



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you of the plan to negotiate and sign a threshold program agreement with the government of Paraguay and to fund an independent evaluation of the program. In addition to the enclosed notification, we have included a summary description of the Paraguay's threshold program.

The attached notification is being sent to the Congress on January 16, 2009. Negotiation and signature of a threshold program agreement with the government of Paraguay and obligation of funds for the evaluation may occur on or after 15 days from the date of this notification.

Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Ellona Fritschie (Senate contact) or Ven Neralla (House contact) at (202) 521-3850.

Sincerely,

Matthew K. McBean
Vice President
Congressional and Public Affairs

Enclosure:

As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

January 16, 2009

PROGRAM:	Threshold
APPROPRIATIONS CATEGORY:	FY 2006, 2007 and 2009 Program Funds
OBLIGATION AMOUNT:	\$30,600,000

In accordance with section 699I(b)(3) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008, as carried forward by the Continuing Appropriations Resolution, 2009 (P. L. 110-329) (the "Act"), this is to advise that the United States Agency for International Development, using up to \$30,300,000 in FY 2006, 2007 and 2009 funds allocated by the Millennium Challenge Corporation (MCC), will negotiate and sign an agreement with the government of Paraguay for a program authorized under section 616 of the Millennium Challenge Act of 2003, as amended (the "Threshold Program"). Threshold Program assistance will be given to Paraguay to improve its *Control of Corruption* and *Rule of Law* indicators. In addition, in accordance with sections 615(c) of the Act, this is to advise that MCC will obligate up to \$300,000 in FY 2009 funds for an independent evaluation of Paraguay's program.

Supplemental information on Paraguay's program follows.

Threshold Program Summary

<u>Country:</u>	Paraguay
<u>Budget:</u>	\$30,300,000
<u>Fiscal Year Funding:</u>	2006, 2007 and 2009
<u>Estimated Program Duration:</u>	2 years
<u>Indicator Focus:</u>	<u>Ruling Justly:</u> <i>Control of Corruption and Rule of Law</i>

Principal Objectives:

Paraguay's second ("Stage II") threshold program will build upon the substantial successes of the initial threshold program, focusing on areas crucial to improving Paraguay's performance on the *Control of Corruption* and *Rule of Law* indicators. Specifically, the program will focus on anti-corruption efforts in multiple sectors that are especially prone to corruption and of economic importance, such as customs, law enforcement, the health sector, and the judicial sector. The goal is not only to reduce opportunities for corruption and increase successful prosecution of wrongdoers, but also to improve public opinion of these sectors and reinforce Paraguay's commitment to combating corruption.

The April 2008 election of Fernando Lugo as president of Paraguay marked the end of the Colorado party's 61 years in power. This transition can be seen as an important step in the development of democracy in the country. Under President Lugo, the Government of Paraguay has stated that its main priorities are reducing corruption and economic inequality. It has requested state budgets to sustain the reforms supported under the initial threshold program, and it continues to work with other donors to improve the judiciary, reform state institutions, and address the needs of the poor. This program will be implemented in close coordination with other donors.

Program Components – Objectives and Proposed Activities:

Component 1: Strengthening the Investigative Capacity of the Prosecutor's Office

Effective prosecution of corruption is central to addressing the reality and perception of impunity in Paraguay. While the first threshold program initiated important reforms in this area, the effectiveness of the Prosecutor's Office is hampered by several factors, including lack of internal organization and insufficient analytical capacity and technology resources.

Objective: To increase the investigative capacity of the Prosecutor's Office to address highly-complex corruption cases.

Proposed Activities:

1. Improve the capacity of the Economic Crimes and Anti-Corruption Unit through training, creation and coordination of task forces, and improved connectivity systems.

2. Implement internal control systems in the Prosecutor's Office and its Disciplinary Office.
3. Expand the capabilities of the Forensic Laboratory and provide technical assistance to its personnel and management.
4. Restructure the Office of Crimes against Intellectual Property Rights.
5. Implement a communication plan focused on awareness campaigns, civic education activities, and civil society participation in monitoring and evaluation of corruption.

Component 2: Strengthening the Administrative Tribunal and the Judicial Control and Disciplinary Systems

Paraguay's judicial system has initiated some reforms but is still viewed as not transparent and as plagued by corruption. The initial threshold program provided technical assistance to the judiciary on internal controls and disciplinary systems for judges, judicial staff, and other justice-related professionals. That program also helped to create a new Office of Complaints and a Judicial Audit Office. Significant accomplishments were achieved, such as reductions in time for processing complaints and an increase in the number of audits conducted, although these reforms need to be solidified and expanded.

Objectives: To reduce corruption in the judiciary by strengthening its disciplinary, internal control, and financial systems, and to improve the judiciary's ability to dispose of corruption cases at the administrative tribunals.

Proposed Activities:

1. Implement internal control mechanisms in the judiciary.
2. Standardize administrative procedures and quality management systems in the judiciary's General Internal Audit Office.
3. Conduct organizational and regulatory reforms in the Administrative Tribunal.
4. Design and implement awareness campaigns on judicial reforms targeted toward judges, judicial staff, lawyers, public notaries, and nongovernmental organizations.

Component 3: Strengthening Control Systems

Corruption in Paraguay's public sector can be attributed to many factors, one of which is the lack of control and oversight. Recent improvements under the initial threshold program, such as the signing of the executive decree establishing the new Standardized Model of Internal Control for public institutions, will help improve the effectiveness and transparency of public institutions. The Ministry of Finance has been particularly successful in some of its reforms, including re-engineering the Integrated Financial Management System, which is a tool for generating critical information for internal and external control purposes. However, more work remains to be done.

Objective: To improve internal control mechanisms in Paraguay public institutions by expanding the use and impact of the Standardized Model of Internal Control in public institutions, in particular at the Ministry of Health, and

expanding the Integrated Financial Management System's coverage and integration with other systems.

Proposed Activities:

1. Implement the Standardized Model of Internal Control in additional ministries through training and technical support, including the Ministry of Health, the Customs Office, and the judiciary.
2. Develop a system to track key findings and audit recommendations.
3. Provide technical assistance to promote civil society participation and improve mechanism to receive and process citizen complaints.
4. Expand the Integrated Financial Management System to cover additional entities, including local governments.
5. Provide information technology support to improve the Ministry of Health procurement system.
6. Establish a management unit to oversee the storage and distribution system of the Ministry of Health.
7. Hold public hearings and increase avenues for filing complaints as a part of the communication campaign.

Component 4: Strengthening the Customs Office

The Customs Office is another institution in Paraguay that is perceived as being extremely corrupt by both Paraguayans and the international community. The high amount of illegal trade in Paraguay diminishes its revenues and creates favorable conditions for corruption, including bribery, influence peddling, counterfeiting and money laundering. The initial threshold program has made substantial improvements within the Customs Office by providing technical training to customs staff, creating a customs investigative unit, and establishing stricter controls on goods traveling within Paraguay.

Objective: To increase the capacity of the Customs Office in order to fight smuggling and tax evasion.

Proposed Activities:

1. Establish a central base of operations for the anti-smuggling offices in Asunción, in addition to the development of branch offices and a database for tracking investigations and seizures.
2. Increase the number of audits conducted, and digitalize cargo manifests and records of depositories.
3. Implement the Standardized Model of Internal Control in the Custom's main offices, and establish a specialized team for internal investigations.
4. Implement a one-stop shop mechanism for the import and export of goods.
5. Implement awareness campaigns on reform progress and establish a central office for complaints.

Component 5: Strengthening Intellectual Property Rights Protection

Crimes against intellectual property rights have become a major issue in Paraguay and they are threatening the country's fragile formal economy. In addition, these crimes, such as counterfeit products, piracy, and patent violations, are often linked to corruption and corrupt practices such as smuggling, bribery, tax evasion and money laundering. By increasing the prosecution of these crimes and improving citizen involvement in this effort, corruption should decline and domestic and international perceptions of the Government of Paraguay's commitment to fighting corruption should improve. In 2003, the Government of Paraguay created a Specialized Technical Unit to fight intellectual property rights crimes. Although this unit has been coordinating with the Prosecutor's Office and the Judiciary, increased coordination and investigative capacity are needed.

Objective: To strengthen Paraguay's fight against counterfeiting and intellectual property rights violations, thereby reducing corruption in these areas.

Proposed Activities:

1. Provide technical assistance for organizational and structural reform of the Specialized Technical Unit, including creation of a regional office in Ciudad del Este.
2. Promote citizen participation through a whistler-blower program and a civic education strategy.
3. Create a mechanism to improve coordination with relevant institutions.

Component 6: Strengthening the National Police

The National Police is perceived by Paraguayans as the second most corrupt institution in the country. Several factors contributed to this perception, including poorly trained officers and a weak institutional structure.

Objectives: To increase transparency and integrity within the National Police, to reduce corruption within the National Police by strengthening internal control and disciplinary mechanisms, and to improve services provided by the National Police.

Proposed Activities:

1. Reform the selection, evaluation, management and training of the National Police.
2. Implement the Standardized Model of Internal Control through drafting of procedural manuals and job descriptions, and increase transparency in senior management.
3. Conduct an assessment of the current police communication system in Asunción, and provide priority systems to improve response services.
4. Develop and implement communication and civic education activities on reforms, including procedures and mechanisms for filing complaints.

Highlights of Expected Results of the Program:

- Increase the number of performance audits per year to 56 in year 1 and to 72 in year 2
- Increase the number of complaints from the countryside to 65
- Improve perceptions of the Administrative Tribunal's efficiency and services
- Increase the quantity and quality of responses to recommendations from the Controller General's Office to 60
- Increase the number of civil society organizations performing oversight activities using information generated by the Integrated Financial Management System to be made available on the Ministry of Finance website
- Reduce stock outs and oversupply of medicines and supplies to 23 percent
- Increase imports using the green channel to 70 percent
- Increase the annual average value and number of counterfeit products seized per operation to \$825,516 and 76, respectively
- All cadres admitted to the National Police Academy in year 2 to be based on new admission criteria and evaluation system