

**The World Bank**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS**CONFORMED COPY FOR PUBLIC DISCLOSURE**

April 28, 2010

H. E. Dionisio Borda  
Minister of Finance  
Ministry of Finance  
Palma y Chile 128  
Asunción, Paraguay

Re: PARAGUAY: SFLAC Grant for Strengthening Paraguay National Audit Office  
Grant No.TF096017

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Paraguay (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided by the Spanish Fund for Latin America and the Caribbean (SFLAC), proposes to extend to the Recipient a grant in an amount not to exceed three hundred and thirty thousand two hundred United States Dollars (U.S.\$330,200) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this

Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Stefan Koeberle  
Acting Director  
Argentina, Paraguay and Uruguay

AGREED:

**REPUBLIC OF PARAGUAY**

By: /s/ Dionisio Borda  
Authorized Representative

Name: Dionisio Borda

Title: Minister of Finance

Date: August 20, 2010

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008.
- (2) Disbursement Letter dated April 28, 2010, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

## Article I

### Standard Conditions; Definitions

1.01. *Standard Conditions.* The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 1, 2008 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. *Definitions.* Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, and the following additional terms have the following meaning:

(a) “CGR” means *Contraloría General de la República*, the Recipient’s Office of the Controller General, established pursuant to Law 276, dated July 8th, 1994, published in the Official Gazette in July, 13 1994.

(b) “IAS” means International Auditing Standards, developed and issued to facilitate the convergence of international and national standards, by providing guidance to auditors when carrying out external auditing function of any organization.

(c) “INTOSAI” means the International Organization of Supreme Audit Institutions, a worldwide affiliation of Supreme Audit Institutions from countries members of the United Nations.

(d) “SAI” means a Supreme Audit Institution, the public body of a national state that exercises the highest public auditing function of said national state.

## Article II Project Execution

2.01. *Project Objectives and Description.* The objective of the Project is to enhance the credibility and effectiveness of CGR by improving its audit methodology and systems. The Project consists of the following parts:

### Part A: Institutional Assessments and Processes

1. Review of audit systems through, *inter alia*: (a) the carry out of institutional capacity assessment of the CGR based on the INTOSAI and IAS standards; (b)

- the preparation of a workshop on the key findings of the assessment; and (c) the development of an action plan.
2. Update of the training strategy through, *inter alia*, medium and long term capacity building strategies.
  3. Improvement of archiving system for audit reports through, *inter alia*: (a) the development of an organized and effective archive system for audit reports, including the development and implementation of an on line filing system; and (b) the training of staff on procedures to ensure proper and consistent filing.

#### Part B: Quality Review Scheme

1. Development of a quality review scheme based on international benchmarks through, *inter alia*, the elaboration of a process guide for auditors.
2. Establishment of a peer-review program through, *inter alia*, the carrying out of quality reviews through peer review exchange program arrangements between CGR and similar SAIs within or outside the region.

#### Part C: Strengthening Compliance with International Auditing Standards

1. (a) Update of an auditing manual to be in line with IAS standards; and (b) testing of the use of said manual through the carrying out of procurement and forensic audits.
2. (a) Training of CGR technical staff on modern auditing skills, particularly forensic and procurement audit; and (b) training of trainers and champions in core auditing skills.

#### Part D: Enhancing Public Knowledge of Audit Services

1. Enhancement of the existing website through, *inter alia*: (a) the update of said website; and (b) the provision of training to develop staff capacity to maintain said website.
2. Publication of a summary of the annual audit reports through, *inter alia*, the provision of training to develop staff capacity to prepare summary of reports.
3. Update and implement communication strategy through, *inter alia*, the building up of staff's capacity to carry out press briefings, and press releases for radio and local newspapers.

#### Part E: Grant Audit

1. Carrying out of annual project audit after end of the financial year.

2.02. ***Project Execution Generally.*** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by CGR (“Project Implementing Entity”) in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”); (c) the Subsidiary Agreement; (d) the operational manual (“Project Operational Manual”); (f) the Procurement Plan which shall be in form and substance satisfactory to the World Bank; and (e) this Article II.

2.03. ***Institutional and Other Arrangements.***

(a) For purposes of carrying out the Project, the Recipient shall transfer the proceeds of the Grant to CGR under a subsidiary agreement (the Subsidiary Agreement) to be entered into with CGR on terms and conditions acceptable to the World Bank, which shall include, *inter alia*: (i) the obligation of the Recipient to provide the necessary assistance to CGR; and (ii) the obligation of CGR to carry out the Project in accordance with the pertinent provisions of this Agreement.

(b) The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

(c) In case of any conflict between the terms of said Subsidiary Agreement and those of this Agreement, the terms of this Agreement shall prevail.

(d) Without limitation to the provisions of Section 2.03 of the Standard Conditions, the Recipient, through CGR, shall promptly provide as needed, in kind contribution for the Project, including the provision of office space, staff services, and administrative support.

2.04. ***Donor Visibility.*** The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

2.05. ***Project Monitoring, Reporting and Evaluation.***

(a) The Recipient shall cause CGR to monitor and evaluate the progress of the Project and to prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators agreed with the Bank. Each

Project Report shall cover the period of one calendar year, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The Recipient shall cause CGR to prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

**2.06. *Financial Management.*** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than 45 days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each period shall be furnished to the World Bank not later than six months after the end of such period.

**2.07. *Procurement.***

(a) General. All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

- (i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 (“Procurement Guidelines”), in the case of goods;
- (ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 (“Consultant Guidelines”) in the case of consultants’ services; and
- (iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

All goods valued at more than US\$50,000 per contract will be procured in accordance with the National Competitive Bidding method and advertised in the national press. All contracts below this amount will be procured using the Shopping procedure specified in accordance with the Procurement Guidelines.

(d) Particular Methods of Procurement of Consultants' Services

- (i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
- (ii) The following methods may be used for the procurement of consultants' services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Selection based on Consultants' Qualifications; (B) Selection of Individual Consultants; and (C) Sole Source Procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

### **Article III Withdrawal of Grant Proceeds**

3.01. ***Eligible Expenditures***. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of Article III of the Standard Conditions, this Section, and such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods	52,500	100%
(2) Consultants' services (includes audit)	187,900	100%
(3) Training/workshops	84,000	100%
(4) Operating costs	5,800	100%
<b>TOTAL AMOUNT</b>	330,200	

For the purpose of this Section, the terms:

(a) "Operating Costs" means operating costs required for the Project including consumable materials and supplies, communications, mass media and printing services, vehicle rental, operation and maintenance, charges for the opening and operation of bank accounts required for the Project, and travel, lodging and per diems, but excluding salaries of officials of the Recipient's civil service; and

(b) "Training/Workshops" means reasonable cost of expenditures (other than those for consultants' services) incurred by the Recipient to finance reasonable transportation costs and per-diem of trainees and trainers, workshop/training material and supplies, and rental of training facilities to carry out the Project activities.

3.02. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is 2 years after the Effective Date of this Agreement.

## **Article IV**

### **Suspension**

4.01 The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:



(a) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by CGR of its obligations under the Subsidiary Agreement.

(b) CGR has failed to perform any obligation under the Subsidiary Agreement.

(c) The World Bank or International Development Association (“IDA”) has declared CGR ineligible to receive proceeds of any financing made by World Bank or IDA, or otherwise to participate in the preparation or implementation of any project financed in whole or in part by World Bank or IDA (including as administrator of funds provided by another financier), as a result of a determination by World Bank or IDA that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by World Bank or IDA.

(d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that CGR will be able to perform its obligations under the Subsidiary Agreement.

(e) Law No. 276 dated July 8th, 1994 and published in the Official Gazette in July 13, 1994, pursuant to which the Project Implementing Entity has been established and is operating has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Subsidiary Agreement.

## **Article V**

### **Effectiveness; Termination**

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.

(a) The execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental action.

(b) (i) The Subsidiary Agreement has been signed by the parties thereto; and (ii) a counsel for the Recipient and CGR has each issued an opinion, satisfactory to the World Bank, providing that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the PIE, and is legally binding upon the Recipient and CGR in accordance with its terms.

(c) The Project Operational Manual referred to in Section 2.02 of this Annex has been adopted by CGR.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event has ceased to exist.

## Article VI

### Recipient’s Representative; Addresses

6.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

6.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance  
Chile 128 casi Palma  
Asunción  
Republic of Paraguay

Phone: 595-21-440-010      (17) Facsimile: 595-21-448-283

6.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:	Telex:	Facsimile:	
INTBAFRAD	248423 (MCI) or	1-202-477-6391	
Washington, D.C.	64145		(MCI)