

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

February 16, 2006

PROGRAM: "Threshold" Countries
APPROPRIATIONS CATEGORY: FY 2005 Program Funds
INTENDED FY 2006 OBLIGATION: \$37,070,248

In accordance with section 619(b) (2) of the Millennium Challenge Act of 2003 (the "Act") , this is to advise that the Millennium Challenge Corporation (MCC) intends to allocate to the United States Agency for International Development (USAID) up to \$37,070,248 in FY 2005 MCC program funds for the MCC Threshold Program. Allocated funds will be obligated by USAID to help fund Paraguay's ten specific initiatives aimed at attacking impunity and confronting informality as described below:

Threshold Program Executive Summary

Background

Since his election in 2003, President Duarte has recognized corruption as one of the leading causes of poverty. In the master plan for his Administration (2003- 2008), President Duarte defined combating corruption as the number one priority and a central principle for reforming public administration in the country.

Summary of Program

The principal objective of the Paraguay Threshold Program is to further reduce corruption. This is an appropriate focus as Paraguay scored at the 30% percentile in MCC's Control of Corruption indicator. The Government of Paraguay is requesting assistance from MCC to fund ten specific initiatives over twenty-four months aimed at strengthening the rule of law by attacking impunity and building a transparent business environment by confronting informality.

Description of Program:

FIGHTING IMPUNITY:

Increase the Investigative Capability of the Public Ministry (equivalent to U.S. Department of Justice):

- Facilitate penal investigation processes through the modernization and strengthening of technical, scientific, and human resources in the Public Ministry;
- Produce more reliable evidence through specialized analysis;
- Strengthen safeguards for the handling and storage of evidence; and
- Strengthen internal control and disciplinary systems by installing effective mechanisms for handling accusations, oversight, and sanctions.

[Tel] (202) 521-3600 | (202) 521-3700 [Fax]
875 Fifteenth Street, NW
Washington, DC 20005
www.mcc.gov

Increase the Capability of the Judiciary Disciplinary System: Strengthen the Supreme Court's Superintendence Council through the creation of a system of:

- Internal controls; and
- Disciplinary measures to hold those involved in corruption accountable.

Strengthen Internal Control Systems and Civil Society Participation in Oversight Activities at the Controller General's Office:

- Increase integrity and effectiveness of government operations by adopting an efficient and transparent internal and external control system;
- Create the necessary organizational infrastructure to implement a standard internal control model;
- Strengthen the external control functions carried out by the Controller General with an emphasis on publicly reporting on government financial performance.

Strengthen Oversight of the Public Registry to Safeguard the Integrity of Public Records:

- Network and integrate the databases of the Motor Vehicles Registry, the Judiciary Court Records Registry and the Department of Identification of Persons Registry; and
- Strengthen the System of Registration and Identification of Persons to maintain a more reliable system of personal identification.

Increase Transparency and Effectiveness of Public Finance Legislative Oversight:

- Improve the efficiency and transparency of Congress's system of analysis and oversight of budgetary executions by public entities;
- Make information more accessible to the public in order to promote citizen oversight;
- Establish mechanisms that promote coordination on public budget oversight among Congress, other branches of government, the Controller General's Office, and interest groups from civil society; and
- Increase the ability of members of Congress to represent the interests of their electoral consistencies in public budget issues.

REDUCING INFORMALITY:

Increase Operational Efficiency and Transparency of Government Tax Authority:

- Simplify, standardize, and expand the use of documents verifying sales in order to reduce informal business transactions and increase tax payment compliance.

Strengthen Border and Customs Control:

- Improve land and river border patrolling by creating a special rapid deployment unit; and
- Monitor goods being transported within the national borders through a system that will deter the smuggling of contraband.

Increase the Ministry of Finance's Internal Investigation Capabilities by Developing and Strengthening:

- Internal Investigative Unit of the Ministry of Finance;
- Investigative Unit of the Tax Authority tasked with investigating tax evasion and fraud; and
- Investigative unit of Customs tasked with investigative customs fraud.

Design and Implement "One Stop Shops" and Call Centers to:

- Facilitate the legal establishment of new businesses; and
- Facilitate the regularization of unregistered businesses.

Promote Investment in Maquilas (duty-free assembly for re-export)

- Formalize the registration of business in the tri-state region (border area where Brazil, Argentina and Paraguay meet) through the *maquila* regime. *Maquilas* are businesses with low cost structures, simplified businesses processes, and international customers.

Highlights of Expected Program Results:

- Increase the percentage of disciplinary measures, cases and accusations investigated and submitted to the Public Ministry and the Jury for the Prosecution of Magistrates.
- Achieve twelve audits yielding punishable offenses or administrative misconduct that are submitted and investigated by the Public Ministry and Congress from a current baseline of zero.
- Implement an Integrated Public Information Management and Registry Control System that will allow for the coordination of information among public agencies.
- Achieve a level of 20 public agencies subject to the budget execution and legislative oversight system from a current baseline of zero.
- Reduce to 35 percent the shortfall in value-added tax (currently at 53 percent).
- Increase from \$3,000,000 to \$7,500,000 annual customs collected through public auctions of seized merchandise.
- Achieve 13 corruption cases properly submitted to the Public Ministry. The current baseline is zero.
- Reduce the number of days to start a business from 74 to 36.
- Increase the number of *maquilas* installed as a consequence of promotion activities from 38 to 53.

Implementation: The Paraguay Threshold Program will be implemented by representatives of the 15 public-sector entities involved in developing the Paraguay Threshold Program, coordinated by the Economic Advisor to the President, Minister Carlos Walde. A Coordinating Unit, established to monitor the program on a day-to-day basis, will work directly with USAID in a collaborative effort to execute implementation.