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PARAGUAY THRESHOLD COUNTRY PROGRAM -

FORMALIZATION OF ECONOMIC ACTIVITIES
ANNUAL REPORT
YEAR 1

12 JUNE 2006 – 30 JUNE 2007

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ACRONYMS

BCP	Banco Central del Paraguay
BID	Inter-American Development Bank
C6	Component 6: Reduction of VAT evasion
C7	Component 7: Improvement of customs operations
C8	Component 8: Strengthen the capacity of the internal investigation units of the Ministry of Finance
C9	Component 9: Simplification of business registration process
C10	Component 10: Establishment of new "maquila" enterprises
CGIA	Office of the General Coordinator of Customs Investigations (formerly COGRINAD)
CIAMP	Center for Integrated Assistance to micro, small, medium-sized enterprises
CIAT	Fiscal Administration's Inter-American Center
CNIME	National Council of "Maquila" Export Enterprises
CSJ	Supreme Court of Justice
DETAVE	Special Surveillance Department of the National Customs Office
DDJJ	Affidavits (Declaraciones Juradas)
DNA	National Customs Office
FAE	Formalization of Economic Activities
FGE	Office of the Attorney General
FIU	Fiscal Investigation Unit
GOP	Government of Paraguay
IPS	Social Services Institute
IVA	Value Added Tax (VAT)
MERCOSUR	Mercado Cono Sur
MCC	Millennium Challenge Corporation
MH	Ministry of Finance
MIC	Ministry of Industry and Commerce
MJT	Ministry of Justice and Labor
MP	Public Ministry
OPAC	Anti-Contraband Customs Operations
OTA	Technical Assistance Office (United States Treasury Department)
PMU	Project Management Unit

TCP	Threshold Country Program
TCP-P	Paraguay Threshold Country Program
TCP-FAE	Threshold Country Program – Formalization of Economic Activities
RDIEX	Investments and Exports Network
SAF	Special Acquisition and Activities Fund
SET	Office of the Undersecretary of State for Fiscal Affairs of the Ministry of Finance
SUAE	Unified System for Establishing Enterprises
TORs	Terms of Reference
UIP	Paraguayan Industrial Union
UJ	Unidad Jeroviaha (Tax Compliance Officer Unit)
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

During its first year of implementation, the Paraguay Threshold Country Program-Formalization of Economic Activities Project (TCP- FAE) accomplished important objectives, including reducing the time required to establish new enterprises to less than 25 days; confiscating — in two months — 68 percent all contraband confiscated in 2006; and identifying 18 new enterprises interested in operating under the "maquila" system.

Paraguay's Threshold Country Program (TCP) is a Government of Paraguay (GOP) reform initiative implemented by the Presidential Council for Modernization of public Administration. The program is financed by the Millennium Challenge Corporation (MCC), and receives technical guidance and administrative oversight from USAID.

From June 2006 through June 2007, the TCP focused on improving Paraguay's economic situation. The World Economic Forum's Global Competitiveness report rated Paraguay as one of the world's ten least competitive countries. Equally pessimistic, Transparency International ranked Paraguay one of the ten most corrupt countries in the world, as well as having one of the ten most prevalent "informal" (extra-legal and/or black market) economies. MCC cited the indicators above as the reason for excluding Paraguay from participating in MCC's Principal Account. However, due to the GOP's current reform efforts, Paraguay was able to request assistance from the MCC to improve these indicators through participation in MCC's Threshold Country Program, which addresses issues ranging from anti-corruption to the struggle against impunity (Components 1–5) and the formalization of economic activities (Components 6 –10). Chemonics is responsible for implementing Components 6, 7, 9, and 10 and provides acquisitions support to the GOP's Technical Investigations Units (Component 8) to complement assistance provided by the Technical Assistance Office of the United States Treasury Department (OTA), the entity responsible for C8 implementation. OTA will prepare a separate report on C8.

Prior to initiation of the Threshold Country Program – Formalization of Economic Activities Project, the GOP developed the proposed reform program "Plan País" (Country Plan) to correct the above-mentioned deficiencies. To implement this reform program and complement assistance provided by other donors, TCP-FAE has focused its efforts in two main areas: the struggle against the informal economy and the promotion of economic growth and development. Support in these areas will facilitate installation of formal enterprises through simplification of business registration processes and will help attract foreign direct investment (Components 9 and 10).

- In the case of the Ministry of Finance, the program collaborated with the Office of the Under-Secretary of State for Fiscal Affairs (SET) and provided support to improve tax collection in order to reduce VAT evasion (Component 6).

In the first year of operations, TCP-FAE strengthened the struggling Unidad Jeroviaha (UJ), a tax compliance officer unit, by providing support to redefine its functions. In addition, TCP-FAE led training programs for UJ members, who

initiated their first operations to control the emission of sales receipts. The UJ's work includes documenting cases of non-compliance with fiscal regulations, such as failure to submit sales receipts. Their investigations show that high numbers of business owners fail to provide sales receipts, which is an indicator of the low level of compliance with fiscal regulations. Through a process called "simulated purchases" carried out during March, April, and May, the UJ determined that 70 percent of registered businesses visited failed to comply with this obligation.

The UJ plays an essential role in providing the Office of the Under-Secretary of State for Fiscal Affairs of the Ministry of Finance (SET) with the requisite proof to temporarily close non-compliant businesses. It is expected that these closures will motivate taxpayers to fulfill their fiscal obligations. Armed with documented instances of businesses' failures to provide sales receipts, the SET can audit these businesses. Through this work, TCP-FAE is contributing to the formalization of economic and commercial activities.

- As part of Component 7, TCP-FAE helped the National Customs Office (DNA) to control contraband, a serious issue affecting the national economy. TCP-FAE contributed to the creation and training of the first anti-contraband units of the Special Surveillance Department of the National Customs Office (DETAVE Inter-institutional). In just two months, DETAVE, comprised of Customs, Police, and Naval officers, confiscated US \$950,000 worth of illegal merchandise, equivalent to 68 percent of contraband merchandise confiscated by the DNA in 2006. In addition to these achievements, one of TCP-FAE's greatest contributions was to suggest that DETAVE include other government institutions in the struggle against the black market. The GOP in its *Plan País* reform proposal had originally envisioned that DNA would work alone to combat contraband.

TCP-FAE recommended the National Police, the Paraguayan Navy, and the Attorney General's Office work together to carry out joint anti-contraband operations. DETAVE operations are directed by the National Customs Office. Under this authority, DNA officers, national police, and Paraguayan navy personnel are increasing the presence of the institution in border zones and areas with significant contraband activities, with the immediate goal of reducing the trafficking of illegal merchandise. The overarching objective is to demonstrate that political will is strong enough to end long-standing practices of complicity between officials charged with controlling contraband and those engaging in illicit activities. In this manner, the program seeks to increase the commitment and professionalism of the unit, and ultimately of the DNA.

- With regard to activities to promote economic growth, TCP-FAE worked with the Ministry of Industry and Commerce, the Social Services Institute (IPS), the Office of the Public Registry, the Department of Justice, the Attorney General's Office, and the Municipality of Asunción to simplify business registration processes (Component 9). This inter-institutional initiative reduced the time needed to establish new enterprises in Paraguay from 74 to 25 days; reduced the

number of steps involved from 17 to 9, and reduced the cost of business registration from US\$750 to US\$80.

TCP-FAE designed and implemented the Unified System for Establishing Enterprises (SUAE) as a one-stop-shop for citizens seeking to register a business. SUAE started operations in November 2006; however, in spite of the many advantages offered under SUAE, only a few enterprises are currently registered. One of the causes for low registration rates is that businesses that register through SUAE must operate entirely in the formal sector. To promote SUAE's services, TCP-FAE designed a publicity campaign; the promotional campaign will start as soon as SUAE begins to operate in its new offices. The second phase of the project consists of supporting the Paraguayan government in introducing changes in the business registration law, which would position SUAE as the only institution responsible for business registration.

- TCP-FAE provided support to the National Council of "Maquila" Export Enterprises (CNIME) to attract foreign direct investment and establish new "maquila" enterprises (Component 10). At the end of the first year of the program, 11 new enterprises began the process of conducting their programs and operations as part of Paraguay's "maquila" sector, and nine other businesses indicated interest in participating.

TCP-FAE made presentations on the advantages of the Paraguayan "maquila" sector to 68 Brazilian businessmen and representatives of shoe, shoe parts, and furniture manufacturing industries. As a result, 18 Brazilian entrepreneurs visited Paraguay to explore the viability of establishing business operations in the country. TCP-FAE also made advances in strengthening CNIME's promotional strategy and the quality of services it offers to entrepreneurs interested in participating in the "maquila" sector. Support included equipping CNIME with new computers and software applications, such as Customer Relationship Management (CRM) and Hoover's financial information database.

TCP-FAE shared strategies and action plans with Paraguayan industry leaders and secured the support of the Paraguayan Industrial Union (UIP).

- TCP-FAE also provided logistical support to the Technical Assistance Office of the United States Treasury Department (OTA), including vehicles, information systems, research and financial resources for the three investigation units established in the Ministry of Finance and the National Customs Agency. With TCP-FAE support, these units investigated 331 cases of corruption (Component 8). The Component 8 report will be submitted separately.

This first annual report covers activities carried from the date the threshold program began operations in Paraguay on June 12, 2006, through June 30, 2007. The report includes the following sections: Technical Components, providing detailed information on technical assistance activities, Advance of TCP-FAE Indicators in Year 1,

Acquisitions/Special Activities Fund, and Operations Management. The Technical Components section includes a brief introduction describing the program's principal achievements, how the first year achievements achieve goals established for each component, the history of the process, lessons learned, challenges, and the next steps. Each section contains illustrative charts and tables that visually depict achievement of program goals. The first component, Reduction of VAT evasion (Component 6), describes five indicators and is therefore the most complex. To avoid potential confusion, the challenges encountered, lessons learned, and activities to be completed in the second year are presented in sub-sections corresponding to each indicator. Given the complexity of the Technical Assistance section, we have included a list of implementation challenges relevant to more than one indicator.

SECTION I. TECHNICAL COMPONENTS

I. A. Aspects of the struggle against informal businesses

TCP-FAE focuses on strengthening the capability of institutions to control informal businesses. The Office of the Under-Secretary of State for Fiscal Affairs of the Ministry of Finance (SET) aims to reduce VAT evasion, which is measured by fiscal compliance indicators. Additionally, the National Customs Office focuses on strengthening institutional presence in contraband control tasks.

I.A.1. Reduction in value added tax (VAT) evasion (Component 6)

The most important accomplishment in the struggle against VAT evasion in Paraguay was inspecting more than 300 business and services that do not emit sales receipts, with the possibility of closing these businesses. During the first phase of the program's operations, a group of businesses was evaluated based on compliance with regulations. The 300 businesses in non-compliance mentioned above represent 70 percent of this initial survey group, providing a base to measure future reduction of VAT evasion. The goal is a reduction from 53 percent to 35 percent in one year. Other important TCP-FAE contributions to the program during Year 1 are the strengthening of the Tax Compliance Officer Unit (Unidad Jeroviaha, UJ) and introduction of technological innovations to support SET processes.

The Jeroviaha Unit and "simulated purchases"

The Tax Compliance Officer Unit (Unidad Jeroviaha, UJ) (a word in the Guarani language meaning "depository of trust") is comprised of National Customs Office officers posing as ordinary citizens who simulate purchasing goods or services in established businesses. If the vendor does not emit a sales receipt, the purchaser identifies himself/herself as a state officer and prepares a statement indicating non-compliance by failing to emit and deliver a sales receipt. Later on, a judge emits a 3-day temporary injunction of closure of the business, and the injunction may be extended for 3 additional days. The UJ's approach is based on the experience of Ecuadorian Fiscal Administration Notaries.

Before TCP-FAE intervention, SET lacked the technological capability to know the actual status of taxpayers' accounts, the record of compliance with fiscal regulations, and the status of taxpayers' pending fiscal obligations. The Country Plan proposed that TCP-FAE complement the reengineering¹ of SET's systems and its institutional structure. Work towards these goals began in January 2006. The ultimate objective of this exercise was that at the end of June 2007, SET should have sufficient computer networking capability to manage taxpayers' accounts, cross-check information to identify possible VAT fiscal evasions, relocate personnel, and implement new administrative and fiscal management processes.

In summary, TCP-FAE's mission consisted in establishing a special mechanism to eliminate VAT evasion, collaborate in simplifying and controlling fiscal processes (including modernization of SET's technological capabilities), provide support in control

¹ TCP-FAE's proposal coincided with a complete organizational and functional restructuring of the Office of the Under-Secretary of State for Fiscal Affairs of the Ministry of Finance under a process called "reengineering" implemented by the Inter-American Center Fiscal Administration Office (CIAT) and supported by the Inter-American Development Bank (IADB).

and documentation of informal businesses, and strengthen auditing tasks. Even though important advances were accomplished in Year 1, a significant amount of work remains to be done.

Advances in the Five Indicators

The effect of technical assistance provided by TCP-FAE to SET may be quantified in 5 indicators and relevant goals listed below:

1. Registration of 40,000 new VAT taxpayers.
2. 11 percent increase in the number of affidavits submitted by taxpayers compared with base line figures.
3. 30 percent reduction of the number businesses that do not emit sales receipts compared with base line figures.
4. 20 percent reduction of transit of undocumented merchandise compared with base line figures.
5. Reduction of the VAT evasion gap from 53 percent to 35 percent.

Table 1. VAT Taxpayers registered in the RUC – During Year 1

Indicator	Base Line	Goal	Results through April 2007	Percentage Achieved of Goal
IVA Taxpayers registered in the RUC	0	40,000	18,257	45.64%

Results in Table 1 above (expressed in terms of new VAT taxpayers registered) indicate that 45.64 percent of the proposed goal (40,000) was accomplished, a consequence of changes carried out in SET supported by TCP-FAE and other donors.

WAP Cellular Telephones Facilitate VAT Control

Application of the newly enacted Fiscal Adjustment Law 2421/04 helped increase the number of new VAT taxpayers registered at SET to 18,257 during the period of September 2006 to April 2007. New SET regulations compelled taxpayers to update fiscal registrations at SET before the end of November 2006. To facilitate the registration processes, TCP-FAE delivered WAP cellular telephones to UJ that provide direct access to the SET data base from anywhere in Paraguay. The UJ is also using the WAP cellular telephones to access the new SET code control system and verify the status of sales receipts emitted by VAT taxpayers.

The new fiscal stamp system, included in Decree No. 6539/05 and new fiscal regulations compelled taxpayers to replace the old registration forms and to update their fiscal registration at SET. Fiscal stamps help the UJ verify data (a factor inherent to the indicator) and encourage taxpayers to update business registration. The cellular WAP phones TCP-FAE provided to UJ officers allow verification of data during face-to-face visits with taxpayers. At the end of June 2007, the number of applications for new SET codes amounted to 160,270, equivalent to 40 percent of registered taxpayers (404,000).

Challenge: Cross-checking data delays

The original work plan proposed activities, specifically cross-checking taxpayers' data available at municipal government offices with data at SET, adversely impact program goals. In April 2007, SET reported that the work plan's institutional reengineering would include cross-checking taxpayers' data; and therefore SET does not participate in activities related to municipal government records. Implementation of this process could take several months, and would delay certification of VAT taxpayers' registrations. Such delay would not necessarily affect project-supported activities directly; however, indicator results may be affected.

Next steps: Year 2 Work Plan

An indirect effect of eventual closure of businesses whose owners fail to emit sales receipts in compliance with fiscal obligations is that the number of new business registrations at RUC will increase. TCP-FAE expects that application of sanctions to informal businesses encourages other businesses to register in order to avoid possible sanctions.

Table 2. VAT Taxpayers in Noncompliance with Submission of Affidavits. Year 1

Indicator	Base Line	Goal	Results to June 2007	Percentage Accomplished
Reduction of percentage of VAT taxpayers who do not submit affidavits (declaraciones juradas).	To be determined in August/ September 2007 according to new data collected through May 2007 (resulting from SET reengineering).	To be determined in August/ September 2007.	Not Available.	Not Available.

New technologies facilitate fiscal services

The principal accomplishment of this component in Year 1 was the purchase and donation of five computer servers to SET. These computer servers helped clear SET's registry backlog as well as facilitate administration of taxpayers' fiscal accounts.

Challenge: The final measurement of this indicator is beyond the scope of the program

To have a better understanding of advances accomplished in this indicator, we refer to its baseline. According to SET's monthly reports, historical records of VAT taxpayers who do not comply with emission of affidavits (DDJJ) indicate that the rate of non-compliance is much higher than the base line originally proposed for this indicator (26 percent). This means that the real situation is likely far worse than estimated originally.

By implementing reengineering processes of SET's fiscal accounts, it will be possible to verify the taxpayers' data base after August 2007. August is the expected completion date of the analysis of the entire taxpayers' data base portfolio, which includes taxpayers who have not submitted VAT tax statements as of May 2007.

VAT tax statements include quarterly submission of taxpayers' affidavits (DDJJ). Taxpayers who paid the "Tributo Único - Sole Tax" are responsible for paying the VAT after January 2007. In this way, SET can determine the percentage of taxpayers who fail to comply with emission of VAT affidavits as required, and reestablish SET's taxpayers' base line. Updated data will help determine whether or not to reinstitute the goal of reducing the VAT by 11 percent. Monitoring and evaluation procedures will be done monthly once the database is updated after submission of affidavits.

Indicator goals accomplished after program completion should be measured based on the May 31, 2008 program close out reports that will be prepared by SET, in order to use data corresponding to the same period (April 30 is the last day in which a significant number of VAT taxpayers submit affidavits).

Next step: Call Center and other technological innovations.

In addition to installation of computer systems, servers, and other technological advances, TCP-FAE will also help develop a Call Center and provide an Interactive Voice Response (IVR) system to the GOP. This system will increase the number of affidavits submitted and improve communications with taxpayers. TCP-FAE will also provide training to SET officers. This training will encompass learning data verification techniques at registers and printers located at taxpayers' businesses. TCP-FAE will develop a new digital mapping system that provides the best combination of geographical information and localization systems available. This technology will modernize control systems and locate taxpayers who fail to submit affidavits. TCP-FAE will also provide support to SET officers on utilization of Java programming language to design a safe interface among software applications in SET's information network.

Table 3. VAT Taxpayers not providing sales receipts – Year 1

Indicator	Base Line	Goal	Results to June 2007	Percentage Accomplished
Reduction of the percentage of VAT taxpayers who do not provide sales receipts.	70%	30% Reduction.	Recent update of the base line.	Not available.

Sampling was the method used to determine the base line for one of the indicators of this component, and, according to analysis of the sample collected, approximately 70 percent of taxpayers in Asunción do not comply with emitting sales receipts.

TCP-FAE rescues JU role

When TCP-FAE initiated operations in June 2006, the draft decree to create the JU was under review at the Treasury Legal Office and had been submitted to the Minister of Finance and to the President for approval. The first step taken by TCP-FAE was to reprogram technical assistance activities to complement SET's activities, using financing provided by the Inter-American Development Bank (IADB). This technical reprogramming included provision of vehicles, computers, communications equipment, uniforms, per diem, fuel, and selection and training of human resources. TCP-FAE assumed responsibility for the selection and training the Jeroviaha Unit and arranged acquisition of equipment beginning in August 2006. A team of four JU coordinators traveled to Quito, Ecuador to receive special training. TCP-FAE provided logistical support for JU staff to register new VAT taxpayers and update data on taxpayers already registered. TCP-FAE also supported JU activities pertinent to control of sales' receipts and legalization of supporting documentation.



Members of the Jeroviaha Unit during the delivery ceremony of a FIAT DUCADO awarded by the Threshold Program.

The base line sample of the indicator was determined from January through March 2007, during which time the JU collected information on taxpayers through simulated purchase operations. During March and May 2007, JU carried out and analyzed 403 simulated

SUCCESS STORY

The Jeroviaha Sense of Duty

Applicants to membership in the Jeroviaha Unit must undergo a strict selection process that begins with a public convocation and continue with evaluations and personal interviews in which several aspects of the applicant's personality are analyzed.

Membership processes are closely related to the principal objective of the JU consisting in achieving transparency of economic actions having a bearing on fiscal aspects through documentation, registration and statements thereof.

The Jeroviaha applicant must be a university graduate with academic formation in matters pertinent to JU objectives. The applicant must pass strict training courses and field tests focusing on honesty and mastery of technical aspects. The highest sense of duty and ethics is instilled in the applicant.

The Jeroviaha applicant is appointed as a member of the Unit for a period of one year; during this period, the new member is given the opportunity to demonstrate his/her personal and technical qualifications.

Efforts of Jeroviaha members are evaluated periodically. Jeroviaha members who do not uphold the unit's ethical principles or commit illicit acts in the course of his/her duties are subject to civil and/or penal action.

JU also collaborated in reviewing and classifying sales receipts collected at schools during SET's campaign "Demand, Collect and Earn," which taught fiscal education to the general public. The campaign awarded schools and students that collected the largest number of valid sales' receipts during the six-month campaign period ending November, 2006. JU supported SET's campaign by validating receipts and providing fiscal education to students and their families.

purchases in Asunción. More than 300 taxpaying businesses failed to submit supporting sales and services documentation; and they may be subject to corresponding fiscal sanctions such as suspension of businesses.

As explained below, many elements must be considered before suspending a business. For this reason, TCP-FAE supports establishing an inter-institutional agreement, presently under negotiation with the Supreme Court of Justice, which would design standard procedures for officials to suspend businesses, an important first step to longer-term businesses suspensions.

TCP-FAE assists in finding solutions

Public criticism to Decree No. 8.094/06 that created the JU

The public sector was largely against the constitutional decree that created the Jeroviaha Unit, harshly and adamantly declaring it unconstitutional. This led SET to suspend plans to carry out simulated purchase operations scheduled to commence in October 2006. TCP-FAE interventions were fundamental in finding a solution to this problem and allowing JU re-initiation of operations. TCP-FAE contracted a well-known and experienced legal advisor to review, revise, and prepare a new decree that would better adjust to currently existing norms in the Constitution and fiscal legislation practices. The new decree was enacted in December 2006. TCP-FAE also collaborated in reviewing JU operational manuals and procedures.

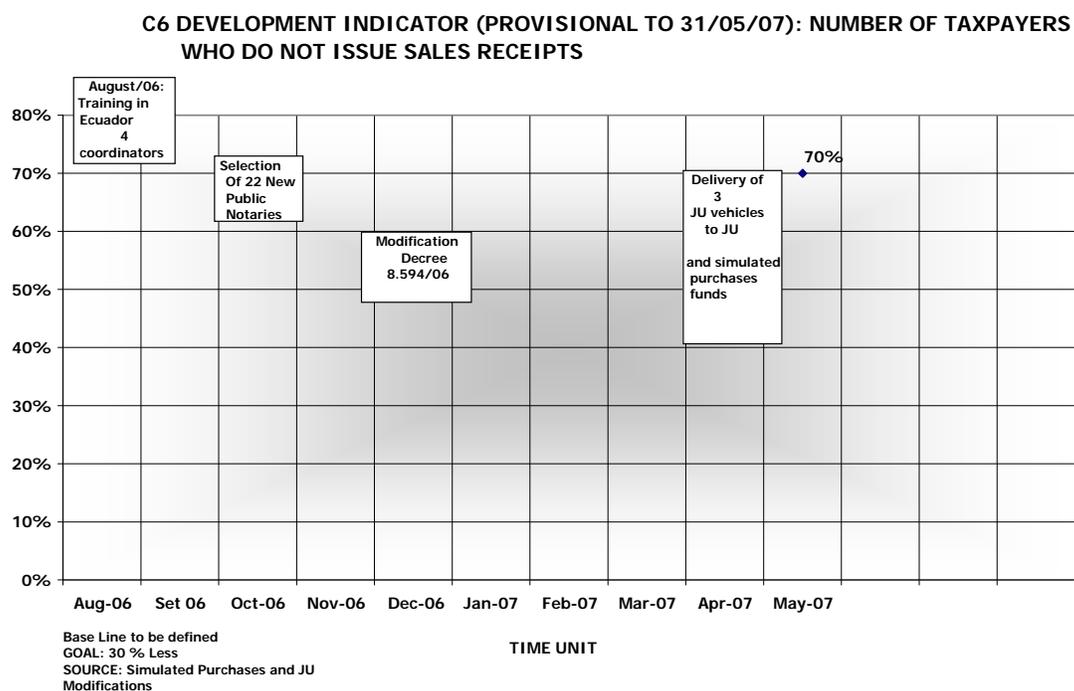
Definition of suspensions of businesses by the Supreme Court of Justice

In January 2007, the Supreme Court of Justice and the Ministry of Finance proposed terms of reference for an agreement between the institutions. The principal objective of the agreement is to reduce the number of cumbersome processes associated with fiscal mandates to suspend businesses. However, the terms of such processes have yet to be defined; as a result, 300 potential business suspensions are pending resolution at JU.

The delays encountered decision procedures to impose suspension of businesses constitute a subjective element that affects, indirectly, the conduct of taxpayers registered at SET who are legally obligated to release receipts of purchase, according to fiscal regulations in force.

In the meantime, SET will continue to identify sectors who do not comply with regulations in force, as well as carrying out simulated purchase operations to improve the level of compliance with providing sales receipts.

Table 4. Taxpayers who fail to issue sales receipts to buyers



The communications campaign on the media about new fiscal regulations addressed to the public in general, supported by TCP-FAE funding, will coincide with initiation of businesses suspensions' operations. Communications on JU's actions regarding business suspensions is a continuous theme under discussion.

According to the forthcoming agreement between the Judiciary Power and the Executive Power, in order to guarantee expected business suspension results, processes must be carried out uniformly and firmly through simplified procedures. Formalization of this agreement constitutes a national milestone in the struggle against VAT evasion. TCP-FAE will contract top specialized legal counseling to support JU in managing legal repercussions following businesses suspensions.

As indicated in Table 4, the level of VAT evasion could be even higher than anticipated in view of the fact that results of simulated purchase samples indicate 70 percent non-compliance with emission of sales receipts. Agreeing on businesses' suspensions is fundamental to accomplish this goal.

Next step: application of sanctions to taxpayers

Once the Supreme Court of Justice (CSJ) and the Office of the Under-Secretary of State for Fiscal Affairs of the Ministry of Finance (SET) define the necessary methodology, JU could initiate suspension of the first batch of businesses. Businesses that fail to comply with emitting sales receipts identified by JU during the simulated purchases exercise will

be suspended. However, imposing such sanctions during an election year, in which normally using drastic measures is avoided, constitute a major challenge.

TCP-FAE will continue support JU to reduce the number of people that evade fiscal regulations and fail to issue purchase receipts. In particular, TCP-FAE will attend formal sectors within the context of commercial activities in the Country. Training new JU members is a major activity to be undertaken by TCP-FAE, as well as equipping the new JU headquarters.

Table 5. VAT taxpayers who transport merchandise without supporting documentation, Year 1

Indicator	Base Line	Goal	Results to June 2007	Percentage Accomplished
VAT taxpayers who transport merchandise without supporting documentation	To be determined during August-September 2007	To be determined during August-September 2007	20% reduction	Not available

As of July 2007, operations of control of merchandise in transit have not started. The objective of these operations is to verify that merchandise transported in the Country carry the corresponding proof of ownership and relevant supporting documents.

Determination of the base line and goals of this indicator will be carried out during August/September 2007. Checkpoints located at main highways throughout the Country will provide information on merchandise in transit; this decision was taken in view of the fact that JU is carrying out other tasks. JU will review the legality of documentation of merchandise in transit collected at checkpoints. Control of merchandise in transit will commence in 2008 after strengthening coordination with control and security institutions, according to an administrative decision.

TCP-FAE warns of difficulties in meeting goals

TCP-FAE team announced that political will is necessary to impose sanctions including confiscation of merchandise lacking ownership documentation and to meet indicator goals.

UJ will undertake control of merchandise in transit to verify legal proof of ownership and supporting documentation, including purchase receipts, invoices, and/or bills of lading and proof of payment of taxes and duties. If legal ownership and/or tax payments cannot be determined, the merchandise will be stored at a special warehouse; owners may approach authorities in charge to further demonstrate ownership and that all taxes and duties were duly paid. If this cannot be demonstrated, merchandise will be impounded and auctioned.

Table 6. The VAT Fiscal Gap or VAT Evasion, Year 1

Indicator	Base Line	Goal	Result of the Indicator	Percentage Accomplished
Decreasing the VAT fiscal gap	53%	35%	Not available	Not available

Combination of all elements listed above relate closely to compliance with fiscal regulations. This has a direct bearing on reduction of the VAT fiscal gap, a primary program indicator.

The baseline to determine reduction of the Fiscal Evasion Gap was established at 53 percent. In 2005, the Technical Assistance Office of the United States Treasury Department (OTA) estimated the level of the fiscal evasion gap in Paraguay at 62 percent based on 2003 macro-economic data, indicating a recuperation tendency of 9 percent during the past two years.

TCP-FAE recommends reinitiating integral audits

In August 2003, SET decided to withdraw all auditors engaged in conducting integral control audits of taxpayers based on cases of alleged corruption. However, after completion of a needs assessment of SET's fiscal control units, TCP-FAE recommended reinitiating audits to complete the cycle of compliance with fiscal regulations.

Completion of the cycle is achieved by encouraging tax payment through periodic controls carried out by UJ. Also, pressure exerted by auditing teams including cross-checking sale receipts with VAT affidavits. JU actions contribute to increment emission of sales receipts but do not guarantee payment of taxes or duties. Therefore, the cycle of compliance with fiscal regulations can not be completed. The only way to complete the cycle is to carry out audits.

Obstacles to overcome

Difficulties encountered in carrying out external audits

SET officials pointed out difficulties to be encountered in carrying out taxpayers external audits scheduled for the next months, considering that the results obtained to date were obtained through desk audits to verify specific instances of VAT evasion (rather than through integral external audits), and, the fact that planned external audit operations coincided with an election year. This situation, and the fact that external audits are considered essential to comply with the VAT evasions reduction objective, indicate that in all likelihood, the Indicator of Decreasing VAT Evasion may not be achieved.

TCP-FAE is contracting an expert to monitor and evaluate this indicator and measure the degree of effectiveness of accomplishments to date in regards to meeting the 35 percent

goal established. Originally, two evaluations were planned: completion of the first evaluation was scheduled for March 2007 and completion of the second evaluation was scheduled for March 2008. Data provided by the macroeconomic national accounts of the Central Bank of Paraguay (BCP) will be used to implement both evaluations. However, even though TCP-FAE expected to complete both evaluations as planned, BCP was unable to complete consolidation of national accounts during 2006. Therefore, we expect that evaluation of the VAT Fiscal Gap will be completed in September 2007.

It is important to point out that upon completion of the 24-month TCP-FAE contract, the national account's report corresponding to 2007 will not be available. Therefore, it is necessary to establish who will be responsible for completing these evaluations in 2008 once the data becomes available, in order to determine the new rate of VAT Fiscal Evasion Gap.

Next step: Analysis of critical activities

An analysis of critical activities that must be implemented will be prepared as soon as results of the first evaluation are available. Whether or not such activities are included in the actual schedule, TCP-FAE will continue to recommend measures that may be applicable, as necessary. However, as a last resort, TCP-FAE may implement whatever GOP decides.

Final comments

In summary, after the first year of TCP-FAE operations, important advances were achieved in Component 6 responding to major reforms and changes. The most recent change was the resignation of deputy minister Andreas Neufeld and the appointment of Ms. Gloria Páez, ex-director of support, SET, as new deputy minister.

The following are elements relevant to more than one indicator:

Flexibility in administration of TCP-FAE support

Originally, TCP-FAE planned to provide assistance to important items including per diem to UJ members and fuel for vehicles assigned to UJ, among others. However, funds assigned to support these items were reassigned to other needs as requested by SET to meet development and institutional innovations.

Consequences of elimination of some program activities

Originally, Component 6 Work Plan (Reduction of VAT Evasion) included two elements: Strengthening Fiscal Investigation Units (FIU) and expansion of the fiscal base; both elements implied collaboration with local governments to facilitate cross-checking data and fiscal decentralization.

However, at SET's request, both elements were eliminated from the Work Plan for two reasons: 1) SET did not favor superimposing its efforts with other agencies' cooperation

initiatives, and 2) changes in Work Plan's scope of work due to institutional policy decisions. Eliminating both elements could cause negative effects on the scope of Component 6 indicators in the medium-term. Both elements recorded partial achievements at the time when these elements were suspended. Regarding fiscal audits, TCP-FAE offered training to staff of the Fiscal Investigation Units (FIU) in specific fiscal audit aspects according to new fiscal regulations established in Decree No. 6406/05. Follow up of technical assistance provided to FIU could influence results obtained from FIU officers' interventions and VAT evasion results. FIU is the only department in SET responsible for carrying out external fiscal audits of businesses.

On the expansion of the number of taxpayers registered, a preliminary draft agreement was prepared between SET and municipal administrations to facilitate cross-checking information available a municipal databases with SET's data.

Changes in the Work Plan

The delivery of results of reengineering activities including control units and JU procedures, generated changes in FAE's technical assistance schedules. The Year 2 TCP Assistance Plan, prepared at the end on March 2007, updated such activities including, technical assistance consultations in verification of cash registers and printers, digital mapping consultancies, simulated purchases, acquisition of call center equipment and organization of the new TCP-FAE headquarters, among others. In addition, SET redefined provision of funding assigned to cover per diem and fuel cost included in the original Threshold Program assistance plan.

Low salaries budgeted for JU members

This is a factor inherent to local public institutions, but even more so to members of sectors related to taxpayers' control and/or verification processes. SET included in the National General Budget the cost of line items corresponding to JU members who are classified as government officers. Their categorization as government personnel influences the determination of their salary levels, which are regarded as relatively low.

Labor uncertainties

The so called reengineering produced changes relative to restructuring the institution's organizational chart; such changes caused uncertainties among employees and preoccupation regarding their future role in the new staffing pattern. This affected support to increase work attitudes within TCP-FAE.

Communications

The process to define SET's communications policy in regard to operations of Jeroviaha Units took longer than estimated. SET agreed that in order to determine the base line, field activities should be completed first. SET was reluctant to carry out public communiqués before implementing the first businesses suspensions. TCP-FAE insisted in the need to announce changes promoted by SET to the public. Finally, SET agreed in

April to implement a strong message through the media encouraging citizens to pay taxes. TCP-FAE assisted SET's technical staff to design the communications campaign. A publicity agency contracted by SET prepared the communications campaign and TCP-FAE will provide support for the dissemination of SET's communications campaign. Initiation of the campaign is subject to businesses suspensions.

I.A.2. Improvement of customs operations (Component 7)

Support provided by TCP-FAE to GOP in the struggle against illegality and institutional strengthening of fiscal control organisms is evident in Component 7 results.

As of June 2007, the National Customs Office (DNA) carried out 83 customs control operations including confiscations. The value of goods and services confiscated amounted to in US\$ 951,044², equivalent to 68 percent of confiscations carried out by DNA in 2006.

Coinciding with initiation of TCP-FAE operations in June 2006, DNA started an integral reforms plan including modernization of foreign trade services and depuration of unorthodox practices that tarnished the image of the institution for many decades. However, these reforms were not effective in controlling contraband, one of the major causes of economic informality.

Prior to the establishment of TCP-FAE in Paraguay, illegal merchandise trafficking throughout rivers and highways was alarming. Institutional and juridical linkages between customs intelligence agencies and contraband control operations did not exist. Customs agents responsible for implementation of contraband operations lacked basic control elements such as vehicles, patrol boats and modern equipment to detect merchandise hidden surreptitiously or in double-bottom packing.

Customs operations were carried out without the benefit of a regulatory platform linking Customs to the Armed Forces. Custom officers operated autonomously in the so called "Secondary Zone" under the local Customs Code lacking coercive capacity, except in "Primary Customs Zones."

Table 7. DETAVE Inter-Institutional Operations, Year 1.

Indicator	Base Line	Goal	Results to June 2007	Percentage Accomplished
Number of confiscations	0	US\$ 6,5 million	US\$ 950,000	15%

Thanks to TCP-FAE efforts, Police and Naval Officers – the Paraguayan Navy is part of the Armed Forces – and customs experts assigned to DNA operate as a team carrying out

² The value of confiscations is provisional. The real value will be determined upon completion of inventories and valuations of merchandise impounded by DNA.

joint operations including monitoring, surveillance, inspection, detection, confiscation and arresting of offenders involved contraband, and of those who intend to participate in contraband and other customs violations.

One year after establishment of TCP-FAE, the Anti-Contraband Customs Operations (OPACs) began operating fully in several locations throughout the Country. In total, 8 mobile DETAVE Inter-Institutional units including DNA officers, Police and Naval officers started anti-contraband joint operations in May. As indicated before, results achieved in less than two months of operations indicate a significant increase of the number of confiscations, surpassing the value of confiscations of goods and services in previous months.

Efforts to increase response capabilities.

TCP-FAE assistance focuses on developing greater response capability within DNA. TCP-FAE participated actively in defining procedures to carry out anti-contraband operations, and created, selected and trained special pilot units specialized in implementing control operations of merchandise in transit at border zones with high incidence of illegal merchandise trafficking.

Component 7 includes two development stages: Phase I and Phase II. Phase I includes personnel formation, training and commissioning the first units that started operations in May 2007. Phase II will capitalize on previous activities and lessons learned during Phase I.

Processes to achieve accomplishments mentioned above include two aspects: regulations (including changes in institutional structures), and construction of the institutional professional profile, including provision of goods and services.

Regulations

DNA executive staff support was fundamental in implementing institutional structural changes. Existing anti-contraband and intelligence units were eliminated. Institutional and administrative functions of DNA units that operated loosely were restructured. These changes resulted in establishment of the new Office of the General Coordinator of Customs Investigations (CGIA) (formerly COGRINAD), created under Decree No. 7980 promulgated on August 14, 2006.

Unprecedented anti-contraband tasks

The objective of this Program component includes a specific quantitative goal: Accomplishing merchandise confiscations amounting to US\$6.5 million during the life of the Program.

However, integration of the first anti-contraband unit with officers of the Public Armed Forces that never participated in joint anti-contraband operations, within regulatory parameters established, is a distinct accomplishment

The fact that two separate administrative and judiciary State institutions involved in upholding the Law work together to break up a scourge such as contraband is a clear demonstration that the Program's success is not measured in terms of quantitative accomplishments only.



Merchandise confiscated by DETAVE.

TCP-FAE participated in drafting Decree No. 7980 including a detailed description of the new intelligence collection unit and the department responsible for deployment anti-contraband operations. The intelligence-operations cycle was created as well as regulatory provisions thereof. A special characteristic of this cycle was changing administrative subordination of the unit responsible for operations to the customs investigations department.

The new regulations cover a wide spectrum including regulating the public inter-institutional entity responsible for anti-contraband operations as well as providing juridical protection to transgressors who may submit their own allegations to legal coercive entities. This constitutes a change towards modernization of the public administration, as well as advancing in achieving transparency of internal institutional procedures.



Optical fiber equipment for detection of contraband provided by the Threshold Program.

The first anti-contraband operational units established carry out customs investigation activities temporarily. The units do not have installed capability to implement the intelligence generating cycle (including collection, organization, analyses, dissemination of information and institutional design) yet. The Office of The CGIA needs to complete the staffing patterns and improve its functional methodology.

Building the professional profile



A DETAVE applicant observes optical fiber equipment provided by the Threshold Program.

Officers of the department responsible for conducting anti-contraband operations pass through a strict selection process including several stages organized by TCP-FAE. Procedures for selection of candidates include reviewing the applicant's background, conducting polygraph tests and training in Human Rights and Customs Procedures, Border Security and Contraband Detection.

Supply of materials and services

TCP-FAE provides high-technology materials and equipment to DETAVE to facilitate familiarization with modern techniques to inspect commercial establishments and transportation conveyances at rivers and highways. Pictures above show a DETAVE official using modern fiber optical equipment and accessories provided under the Threshold Program (See Table 7 for details on material assistance to DNA, Acquisitions/Special Activities Fund.)

Lessons learned: effective cooperation to deal with legal voids

Several legal voids emerged during design and creation phases of the CGIA/DETAVE, as well as in determining participation of Armed Forces personnel in DETAVE operations. The shortcomings were resolved and enabled and facilitated the establishment of intelligence-operations.

It was determined that three institutions should provide operational support to Anti-Contraband Customs Operations units (OPACs). Such institutions should include DNA, acting as the responsible agency for operations and guarantor of the Customs Code and the National Police and the Paraguayan Navy. The National Police is responsible for carrying out arrests and providing security to OPAC units and equipment, including coercive response capability. The Paraguayan Navy is responsible for providing security and support to OPAC field units carrying out fluvial operations.

A Memorandum of Understanding was signed with the Office of the District Attorney to ensure that in case of confiscation of merchandise impounded by DETAVE, perpetrators will be fully prosecuted. If these perpetrators were found guilty, they would be subject to sanctions, including imposing the maximum sentence under the law. The Memorandum also establishes that convicted offenders remain detained or imprisoned until the sentence is fulfilled entirely.

SUCCESS STORY Aptitude of a member of DETAVE Inter-Institutional

The key of success of anti-contraband operations is the integrity, transparency and capability of the members of the DETAVE Inter-Institutional unit. TCP-FAE emphasizes selection and training of DETAVE units integrated by DNA officials, National Police and Paraguayan Naval officers. DETAVE applicants must pass strict background checks, polygraph tests and participate in two training courses.

The first course includes theory and focuses on Human Rights and Customs Procedures. The course is inspired in the Leahy Law promulgated in the United States in 1977. This Law constitutes an essential tool for protection of human rights throughout the world. The author of the Leahy Law is Senator Patrick Leahy. The Law indicates clearly that when there is evidence and proof of human rights violations, United States assistance must be stopped. Furthermore, the Law confers special authority to the Secretary of State to take appropriate action and encourage foreign governments to implement corrective measures to deal with the problem. U.S. assistant may be reinstated if perpetrators of human rights violations are prosecuted.

Upon completion of the theoretical phase, and once DETAVE applicants have a clear understanding of respect for human rights in regards to carrying out control and coercive activities under the Law, students move on to the second phase consisting in a Specialization and Training Course in Border Security and Contraband Detection. This course includes training in utilization of high-technology surveillance equipment such as data provided by orbiting satellites, monitoring rivers and borders, using equipment to detect illegal merchandise trafficking and managing high-risk situations.

Cooperating institutions must submit a list of candidates to integrate to DETAVE Inter-institutional Units. Applicants must pass through rigorous selection processes. The late delivery of the lists of previously selected applicants to be evaluated and modifications—caused by Armed Forces structural changes – as well as review of applicants’ backgrounds caused a six- month delay in conducting the polygraph tests.

Reviewing applicants’ backgrounds and conducting polygraph tests — an essential element to ensure transparency and honesty of participating personnel — delayed authorizations to acquire equipment required for carrying out DETAVE operations, causing further delay in starting up component operations.

Definition of technical specifications of patrol boats caused numerous delays that slowed down the process of issuing public invitations to suppliers to submit proposals. In spite of delays experienced, the first anti-contraband highway control units were finally commissioned. Acquisition of six patrol boats and 12 customs boats are expected to further strengthen the presence of Customs authorities in rivers and highways throughout the country.



DETAVE applicants inspect a vehicle during the Border Security and Contraband Detection Specialization and Training Course.

We expect that the process of personnel selection corresponding to Phase II will be completed in Year 2, as set out in the program work schedule. The candidates’ selection mechanism is subject to the same processes used in integrating the first DETAVE Inter-institutional task force. Individuals selected during Phase I will receive advanced training and will provide technical support to their colleagues in strategic operational details and program functions learned during implementation of unprecedented multidisciplinary processes. We expect that OPAC units will continue operating to achieve expected component quantitative goals. In the short-term, work groups composed by 81 DETAVE Inter-institutional members will be fully operational.

The National Customs Office requested TCP-FAE to provide assistance in relevant communications issues to overcome difficulties in informing results of institutional reforms to the public. TCP-FAE recommended improving the institutional image and is presently designing a publicity campaign using media, as well as promotional materials and modernization of the DNA web page.

I.B. Background in registration facilitation and attraction of investments

The concept behind the struggle against informality and achieving a better image for the Country is of utmost importance to improve a friendly business atmosphere. By promoting investment, more economic opportunities for everyone will come as a result.

New investments are a sign of trust in the future of the Country. Investors pledge capital resources based on evaluation of local conditions in the Country. They are convinced that their business can be developed successfully in this atmosphere.

Two components are included in the second phase of the Formalization of Economic Activities project. The objectives of these components are: 1) establishing a sole mechanism to register new businesses; and 2) promote the establishment of new "maquila" enterprises.

I.B.1. Simplification of businesses registration processes (Component 9)

TCP-FAE introduced a new process of registration of businesses in November 2006. Under the old system, the process took 74 days and 17 steps. Business registration fees charged by State institutions³ used to amount to \$ 750. Today, registration of new enterprises is done through a simplified one-step registration window, known as the Unified System for Establishing Enterprises (SUAE) that facilitates registration of businesses within 25 days and requires six steps, costing under \$100.

The process of registration of new businesses implied personal presentation at seven institutions at expensive costs due to the high number of procedures and regulations, including authentication of documents by Public Notaries.

Registration fees were charged and paid separately at each different intervening institution. Often, entrepreneurs paid individuals to carry documents from one institution to the next to expedite the process until the paper work was done; this procedure was repeated at each step of the process.

Entrepreneurs were unable to obtain official registration forms required to complete processes at intervening institutions or ask for information on the status of their applications unless they approached institutions personally or relayed on Public Notaries records. Due to the paperwork being so complex and onerous Paraguay obtained a poor classification in the 'Doing Business' World Bank Publication and in other similar publications relevant to business and investments atmospheres worldwide.

Custom-made software

SUAE operates specially designed custom-made software to facilitate electronic document processing among institutional networks and provide consulting services to businesspersons on the status of their accounts through SUAE's web page.

TCP-FAE provided computer equipment to public institutions members of SUAE and portable computers to facilitate access to documents anywhere in the Country, reducing the number of steps, costs and time in carrying out information exchanges.

SUAE staff received training to operate the software. Institutions prepared special regulations to reduce requirements to the maximum extent possible according to legislation in force.

³ The "Doing Business" Publication of the World Bank refers to two types of expenditures: public and private. The Chemonics contract and GOP counterpart commitments do not include private expenditures. The \$750 corresponds to public expenditures; the \$1,750 cost base includes public and private expenditures.

Table 8. Savings in the Cost of Registration for new Enterprises, Year 1.

Indicator	Description	Base Line	Goal	Accomplished to June 2007	Percentage completed
No. of days required to register an enterprise	Indicator of simplification	74	36	25	144%
Costs of registration on an enterprise	Indicator of Cost reduction	US\$ 750	US\$ 250	US\$ 80	310%
Enterprise registration stamps	Indicator of simplification	17 ⁴	9	6	150%

Since the installation of SUAE in November 2006 and as indicated in Tables 2 and 3, and in Table 5 of Indicators in Section III, simplification of the business registration process resulted in lower registration costs. All Component goals were surpassed.

Entrepreneurs may obtain registration forms in the SUAE web page, conduct the entire registration procedure and pay fees in a sole one-step window.

Moreover, entrepreneurs may find information on the status of their applications using a special password produced automatically at the SUAE website <http://suae.mic.gov.py> or by phone. The SUAE website provides information on requirements to register new businesses and procedures thereof.

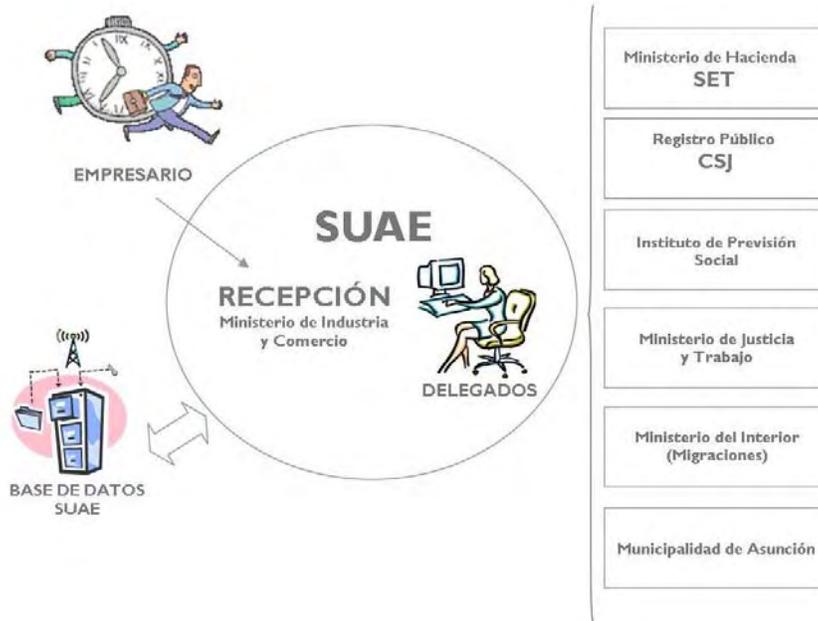
Initially, access to benefits under the new system was limited to businesses located in Asunción. However, TCP-FAE was successful in extending SUAE benefits nationwide through a Supreme Justice Court ruling issued on May 3, 2007. The ruling allowed registration of enterprises at SUAE anywhere in the national territory. Paraguayan entrepreneurs may update and/or register their businesses at the municipality in which they operate. The system operates as sole one-step window to receive applications and approve registrations using clear and prompt procedures.

Article 3 of Resolution No. 455 of the Judiciary Power of May 3, 2007:

“Procedures relative to approval of Social Bylaws, requiring jurisdictional intervention, and applications for business registrations in the national territory, will be filed at the First Instance Civil and Commercial District Court in the Judiciary District corresponding to the domicile of the commercial enterprise or at the domicile of the individual businessperson. Such enterprises may apply for benefits in filing applications through the Unified System for Establishing Enterprises (SUAE).”

⁴ Application of the SUAE system reduces the number of steps required to registration of enterprises from 17 to 6.

Perfil Operativo del SUAE



Translation of captions:

- SUAE operational scheme
- Entrepreneur
- Ministry of Finance - SET
- SUAE reception
- Ministry of Industry and Commerce
- Delegates
- Public registry - CSJ
- Database SUAE
- Social Services Institute
- Ministry of Justice and Labor
- Ministry of the Interior (Immigration)
- Municipality of Asunción

The first five businesses registered reported considerable savings in time and money according to parameters established in the World Bank document “Doing Business in Paraguay 2006” (DB2006.) The average time required for registration reported by the

five businesses was 25 working days and the cost amounted to \$80, i.e. entrepreneurs save \$670 in public expenditures based on the DB2006 report ⁵ (See Table 2).

TABLE 9. DB2006 COSTS IN US\$

Characteristics of the procedure (2006)	Duration (days)	DB Cost	Official SUAE Costs SUAE
Step 1: Verification of the company's proposed name	2	30	<i>Private costs</i>
Step 2: Preparation of company's bylaws by a lawyer	5	600	<i>Private costs</i>
Step 3: Preparation of public deed	3	256	<i>Private costs</i>
Step 4: Purchase of commercial books	1	25	<i>Private costs</i>
Step 5: Delivery of bylaws to the First Instance Civil and Commercial District Court	7	30	8.59
Step 6: Review of bylaws by the Public Treasury Legal Department	10	0	0
Step 7: Order of registration a publication issued by the Civil and Commercial District Court	5	30	0
Step 8: Registration of document in the Public Commerce Registry	4	40	4.34
Step 9: Registration of document in the Legal Entities and Associations' Registry	4	40	4.34
Step 10: Publication of a summary of bylaws in the Official Gazette and in a wide circulation newspaper	4	160	<i>Private Costs</i>
Step 11: Registration of document at the Fiscal Secretary Office (RUC) of the Ministry of Finance	15	280	0.00
Step 12: Payment of registration fees at the Public Treasury Legal Department	3	25	0.00
Step 13: Registration of the Employer at the Ministry of Justice and Labor	7	50	0.18
Step 14: Obtaining the Commercial License and Registration at the Municipality of Asunción	10	90	45
Step 15: Registration of the company in the State Suppliers' List	10	50	0,00
Step 16: Registration of the Employer at the Social Services Institute	3	20	0,00
Step 17: Request of public signature of commercial books	5	25	6.56
Total	74	US\$ 1,751	69.01

⁵ When calculating registration costs in Paraguay, the referential figure is the official cost of steps required to register businesses mentioned in DB2006. The reference "not higher than \$80" is to calculate a conservative cost. The last cost indicated Table 2 comparison of the DB Cost/Official SUAE Cost; is \$69.01.

Table 10. Real Costs and Time Required to Register Enterprises in SUAE ⁶ (US\$)

CASES	CASE 1	CASE 2	CASE 3	CASE 4
MAIN ACTIVITY OF THE ENTERPRISE	Transportation of Cargo, and Passengers and Cargo	Public Relations Consulting Services (Marketing)	Telephone Cabins	Wholesale Trading of Diverse products
CAPITAL ASSETS US\$	9,920.63	1,984.12	4,365	9,920.63
Ministry of Finance	1	1		0
Judiciary Power	9	6		7
IPS	0	0		0
Municipality of Asunción	15	17		18
Immigration	0	0		0
Ministry of Justice and Labor	0	0		0
TOTAL	25	24		25
ACTUAL COSTS PAID				
Judiciary Power	21,417	18.34	18.34	18.34
Ministry of Justice and Labor	0.19	0.19	0.19	0.19
Municipality of Asunción	4,055.99	7.12	Registration pending	44.06
TOTAL	25,473.68	25.66		62.60

Simplifying business registration

An assessment of processes relevant to establishing businesses in Paraguay prepared by an international consultant provides detailed information on steps and procedures required under current legal regulations. Based on experience obtained in reviewing actual cases, a new system was designed to reduce the number of steps, time and costs relevant to registration of businesses under the law, incorporating an electronic mechanism and integrating activities of public institutions intervening in legal processes pertinent to the establishment of new businesses.

TCP-FAE intervened in a great number of negotiations and day to day accompaniment to GOP counterparts to convince public institutions of the need to implement a new businesses registration system. To this effect, TCP-FAE designed the corresponding legal framework and coordinated the creation of a committee integrated by seven institutions including the Judiciary Branch, the National Social Services Institute, the Ministry of Justice and labor, the Ministry of Industry and Commerce, the Ministry of Finance, the Ministry of the Interior and the Municipality of Asunción. The objective of organizations participating in this Inter-Institutional Committee was to jointly cooperate to establish the Unified System for Establishing Enterprises (SUAE).

⁶ Exchange rate: US\$ 1 x Gs. 5040

Representatives of the Judiciary Branch, the Executive Branch and the Municipality of Asunción signed a historical agreement on September 14, 2006, that included a series of commitments to facilitate the initiation of SUAE operations.

Participating institutions appointed representatives and supervisors to adapt the role played by each institution to the roles of the other intervening institutions. TCP-FAE played an important role in training institutions to participate in SUAE. Likewise, intensive work was required to reduce the number of business registration regulations that are not specifically stipulated in the law, although they usually constituted standard practices at each institution. This reduction was finally agreed on in a series of resolutions that required intensive day to day work involving Cabinet ministers, the Supreme Court of Justice, the Municipality of Asunción and the Executive Branch.

Working Together to Provide Better Service

Amanda Maldonado, SUAE executive:

"Communications and integration of officials of diverse institutions with different professional profiles was the most important challenge. It was a difficult process but the results achieved were excellent."

Ricardo Dos Santos, president of the Uruguayan Chamber of Commerce and Services manages Uninoble, the first enterprise that registered at SUAE:

"The system is one hundred times better than what we had before. It facilitates enterprises to perform many things. People at SUAE did everything possible to facilitate a very complicated process. They even assured that Municipal inspectors fulfilled their tasks on time".

The official inauguration of SUAE headquarters took place on November 27, 2006, eight months before the projected date.

Intensive training and joint efforts to achieve a new business atmosphere

Training officials of seven different institutions in learning a completely new and different system was a major challenge. The enormous number of requirements established by institutions was another obstacle that needed adjustment. Difficulties were overcome through the integration of delegates to function as a team; TCP-FAE provided intense training to SUAE delegates and central government offices.

Despite multiple advantages offered by SUAE, only a few businesses registered in

the system. Probably one of the reasons for low business registration was that establishing enterprises through SUAE implies carrying out formal business operations.

TCP-FAE designed a communications campaign to disseminate SUAE's benefits in April. The campaign was approved by the end of May. However, the campaign was delayed due to the change of SUAE's office address and telephone numbers.

SUAE surpassed expectations

SUAE results are quite encouraging. Objectives were achieved ahead of schedule and surpassing expectations. SUAE started operations throughout the country; the one-stop sole window system introduced by SUAE facilitates registration of small- and medium-size businesses.

TCP-FAE estimates that goal indicators were fully accomplished and therefore, TCP-FAE considered that the profile of assistance should be changed and that advantages offered by SUAE should be communicated to the public. The Ministry of Industry and

Commerce (MIC) acting through the Investments and Exports Network (RDIEX), wants to introduce changes in the business registration law that would simplify registration procedures even more. This would be achieved by encouraging and compelling businesses to comply with regulations required under the law. A new law will replace existing legislation regulating establishment of new enterprises in the Country.

The Terms of Reference to contract the study of the new juridical process were drafted by TCP-FAE.

SUAE will install a new modern office to provide improved services to visitors. This implies re-location and adaptation of new office furniture, equipment and installation of modern electronic networks. The new SUAE offices, located next to the Center for Integral Assistance to Micro-, Small- and Medium-size Enterprises (CIAMP), will attract medium- and small-size entrepreneurs. Once the relocation is complete, the SUAE publicity campaign will be launched countrywide through radio broadcasts, TV, posters and fairs to inform about the benefits available to entrepreneurs under the new system. Modification of SUAE software is underway including recommendations and needs identified in Year 1 and the possibility of implementing businesses' registrations in several Phases. A fundamental change that will cause positive impact yet to be measured is the replacement of the former SUAE director. The new director would be the third appointment in six months.

Services Offered by SUAE

- Securing the RUC
- Registration of individuals and companies in the TCPblic Registry
- Registration of employers at the Ministry of Justice and at the Social Services Institute
- Securing the Business License Certificate
- Payment of registration fees
- Securing the municipal business license in Asunción



SUAE Stand at EXPO 2007: The largest agro-industry Fair in Paraguay.

I.B.2. Establishment of new "maquila" enterprises (Component 10)

As a result of TCP-FAE promotional activities carried out during Year 1, 18 Brazilian business people visited Paraguay. They expressed interest in installing their enterprises in Paraguay to operate under the "maquila" system.

Nine out of 18 company executives, mostly shoe manufacturers invited by TCP-FAE, advanced market research operations and carried out consultations on the possibility of installing factories in Paraguay. Another nine company representatives are currently evaluating information provided by TCP-FAE and the business outlook presented by promoters. The objective of this component is to achieve the installation of 15 new "maquila" factories in Paraguay.

The "maquila" regime is an investment system that facilitates local production of goods and services in Paraguay benefiting investors. Beneficiaries could be national or foreign entrepreneurs who establish enterprises in Paraguay and hold commercial relations with foreign enterprises.

Two Paraguayan enterprises are functioning under the "maquila" program; company executives highlight favorable business conditions of the system. The goods produced at their factories are eligible to obtain the MERCOSUR certificate of origin if 40-60 percent of the products manufactured under the program incorporate regional added value. This condition allows exporting products to foreign markets without paying import duties, even though basic inputs from the so called "extra-zone" are used to manufacture in product manufacturing.

TCP-FAE contributed to improve the image of Paraguay overseas promoted by the GOP. However, important program phases must still be completed. Although to date favorable business conditions are available to national and foreign investors including: low electricity costs, competitive real estate prices, abundant water supply, fiscal incentives for attracting enterprises, abundant labor, modern custom services and the lowest corporate income tax base in the region.

TCP-FAE continues to collaborate with the Ministry of Industry and Commerce (MIC) encouraging creation of new businesses and expanding existing businesses. MIC's National Council of "Maquila" Export Enterprises (CNIME) is the official administrator of the "maquila" regime and foreign investment promoter.



Table 11. Achievements: Interest of Brazilian enterprises to participate in "maquila" ventures in Paraguay, Year 1.

Indicator	Base Line	Goal	Results to June 2007	Percentage Accomplished
Establishment of new "maquila" enterprises	0	+15	11 ⁷	-
Increase of 15% in "maquila" exports	0	+15%	Not available	-

Active program promotion

After four promotional trips to Brazil carried out by TCP-FAE executives and their Brazilian entrepreneur contacts, 18 Brazilian enterprises invested resources in Paraguay. In total, 68 enterprises and representatives of manufacturer associations and Brazilian production centers received detailed information on the "maquila" ⁸ regime during the first year of operations of TCP-FAE.

Market research studies

More than 500 contacts in the shoe manufacturing enterprise and 1,500 shoe part manufacturing enterprises were identified in a market research study. The furniture sector includes a list of 686 furniture manufacturing enterprises in the State of Paraná, 596 in the State of Rio Grande do Sul and 481 in Santa Catarina; this list is available for consultation.

Eleven enterprises (nine foreign and two national, see Table 12 below) are completing registration processes. Thus, indicating that the program is advancing normally-considering that attracting investors is a relatively long process. From the time that the investor is contacted until a factory is installed it takes approximately two years.

⁷ 9 foreign enterprises and 2 national enterprises are advancing in processes to initiate operations under the "maquila" system.

⁸ See list of enterprises contacted and the status of advances in the Attachment Section.

Table 12. Enterprises that initiated processes to operate under the "maquila" system⁹

Enterprises that have gone forward with the process	Contact	Status	Date	Next steps and pending issues	Date of Initiation of the "Maquila" Program
FOREIGN ENTERPRISES					
1. Dal Ponte (Sport shoes)	Sr. Leonildo Dal Ponte President	Marketing research visit to Paraguay. Initiated design of a "maquila" program	27/29-mar-07 15-18/05/07	"Maquila" Program	18/04/ Process underway
2. Piccadilly (Women's shoes)	Sr. Guto Grings Managing Director	Marketing research visit to Paraguay. Submitted a letter of intention and initiated design of a "maquila" program	27/29-mar-07	"Maquila" Program	17/04/07 Process underway
3. Klin (Children's shoes)	Sr. Carlos A. Mesteiner Commercial Director	Marketing research visit to Paraguay. Requested a visit to design a "maquila" program	27/03/07	"Maquila" Program and Letter of Intention.	Pending
4. Pampili, (Children's shoes)	Sr. José Carlos Colli Director	Marketing research visit to Paraguay. Requested a visit to design a "maquila" program (in association with Klin)	27/29-mar-07	"Maquila" Program and Letter of Intention.	Pending
5. Sapatoterapia (Men's shoes)	Sr. Leonildo López Ferreira	Marketing research visit to Paraguay. Requested extension through July 2007 to make a decision	27/03/07	"Maquila" Program and Letter of Intention.	Pending
6. Horizonte (Shoes in general)	Sr. Rudinei Moreto Director	Marketing research visit to Paraguay.	19-21/06/07	"Maquila" Program and Letter of Intention.	Pending
7. Aladdin (Shoes in general)	Sr. Joao Pereira David Director	Marketing research visit to Paraguay.	19-21/06/07	"Maquila" Program and Letter of Intention.	Pending
8. SADIG (Management information software services)	Sr. Moacir Pogorelsky Director	Marketing research visit to Paraguay under preparation.	Visit pending	"Maquila" Program	Pending

⁹ Listings by place of origin of foreign and national enterprises, not in regards to degree of advance of registration processes.

9. Freelux (Electrical products)	Sr. Osmar Ruben Frizke Director	Marketing research visit to Paraguay.	16/06/07	"Maquila" Program	Pending
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NATIONAL ENTERPRISES					
10. Animal Identification S.A. (livestock tracking services)	Ing. Luis Fernando Godoy President	Established in Paraguay. Registered as a "maquila" enterprise.		Needs approval from Argentinean Health authorities. (SENACSA) to start production	11/07/07 Process underway
11. Nobel S.A. (Printing industry)	Lic. Robert Harrison Director	Established in Paraguay. Registered as a "maquila" enterprise.			Pending

Institutional strengthening

TCP-FAE provided institutional strengthening to CNIME in research and competitive intelligence using information technology, and subscription to the Internet OBRES data base. CNIME started using this economics and financial tool that provides information on more than 40,000 enterprises worldwide.

TCP-FAE provided computers, projectors and a server to modernize assistance provided to clients using Customer Relationship Management (CRM) software. In addition, TCP-FAE trained CNIME personnel in promotional activities to prepare staff traveling to Brazil (4 trips). In addition, TCP-FAE and prepared and trained CNIME staff to assist investors' missions that will visit Paraguay to explore business opportunities. TCP-FAE prepared promotional material in Portuguese and German including the "maquila" law, regulations and labor requirements.

Anti-corruption initiatives

TCP-FAE received complaints from businesspeople who abandoned the idea of participating in "maquila" projects because of complex bureaucratic steps. Routine obstacles such as receiving "suggestions" from governmental institutions to contract consultants, charging \$20,000-40,000 to prepare studies to qualify potential investors under the "maquila" system. To counteract this problem, TCP-FAE requested CNIME to offer direct technical assistance provided by CNIME personnel, to help investors by preparing "maquila" program proposals, free of charge. Local and Brazilian entrepreneurs demonstrated appreciation and applauded these measures in view of the fact that this initiative will result in saving costs, time, and avoid improper payments and assist investors. Moreover, the initiative demonstrated that the GOP has the political will necessary to uphold transparency in assisting local and foreign businesspeople who wish to participate in commercial ventures in Paraguay.

Seeking program sustainability

Special strategic activities were adopted to achieve program sustainability during the life of the program; including promotional activities to attract foreign investment, and developing CNIME administrative and managing capabilities. By this, program goals will be met and solid bases to ensure program sustainability and continuity of economic growth will be established.

TCP-FAE's marketing team consists of five specialists including two market research experts, three business promoters who specialized in international markets, and one local business promoter based in Ciudad del Este. TCP-FAE's marketing team will continue to provide specialized technical assistance to CNIME to promote the "maquila" program overseas. During the first year of operations, two experts (one market researcher and one business promoter who started work in January 2007) were responsible for promoting "maquila" activities, supported by the project director.

TCP-FAE prepared an assessment of competitive advantages in Paraguay vis-à-vis investment opportunities in MERCOSUR member countries and associate members. Relevant advantages bearing on foreign investors' decisions to invest in Paraguay include: the geographic location of Paraguay, which facilitates access to important regional consumer markets and reduction of production costs related to low taxes, as well direct and indirect production costs.

TCP-FAE focused on promoting existing competitive advantages in Paraguay to attract foreign investment. To coordinate this strategy with CNIME activities, TCP-FAE hired an international consultant who will assist in orienting CNIME efforts to achieve program goals relative to the installation of 15 enterprises in Paraguay during the life of TCP-FAE's program.

The criterion to define "installed maquila" was determined CNIME by the bi-ministerial resolution Ministry of Industry and Commerce and Ministry of Finance as an enterprise with an approved program and with evidence of initiation of operations (factory installation contract, importation of equipment and machinery, personnel contracts).

Sectors

CNIME requested TCP-FAE to lead market research and promotion of activities focusing on shoe-making, textiles, clothing sectors and call centers.

The strategic assessment carried out by TCP-FAE was useful in confirming the comparative advantages offered by Paraguay in the sectors mentioned above. Also to include other sectors such as furniture, packing and software development industries as well.

Enterprise Profiles

Potential investors' selection criteria include family enterprises with financial solvency to expand their businesses to attend foreign market product demands. These enterprises do not receive major benefits from federal and state governments.

Geographic areas of interest

Major industrial development and investment potential areas selected by TCP-FAE include Sao Paulo, Río Grande do Sul, Santa Catarina and Paraná located in Southeastern Brazil. So far, TCP-FAE focused on Brazilian markets. However, we understand that CNIME is requesting TCP-FAE to consider other countries such as Chile, Mexico, Spain and the United States, and determine that 30 percent of the goal corresponds to enterprises located in those countries.

Sector studies

The market research specialist conducted market studies in the shoe, furniture, textiles and sectors. The textiles and clothing studies are almost completed; editing and proofreading are pending. Packing and services studies will be prepared later with emphasis on market potential in the geographic regions selected. In addition, entrepreneurs arriving to Paraguay requested and obtained transportation, logistics, rentals and other complementary cost information.

Active investment promotion

TCP-FAE selected and contracted an investment promoter and expert. This promoter initiated processes to identify and contact potential enterprises, establish contacts through enterprises' databases, identify studies of manufactured products by the enterprises, and feasibility analysis to determine adaptation of enterprises and products to conditions prevailing in Paraguay. Likewise, TCP-FAE developed a communications program to approach high-level company executives and explore the opportunity to present comparative advantages in Paraguay to foreign investors and extend invitations to visit Paraguay.

Upon arrival of potential investors to Paraguay, TCP-FAE starts a process to encourage investors that real comparative advantages exist in the Country. This operation implies developing a visit agenda for government officials, service institutions and entrepreneurs to facilitate investors to develop businesses. In the event that investors desire to contact specific sectors or visit regions, TCP-FAE will arrange meetings with sector representatives and prepare travel schedules. Visits of potential investors to Paraguay are a distinct opportunity to demonstrate the feasibility and profitability of establishing production operations in the Country. The process is based on mutual trust and personal contact with foreign investors supported by program accompaniment and improvement of the investment atmosphere in Paraguay.

Investment promotion strategy

TCP-FAE active investment promotion strategy is based on relevant international experience, including the experience of national investment promotion agencies. In view of the fact that it takes approximately two years to establish a "maquila" project, TCP-FAE oriented its strategy towards attracting Brazilian investors. Given the geographic proximity and the large internal market in Brazil, such advantages would probably decrease the response time and compliance with relevant project goals.

Difficulties encountered and solutions

Paraguay lacks an official investment promotion national agency with overseas representatives specialized exclusively in promoting business in Paraguay and attracting foreign investments.

CNIME is responsible for investment promotion in Paraguay, albeit human and technological resources to carry out promotion activities are limited. In regards to operations abroad, in 2005 when the request for assistance to the Millennium Challenge Corporation (MCC) was under consideration, the GOP suggested installing two investment promotion agencies abroad.

TCP-FAE considers that, in the future, a proposal for installing investment promotion representations overseas is a possibility in the future. This will not happen until Paraguay qualifies for funding under the Millennium Challenge Corporation Principal Account and the National Agency for Attracting Investments is created.

SECTION II. ADVANCE OF TCP-FAE INDICATORS – YEAR 1

Several changes in the list of program Indicators took place in the first year of operations of TCP-FAE. Table 13 below indicates Program Component Indicators including definitions, base lines and achievements through June 2007.

Table 13. Advance of TCP-FAE Indicators and Achievements – Year 1					
Indicator	Description	Base Line	Goal	Status as of June 2007	Notes
Component 6: Reduction of IVA Tax evasion					
Number of IVA taxpayers registered	Indicator: Increased operational efficiency	0	40,000	18,257 (this figure corresponds to April 2007)	This corresponds to 45.64% of the proposed goal
Percentage of reduction of affidavits not submitted	Indicator: Increased operational efficiency	To be determined during August/September 2007, according to data collected in May 2007	To be determined during August/September 2007	Not available	Determination of the base line will be prepared according to statements submitted through May 2007 upon definition of the SET data base.
Percentage of reduction of sales' receipts not submitted	Indicator: Increased operational efficiency	70%	30% Reduction	70%	The data base corresponds to verification of 403 samples of the purchase of goods and services in Asunción.
Percentage of reduction of in-transit merchandize without supporting documentation	Indicator: Increased operational efficiency and transparency	To be determined August/September 2007	20% Reduction	Not available	Effective control of efficiency and transparency initiated in 2008 as determined by SET
IVA fiscal gap	Indicator: Increased operational efficiency and transparency	53%	35%	Not available	Study of IVA tax evasion through 31/12/06 to be prepared in September 2007
Component 7: Improvement of Customs Operations					
Amount of merchandize confiscated in highways and rivers	Amount of merchandize confiscated	0	US\$ 6,5 million	US\$950,000 (DNA estimate). 83 acts of confiscation prepared by DETAVE	Approximate value of 83 merchandize confiscations carried out May and June 2007. 68% of the value of merchandize confiscated in 2006.
Component 9: Simplification of the Process of Registration of Enterprises					
No. of days needed to register an enterprise	Indicator: Simplification	74	36	25	7 enterprises were registered at SUAE after November 2006
Cost of registration of an enterprise	Indicator: Cost reduction	US\$ 750	US\$ 250	US\$ 80	US\$770 reduction of costs achieved
Steeps needed to register an enterprise	Indicator: Simplification	17	9	6	The number of steps required to register an enterprise was reduced to 6.
Component 10: Establishment of new "Maquila" Enterprises					
Number of "maquila" enterprises established	Indicator: Investments and formalization	38	+15	0	CNIME approved 11 new "maquila" projects after initiation of TCP. 11 enterprises identified by FAE, 11 projects entered the approval stage.

SECTION III. ACQUISITION/SPECIAL ACTIVITIES FUND

Introduction

TCP-FAE manages 5 program components encompassing different characteristics and activities that require acquisition of all sorts of goods, mechanisms and work equipment. TCP-FAE manages the Special Acquisition and Activities Fund (SAF) to provide support to the GOP in implementation of technical components (6 - 10)¹⁰. Acquisitions under SAF are inherent to program advancement. Therefore, it is necessary to explain achievements to date. Work performed in this area includes:

1. Identification goods and services regulations.
2. Provision of logistics support, as necessary.
3. Definition and developing GOP control systems.
4. Training public officials responsible for long-term administration and control of goods acquired, as necessary.
5. Monitoring and verification of correct utilization of equipment acquired with program funds.

The list of merchandise, equipment and logistics support acquired with program funds include:

1. Vehicles and boats
2. Computer equipment and special software
3. Anti-contraband equipment and special equipment for conducting investigations' operations
4. Communications equipment
5. Office equipment and furniture
6. Uniforms
7. Professional and Customs services
8. Logistics support (insurance, fuel, equipment and vehicle maintenance)
9. Rent, public services, operational expenses and office supplies
10. Payment of per diem to GOP operations personnel

Progress

The main tasks performed in Year 1 include:

1. Continuous review and consolidation of equipment listed in program components and logistics support related to project activities, in coordination with project activities.
2. Continuous acquisition of approved items.
3. Delivery of items acquired to beneficiary institutions.

¹⁰ The project provides support Technical Assistance Office (United States Treasury Department) (OTA) operation relative to Component 8, including acquisition of vehicles, equipment and logistics.

4. Establishment administrative systems (contractors and GOP) to control and monitoring of equipment financed under the project.
5. Establishment of administrative systems and provision of logistics support (communications, fuel, per diem, financing simulated purchases, etc.)

Table 14 below indicates considerable progress achieved and results of contracts entered through June 30, 2007, as well as support provided by category and component.

Table 14. Breakdown of SAF activities by program component during Year 1 (US\$)

Vehicles and Equipment	Component				
	C6	C7	C8	C9	C10
Vehicles and equipment	\$124,118	\$372,975	\$293,298	\$29,083	\$34,584
IT Hardware/ Software	\$164,048	\$9,529	\$166,856	\$104,330	\$26,634
Special equipment	\$13,316	\$46,268	\$27,076		
Communications equipment		\$33,071	\$17,268		
Office equipment	\$6,379		\$24,935	\$4,840	\$4,582
Office furniture			\$7,026	\$2,500	
Uniforms	\$6,090	\$2,781			
Subtotal	\$313,951	\$464,625	\$536,458	\$140,753	\$65,800

Services	C6	C7	C8	C9	C10
Professional services	\$2,400	\$3,000			\$6,558
Dispatch Agents / Notary Publics	\$2,830	\$9,671	\$4,165	\$1,339	\$373
Subtotal	\$5,230	\$12,671	\$4,165	\$1,339	\$6,931

Logistics Support	C6	C7	C8	C9	C10
Office rentals /Services/Office Supplies	\$1,850	\$727	\$6,288	\$1,436	\$1,107
Office communications	\$4,758	\$1,375	\$10,430		
Simulated Purchase Fund	\$2,451				
Local Training Support	\$6,381	\$2,671		\$698	
Vehicles' Insurance	\$907		\$5,385	\$332	\$985
Per diem		\$45,856	\$17,339		
Fuel/Vehicle maintenance		\$2,820	\$1,917	\$43	
Subtotal	\$16,346	\$53,449	\$41,359	\$2,510	\$2,092

Total Expenditures	C6	C7	C8	C9	C10
\$1,667,680	\$335,527	\$530,745	\$581,982	\$144,602	\$74,823

Table 15. Pending SAF activities and obstacles encountered by Component corresponding to the next quarter

FAE Special Activities Fund (SAF)		2007
	Pending Actions Obstacles	July - September
6	Acquisition of pending items Recruitment of Jeroviaha Unit personnel Final definition and distribution of new office space	July – September July - ?
	Delivery of Vehicles Phase II	August
	"Simulated Purchases" Fund	July – September
	Pending submission of vouchers and reactivation of activities	July - ?
7	Acquisition of Patrol Boats Process underway, delays encountered	August
	Delivery of vehicles Phase II	August
	Fuel	July – September
	Delivery of Special Equipment and Uniforms	July – September
	Per Diem C7, Customs and Navy Submission of vouchers pending	July – September
8	Delivery of vehicles Phase II	August
	Delivery of Special and Communications Equipment	July – September
	Special Acquisitions, Final OTA definition pending	July – September
	Office Acquisitions, Final UTE office location pending	July – September
	Translation and installation of the Paris software	July – August
	Fuel acquisition	July– September
	Payment of Per Diem C8 Submission of C8 Customs vouchers pending	July– September
9	Modifications to the SUAE software	July
	Delivery of vehicles Phase II As per USAID's instructions / Development of control systems	August
	Acquisition of VUE servers As per USAID'S instructions /Approval of IRM pending	July - August
	Final equipment's needs Moving to the new SUAE office pending	July – September
10	Delivery of vehicles Phase II As per USAID's instructions/Development of control systems	August

SECTION IV. OPERATIONS MANAGEMENT

During the first year of operations TCP-FAE carried out administrative and accounting tasks implemented related to normal functions and maintenance of activities implemented by TCP-FAE's Central Office, as well as appropriate, efficient and effective use of resources, in support of technical program components.

Administrative Activities:

During the initiation of the program, TCP-FAE Operations Management Office carried out significant administrative activities including finding adequate office space to satisfy TCP-FAE needs, renting offices and acquisition of equipment and services needed for implementing office activities. The office building, electronic equipment and office equipment and furniture are insured against fire and theft.

The Operations Management Office team was responsible for legalizing the vehicle acquired for official program functions, including fulfilling transference of ownership and contracting comprehensive, all-risk vehicle insurance services.

The Operations Management Office was responsible for recruiting and contracting long-term local personnel including review of CVs received in response of announcements published in newspapers, conducting applicant interviews, selection of candidates, salary negotiations and delivery of Program documentation to request USAID's approval through the PMU, drafting personal services contracts and registering office personnel at the Social Services Institute (IPS.)

The new accounting system ABACUS was installed by Chemonics' Home Office experts. ABACUS facilitates keeping project accounting records including classification of expenditures by Component and accurate control of Program costs.

In addition, day to day administrative activities were carried out including requesting 3 proposals for acquisition of office goods and services according to USAID's regulations, payments to suppliers, keeping project inventories and office administration activities including payroll management, vacations, permits, per diem, etc., as well as and maintenance of office equipment and vehicles.

Lessons Learned

Normal project development requires establishing US\$ and Guarani checking accounts to facilitate transfer of funds from Headquarters and issuing checks to pay for local goods and services. It was difficult to establish checking accounts because Chemonics was not registered at the national Fiscal Registry as a foreign enterprise. The reason for this is legal fiscal regulations in force requiring registration of enterprises to allow banking operations. A special waiver was requested from fiscal authorities under the Threshold Program Agreement establishing tax exemptions to USAID contractors. After a long

legal struggle, US dollars and local currency checking accounts were finally established facilitating financial program management transactions.

Support to activities of the project's technical components

In addition to operational activities relative to compliance with USAID's regulations and Chemonics processes, the TCP-FAE administrative team dedicated 50 percent of its time to support technical areas including organizing and implementing workshops, contract management, recruiting consultants, per diem payments and logistics.

TCP-FAE Operations Team provided support to customs' activities, drafted documentation requiring public notary certification, and equipped 23 vehicles granted by the Threshold Program to GOP agencies to be utilized in Components 6, 7, 8 and 9 activities. Likewise, the TCP-FAE team contracted comprehensive, all-risk project vehicle insurance and arranged with Petrobrás a credit-card system to facilitate acquisition of fuel and lubricants for project vehicles; the system facilitates keeping strict control of fuel and oil consumption of Program vehicles. Likewise, TCP-FAE collaborated in the ceremony of delivery of vehicles granted to GOP agencies attended by the President of Paraguay and the U.S. Ambassador.

TCP-FAE organized training workshops for the Jeroviaha Unit contracted under Component 6. Workshops took place in September 2006 and May 2006. In February 2007, TCP-FAE organized training workshops on customs activities for DETAVE personnel under Component 7, including logistic support, and human rights instruction. Likewise, TCP-FAE organized and implemented a training course and workshop on Border Security and Contraband Control under Component 7. Workshop activities included acquiring and renting local equipment, managing special equipment sent by Chemonics HQ, contracting a translator and permanent monitoring of logistics activities. TCP-FAE organized and implemented a training workshop to provide training to SUAE personnel in assistance to clients under Component 9.

TCP-FAE organized integral procedures for contracting short-term local and international consultants that will provide technical assistance to Components 6, 7, 8 and 10 operations. TCP-FAE provided logistics and administrative support to Component 7 operations under an inter-institutional agreement between DNA and the Office of the Attorney General. Likewise, TCP-FAE organized the search and leasing office space and provided office equipment to the Internal Investigation Unit, including drafting and signing lease contracts under Component 8.

Per diem emoluments are paid regularly to Components 7 and 8 employees in accordance with GOP and USAID regulations. Sixty employees are eligible for per diem and these request forms and supporting documentation are under review.

CNIME officers collaborated in arranging logistics relative to four investment promotional trips to Brazil (Sao Paulo, Novo Hamburg, Franca and Birigüí) under Component 10. Two shoe manufacturers missions' trips to Asunción and Ciudad del Este were arranged, including lodging, meals, and transportation.