dimension ii | | B | C | | With regard to "other audit reports") <u>2004-2006</u> : the rating "B" is given with not specific supporting information. <u>2009</u> : the rating "C" is given after the analysis of quantitative information referring to this period. |
| Dimension iii | | C | C | | |
| PI-27. Legislative scrutiny of the annual budget law | M1 | B+ | C+ | No | |
| Dimension i | | B | C | | Access to further information made it possible to determine that the rating "C" is more appropriate for this dimension than the rating "B" assigned by the previous assessment. |
| Dimension ii | | A | A | | |
| Dimension iii | | A | A | | |
| Dimension iv | | A | A | | |
| PI-28. Legislative scrutiny of external audit reports | M1 | D+ | D+ | No | No |
| Dimension i | | D | D | | |
| Dimension ii | | C | C | | |
| Dimension iii | | C | C | | |

| D. DONOR PRACTICES | | | | | |
|---|-----------|-----------|-----------|--|--|
| D-1. Predictability of Direct Budget Support | M1 | C+ | D+ | 2007-2009: The Government and donors have achieved satisfactory results in terms of annual predictability of direct budget support operations. | The individual approval mechanism for external loan and grant operations is still a restriction in this respect. |
| Dimension i | | C | B | | |
| Dimension ii | | A | D | | It was found that IFIs and donors do not provide the Government with quarterly disbursement estimates. |
| Indicator | Method | IFA | PEFA | Changes in PFM Performance | Other Factors |
| D-2. Financial information provided by donors for budgeting and reporting on project and program aid | M1 | D+ | D+ | | |
| Dimension i | | D | C | An improvement is observed on finding that IFIs and donors provide full budget estimates to the DGCPD during the budget preparation process. | |
| Dimension ii | | C | D | | With the available information it is not possible to prove the existence of "quarterly reports on all disbursements made with regard to at least 50% of all budget estimates for externally funded projects", as reported in the first assessment. |
| D-3. Proportion of aid that is managed by use of national procedures | M1 | C | D | Proportion 2004-2006: 60% (approx.). Proportion 2007-2009: 18.3%. | No |
| Dimension i | | C | D | | |

Source: own compilation based on information provided by the SSEAF.

Annex A.1.2. Information sources by indicator

| Indicator | Information sources |
|--|---|
| A. PFM OUT-TURNS: Credibility of the budget | |
| PI-1. Aggregate expenditure out-turn compared to original approved budget | Background information from primary expenditure (forecast and execution) supplied by the DGB. 2009 - 2010 Management Report of the Ministry of Finance. Execution of the Cash Plan by financing source: data supplied by the DGT. |
| PI-2. Composition of expenditure out-turn compared to original approved budget | Background information supplied by the DGB. |
| PI-3. Aggregate revenue out-turn compared to original approved budget | Background information supplied by the DGB. |
| PI-4. Stock and monitoring of expenditure payment arrears | Background information supplied by the DGT. |
| B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency | |
| PI-5. Classification of the budget | Background information supplied by the DGB. |
| PI-6. Comprehensiveness of information included in budget documentation | Bill and message of submission of PGN. |
| PI-7. Extent of unreported government operations | Budget Law, 2009 Financial Report of the DGPA and data from the UMEP. |
| PI-8. Transparency of inter-governmental fiscal relations | Background information supplied by the DGB (data and decree of financial plan) |
| PI-9. Oversight of aggregate fiscal risk from other public sector entities | 2009 Financial Plan of the DGPA (Volume IV, Decentralized Entities and Volume V, Municipalities) and data from the UMEP. www.hacienda.gov.py |
| PI-10. Public access to key fiscal information | www.hacienda.gov.py www.contraloria.gov.py www.contrataciones.gov.py |
| C. BUDGET CYCLE | |
| C. i) Policy-based budgeting | |
| PI-11. Orderliness and participation in the annual budget process | www.hacienda.gov.py |
| PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting | www.hacienda.gov.py/web-presupuesto/index.php?c=32 |
| C. ii) Predictability and Control in Budget Execution | |
| PI-13. Transparency of taxpayer obligations and liabilities | http://www.set.gov.py http://www.dna.gov.py |
| PI-14. Effectiveness of measures for taxpayer registration and tax assessment | http://www.set.gov.py http://www.dna.gov.py |
| PI-15. Effectiveness in collection of tax payments | http://www.set.gov.py http://www.dna.gov.py |
| PI-16. Predictability in the availability of funds for commitment of expenditures | Budget Laws, financial plan Decree and information provided by the DGB and DGT. |
| PI-17. Recording and management of cash balances, debt and guarantees | Constitutional law of the Ministry of Finance, information supplied by the DGCPD and the DGT. |
| PI-18. Effectiveness of payroll controls | Budget draft, budget law regulations and background information supplied by the DGT, SFP, administrator of the SINARH and AGE. |
| PI-19. Competition, value for money and controls in procurement | Procurement law and background information supplied by the NDPP. www.contrataciones.gov.py |
| PI-20. Effectiveness of internal controls for non-salary expenditure | LAFE, budget law, budget law regulations, resolution of the Ministry of Finance 127/2008 (expenditure commitment), PSICM Decree and information supplied by the DGPA. |
| PI-21. Effectiveness of internal audit | LAFE, Decree of missions and functions of the AGE and background information supplied by the AGE and ISICO. www.agpe.gov.py |

| C. iii) Accounting, Recording and Reporting | |
|--|---|
| PI-22. Timeliness and regularity of accounts reconciliation | Background information supplied by the DGPA. |
| PI-23. Availability of information on resources received by service delivery units | Information supplied by the DGB and ISICO of the Ministry of Public Health and Social Welfare. www.hacienda.gov.py www.mspps.gov.py |
| PI-24. Quality and timeliness of in-year budget reports | Background information supplied by the DGPA and DGB, and budget reports. |
| PI-25. Quality and timeliness of annual financial statements | LAFE, LAFE regulatory decree, and background information supplied by the DGPA. www.hacienda.gov.py |
| C. iv) External Scrutiny and Audit | |
| PI-26. Scope, nature and follow-up of external audit | Data supplied by the CGR. www.contraloria.gov.py |
| PI-27. Legislative scrutiny of the annual budget law | National Constitution of Paraguay, LAFE and information supplied by technical advisors of Congress. www.congreso.gov.py www.senado.gov.py www.diputados.gov.py |
| PI-28. Legislative scrutiny of external audit reports | National Constitution of Paraguay, LAFE and information supplied by technical advisors of Congress. www.congreso.gov.py www.senado.gov.py www.diputados.gov.py |
| D. DONOR PRACTICES | |
| D-1. Predictability of Direct Budget Support | Data supplied by IFIs and donors. 2009 Financial Report of the DGPA (Volume VI, Public Debt). |
| D-2. Financial information provided by donors for budgeting and reporting on project and program aid | Data supplied by IFIs and donors. 2009 Financial Report of the DGPA (Volume VI, Public Debt). |
| D-3. Proportion of aid that is managed by use of national procedures | Data supplied by IFIs and donors. 2009 Financial Report of the DGPA (Volume VI, Public Debt). |

Source: own compilation.

Annex A.3.1. Supplementary information for the analysis of indicator PI-1

Table 1. Central Administration, monthly comparison between financial plan, cash plan and execution, 2009

| Source of funding | In billion G\$ | | | | In % of the financial plan | | | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------------------|--------------|--------------|--------------|
| | FP | CP requested | CP approved | Required | FP | CP requested | CP approved | Required |
| FF10: treasury resources | 672.7 | 671.8 | 671.7 | 668.7 | 100.0% | 99.9% | 99.9% | 99.4% |
| FF20: credit resources | 0.2 | 0.2 | 0.2 | 0.2 | 100.0% | 100.0% | 100.0% | 100.0% |
| FF30: institutional resources | 101.8 | 101.8 | 101.8 | 101.8 | 100.0% | 100.0% | 100.0% | 100.0% |
| January 2009 | 774.7 | 773.8 | 773.7 | 770.8 | 100.0% | 99.9% | 99.9% | 99.5% |
| FF10: treasury resources | 814.0 | 730.9 | 721.3 | 223.6 | 100.0% | 89.8% | 88.6% | 27.5% |
| FF20: credit resources | 70.7 | 3.5 | 3.5 | 0.0 | 100.0% | 5.0% | 5.0% | 0.0% |
| FF30: institutional resources | 280.9 | 229.8 | 212.8 | 78.9 | 100.0% | 81.8% | 75.8% | 28.1% |
| February 2009 | 1,165.6 | 964.2 | 937.6 | 302.5 | 100.0% | 82.7% | 80.4% | 26.0% |
| FF10: treasury resources | 1,531.7 | 1,039.4 | 989.9 | 846.9 | 100.0% | 67.9% | 64.6% | 55.3% |
| FF20: credit resources | 190.7 | 138.5 | 138.5 | 96.8 | 100.0% | 72.6% | 72.6% | 50.7% |
| FF30: institutional resources | 336.2 | 284.9 | 284.9 | 178.3 | 100.0% | 84.7% | 84.7% | 53.0% |
| March 2009 | 2,058.6 | 1,462.8 | 1,413.2 | 1,122.0 | 100.0% | 71.1% | 68.7% | 54.5% |
| FF10: treasury resources | 1,669.2 | 1,062.5 | 1,052.0 | 837.4 | 100.0% | 63.7% | 63.0% | 50.2% |
| FF20: credit resources | 190.8 | 96.1 | 96.1 | 59.3 | 100.0% | 50.4% | 50.4% | 31.1% |
| FF30: institutional resources | 384.3 | 261.3 | 261.3 | 131.5 | 100.0% | 68.0% | 68.0% | 34.2% |
| April 2009 | 2,244.2 | 1,419.9 | 1,409.4 | 1,028.2 | 100.0% | 63.3% | 62.8% | 45.8% |
| FF10: treasury resources | 2,083.0 | 1,152.3 | 1,146.3 | 907.7 | 100.0% | 55.3% | 55.0% | 43.6% |
| FF20: credit resources | 303.1 | 100.2 | 100.2 | 43.4 | 100.0% | 33.1% | 33.1% | 14.3% |
| FF30: institutional resources | 503.8 | 279.4 | 279.4 | 140.0 | 100.0% | 55.5% | 55.5% | 27.8% |
| May 2009 | 2,889.8 | 1,531.9 | 1,525.9 | 1,091.0 | 100.0% | 53.0% | 52.8% | 37.8% |
| FF10: treasury resources | 2,205.6 | 1,244.3 | 1,214.5 | 946.6 | 100.0% | 56.4% | 55.1% | 42.9% |
| FF20: credit resources | 446.3 | 202.6 | 202.6 | 148.7 | 100.0% | 45.4% | 45.4% | 33.3% |
| FF30: institutional resources | 573.9 | 314.4 | 314.4 | 138.7 | 100.0% | 54.8% | 54.8% | 24.2% |
| June 2009 | 3,225.8 | 1,761.3 | 1,731.5 | 1,234.0 | 100.0% | 54.6% | 53.7% | 38.3% |
| FF10: treasury resources | 1,941.1 | 1,281.5 | 1,161.6 | 887.1 | 100.0% | 66.0% | 59.8% | 45.7% |
| FF20: credit resources | 353.1 | 149.0 | 149.0 | 70.3 | 100.0% | 42.2% | 42.2% | 19.9% |
| FF30: institutional resources | 708.8 | 330.4 | 330.4 | 145.4 | 100.0% | 46.6% | 46.6% | 20.5% |
| July 2009 | 3,003.0 | 1,761.0 | 1,641.1 | 1,102.9 | 100.0% | 58.6% | 54.6% | 36.7% |
| FF10: treasury resources | 2,081.5 | 1,371.4 | 1,142.2 | 948.2 | 100.0% | 65.9% | 54.9% | 45.6% |
| FF20: credit resources | 402.0 | 217.7 | 217.7 | 104.7 | 100.0% | 54.2% | 54.2% | 26.0% |
| FF30: institutional resources | 738.3 | 416.5 | 416.5 | 146.6 | 100.0% | 56.4% | 56.4% | 19.9% |
| August 2009 | 3,221.8 | 2,005.6 | 1,776.4 | 1,199.5 | 100.0% | 62.3% | 55.1% | 37.2% |
| FF10: treasury resources | 2,210.5 | 1,335.8 | 1,141.2 | 994.0 | 100.0% | 60.4% | 51.6% | 45.0% |
| FF20: credit resources | 536.2 | 291.4 | 281.4 | 178.9 | 100.0% | 54.3% | 52.5% | 33.4% |
| FF30: institutional resources | 872.4 | 522.4 | 522.4 | 180.8 | 100.0% | 59.9% | 59.9% | 20.7% |
| September 2009 | 3,619.1 | 2,149.6 | 1,945.0 | 1,353.6 | 100.0% | 59.4% | 53.7% | 37.4% |
| FF10: treasury resources | 2,205.7 | 1,259.5 | 1,039.8 | 887.3 | 100.0% | 57.1% | 47.1% | 40.2% |
| FF20: credit resources | 651.7 | 334.0 | 334.0 | 217.2 | 100.0% | 51.2% | 51.2% | 33.3% |
| FF30: institutional resources | 906.2 | 553.1 | 553.1 | 202.3 | 100.0% | 61.0% | 61.0% | 22.3% |
| October 2009 | 3,763.6 | 2,146.6 | 1,926.8 | 1,306.8 | 100.0% | 57.0% | 51.2% | 34.7% |
| FF10: treasury resources | 1,477.7 | 1,004.3 | 998.5 | 793.5 | 100.0% | 68.0% | 67.6% | 53.7% |
| FF20: credit resources | 492.3 | 293.9 | 293.9 | 191.3 | 100.0% | 59.7% | 59.7% | 38.9% |
| FF30: institutional resources | 716.6 | 442.5 | 442.5 | 231.3 | 100.0% | 61.7% | 61.7% | 32.3% |
| November 2009 | 2,686.6 | 1,740.7 | 1,734.8 | 1,216.1 | 100.0% | 64.8% | 64.6% | 45.3% |
| FF10: treasury resources | 2,734.0 | 2,273.1 | 2,227.9 | 1,938.6 | 100.0% | 83.1% | 81.5% | 70.9% |
| FF20: credit resources | 1,048.6 | 780.8 | 780.8 | 574.2 | 100.0% | 74.5% | 74.5% | 54.8% |
| FF30: institutional resources | 1,142.2 | 807.5 | 807.5 | 434.9 | 100.0% | 70.7% | 70.7% | 38.1% |
| December 2009 | 4,924.8 | 3,861.4 | 3,816.2 | 2,947.7 | 100.0% | 78.4% | 77.5% | 59.9% |

Source: own compilation based on information provided by the SSEAF.

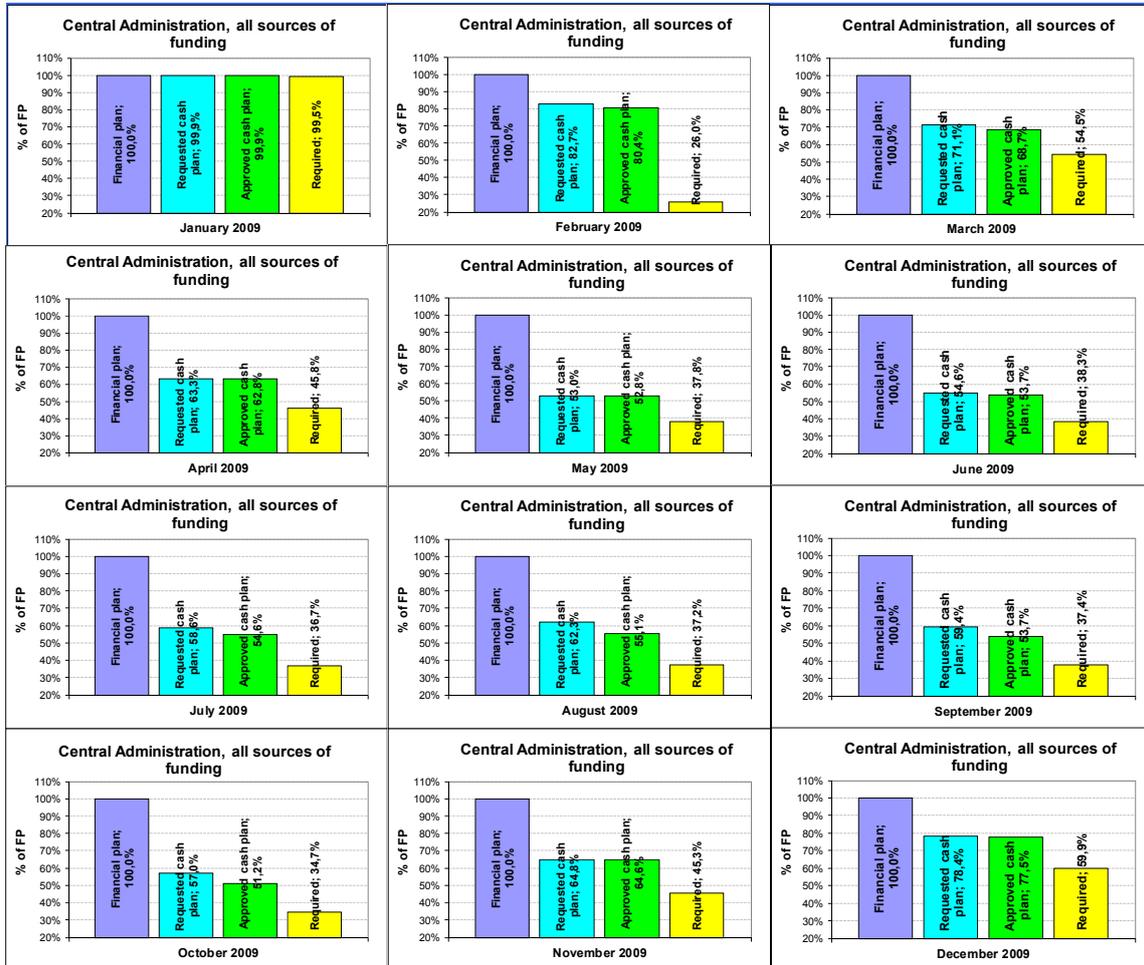
Financial plan: is the maximum limit for commitments in the month represented by payment obligations. It is prepared bearing in mind the actual financing possibilities of the approved budget, established in the financial programming and institutional prioritization.

Requested cash plan: requirement of the entities for the obligation of commitments arising from procurement processes for the purchase of goods and services within the amount established in the Financial Plan.

Approved cash plan: is the short-term programming instrument of the Treasury. It is planned quarterly and adjusted and executed monthly based on the allocation of expenditure quotas to each Entity (FMU), by financing source and by areas of financial control levels. This allocation is the monthly limit of institutions to incur obligations and request resources.

Required: stage of budget execution. Payment commitment resulting from a financial legal bond between a State Agency or Entity and a natural or legal person. In terms of purchasing of goods and services, it generally represents the time at which the goods and/or services have been provided and there is an invoice presented and claimed by the supplier and/or contractor.

Graph 1. Central Administration, monthly comparison between financial plan, cash plan and execution, 2009



Source: own compilation based on information provided by the SSEAF.

Table 2. Expenditure deviations, economic classification, 2007-2009

**I. Central Government of Paraguay: Central Administration + Decentralized Administration
Expenditure deviations 2007, billion G\$**

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 13.022,5 | 87,0 | 13.109,6 | 0,7% | 11.850,9 | -9,0% | -9,6% |
| Capital expenditure | 10.298,0 | 900,7 | 11.198,7 | 8,7% | 8.190,9 | -20,5% | -26,9% |
| Total expenditure (2) | 23.320,6 | 987,7 | 24.308,3 | 4,2% | 20.041,8 | -14,1% | -17,6% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

Expenditure deviations 2008, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 15.319,2 | 48,5 | 15.367,6 | 0,3% | 13.515,3 | -11,8% | -12,1% |
| Capital expenditure | 12.749,9 | 2.547,2 | 15.297,2 | 20,0% | 9.273,6 | -27,3% | -39,4% |
| Total expenditure (2) | 28.069,1 | 2.595,7 | 30.664,8 | 9,2% | 22.788,9 | -18,8% | -25,7% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

Expenditure deviations 2009, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 17.446,8 | 373,3 | 17.820,1 | 2,1% | 15.721,8 | -9,9% | -11,8% |
| Capital expenditure | 16.120,3 | 2.800,2 | 18.920,5 | 17,4% | 11.619,0 | -27,9% | -38,6% |
| Total expenditure (2) | 33.567,1 | 3.173,5 | 36.740,7 | 9,5% | 27.340,8 | -18,5% | -25,6% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

II. Central Administration

Expenditure deviations 2007, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 8.349,0 | 160,4 | 8.509,3 | 1,9% | 7.950,3 | -4,8% | -6,6% |
| Capital expenditure | 3.169,6 | 389,7 | 3.559,3 | 12,3% | 2.328,1 | -26,5% | -34,6% |
| Total expenditure (2) | 11.518,6 | 550,1 | 12.068,6 | 4,8% | 10.278,4 | -10,8% | -14,8% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

Expenditure deviations 2008, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 9.811,5 | 24,5 | 9.836,0 | 0,2% | 8.959,8 | -8,7% | -8,9% |
| Capital expenditure | 3.931,3 | 249,6 | 4.180,9 | 6,3% | 2.005,2 | -49,0% | -52,0% |
| Total expenditure (2) | 13.742,8 | 274,1 | 14.016,9 | 2,0% | 10.965,0 | -20,2% | -21,8% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

Expenditure deviations 2009, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 11.034,5 | 358,9 | 11.393,4 | 3,3% | 10.604,3 | -3,9% | -6,9% |
| Capital expenditure | 3.574,7 | 1.649,1 | 5.223,7 | 46,1% | 3.280,1 | -8,2% | -37,2% |
| Total expenditure (2) | 14.609,2 | 2.008,0 | 16.617,1 | 13,7% | 13.884,4 | -5,0% | -16,4% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

III. Decentralized administration

Expenditure deviations 2007, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 4.673,6 | -73,3 | 4.600,3 | -1,6% | 3.900,6 | -16,5% | -15,2% |
| Capital expenditure | 7.128,4 | 511,0 | 7.639,4 | 7,2% | 5.862,8 | -17,8% | -23,3% |
| Total expenditure (2) | 11.802,0 | 437,7 | 12.239,7 | 3,7% | 9.763,4 | -17,3% | -20,2% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

Expenditure deviations 2008, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 5.507,7 | 23,9 | 5.531,6 | 0,4% | 4.555,5 | -17,3% | -17,6% |
| Capital expenditure | 8.818,6 | 2.297,6 | 11.116,2 | 26,1% | 7.268,3 | -17,6% | -34,6% |
| Total expenditure (2) | 14.326,3 | 2.321,5 | 16.647,9 | 16,2% | 11.823,8 | -17,5% | -29,0% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

Expenditure deviations 2009, billion G\$

| | Budget law (a) | changes (b) (1) | Current budget (c)=(a)+(b) | variation % Budget law | executed (d) | deviation (d) vs. (a) | deviation (d) vs. (c) |
|--------------------------------------|-------------------|--------------------|----------------------------------|---------------------------|-----------------|-----------------------------|-----------------------------|
| Current expenditure | 6.412,3 | 14,4 | 6.426,8 | 0,2% | 5.117,5 | -20,2% | -20,4% |
| Capital expenditure | 12.545,7 | 1.151,1 | 13.696,8 | 9,2% | 8.338,9 | -33,5% | -39,1% |
| Total expenditure (2) | 18.958,0 | 1.165,5 | 20.123,5 | 6,1% | 13.456,4 | -29,0% | -33,1% |

Source: own compilation based on information provided by the SSEAF.

(1) Changes introduced in the Budget Law during the fiscal year. (2) Excluding amortization of debt capital.

I. Central Government of Paraguay: CA + DA, 2007 – 2009, in %

| | deviation 2007 | deviation 2008 | deviation 2009 | Mean deviation 2007-2009 |
|------------------------------|----------------|----------------|----------------|--------------------------|
| Current expenditure | -9,0% | -11,8% | -9,9% | -10,2% |
| Capital expenditure | -20,5% | -27,3% | -27,9% | -25,2% |
| Total expenditure (1) | -14,1% | -18,8% | -18,5% | -17,1% |

Source: own compilation based on information provided by the SSEAF.

(1) Excluding amortization of debt capital.

II. Central Administration, 2007 – 2009, in %

| | deviation 2007 | deviation 2008 | deviation 2009 | Mean deviation 2007-2009 |
|------------------------------|----------------|----------------|----------------|--------------------------|
| Current expenditure | -4,8% | -8,7% | -3,9% | -5,8% |
| Capital expenditure | -26,5% | -49,0% | -8,2% | -27,9% |
| Total expenditure (1) | -10,8% | -20,2% | -5,0% | -12,0% |

Source: own compilation based on information provided by the SSEAF.

(1) Excluding amortization of debt capital.

III. Decentralized Administration, 2007 – 2009, in %

| | deviation 2007 | deviation 2008 | deviation 2009 | Mean deviation 2007-2009 |
|------------------------------|----------------|----------------|----------------|--------------------------|
| Current expenditure | -16,5% | -17,3% | -20,2% | -18,0% |
| Capital expenditure | -17,8% | -17,6% | -33,5% | -23,0% |
| Total expenditure (1) | -17,3% | -17,5% | -29,0% | -21,3% |

Source: own compilation based on information provided by the SSEAF.

(1) Excluding amortization of debt capital.

Annex A.3.2. Supplementary information for the analysis of indicator PI-2

Table 1: Deviations of the primary expenditure of the Central Government, administrative classification, 2007-2009

Central Government of Paraguay: Deviations 2007, 20 highest weighted entities, billion G\$

| Entity | Budget Law (a) | Current Budget (b) | Executed (c) | Absolute deviation (c) – (a) | Percentage deviation Abs ((c) – (a))/(a) |
|--|-------------------|--------------------------|-----------------|------------------------------------|---|
| Petróleos Paraguayos (PETROPAR) | 3.842,9 | 3.842,9 | 3.056,4 | -786,5 | 20,5% |
| Ministry of Finance | 3.477,7 | 3.675,7 | 3.060,2 | -417,5 | 12,0% |
| National Electricity Administration (ANDE) | 2.203,1 | 2.227,3 | 1.900,0 | -303,1 | 13,8% |
| Ministry of Education and Culture | 1.837,1 | 1.903,1 | 1.861,9 | 24,8 | 1,3% |
| Social Security Institute (SSI) | 1.786,1 | 1.786,4 | 1.435,1 | -351,0 | 19,7% |
| Ministry of Public Health and Social Welfare | 1.179,9 | 1.188,9 | 973,8 | -206,1 | 17,5% |
| Ministry of Interior | 637,7 | 641,5 | 635,7 | -2,0 | 0,3% |
| National Development Bank (BNF) | 618,8 | 655,1 | 590,9 | -27,9 | 4,5% |
| Min. of Public Works and Communications | 582,0 | 586,3 | 454,0 | -128,0 | 22,0% |
| Ministry of National Defense | 469,2 | 504,3 | 476,4 | 7,2 | 1,5% |
| National University of Asuncion | 440,6 | 490,6 | 430,3 | -10,3 | 2,3% |
| Supreme Court | 355,0 | 379,3 | 325,5 | -29,5 | 8,3% |
| Central Bank of Paraguay (BCP) | 294,6 | 294,6 | 187,3 | -107,3 | 36,4% |
| National Cement Industry (NCI) | 282,7 | 282,7 | 228,7 | -54,0 | 19,1% |
| Retired Bank Employees Pension fund | 278,8 | 278,8 | 234,9 | -43,9 | 15,7% |
| Presidency of the Republic | 235,1 | 350,1 | 311,6 | 76,5 | 32,5% |
| Ministry of Foreign Affairs | 203,5 | 203,8 | 180,5 | -23,0 | 11,3% |
| Ministry of Agriculture and Farming | 180,4 | 182,3 | 157,9 | -22,5 | 12,5% |
| Public Ministry | 177,5 | 195,9 | 177,9 | 0,4 | 0,2% |
| Retired ANDE Staff Pension fund | 141,2 | 141,2 | 120,2 | -21,0 | 14,8% |
| Other entities | 1.901,9 | 2.342,6 | 1.792,5 | -109,4 | 5,8% |
| Total primary expenditure | 21.125,8 | 22.153,3 | 18.591,7 | -2.534,0 | 12,0% |
| Variance in primary expenditure composition | | | | | 13,0% |

Source: own compilation based on information provided by the SSEAF.

Central Government of Paraguay: Deviations 2008, 20 highest weighted entities, billion G\$

| Entity | Budget Law (a) | Current Budget (b) | Executed (c) | Absolute deviation (c) – (a) | Percentage deviation Abs ((c) – (a))/(a) |
|--|-------------------|--------------------------|-----------------|------------------------------------|---|
| Petróleos Paraguayos (PETROPAR) | 4.246,8 | 5.819,6 | 4.248,7 | 1,8 | 0,0% |
| Ministry of Finance | 3.610,0 | 3.627,9 | 3.078,8 | -531,2 | 14,7% |
| National Electricity Administration (ANDE) | 2.640,5 | 2.658,3 | 2.014,8 | -625,7 | 23,7% |
| Ministry of Education and Culture | 2.406,9 | 2.406,9 | 1.682,9 | -724,0 | 30,1% |
| Social Security Institute (SSI) | 2.301,5 | 2.313,0 | 2.233,7 | -67,9 | 2,9% |
| Ministry of Public Health and Social Welfare | 1.288,9 | 1.294,3 | 1.016,3 | -272,6 | 21,2% |
| Ministry of Interior | 821,9 | 861,9 | 679,9 | -142,0 | 17,3% |
| National Development Bank (BNF) | 751,6 | 755,9 | 732,2 | -19,3 | 2,6% |
| Min. of Public Works and Communications | 589,2 | 571,2 | 384,5 | -204,6 | 34,7% |
| Ministry of National Defense | 572,8 | 578,1 | 536,7 | -36,1 | 6,3% |
| National University of Asuncion | 557,8 | 559,9 | 497,7 | -60,0 | 10,8% |
| Supreme Court | 480,0 | 368,6 | 294,7 | -185,3 | 38,6% |
| Central Bank of Paraguay (BCP) | 420,2 | 421,3 | 373,2 | -47,0 | 11,2% |
| National Cement Industry (NCI) | 346,3 | 378,5 | 317,4 | -29,0 | 8,4% |
| Retired Bank Employees Pension fund | 310,8 | 341,1 | 229,7 | -81,1 | 26,1% |
| Presidency of the Republic | 299,2 | 336,7 | 288,6 | -10,6 | 3,5% |
| Ministry of Foreign Affairs | 217,9 | 217,9 | 193,5 | -24,4 | 11,2% |
| Ministry of Agriculture and Farming | 214,4 | 214,4 | 143,7 | -70,7 | 33,0% |
| Public Ministry | 211,5 | 212,0 | 197,5 | -14,1 | 6,6% |
| Retired ANDE Staff Pension fund | 205,5 | 208,6 | 182,0 | -23,5 | 11,4% |
| Other entities | 2.550,7 | 2.626,3 | 2.012,6 | -538,1 | 21,1% |
| Total primary expenditure | 25.044,4 | 26.772,3 | 21.339,2 | -3.705,2 | 14,79% |
| Variance in primary expenditure composition | | | | | 14,81% |

Source: own compilation based on information provided by the SSEAF.

Central Government of Paraguay: Deviations 2009, 20 highest weighted entities, billion G\$

| Entity | Budget Law (a) | Current Budget (b) | Executed (c) | Absolute deviation (c) – (a) | Percentage deviation Abs ((c) – (a))/(a) |
|--|-------------------|--------------------------|-----------------|------------------------------------|---|
| Petróleos Paraguayos (PETROPAR) | 6.700,4 | 6.700,4 | 3.950,5 | -2.749,9 | 41,0% |
| Ministry of Finance | 3.794,8 | 4.151,8 | 3.742,9 | -51,9 | 1,4% |
| National Electricity Administration (ANDE) | 3.066,7 | 3.219,6 | 2.605,3 | -461,5 | 15,0% |
| Ministry of Education and Culture | 2.683,2 | 2.683,2 | 1.868,7 | -814,5 | 30,4% |
| Social Security Institute (SSI) | 2.508,3 | 2.556,1 | 2.496,8 | -11,5 | 0,5% |
| Ministry of Public Health and Social Welfare | 1.593,2 | 1.692,8 | 1.471,5 | -121,7 | 7,6% |
| Ministry of Interior | 980,3 | 998,5 | 967,1 | -13,2 | 1,3% |
| National Development Bank (BNF) | 845,6 | 1.175,0 | 929,3 | 83,7 | 9,9% |
| Min. of Public Works and Communications | 625,6 | 652,7 | 610,1 | -15,6 | 2,5% |
| Ministry of National Defense | 623,6 | 623,6 | 561,1 | -62,5 | 10,0% |
| National University of Asuncion | 537,5 | 610,9 | 550,5 | 13,0 | 2,4% |
| Supreme Court | 495,4 | 546,7 | 422,5 | -72,9 | 14,7% |
| Central Bank of Paraguay (BCP) | 492,9 | 588,5 | 472,4 | -20,6 | 4,2% |
| National Cement Industry (NCI) | 486,4 | 525,5 | 478,0 | -8,5 | 1,7% |
| Retired Bank Employees Pension fund | 429,9 | 429,9 | 353,5 | -76,3 | 17,8% |
| Presidency of the Republic | 328,6 | 328,3 | 226,4 | -102,3 | 31,1% |
| Ministry of Foreign Affairs | 307,8 | 307,8 | 239,3 | -68,4 | 22,2% |
| Ministry of Agriculture and Farming | 272,6 | 272,6 | 163,5 | -109,1 | 40,0% |
| Public Ministry | 268,9 | 276,1 | 250,0 | -18,9 | 7,0% |
| Retired ANDE Staff Pension fund | 242,7 | 252,7 | 233,3 | -9,4 | 3,9% |
| Other entities | 2.883,4 | 3.160,4 | 2.598,4 | -285,0 | 9,9% |
| Total primary expenditure | 30.167,9 | 31.753,1 | 25.191,0 | -4.976,8 | 16,5% |
| Variance in primary expenditure composition | | | | | 17,1% |

Source: own compilation based on information provided by the SSEAF.

Annex A.3.3. Supplementary information for the analysis of indicator PI-3

Table 1: Central Administration: actual revenue as a proportion of budgeted revenue, 2007-2009 (*)

| Year | Budget law ¹ (billion G\$) | Actual revenue (billion G\$) | Actual revenue/budgeted revenue (%) |
|------|--|---------------------------------|--|
| 2007 | 10.672,6 | 10.645,4 | 99,7% |
| 2008 | 11.690,0 | 12.508,3 | 107,0% |
| 2009 | 13.646,9 | 13.580,1 | 99,5% |

Source: own compilation based on information provided by the SSEAF.

(*) domestic revenue only (excluding grants and external funding).

¹ Budget Laws 2007-2009.

Table 2: Decentralized administration: actual revenue as a proportion of budgeted revenue, 2007-2009 (*)

| Year | Budget law ¹ (billion G\$) | Actual revenue (billion G\$) | Actual revenue/budgeted revenue (%) |
|------|--|---------------------------------|--|
| 2007 | 11.064,6 | 9.914,5 | 89,6% |
| 2008 | 13.169,1 | 11.425,4 | 86,8% |
| 2009 | 17.274,6 | 11.542,3 | 66,8% |

Source: own compilation based on information provided by the SSEAF.

(*) domestic revenue only (excluding grants and external funding).

¹ Budget Laws 2007-2009.

Table 2. Central Government, entities that use SICO/SIPP, SITE and SINARH

| ENTITIES | SICO/SIPP | SITE | SINARH (file module) |
|--|------------|------------|----------------------|
| 1. Central Administration | | | |
| 11 LEGISLATURE | | | |
| 11 01 National Congress | Integrated | Integrated | Uses SINARH |
| 11 02 Senate | Integrated | Integrated | Uses SINARH |
| 11 03 House of Representatives | Integrated | Integrated | Uses SINARH |
| 12 EXECUTIVE | | | |
| 12 01 Presidency of the Republic | Integrated | Integrated | Uses SINARH |
| 12 02 Vice-Presidency of the Republic | Integrated | Integrated | Uses SINARH |
| 12 03 Ministry of Interior | Integrated | Integrated | Uses SINARH |
| 12 04 Ministry of Foreign Affairs | Integrated | Integrated | Uses SINARH |
| 12 05 Ministry of Defense | Integrated | Integrated | Uses SINARH |
| 12 06 Ministry of Finance | Integrated | Integrated | Uses SINARH |
| 12 07 Ministry of Education and Culture | Integrated | Integrated | Uses SINARH |
| 12 08 Ministry of Public Health and Social Welfare | Integrated | Integrated | Uses SINARH |
| 12 09 Ministry of Justice and Labor | Integrated | Integrated | Uses SINARH |
| 12 10 Ministry of Agriculture and Farming | Integrated | Integrated | Uses SINARH |
| 12 11 Ministry of Trade and Industry | Integrated | Integrated | Uses SINARH |
| 12 13 Ministry of Public Works and Communications | Integrated | Integrated | Uses SINARH |
| 13 JUDICIARY | | | |
| 13 01 Supreme Court | Integrated | Integrated | Uses SINARH |
| 13 02 Electoral Justice | Integrated | Integrated | Uses SINARH |
| 13 03 Public Ministry | Integrated | Integrated | Uses SINARH |
| 13 04 Judicial Council | Integrated | Integrated | Uses SINARH |
| 13 05 Magistrates Trial Jury | Integrated | Integrated | Uses SINARH |
| 14 NATIONAL AUDIT OFFICE | | | |
| 14 01 National Audit Office | Integrated | Integrated | Uses SINARH |
| 14 02 Ombudsman | Integrated | Integrated | Uses SINARH |
| 2. Decentralized administration | | | |
| 21 CENTRALSTATE BANK | | | |
| 21 01 Central Bank of Paraguay | Migrates | | Does not use SINARH |
| 22 DEPARTMENTAL GOVERNMENTS | | | |
| 22 01 Department of Concepción | Integrated | | Does not use SINARH |
| 22 02 Department of San Pedro | Integrated | | Does not use SINARH |
| 22 03 Department of Cordillera | Integrated | | Does not use SINARH |
| 22 04 Department Guairá | Integrated | | Does not use SINARH |
| 22 05 Department Caaguazú | Integrated | | Does not use SINARH |
| 22 06 Department of Caazapá | Integrated | | Does not use SINARH |
| 22 07 Department of Itapúa | Integrated | | Does not use SINARH |
| 22 08 Department of Misiones | Integrated | | Does not use SINARH |
| 22 09 Department Paraguari | Integrated | | Does not use SINARH |
| 22 10 Department Alto Paraná | Integrated | | Does not use SINARH |
| 22 11 Department Central | Integrated | | Does not use SINARH |
| 22 12 Department Ñeembucu | Integrated | | Does not use SINARH |
| 22 13 Department Amambay | Integrated | | Does not use SINARH |
| 22 14 Department Canindeyú | Integrated | | Does not use SINARH |
| 22 15 Department President Hayes | Integrated | | Does not use SINARH |
| 22 16 Department Alto Paraguay | Integrated | | Does not use SINARH |
| 22 17 Department Boquerón | Integrated | | Does not use SINARH |

| ENTITIES | SICO/SIPP | SITE | SINARH (file module) |
|--|------------|----------------------|----------------------|
| 23 PROMOTION AND DEVELOPMENT AGENCIES | | | |
| 23 01 National Institute of Technology and Standards | Integrated | Integrated from 2010 | Uses SINARH |
| 23 02 National Housing Board | Integrated | | Does not use SINARH |
| 23 03 National Institute of Rural Development and Land | Integrated | Integrated from 2010 | Does not use SINARH |
| 23 04 National Directorate of Welfare | Integrated | | Does not use SINARH |
| 23 06 National Indian Institute | Integrated | | Does not use SINARH |
| 23 08 National Fund for Culture and Arts | Integrated | | Does not use SINARH |
| 23 09 National Securities Commission | Integrated | Integrated from 2010 | Uses SINARH |
| 23 10 National Commission for Telecommunications | Integrated | | Does not use SINARH |
| 23 11 National Directorate of Transport | Integrated | | Does not use SINARH |
| 23 12 Secretariat of Transport for the Metropolitan Area of Asuncion | Integrated | | Does not use SINARH |
| 23 13 Health Services Regulator | Integrated | | Does not use SINARH |
| 23 14 National Institute of Cooperatives | Integrated | | Uses SINARH |
| 23 15 National Directorate of Customs | Integrated | | Does not use SINARH |
| 23 16 National Animal Quality and Health Service | Integrated | Integrated | Uses SINARH |
| 23 17 Paraguayan Institute of Crafts | Integrated | Integrated from 2010 | Uses SINARH |
| 23 18 National Vegetable and Seed Quality Service | Integrated | | Uses SINARH |
| 23 19 National Directorate of Procurement | Integrated | | Does not use SINARH |
| 23 20 National Forestry Institute | Integrated | Integrated from 2010 | Uses SINARH |
| 24 SOCIAL SECURITY ENTITIES | | | |
| 24 01 Social Security Institute | Integrated | | Uses SINARH |
| 24 02 Railway Employees and Workers Social Security Fund | Integrated | | Does not use SINARH |
| 24 03 ANDE Staff Retirement and Pension Fund | Migrates | | Does not use SINARH |
| 24 04 Bank Employees Retirement and Pension Fund | Integrated | | Does not use SINARH |
| 24 05 Municipal Staff Retirement and Pension Fund | Migrates | | Does not use SINARH |
| 25 PUBLIC ENTERPRISES | | | |
| 25 02 National Electricity Administration | Migrates | | Does not use SINARH |
| 25 04 National Administration of Shipping and Ports | Migrates | | Uses SINARH |
| 25 05 National Directorate of Civil Aviation | Migrates | | Does not use SINARH |
| 25 06 Petróleos Paraguayos | Migrates | | Does not use SINARH |
| 25 07 National Cement Industry | Migrates | | Does not use SINARH |
| 27 OFFICIAL FINANCIAL INSTITUTIONS | | | |
| 27 01 National Development Bank | Migrates | | Does not use SINARH |
| 27 03 Crédito Agrícola de Habilitación | Migrates | | Does not use SINARH |
| 27 04 Livestock Fund | Migrates | | Does not use SINARH |
| 27 05 Ministry of Defense Loan Fund | Migrates | | Does not use SINARH |
| 27 07 Financial Development Agency | Migrates | | Does not use SINARH |
| 28 EDUCATIONAL INSTITUTIONS | | | |

| ENTITIES | SICO/SIPP | SITE | SINARH (file module) |
|--|------------|----------------------|----------------------|
| 28 01 National University of Asuncion | Integrated | Integrated from 2010 | Uses SINARH |
| 28 02 National University of the East | Integrated | Integrated from 2010 | Uses SINARH |
| 28 03 National University of El Pilar | Integrated | Integrated from 2010 | Does not use SINARH |
| 28 04 National University of Itapúa | Integrated | Integrated from 2010 | Does not use SINARH |
| 28 05 National University of Concepción | Integrated | Integrated from 2010 | Does not use SINARH |
| 28 06 National University of Villarrica del Espíritu Santo | Integrated | Integrated from 2010 | Does not use SINARH |
| 28 07 National University of Caaguazú | Integrated | Integrated from 2010 | Does not use SINARH |

Source: own compilation based on information provided by the SSEAF.

SICO: Integrated Accounting System.

SIPP: Integrated Budget Programming System.

SITE: Integrated Treasury System.

SINARH: National System of Human Resources.

Table 3: Summary of the scope of financial management systems

| SICO/SIPP | Number of entities | 2009 Budget (billion G\$) | In % (amount) |
|---------------------------------|--------------------|---------------------------|---------------|
| Integrated | 67 | 21.352,5 | 61% |
| Migrate data | 13 | 13.936,4 | 39% |
| Total Central Government | 80 | 35.288,9 | 100% |

Source: own compilation based on information provided by the SSEAF.

| SITE | Number of entities | In % |
|-------------------------------------|--------------------|-------------|
| Integrated in 2009 | 23 | 45% |
| Integrated since 2010 | 12 | 3% |
| Total integrated in the SITE | 35 | 48% |
| Total Central Government | 80 | 100% |

Source: own compilation based on information provided by the SSEAF.

| SINARH (file module) | Number of entities | 2009 Budget (billion G\$) | In % (amount) |
|---------------------------------|--------------------|---------------------------|---------------|
| Uses SINARH | 33 | 19.581,9 | 55% |
| Does not use SINARH | 47 | 15.707,1 | 45% |
| Total Central Government | 80 | 35.288,9 | 100% |

Source: own compilation based on information provided by the SSEAF.

Annex A.3.5. Supplementary information for the analysis of indicator PI-7

Information on grants of a selected group of IFIs and Donors¹ Years 2007-2009 (in USD)

| Donor name | According to DMFAS | According to IFIs and donors |
|--------------------|--------------------|------------------------------|
| EUROPEAN COMMUNITY | 49.215.000 | 52.741.959 |
| GTZ | 10.611.000 | 10.346.993 |
| IDB | 9.381.000 | 9.627.494 |
| BIRF ¹² | 1.665.000 | 3.049.270 |
| JICA | - | 46.383 |
| AECID | 2.233.000 | 36.366.361 |
| Total | 73.105.000 | 112.178.460 |

¹¹ Product of an exercise of comparison of DMFAS and donor records.

¹² In the donor information, the amount considered corresponds to the fiscal year in accordance with the definition of the entity (from 1 July to 30 June).

Source: own compilation based on information provided by the SSEAF and donors.

Annex A.3.6. Supplementary information for the analysis of indicator PI-9

Table 1. Public Enterprises of Paraguay, billion G\$

| | Public enterprises | Expenditure 2009 ¹ (G\$) | In % | Audit report 2008 | Performance Management Contract ² |
|-----------------|--|-------------------------------------|---------------|-------------------|--|
| I. | Public Enterprises included in Budget law: | | | | |
| | Public enterprises | | | | |
| 1 | National Electricity Administration (ANDE) | 2.740,3 | 32,6% | YES | In preparation |
| 2 | National Administration of Shipping and Ports (NASP) | 109,3 | 1,3% | | In preparation |
| 3 | National Directorate of Civil Aviation (NDCA) | 130,3 | 1,5% | YES | In preparation |
| 4 | Petróleos Paraguayos (PETROPAR) | 3.907,0 | 46,5% | YES | YES |
| 5 | National Cement Industry (NCI) | 389,5 | 4,6% | YES | YES |
| | Total Expenditure | 7.276,3 | 86,5% | | |
| II. | Public Enterprises NOT included in Budget law, but which CONSOLIDATE²: | | | | |
| | Companies with shares in participation with the State | | | | |
| 6 | Empresas de Servicios Sanitarios del Paraguay S.A. (ESSAP) | 199,0 | 2,4% | YES | YES |
| | Total Expenditure | 199,0 | 2,4% | | |
| I+II | TOTAL CONSOLIDATED EXPENDITURE (I+II) | 7.475,2 | 88,9% | | |
| III. | Public Enterprises NOT included in Budget law and NOT CONSOLIDATED³: | | | | |
| 7 | Compañía Paraguaya de Comunicaciones (COPACO) | 886,3 | 10,5% | YES | YES |
| 8 | Ferrocarriles del Paraguay S.A. (FEPASA) | 42,4 | 0,5% | YES | |
| 9 | Cañas Paraguayas S.A. (CAPASA) | 4,9 | 0,1% | YES | |
| I+II+III | TOTAL PUBLIC ENTERPRISES(I+II+III) | 8.408,9 | 100,0% | | |

Source: own compilation based on the 2009 financial report (Volume IV, Decentralized Entities), and information supplied by the UMEP.

¹ Based on accruals.

² Signed between the BPE and the public enterprises. The contracts signed have a term of three years, from 1 October 2009 until 31 December 2012.

³ According to consolidation data from the 2009 financial report, prepared by the DGPA.

Table 2. Proposed legislation with fiscal impact

| Nº | Legislation (law, Decree, etc.) | Fiscal impact 2010 (billion G\$) | Total Fiscal impact (billion G\$) | Fiscal impact 2010 (millions of USD) | Total Fiscal impact (millions of USD) |
|--------------|--|----------------------------------|-----------------------------------|--------------------------------------|---------------------------------------|
| 1 | Act 3984: royalties and compensations to Departmental and Municipal governments ¹ | 288,0 | n/a | 60,0 | n/a |
| 2 | Act 3993: victims of the Ycuá Bolaños supermarket accident | n/a | 144,0 | n/a | 30,0 |
| 3 | Draft of the Regulatory Decree of Act 3637/09 (FONAVIS) | n/a | 100,0 | n/a | 20,8 |
| 4 | Draft of the Regulatory Decree of Act 3728/09: food subsidy for senior citizens in poverty | 11,0 | n/a | 2,3 | n/a |
| 5 | Bill establishing the Solidarity Resource Fund (FONARES) | n/a | n/a | n/a | n/a |
| 6 | Bill establishing the amount of pensions for veterans and wounded of the Chaco War | n/a | n/a | n/a | n/a |
| 7 | Bill establishing the National Social Housing Fund (FONAVIS) | n/a | n/a | n/a | n/a |
| Total | | 299,0 | 244,0 | 62,3 | 50,8 |

Source: own compilation based on the 2009/2010 Management Report.

\1 own estimate.

n/a: not available.

Annex A.3.7. Comparative Analysis of Personnel Annex

Table 1: Comparison between bills of the Executive and Budget Laws, 2008 and 2009, in %
(regarding number of positions and salary amounts)

| Code | ENTITY | 2008 | | | 2009 | | |
|-----------|--|---------------------|--------------------|-----------------|---------------------|--------------------|-----------------|
| | | Var. positions (n°) | Var. positions (%) | Var. amount (%) | Var. positions (n°) | Var. positions (%) | Var. amount (%) |
| 11 | LEGISLATURE | 82 | 9,8% | 14,5% | -14 | -1,7% | 12,8% |
| 01 | CONGRESS | 32 | 18,4% | 19,8% | -101 | -58,0% | -44,1% |
| 02 | SENATE | 16 | 6,6% | 10,9% | 62 | 25,5% | 37,1% |
| 03 | HOUSE OF REPRESENTATIVES | 34 | 8,2% | 15,0% | 25 | 6,0% | 15,4% |
| 12 | EXECUTIVE | 1.013 | 0,6% | 7,7% | 6.254 | 3,8% | 8,3% |
| 01 | PRESIDENCY OF THE REPUBLIC | 149 | 7,2% | 11,0% | 61 | 3,1% | 10,6% |
| 02 | VICE- PRESIDENCY OF THE REPUBLIC | 0 | 0,0% | 0,8% | 1 | 1,4% | 5,2% |
| 03 | MINISTRY OF INTERIOR * | 1 | 0,0% | 6,6% | 574 | 2,2% | 3,2% |
| 04 | MINISTRY OF FOREIGN AFFAIRS | 10 | 2,3% | 5,9% | 8 | 1,8% | 9,8% |
| 05 | MINISTRY OF DEFENCE * | -10 | -0,1% | 7,0% | 51 | 0,3% | 1,2% |
| 06 | MINISTRY OF FINANCE | 4 | 0,2% | 0,4% | 3 | 0,1% | 4,1% |
| 07 | MINISTRY OF EDUCATION AND CULTURE * | 574 | 0,6% | 8,4% | 55 | 0,1% | 5,1% |
| 08 | MINISTRY OF PUBLIC HEALTH AND SOC. WELFARE | 375 | 3,0% | 6,0% | 5.238 | 41,4% | 33,6% |
| 09 | MINISTRY OF JUSTICE AND LABOUR | 3 | 0,1% | 3,9% | 229 | 8,7% | 25,8% |
| 10 | MINISTRY OF AGRIC. AND FARMING | -95 | -4,2% | 11,2% | 20 | 1,0% | 31,3% |
| 11 | MINISTRY OF TRADE AND INDUSTRY | 0 | 0,0% | 0,7% | 1 | 0,2% | 4,7% |
| 13 | MINISTRY OF PUBLIC WORKS AND COMMUNIC. | 2 | 0,1% | 18,1% | 13 | 0,3% | 6,9% |
| 13 | JUDICIARY | 257 | 2,3% | 12,5% | 2.147 | 19,5% | 21,0% |
| 01 | SUPREME COURT | 181 | 2,7% | 13,5% | 1.635 | 24,3% | 22,2% |
| 02 | ELECTORAL JUSTICE | 4 | 0,3% | 2,5% | 63 | 4,5% | 23,1% |
| 03 | PUBLIC MINISTRY | 70 | 2,4% | 13,1% | 397 | 13,9% | 15,9% |
| 04 | COUNCIL OF THE JUDICIARY | 2 | 4,9% | 5,6% | 2 | 4,9% | 12,0% |
| 05 | MAGISTRATES TRIAL JURY | 0 | | | 50 | | |
| 14 | NATIONAL AUDIT OFFICE | 0 | 0,0% | 0,9% | 105 | 16,4% | 16,5% |
| 01 | NATIONAL AUDIT OFFICE | 0 | 0,0% | 0,9% | 11 | 1,7% | 4,1% |
| 15 | OMBUDSMAN | 0 | | | 0 | | |
| 01 | OMBUDSMAN | 0 | | | 94 | | |
| | TOTAL CENTRAL ADMINISTRATION | 1.352 | 0,8% | 8,3% | 8.492 | 4,8% | 9,8% |
| 21 | CENTRAL BANK OF THE STATE | 0 | 0,0% | 0,1% | 0 | 0,0% | 0,0% |
| 01 | CENTRAL BANK OF PARAGUAY | 0 | 0,0% | 0,1% | 0 | 0,0% | 0,0% |
| 22 | DEPARTMENTAL GOVERNMENTS | 15 | 1,2% | 1,8% | 17 | 1,3% | 5,0% |
| 01 | FIRST DEPT. CONCEPCION | 0 | 0,0% | 0,0% | 0 | 0,0% | 1,9% |
| 02 | SECOND DEPT. SAN PEDRO | 2 | 2,8% | 3,1% | 0 | 0,0% | 2,2% |
| 03 | THIRD DEPT. CORDILLERA | 11 | 16,2% | 20,3% | 0 | 0,0% | 2,1% |
| 04 | FOURTH DEPT. GUAIRA | 1 | 1,7% | 6,2% | 0 | 0,0% | 5,6% |
| 05 | FIFTH DEPT. CAAGUAZU | 1 | 1,2% | 2,0% | 1 | 1,1% | 6,0% |
| 06 | SIXTH DEPT. CAAZAPA | 0 | 0,0% | 0,0% | 0 | 0,0% | 2,6% |
| 07 | SEVENTH DEPT. ITAPUA | 0 | 0,0% | 0,1% | 0 | 0,0% | 3,0% |
| 08 | EIGHTH DEPT. MISIONES | 0 | 0,0% | 0,3% | 0 | 0,0% | 3,9% |
| 09 | NINTH DEPT. PARAGUARI | 0 | 0,0% | 1,3% | 13 | 15,5% | 25,0% |
| 10 | TENTH DEPT. ALTO PARANA | 0 | 0,0% | 0,0% | 0 | 0,0% | 1,9% |

| Code | ENTITY | 2008 | | | 2009 | | |
|-----------|--|---------------------|--------------------|-----------------|---------------------|--------------------|-----------------|
| | | Var. positions (n°) | Var. positions (%) | Var. amount (%) | Var. positions (n°) | Var. positions (%) | Var. amount (%) |
| 11 | ELEVENTH DEPT. CENTRAL | 0 | 0,0% | 0,0% | 0 | 0,0% | 2,7% |
| 12 | TWELFTH DEPT. ÑEEMBUCU | 0 | 0,0% | 0,0% | 3 | 5,0% | 14,3% |
| 13 | THIRTEENTH DEPT. AMAMBAY | 0 | 0,0% | 0,0% | 0 | 0,0% | 2,0% |
| 14 | FOURTEENTH DEPT. CANINDEYU | 0 | 0,0% | 0,0% | 0 | 0,0% | 2,3% |
| 15 | FIFTEENTH DEPT. PTE. HAYES | 0 | 0,0% | 0,0% | 0 | 0,0% | 2,5% |
| 16 | SIXTEENTH DEPT. ALTO PARAGUAY | 0 | 0,0% | 0,0% | 0 | 0,0% | 3,1% |
| 17 | SEVENTEENTH DEPT. BOQUERON | 0 | 0,0% | 0,0% | 0 | 0,0% | 2,9% |
| 23 | AUTONOMOUS AND AUTARCHIC ENTITIES | 17 | 0,4% | 8,1% | 471 | 11,1% | 16,1% |
| 01 | NATIONAL INSTITUTE OF TECH. AND STANDARDS | 7 | 3,5% | 7,4% | 5 | 2,5% | 7,9% |
| 02 | NATIONAL HOUSING BOARD | 6 | 2,5% | 1,8% | 7 | 2,9% | 6,2% |
| 03 | INST. OF RURAL DEVELOPMENT AND LAND | 0 | 0,0% | 1,4% | 0 | 0,0% | 4,8% |
| 04 | NATIONAL DIRECTORATE OF WELFARE | 1 | 1,3% | 12,2% | 12 | 15,8% | 32,4% |
| 06 | PARAGUAYAN INDIAN INSTITUTE | 0 | 0,0% | 0,3% | 0 | 0,0% | 4,9% |
| 8 | NATIONAL FUND FOR CULTURE AND ARTS | 0 | 0,0% | 0,0% | 0 | 0,0% | 42,4% |
| 09 | NATIONAL COMMISSION FOR SECURITIES | 0 | 0,0% | 0,0% | 2 | 6,9% | 8,5% |
| 10 | NATIONAL COMMISSION OF TELECOMMUNICATIONS | 0 | 0,0% | 0,2% | 26 | 12,6% | 18,7% |
| 11 | NATIONAL DIRECTORATE OF TRANSPORT | 0 | 0,0% | 0,1% | 1 | 0,5% | 5,7% |
| 12 | SECRETARIAT OF METROPOLITAN AREA TRANSPORT | 0 | 0,0% | 8,2% | 1 | 3,8% | 6,2% |
| 13 | HEALTH SERVICES REGULATOR | 0 | 0,0% | 8,4% | 0 | 0,0% | 0,4% |
| 14 | NATIONAL INSTITUTE OF COOPERATIVES | 0 | 0,0% | 1,1% | 25 | 30,9% | 36,2% |
| 15 | NATIONAL DIRECTORATE OF CUSTOMS | 3 | 0,4% | 1,1% | 6 | 0,7% | 5,3% |
| 16 | NATIONAL ANIMAL QUALITY AND HEALTH SERVICE | 0 | 0,0% | 24,5% | 292 | 28,9% | 25,6% |
| 17 | PARAGUAYAN INSTITUTE OF CRAFTS | 0 | 0,0% | 1,3% | 8 | 9,2% | 17,8% |
| 18 | SENAVE | 0 | 0,0% | 0,8% | 54 | 18,7% | 43,9% |
| 19 | NATIONAL DIRECTORATE OF PROCUREMENT | 0 | | | 0 | 0,0% | 2,1% |
| 20 | NATIONAL FORESTRY INSTITUTE | 0 | | | 32 | 11,6% | 26,4% |
| 24 | PUBLIC SOCIAL SECURITY INSTITUTIONS | 44 | 0,5% | 0,7% | 435 | 5,2% | 27,1% |
| 01 | SOCIAL SECURITY INSTITUTE | 43 | 0,5% | 0,4% | 424 | 5,2% | 28,0% |
| 02 | RAILWAY WORKERS SOCIAL SECURITY FUND | 0 | 0,0% | 9,1% | 0 | 0,0% | 3,8% |
| 03 | ANDE STAFF PENSION FUND | 0 | 0,0% | 17,7% | 0 | 0,0% | 1,1% |
| 04 | BANK EMPLOYEES PENSION FUND | 0 | 0,0% | 8,3% | 0 | 0,0% | 1,5% |
| 05 | MUNICIPAL STAFF PENSION FUND | 1 | 0,6% | 1,4% | 11 | 6,7% | 19,0% |
| 25 | PUBLIC ENTERPRISES | 161 | 2,0% | 8,0% | 164 | 2,0% | 11,1% |
| 02 | ANDE | 0 | 0,0% | 2,1% | 142 | 4,0% | 6,9% |
| 04 | NATIONAL ADMIN. OF SHIPPING AND PORTS | 133 | 8,1% | 23,0% | 1 | 0,1% | 5,6% |
| 05 | NATIONAL DIRECTORATE OF CIVIL AVIATION | 5 | 0,4% | 21,4% | 1 | 0,1% | 4,5% |
| 06 | PETROLEOS PARAGUAYOS | 15 | 2,2% | 11,1% | 1 | 0,1% | 81,7% |
| 07 | NATIONAL CEMENT INDUSTRY | 8 | 1,0% | 2,1% | 19 | 2,3% | 10,1% |
| 27 | OFFICIAL FINANCIAL INSTITUTIONS | 0 | 0,0% | 1,3% | -18 | -1,1% | 2,2% |
| 01 | NATIONAL DEVELOPMENT BANK | 0 | 0,0% | 0,0% | -15 | -1,6% | 1,2% |
| 03 | CREDITO AGRICOLA DE HABILITACION | 0 | 0,0% | 0,3% | -5 | -0,9% | 5,2% |
| 04 | LIVESTOCK FUND | 0 | 0,0% | 8,6% | 1 | 0,7% | 2,9% |
| 05 | MINISTRY OF DEFENCE LOAN FUND | 0 | 0,0% | 39,8% | 0 | 0,0% | 3,6% |
| 07 | FINANCIAL DEVELOPMENT AGENCY | 0 | 0,0% | 7,4% | 1 | 1,8% | 2,5% |
| 28 | NATIONAL UNIVERSITIES | 1.070 | 5,1% | 5,4% | 944 | 4,2% | 9,5% |
| 01 | NATIONAL UNIVERSITY OF ASUNCION | 253 | 1,6% | 2,8% | 309 | 1,9% | 6,8% |
| 02 | NATIONAL UNIVERSITY OF THE EAST | 110 | 5,3% | 4,4% | 153 | 6,9% | 16,4% |

| 03 | NATIONAL UNIVERSITY OF PILAR | 132 | 12,0% | 20,6% | 75 | 6,3% | 17,7% |
|------|--|---------------------|--------------------|-----------------|---------------------|--------------------|-----------------|
| Code | ENTITY | 2008 | | | 2009 | | |
| | | Var. positions (n°) | Var. positions (%) | Var. amount (%) | Var. positions (n°) | Var. positions (%) | Var. amount (%) |
| 04 | NATIONAL UNIVERSITY OF ITAPUA | 223 | 13,8% | 13,7% | 122 | 7,1% | 13,9% |
| 05 | NATIONAL UNIVERSITY OF CONCEPCIÓN | 61 | 25,2% | 19,6% | 34 | 11,6% | 18,5% |
| 06 | NATIONAL UNIVERSITY OF VILLARRICA DEL ESPIRITU SANTO | 291 | 84,8% | 80,3% | 145 | 38,5% | 38,2% |
| 07 | NATIONAL UNIVERSITY OF CAAGUAZU | 0 | | | 106 | 44,9% | 65,1% |
| | TOTAL DECENTRALIZED ENTITIES | 1.307 | 2,9% | 4,7% | 2.013 | 4,3% | 13,3% |
| | TOTAL CENTRAL GOVERNMENT | 2.659 | 1,2% | 7,3% | 10.505 | 4,7% | 10,7% |

Source: own compilation based on information supplied by the SSEAF.

* Deducting the chair hours of the Executive Project and the Law, in accordance with the SIPP.

Annex A.3.8. Supplementary information for the analysis of indicator PI-19

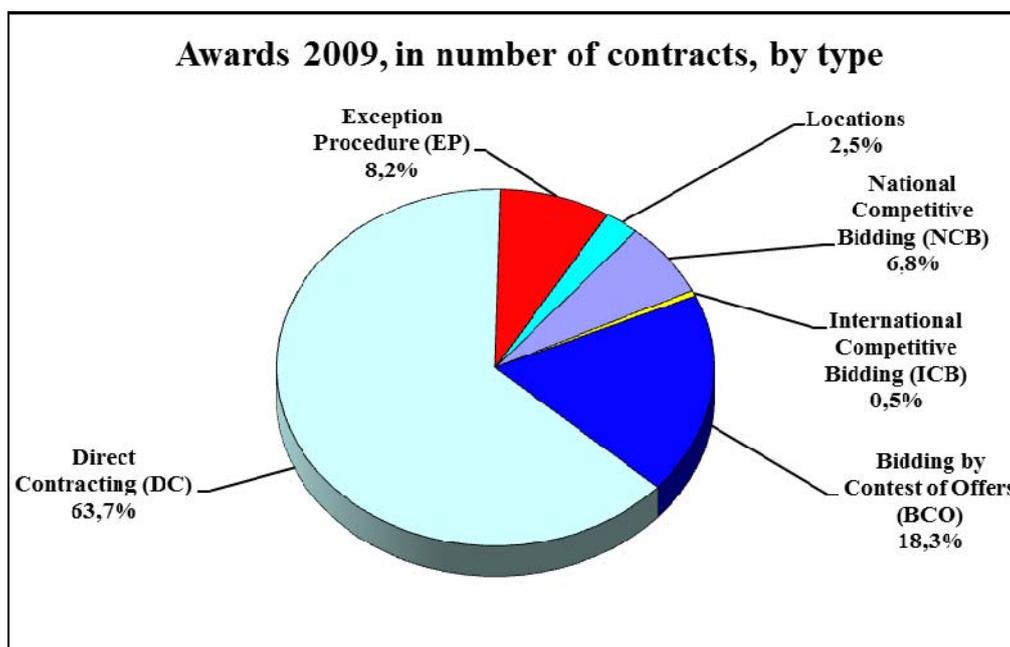
Table 1. Awards of the Central Government of Paraguay, in number of contracts, by type of contract, 2009

| Type | Number of Contracts | in % |
|--------------------------------------|---------------------|---------------|
| National Public Tender (NPT) | 901 | 6,8% |
| International Public Tender (IPT) | 69 | 0,5% |
| Bidding by Contest of Offers (BCO) | 2.424 | 18,3% |
| Direct Contracting (DC) ¹ | 8.458 | 63,7% |
| Exception Procedure (EP) | 1.087 | 8,2% |
| Locations (LC) | 335 | 2,5% |
| TOTAL | 13.274 | 100,0% |

Source: own compilation based on information supplied by the NDPP.

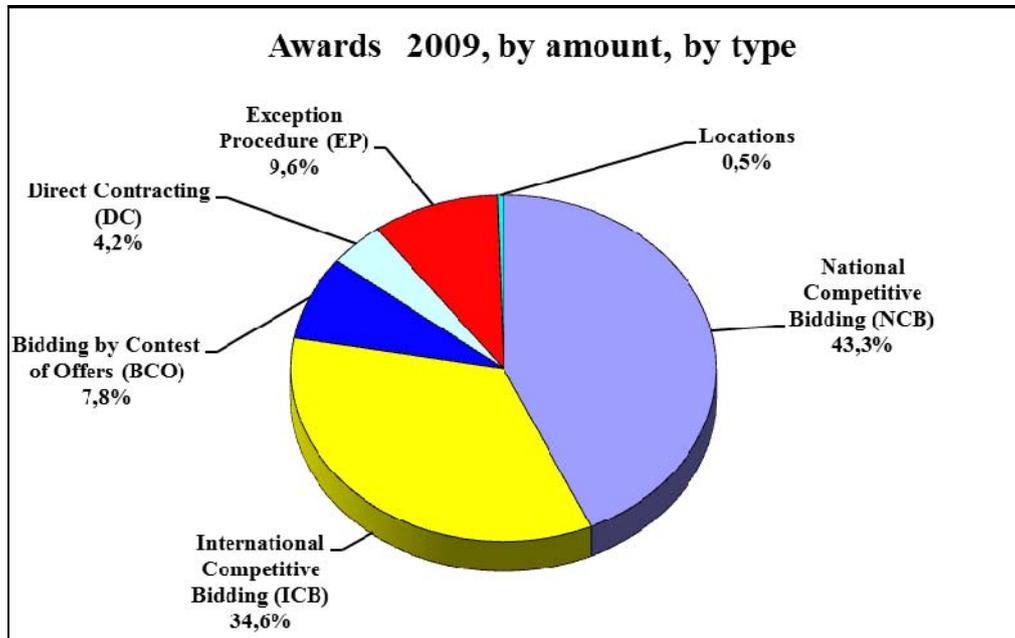
¹. The "direct contracting" method is considered a competitive practice for the purposes of calculating the first dimension of indicator PI-19, for two reasons based on current procurement legislation in the country: (i) the open invitation to potential offerors—in writing through the Information System for Public Procurement (ISPP); and ii) the requirement of there being at least 3 eligible offers (i.e. that can be analyzed technically and economically) in order for an award to be made.

Graph 1. Awards of the Central Government of Paraguay, by type of contract, in number of contracts. 2009



Source: own compilation based on information supplied by the NDPP.

Graph 2. Awards of the Central Government of Paraguay, by type of contract, by amount. 2009.



Source: own compilation based on information supplied by the NDPP.

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LIST OF PEOPLE INTERVIEWED

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DUARTE, Néstor, Director General, Auditor General of the Executive (AGE).

FELTES, William, Director General of Planning and Reporting, Auditor General of the Executive (AGE).

FERNANDEZ, Gladys, Director General of Economy, National Audit Office (CGR).

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