2. Project Objectives and Components:

a. Objectives:

"The overall development objective of the Programmatic Development Policy Loan (PDPL) series is to contribute to the effectiveness and efficiency of the public sector, while maintaining a stable macroeconomic policy framework" (Program Document, p. 12; the Loan Agreement does not spell out Objectives). This will be achieved by: (i) improving revenue collections and the equity of the tax system; (ii) improving the effectiveness of Central Administration internal financial control; (iii) exerting effective SOE oversight to ensure sound and transparent financial management; (iv) improving the efficiency and equity of social and capital expenditures; and (v) contributing to the professionalization of the civil service. Outcome targets include increasing the Tax/GDP ratio, increasing the Public Expenditure and Financial Accountability (PEFA ratings for internal control and external audit, annual publication of audited 2010 financial statements for each state owned enterprise (SOE), increase of beneficiaries of conditional cash transfers from the Tekopora Program, increased percentage of the paved road network that receives periodic maintenance, and increased percentage of personnel recruitments and promotions that are based on merit and professional skills.

b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

c. Policy Areas:
There were four policy areas supported by the series as stated in the PDPL Program Document:

1. **Tax system**. Immediate measures continued improvements in administration of the agricultural income tax (IMAGRO) and Value-added Tax (VAT) adjusting rates on excise taxes on tobacco and alcohol products, strengthening tax audit and control, focusing on large taxpayers, and a process of new maquila regime concessions.

2. **Public sector financial control**. Improving financial control is one of the targets in the Government's Strategic Economic and Social Plan under the strategic objective of state modernization. Measures taken included: (i) the expansion of integrated financial management and information systems to all spending units, including the implementation of additional modules related to payroll and good and services, and the full integration of sub-systems; (ii) the strengthening of the role of internal audit in terms of professionalism and independence, accompanied by the establishment of a standardized internal control framework for the Central Administration; and (iii) an increased professionalization and harmonization of financial administration units (UAFs) of the Central Administration. This component also supported effective oversight of state owned enterprises (SOEs). Measures taken included consolidating the ownership structure under a holding agency for SOEs, increasing the overall transparency of SOE finances and management, creation of a consolidated regulatory agency responsible for tariffs and controlling quality standards for electrical power, oil, telecommunications and water services.

3. **Expenditure management**. Short term measures addressed the impact of the 2008 global financial crisis on poverty by safeguarding budgeted increases for social expenditures. Medium-term measures expanded priority programs such as the Tekopora, strengthened the water sector both through institutional reforms and increased investments, implemented a new framework for the System of National Public Investment, and modified budget classification to improve the identification and monitoring of infrastructure maintenance investments.

4. **Human resources management**. Short-term measures were taken to strengthen the role of the Public Administration Secretariat as the central human resources management agency, particularly by reinforcing its control over new recruitments and promotions. The Secretariat also oversaw introduction of a competitive and transparent process for recruitment and promotion of civil servants. Medium term measures included revision of the Civil Service Law to better guarantee a professional and politically neutral civil service.

d. **Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

The operation was approved on March 5, 2009 and effective on August 26, 2009 with full release of the single tranche as planned, following Congressional approval. The planned second and third operations did not take place. The Public Sector DPL (PSDPL), not formally part of a series, was approved in November 2011. It had the first three same objectives and components as the PDPL — tax system, financial control and audit, and state-owned enterprises, but it did not include components for human resources and expenditure management.

3. **Relevance of Objectives & Design:**

a. **Relevance of Objectives:**

The objectives are highly relevant, and aligned with the Country Partnership Strategy (CPS) 2009-13 and its pillars on governance, poverty reduction and equitable growth. The objectives are also aligned with the Financial Control Plan of 2007, and the Government Plan of the reform-minded administration elected in 2008, and its objectives of, inter alia, a stable macroeconomic policy framework, effective provision of services by SOEs, and modernization of the state. They build on achievements since 2002, including tax and customs reform, technical improvements to the budget process in financial planning, cash management, and budget accounting, and an improved external audit function supported by the Inter-American Development Bank (IDB) and the US Agency for International Development (USAID). They also benefited from ongoing reforms in the internal audit function and Financial Management Integrated System, supported by IDB and USAID, and advances in procurement, including new legislation, and the development of a centralized public procurement system.

b. **Relevance of Design:**

The design was substantially relevant, with a clear statement of objectives linked to the CPS and Government
4. Achievement of Objectives (Efficacy):

The achievement of efficacy of objectives will be measured by considering the achievement of prior actions, triggers, PDOs and IOs.

(i). Improving revenue collections and the equity of the tax system. Prior actions on improvements in administration of the agricultural income tax (IMAGRO) and Value-added Tax (VAT) were adopted, and the trigger of doubling the number of large taxpayers subject to tax audits was met. The target for eliminating credits on VAT deductions from IMAGRO was partially met (46% reduction), and the target of designating VAT withholding agents was exceeded. Internal controls for maquila industries, issue of tax compliance certificates were increased, number of taxpayers, tax revenues from maquila industries, tax revenues from maquila industries as a proportion of overall tax revenue, and VAT revenues collected through withholding agents all increased. The overall outcome of increasing tax revenues as a proportion of GDP was exceeded (13.5% vs. planned 12.8%). This last result, and many of those listed before can be attributed partially to PDPL, but also benefited from the strong growth performance in 2010 (15.3% real GDP growth), driven by, inter alia, growth in agricultural exports of 43%, and an end to the drought. Taking all of these considerations into account, IEG rates efficacy of this objective as substantial.

(ii) Improving the effectiveness of Central Administration internal financial control. Two decrees giving the legal basis for strengthening internal controls were adopted, satisfying the prior action. While the ICR isn’t clear on a number of specific actions taken to improve internal control in three ministries called for as a trigger and medium-term action, the ICR documents numerous steps taken across a large number of institutions to expand audit coverage, implement institutional audit unit work plans and self-improvement plans, and successfully address recommendations made by internal and external auditors. In parallel, a comprehensive manual for implementing the standardized internal control framework was developed with USAID support, contributing to the progress made. There were quantitative improvements in all the targets being measured. The overall outcome of increasing D+ ratings from the 2008 PEFA assessment for PI-20, effectiveness of internal controls over non-personnel expenditures, and PI-21, effectiveness of the internal audit, was achieved as both increased. The overall outcome of increasing D+ ratings from the 2008 PEFA assessment for PI-20, effectiveness of internal controls over non-personnel expenditures, and PI-21, effectiveness of the internal audit, was achieved as both increased. The overall outcome of increasing D+ ratings from the 2008 PEFA assessment for PI-20, effectiveness of internal controls over non-personnel expenditures, and PI-21, effectiveness of the internal audit, was achieved as both increased. The overall outcome of increasing D+ ratings from the 2008 PEFA assessment for PI-20, effectiveness of internal controls over non-personnel expenditures, and PI-21, effectiveness of the internal audit, was achieved as both increased.

(iii) Exerting effective SOE oversight to ensure sound and transparent financial management. A new inter-ministerial council (CEP) was set up in 2008 as the shareholder of SOEs for the Government, and to supervise SOEs’ corporate governance. A SOE Monitoring Unit (UMEP) was created to improve the Council’s capacity for information analysis and SOE business monitoring, to issue a formal opinion on budget allocation to SOEs, to receive monthly financial reports from SOEs, and to monitor indebtedness. A new law has been approved by the House of Representatives and is being considered by the Senate to permanently include both the Council and the Unit in the government structure, and to clarify SOE reporting lines. The Council has defined annual performance contracts with the five largest SOEs, with medium term financial targets, and with quarterly performance reports presented to the President. Targets on reducing the Oil Company’s current expenditure and increasing the Power Company’s share of capital expenditure have been exceeded, but the target that all SOE expenditures with published annual audits has not yet been met (in 2010, audits of 85.5% of SOE expenditure; 4 of 9 SOEs have published their 2010 audited statements). Taking all of these considerations into account, IEG rates efficacy of this objective as substantial.

(iv) Improving the efficiency and equity of social and capital expenditures. Increased coverage under the Tekopora cash transfer scheme to from 18,000 to 83,000 beneficiaries (40% of households in extreme poverty) is on track to achieve the target goal of 100,000 by 2012-2013. Executed budgets for social expenditures...
increased each year. The executed budget for road maintenance as a percent of the budget is up nearly 1/3. Progress on increasing periodic maintenance of paved roads from 25% to 50% by 2012 is on track (45% in 2010). Results under this objective can be attributed partially to PDPL, but also benefited from the strong growth performance in 2010 contributing to the large revenue increase, and to reduced claims for social assistance. Taking all of these considerations into account, IEG rates efficacy of this objective as substantial.

(v) Contributing to the professionalization of the civil service. There has been progress in the legal framework, progress in reducing the number of civil servants paid below the minimum wage, expanded administrative reporting, and enhanced response time by the Public Administration Secretariat. The number of institutions reporting human resources data to the Public Administration Secretariat (SFP) has more than doubled to 97 out of 111. A system to measure human resources management functions to identify capacity gaps has been implemented in several institutions, and efforts to build such capacity in subnational units is underway for the first time. Its not possible to confirm the extent that the PDO that 100% of recruitment is based on merit based selection by 2012 is on track, although there has been progress. An estimated 10,000 recruitments and promotions were based on merit criteria which had not been previously used. The government estimates that this comprised 40% of recruitments, but this cannot be validated due to a lack of a human resources information system. Such a system had been planned for in the government's financial control reform process since 2007, but it is not expected to be operational until 2012. Taking all of these considerations into account, IEG rates efficacy of this objective as modest.

5. Efficiency (not applicable to DPLs):

6. Outcome:

The objectives and design were relevant, building on a foundation of previous reforms, extensive ESW supported by the Bank and other development partners, commitment of the new, reform -oriented government elected in 2008, and urgency of responding to the global financial crisis, with minor shortcomings in the M&E framework. Results achieved can be attributed partially to PDPL, but also benefited from the strong growth performance in 2010 contributing to the large revenue increase. The fact that the Bank and Government moved quickly to prepare the Public Sector DPL also helps to justify the outcome rating.

a. Outcome Rating: Satisfactory

7. Rationale for Risk to Development Outcome Rating:

As stated in the ICR, the SOE reforms are at risk since the legislative framework hasn't yet been approved by the Senate (although it has received Commission approval and is thus likely to be adopted by full Senate). Human resources management reforms are at risk since the legal framework is pending, compliance is only voluntary, and political will seems to be lacking. There are lesser risks concerning progress on internal controls, which faces lack of financing with the ending of USAID support, but will continue to be supported by TA from the EU following up on the 2010 PEFA, and Bank support from the Public Sector DPL. Advances in the tax system are part of a long term trend, and likely to be sustained. Improvements in allocation to cash transfers and to road maintenance could be at risk to a future recession. Finally, the Bank has encouraged setting up of community of practice involving PFM officers from Paraguay and other countries in region, so they can share experiences, get ideas from others, and develop professional esprit de corps. This should help to motivate staff to consolidate and sustain progress made.

a. Risk to Development Outcome Rating: Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The operation is relevant to the reform program of the incoming government, and to the Bank's strategy. It built on operational support from other donors, and from the Bank's and other donors' ESW in related areas. The latter helped to sustain the Bank's policy engagement with the government, so that when the election of
a new government and the impetus of the global financial crisis provided an impetus, the Bank was ready to move quickly. IEG accepts that the bold plan initially adopted may have been necessary to capture the needed momentum.

**Quality-at-Entry Rating:** Satisfactory

**b. Quality of supervision:**

There was extensive supervision on implementing the operation, and towards achieving the triggers. The continuity of the team from design to implementation helped to ensure in depth knowledge of the context.

**Quality of Supervision Rating:** Satisfactory

**Overall Bank Performance Rating:** Satisfactory

9. **Assessment of Borrower Performance:**

**a. Government Performance:**

The government's ownership of the reforms has been strong overall, but there were some moderate shortcomings and lack of political commitment to human resources management reforms.

**Government Performance Rating:** Moderately Satisfactory

**b. Implementing Agency Performance:**

The Ministry of Finance played a key leadership role in the reforms supported by the loan, building on the Minister's long term commitment to the reform agenda beginning with his term under the previous government. It took a pragmatic approach, moving forward on the more mature reform areas such as financial controls, while moving more cautiously when reforms faced resistance. There was good coordination with parallel support from other donors. There was also a strong technical performance from most of the other participating agencies, particularly from SET, UMEP and AGPE.

**Implementing Agency Performance Rating:** Satisfactory

**Overall Borrower Performance Rating:** Satisfactory

10. **M&E Design, Implementation, & Utilization:**

**a. M&E Design:**

There were clearly defined triggers, and at least one outcome indicator conceptually linked to each objective. As pointed out in the ICR, there were limitations on some of the indicators: Tekopora beneficiaries couldn't be confirmed by external verification, and the extent of merit-based recruitment couldn't be verified because the expected human resources information system won't be operational until 2012. It was possible to measure achievement of most triggers, indicative medium-term actions, and medium-term outcomes.
b. M&E Implementation:

The two ISRs prepared by the Bank give a thorough analysis of progress. The main counterpart agency collected data needed to assess progress from agreed sources.

M&E Quality Rating: Substantial

11. Other Issues

a. Safeguards:

The operation supported reforms in tax, financial controls, SOE oversight, social capital expenditures, and human resources management that do not have direct effects on safeguard issues

b. Fiduciary Compliance:

The Program Document assessed the fiduciary risks as high, and identified the need to take steps to mitigate them, including a dedicated deposit account at the Central Bank, an audit of the dedicated account within four months of disbursement of loan proceeds. Actions supported by the loan to improve internal and financial controls also helped to mitigate fiduciary risks.

c. Unintended Impacts (positive or negative):

There were no unintended impacts

d. Other:

12. Ratings:

<table>
<thead>
<tr>
<th></th>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome:</strong></td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td><strong>Risk to Development</strong></td>
<td>Moderate</td>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td><strong>Outcome:</strong></td>
<td>Bank Performance</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td><strong>Outcome:</strong></td>
<td>Borrower Performance</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td><strong>Outcome:</strong></td>
<td>Quality of ICR</td>
<td>Satisfactory</td>
<td></td>
</tr>
</tbody>
</table>

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The “Reason for Disagreement/Comments” column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

Lessons in the ICR are all supported. Political space for difficult reforms can arise from the election of a new,
reform-minded government, by urgency stemming from a financial crisis, and by drawing on the support of like-minded coalitions of politicians, key officials, NGOs, international financial institutions, and other stakeholders. Another crucial lesson is the importance of a mutually reinforcing package of properly sequenced analytical work, technical assistance, and parallel assistance from other donors to help governments to use DPLs productively. As part of such a mutually reinforcing package, the value added of the DPL can be to elevate the policy dialog, to support a programmatic frame with targets, medium term outcomes and monitoring requirement for policy planning cycle, and to facilitate congressional support to pass needed laws, decrees and approvals. On the other hand, falling short of the targets can put the borrower over the time limit for continuing the planned follow-on operations of a DPL series.

14. Assessment Recommended? ☐ Yes ● No

15. Comments on Quality of ICR:

The ICR is straightforward, frank, and informative. Quality of evidence and quality of analysis are high. Lessons are based on evidence and the ICR is outcome driven. The ICR is also internally consistent. It follows nicely the OPCS Guideline.

a. Quality of ICR Rating: Satisfactory