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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

AND MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF PARAGUAY

FOR THE PERIOD FY15-FY18

November 7, 2014

**Argentina, Paraguay and Uruguay Country Management Unit
Latin America and the Caribbean Region**

**The International Finance Corporation
Latin America and the Caribbean Region**

The Multilateral Investment Guarantee Agency

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The date of the last Country Partnership Progress Report was April 9, 2012

CURRENCY EQUIVALENTS

(as of September 11, 2014)

1 United States Dollar = 4,281.92 Paraguayan Guaranies

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
CAF	<i>Banco de Desarrollo de América Latina</i> (Development Bank of Latin America)
CBP	<i>Banco Central del Paraguay</i> (Central Bank of Paraguay)
CCT	Conditional Cash Transfer
CEDAW	Committee on the Elimination of Discrimination against Women
CEPEP	<i>Centro Paraguayo de Estudios de Población</i> (Health sector NGO)
CPFL	Consumer Protection and Financial Literacy
CPS	Country Partnership Strategy
CPSCR	CPS Completion Report
CPSPR	CPS Progress Report
CSO	Civil Society Organization
DDO	Draw Down Option
DGEEC	<i>Dirección General de Estadística, Encuestas y Censo</i> (National Statistics Agency)
DNCP	<i>Dirección Nacional de Compras Públicas</i> (National Procurement Office)
DP	Development Partner
DPO/DPL	Development Policy Operation/Loan
EIF	<i>Encuesta de Integración Financiera</i> (Survey on Financial Inclusion)
ENDSSR	<i>Encuesta Nacional de Demografía y Salud Reproductiva</i> (National Demographic and Reproductive Health Survey)
EPH	<i>Encuesta Permanente de Hogares</i> (National Household Survey)
EU	European Union
FAO	Food and Agriculture Organization
FONACIDE	<i>Fondo Nacional de Inversión Pública y Desarrollo</i> (National Public Investment and Development Fund)
FY	Financial Year
G	<i>Guaraníes</i> (Paraguayan Guaranies)
GDP	Gross Domestic Product
GEF	Global Environment Facility
Global Index	Global Financial Inclusion Database
GoP	Government of Paraguay
GPSA	Global Partnership for Social Accountability
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Project Financing

IPS	<i>Instituto de Previsión Social</i> (Social Security Institute)
ISC	<i>Impuesto Selectivo al Consumo</i> (Selective Consumption Tax)
ISR	Implementation Status and Results Report
LAC	Latin America and Caribbean Region
MAG	<i>Ministerio de Agricultura y Ganadería</i> (Ministry of Agriculture and Livestock)
MDG	Millennium Development Goals
MECIP	<i>Modelo Estándar de Control Interno del Paraguay</i> (Standard Model of Internal Control Manual)
MERCOSUR	Mercado Común del Sur (Customs Union)
MIC	Middle-Income Country
MIGA	Multilateral Investment Guarantee Agency
MoH	<i>Ministerio de Hacienda</i> (Ministry of Hacienda)
MOPC	<i>Ministerio de Obras Públicas y Comunicaciones</i> (Ministry of Public Works and Communications)
MSME	Micro, Small and Medium Enterprises
MW	Megawatt
NCDs	Non-communicable diseases
NDP	National Development Plan
PAAP	Paraguay Analytical and Advisory Program
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PISA	Program for International Student Assessment
PPP	Public-Private Partnership
PRMPR	WBG Poverty Reduction Group
PRODERS	<i>Proyecto de Desarrollo Rural Sostenible</i> (Sustainable Rural Development Project)
R&D	Research and Development
RASs	Reimbursable Advisory Services
SEDAMUR	<i>Servicio de Atención a la Mujer</i> (Government domestic abuse helpline)
SEDLAC	Socio-Economic Database for Latin America and the Caribbean.
SENASA	<i>Servicio Nacional de Saneamiento Ambiental</i> (Government's Health Agency)
SEPA	<i>Sistema de Ejecución de Planes de Adquisiciones</i> (Procurement Database)
SERCE	Second Regional Comparative and Explanatory Study
SICO	<i>Sistema de Contabilidad</i> (Integrated Financial Management System)
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
STP	<i>Secretaría Técnica de Planificación</i> (Secretary of Technical Planning)
SWIFT	Survey on Well-being via Instant and Frequent Tracking
TA	Technical Assistance
T-Bond	Treasury Bond
UNDP	United Nations Development Program
UOC	<i>Unidades Operativas de Contrataciones</i> (Decentralized Public Procurement Agencies)
VAT	Value Added Tax
WBG	World Bank Group

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FY15-18 COUNTRY PARTNERSHIP STRATEGY FOR THE REPUBLIC OF PARAGUAY

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FY15-18 COUNTRY PARTNERSHIP STRATEGY FOR THE REPUBLIC OF PARAGUAY

I. INTRODUCTION

1. **Paraguay is undergoing a dynamic transformation.** While historically often lagging behind the economic performance in the region, growth and poverty reduction kept pace with the ‘golden decade’ in Latin America recently: economic activity expanded on average by 4.9 percent annually from 2003 to 2013 while poverty was almost halved, dropping from 44 percent to 24 percent during the same period. While land-locked, the richness in agricultural land and clean energy resources have propelled the country to a significant, albeit volatile, private-sector led dynamism. The country is young with the demographic window wide open. As a consequence, structural transformation from on- to off-farm, from rural to urban, and from primary-to higher-value production is in full swing. However, the private sector has outpaced public sector capacity, constraining crucial investment in service delivery, human assets, and infrastructure which are all vital for future prosperity and sustained poverty reduction. Deep-rooted governance problems and corruption remains the Achilles heel of the country. Given its location and resource base, Paraguay – and predominantly its most vulnerable population – is especially exposed to climatic changes. In addition, environmental degradation is already significant with the country recording the second highest deforestation level in the world.

2. **The last Paraguay CPS (FY09-FY14) focused its program on three thematic engagements: Governance and Anti-Corruption, Poverty and Inclusive Economic Growth.** During that period the WBG included support during the global economic crisis of 2009 with policy based lending, along with investments to improve basic infrastructure. On the private sector side, IFC’s portfolio saw a fourfold increase, making it the largest multilateral institution in the country in terms of disbursements.¹ IFC investments were particularly strong in agribusiness, logistics and the financial sector, reaching over 30,000 farmers and guaranteeing trade flows worth US\$450 million. The CPS Completion Report (CPSCR) discusses the challenges and lessons learned during a period marked by slow implementation of investment projects and a changing political landscape which included a Presidential impeachment process.

3. **This CPS (FY15-FY18) supports Paraguay in implementing its National Development Plan which calls for eradicating extreme poverty.** The document presents a brief analysis of the country’s challenges, and government program, followed by the proposed one WBG program for the FY15-FY18 period which will be demand-driven, selective and flexible, and will employ the array of instruments available to WBG clients.

¹ Annual Report of Public Debt, Ministry of Hacienda, 2014. Yearly multilateral disbursements for Paraguay have reached \$230 and \$210 million in 2012 and 2013, which as a reference were equivalent to IFC disbursements to the private sector in those same years.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

A. Sociopolitical, Demographic and Institutional Factors

4. **Paraguay is a relatively young democracy that has undergone significant political liberalization over the last twenty five years.** After the end of thirty-five years under the rule of Alfredo Stroessner in 1989, an interim administration paved the way for a new constitution adopted in 1992. This constitution strengthened the system of checks and balances with separation of power into Executive, Legislative and Judicial Branches. Nonetheless, political decision making is vulnerable to vetoes, institutions are nascent, and governance continues to be a major challenge.

5. **Mr. Horacio Cartes was sworn in as President on August 15th 2013 on a platform to improve the investment climate, reduce poverty, improve governance, develop the lagging infrastructure of the country and generate jobs.** The current administration made poverty reduction its overall objective and has prepared, during its first year in office, a National Development Plan (NDP), which is geared to private sector job creation, social inclusion and poverty reduction. The NDP includes an ambitious infrastructure development plan. Against the backdrop of high corruption perceptions in the country (Paraguay ranked 150 out of 177 in Transparency International's 2013 Corruption Perception Index²), the GoP has been actively pursuing increased public transparency, with the recent passage of a landmark new law on access to information. Among other provisions, the law mandates the public disclosure of all remunerations of public employees. This is an important step in building efficient and transparent institutions that enable agency and voice, and ultimately create the foundation for sustained growth, elimination of extreme poverty and increased shared prosperity.

6. **The country is beginning to reap the benefits of the demographic dividend with a median age of twenty-seven and a burgeoning potentially productive population.** Forty percent of the population is between 25 and 54 years old and another 20 percent between 15 and 24. The large number of working age people will be an important source of labor in the near future. Inequality, while falling somewhat recently, remains persistently high. As such, it is a threat to capitalizing on the opportunity created by a young workforce. This young population is searching for its voice, with only 6 percent of Paraguayans expressing satisfaction with democratic institutions – among the lowest levels in the region.³ Investing in education and employability of the young, as well as creating an environment conducive to inclusive growth, are critical to help create more and better opportunities for this young generation.

7. **The country's structural transformation is gaining momentum.** Agricultural employment has fallen from 30 to 20 percent over the last decade, while employment in services, commerce and construction made up the difference. Paraguay has the highest expansion rate of urbanization in South America, and inequality in the urban space is growing. The private sector threatens to outpace the public sector's ability to provide supporting services. Low levels of connective infrastructure create unique challenges for a landlocked country with a rapidly growing natural resources based economy.

² Corruption Perceptions Index 2013. *Transparency International*, 2014, <http://cpi.transparency.org/cpi2013/results>.

³ People under 25 years of age who were very much satisfied with the democracy in Paraguay, www.latinobarometro.org, 2011.

8. **Agriculture's share of Gross Domestic Product (GDP) has grown over the last decade thanks in part to abundant land resources.** Agriculture and livestock contributed 23 percent to GDP in 2013 and 86 percent of total exports are food and agricultural products. Rising production and exports were achieved through both intensification⁴ and the doubling of the cultivated area. A growing share of GDP in agriculture is an unusual pattern for a middle-income country (MIC) and represents both an opportunity and a challenge. The opportunity is that it represents an important source of sustainable wealth. There are two potential challenges. First, production is increasingly volatile as it is concentrated in few sectors that are heavily dependent on weather patterns and international commodity prices. Recent studies reveal that the Southern Cone (Argentina, southern Brazil, Chile, Paraguay and Uruguay) is highly susceptible to climate shocks, mainly related to changing rainfall patterns and rising heat extremes and this is expected to severely impact maize and soy yields.⁵ The second is that Paraguay has one of the most unequal land distributions in the world, making equitable growth a continuing challenge.

9. **Paraguay's wealth of energy resources is both an opportunity and a challenge for pro-poor economic management.** Paraguay is one of the largest net exporters of electricity in the world with about four percent of GDP coming from the hydroelectric complexes of *Itaipú* and *Yacyretá*. There may also be prospects for oil. Drilling has started and, if successful, the country would be faced with the task to turn resource abundance into riches and preventing them from becoming a curse. Paraguay's contributions to the construction of *Itaipú* will be fully paid off in 2023, with the revenue stream then tripling – a unique opportunity for the country to finance investments in public goods and basic services. The challenge is to increase the efficiency of the public sector and establish governance structures to manage this revenue stream effectively and transparently.

10. **Paraguay has an open trade and investment regime that positions it well to benefit from abundant natural capital and the demographic dividend.** Paraguay ranks 13th out of 33 LAC countries in the Ease of Doing Business Report.⁶ It is open to foreign investment and its legislation guarantees equal treatment of foreign and domestic investors. Foreign trade has grown rapidly over the last decade, reaching 98 percent of GDP which reflects the high degree of openness of the country. Private sector led growth is driving job creation. Both private investment and consumption have been the dominant sources of growth in the last decade, with private sector investment accounting for 85 percent of total investment in the country.

11. **While poverty has fallen significantly over the past ten years, entrenched inequalities and exclusion continue to create barriers to opportunity.** Improvements have been particularly strong in reducing gender imbalances in endowments. However, women continue to be under-represented in politics and business. They occupy only 12.5 percent of parliamentary seats and only one in five firms had a top woman manager in 2011. Indigenous communities in Paraguay continue to be underserved with basic services. Indigenous people have substantially higher illiteracy than the general population and are often identified as the

⁴ The Food and Agriculture Organization reports that pesticide imports quadrupled in value from \$58 million in 2002 to \$248 million in 2012 and fertilizer consumption per hectare of arable land increased from 60 kg nutrients to 80 kg.

⁵ World Bank (forthcoming). Turn Down the Heat III: ECA, MENA and LAC.

⁶ Doing Business Report (2014). Paraguay profile www.doingbusiness.org.

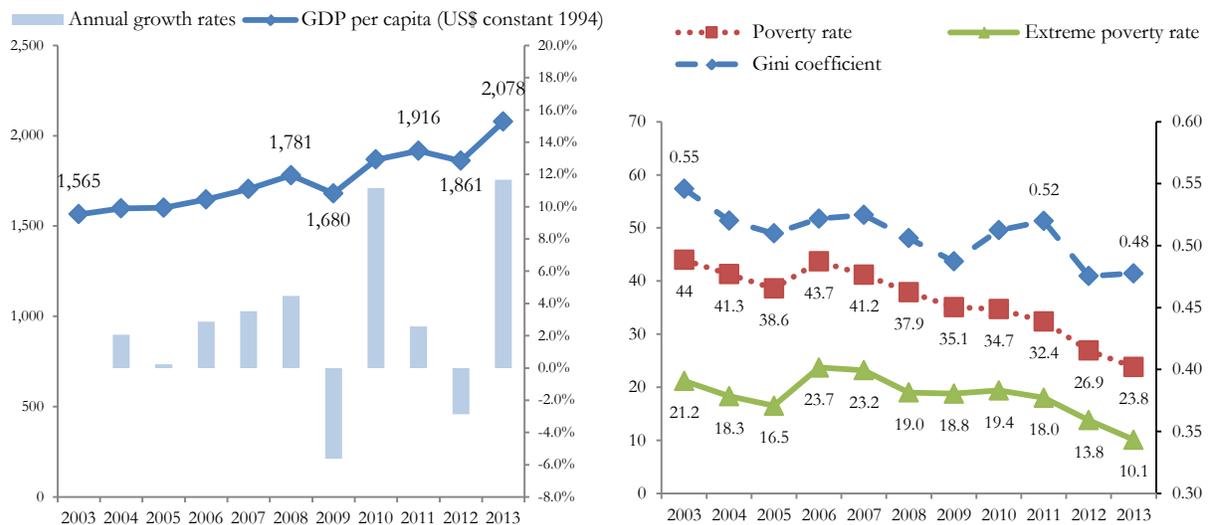
group most discriminated against in Paraguay.⁷ Paraguay has one of the most skewed patterns of land ownership in the world and the most uneven in Latin America – with two percent of the agricultural establishment occupying 82 percent of the agricultural exploited land.⁸

B. Poverty and Shared Prosperity

12. **While per capita income in Paraguay grew 22 percent between 2003 and 2011, extreme poverty remained persistently high.** In 2011, three out of 10 people were living below the poverty line and 18 percent could not afford the basic food basket (the extreme poor), placing the country among the poorest in Latin America. In the eight years from 2003 to 2011, incomes of individuals in the bottom two quintiles grew at a rate slightly above that of the mean person (4 and 3.3 percent, respectively), but this growth was not enough to significantly reduce the high levels of extreme poverty and income inequality (see Figure 1).

13. **Since 2011 there have been substantial welfare improvements.** By 2013, moderate poverty fell to 24 percent, extreme poverty reached a historical low of 10 percent, and inequality dropped below 0.48 for the first time in the last fifteen years. These changes reflect the rate of income growth among individuals at the bottom 40 percent of the distribution (the first two quintiles) which was two and half times higher than that of the average person (14 and 5.6 percent, respectively).

Figure 1: GDP per capita Grew; Poverty and Inequality Fell, 2003-13



Source: CBP and DGEEC. *Note:* Permanent Household Surveys 2003-13. Poverty and inequality are calculated on the basis of per capita household income which includes the following components: labor income, private and public transfers and capital income. Monthly extreme poverty line measured at the end of 2013 was G 364,241 in the metropolitan area, G 279,524 in other urban areas and G 258,654 in rural areas per person, equivalent to US\$3.4, US\$2.6 and US\$2.4 per person per day in 2005 Purchasing Power Parity, respectively. Monthly moderate lines are set in 2013 at G 607,855 in the metropolitan area, G 435,067 in other urban areas and G 375,801 in rural areas, equivalent to US\$5.7, US\$4.1 and US\$3.5 per person per day in 2005 Purchasing Power Parity.

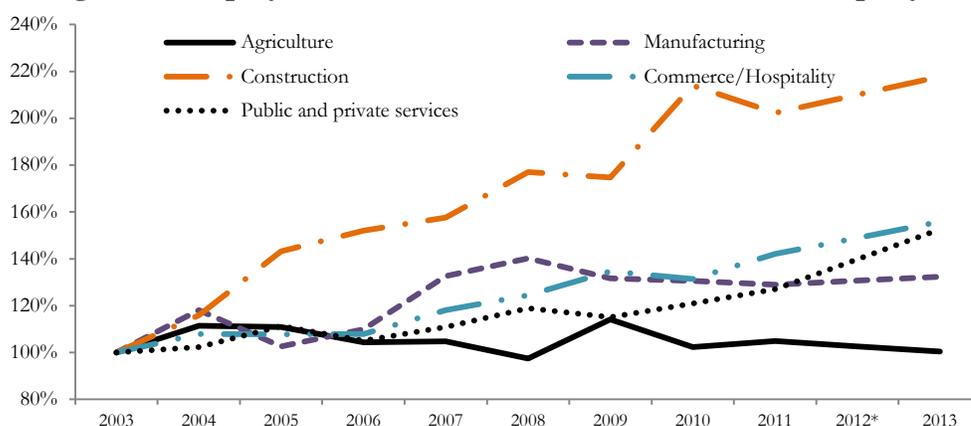
⁷ www.latinobarometro.org, 2008 (p 65).

⁸ World Bank 2014. Paraguay: Evaluación de Terrenos Nacionales (P123711)

14. **Access to basic services has also improved but quality remains a problem.** Between 2003 and 2013, the country almost universalized access to electricity, and increased access to sanitation⁹ and to adequate water sources (from 56 to 78 percent and from 65 to 88 percent, respectively). In terms of education, the country has achieved almost universal access to primary schooling and over 80 percent of children aged 15 to 17 are in school – more than 10 points higher than a decade prior. Infant mortality fell from 20 to 16 per 1,000 live births and maternal mortality fell from 174 to 100 per 100,000 live births between 2000 and 2010. Quality remains a problem and in remote areas availability of water and electricity is often limited to a few hours a day.

15. **Macro-economic stability was the base for the positive growth, employment and poverty developments.** High rates of economic growth opened new labor opportunities also for the many poor in better paid sectors (such as construction and public administration) and other types of employment (such as wage-agriculture). The stable macroeconomic environment slowed growth in local food prices. In 2012 and 2013, food price inflation fell, leaving the value of basic food items almost unaltered.

Figure 2: Employment in Construction has Grown Most Rapidly



Source: EPH, DGEEC. *Note:* Commerce and hospitality include commerce and restaurant and hotel services. Agricultural includes agriculture, animal husbandry, forestry, and fisheries. Commerce/food services also include workers in the hospitality sector. Public and private services include real estate and management services, public administration and defense, education, social and health services, private household services, external organizations, and other community, social and personal services.

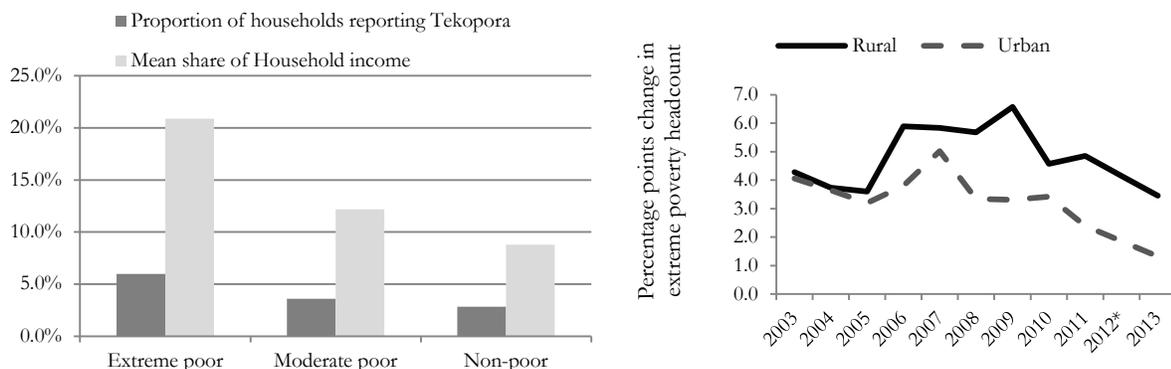
16. **Poverty reduction in rural areas is driven both by an increase in the number of people employed and higher average earnings of the employed.** Over a third of the fall in poverty is associated with households adding additional workers; both male and female (see Figure 2). An additional third of poverty reduction comes from increased earnings. As a result, about two-thirds of the poverty reduction was driven by improved labor market outcomes. For a household most likely to have exited extreme poverty (the second through the fourth decile), the main source of labor income growth was wage gains, particularly in agriculture. While agricultural self-employment continues to be prevalent among the worst-off, in the past decade

⁹ Sanitation does not include waste water treatment in this context.

there has been a shift towards off-farm agricultural salary jobs, suggesting a gradual reallocation of rural labor from less productive small farms to more productive agribusinesses. In addition, non-agricultural wage employment, such as construction and public services, offered alternative sources of incomes that tended to be more profitable than own-farm earnings. Among the bottom 40 percent of the income distribution, individuals more likely to take on these improved opportunities in agriculture and non-agriculture wage employment were men and women of working age (30-45 years old) and concentrated in specific departments, among them those of the Central region.

17. Non-labor income, especially public transfers such as *Tekoporã* and *Adultos Mayores*, accounted for the remaining third of the decline in rural poverty. The conditional cash transfer *Tekoporã*, targeted to poor families with school aged children, offers a sizeable transfer (on average 20 percent of household income among the extreme poor) but its coverage is still fairly low. In 2013, only 6 percent of the extreme poor rural families and 4 percent of those living in moderate poverty were receiving this transfer. Family transfers may not have been an important driver behind the change in the incidence of poverty but still played an increasing role in protecting households from falling into extreme poverty and as a mechanism to cope with adverse shocks. Without these transfers, the extreme poverty rate in rural areas would have been four percentage points higher. The elderly and female-headed households were receiving substantially larger family transfers, suggesting that migration is a household income diversification and coping mechanism. Finally, informal lending represents an important third mechanism which rural households use to cope with potential shocks. Despite a lack of access to formal financial markets (in 2011, only 3 percent of the bottom 40 reported having a bank account), 21 percent of rural Paraguayans reported having loans, often obtained from friends and family (see Figure 3).

Figure 3: In 2013, *Tekoporã* Reached Few People but Was Well Targeted With Important Poverty Impacts (Left); Private Transfers Played an Important Role in Protecting Families from Falling into Poverty (right), 2003-13.

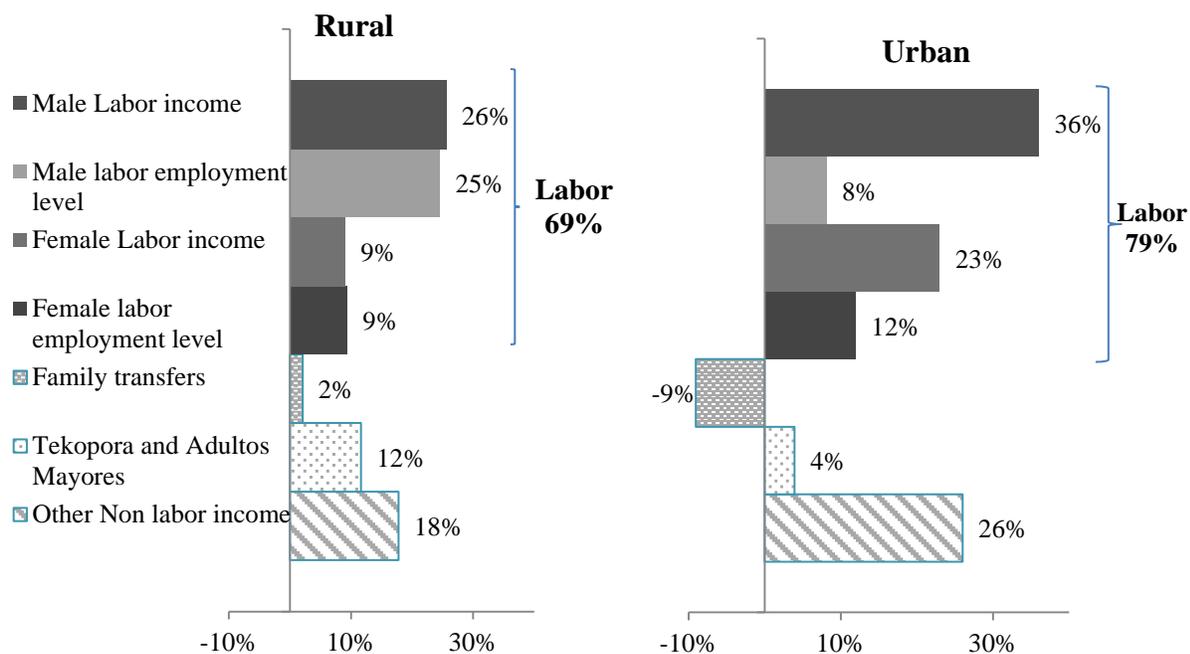


Source: Calculations from EPH. Note: The values for 2012 in the figure on the right are the average of 2011 and 2013 and do not include the EPH microdata as these are preliminary and subject to change. The figure reports the extent to which the estimated extreme poverty rate would be higher if households were not receiving family transfers.

18. The halving of urban poverty is associated with significant improvements in the urban labor market. The 79 percent fall in urban poverty from 2003 to 2013 is due to increased labor earnings and employment levels. Higher earnings, for both men and women,

were the primary drivers of urban poverty reduction, accounting for almost 60 percent of the overall change. This rise in labor income is associated with growing earnings of the self-employed and workers in small firms as well as with a surge in the higher-paying large firm sector (such as construction and public and private services) among low-skilled workers. Among the bottom 20 percent, the better educated, particularly men and those living in the main metropolitan area (Asuncion and Central), were more likely to be employed in higher-wage large firms and the public sector. In addition, the number of income earners in the households increased as the unemployment rate declined and female employment increased from 37 to 46 percent (see figure 4).

Figure 4: Labor Income Was the Driver of Rural and Urban Poverty Reduction, 2003-13



Source: Methodology based on Barros, R. M. Carvalho, S. Franco, and R. Mendoca (2006) “Uma Análise das Principaes Causas da Queda Recente na Desigualdade de Renda Brasileira”. Revista Econômica, vol. 8(1), pp. 117-147. Note: This analysis, also known as the Shapley Decomposition, separates changes in poverty rates by income source.

19. **The two main challenges to the sustainability of poverty reduction in the last two years are vulnerability of the poor and near-poor and inequality of opportunity for the poor.** First, while employment opportunities have expanded, a large share of the population still faces a volatile economic environment both in rural and urban areas. In rural areas more than two-thirds of the extreme poor are largely self-employed in agriculture, a highly volatile sector. In urban areas, the informally employed are especially exposed to fluctuations in the economy and largely untouched by minimum wage legislation. In addition, a sizeable proportion of those above the extreme and moderate poverty lines have incomes close enough to these thresholds so that small changes in the economy or in the price of basic goods could push them back into poverty. Second, the inadequate quality of basic services, such as health, education, water and sanitation, uninterrupted electricity especially among the most vulnerable segments of the population contribute to a lack of opportunity and compromise the country’s path toward an

equitable and prosperous society.

20. **Services such as water, sanitation and electricity are plagued by inefficient resource allocation.** A recent study found that, while access to treated water stands at 86 percent, reliability and quality are lacking. This is especially true among poor rural households where 40 percent of the population does not have home connections. Less than 10 percent of the population is connected to sanitary sewers, and there is no waste water treatment in the country.

21. **Although Paraguay has achieved universal access to primary education, its education performance is among the weakest in Latin America.** Specifically, results from the “*Laboratorio Latinoamericano de Evaluación de la Calidad de la Educación*” (Latin American Education Quality Evaluation Laboratory - LLECE) place Paraguay as one of the worst performing education systems in the region, trailing only Ecuador in the share of students who score below a level 1 proficiency in basic mathematics competencies. Similarly, the national standardized test SNEPE (2010) shows that only one in four students in third grade has the required level of math and communication skills, and that performance in communication is even lower among students attending rural schools.

22. **Despite improvements in both infant and maternal mortality, Paraguay is unlikely to achieve the health-related MDGs.**¹⁰ The country suffers from a double burden given that perinatal, nutritional and communicable diseases continue to cause a significant number of deaths while the burden of non-communicable diseases (NCDs) is on the rise. Easily preventable diseases such as yellow fever, dengue and other mosquito-borne transmissions, have become endemic in Paraguay, with a doubling of dengue cases from 2011 to 2013. While there have been efforts to combat these diseases, structural issues related to social determinants on health such as education, water and sanitation impede the successful control of diseases. Access to health insurance, through the Social Prevision Institute (IPS),¹¹ is low (29 percent in 2013). Access is unequal across areas and socioeconomic groups reaching more than half in Asuncion and among the richest income quintile but fewer than five percent in the poorest income quintile.

23. **Social insurance is low both in terms of contributors and beneficiaries, the institutional framework is fragmented and few instruments are available.** The pension sub-system covers less than 15 percent of the elderly. This is a consequence of the high degree of informality in the labor market, which in 2011 was 65.8 percent of the total employed population (20 percentage points higher than the average in LAC). No other contributory sub-system is in place; neither unemployment insurance nor family allowances.

24. **Paraguay has made progress over the last decade in promoting women’s empowerment and gender equality, but important challenges still persist.** Improvements have been particularly strong in women’s endowments: Indicators for sexual and reproductive health have improved although the country still lags behind the LAC region in other dimensions,

¹⁰ The three health MDGs are child mortality, maternal mortality, and the incidence of HIV/AIDS, malaria and other major diseases.

¹¹ IPS health insurance covers the formal worker and his/her offspring until 18 years of age and parents if they are dependent of the direct affiliate.

particularly in maternal mortality and skilled birth attendance. Educational outcomes for girls (attainment and achievement) have improved and today girls outperform boys. In recent years there have also been important improvements in the legal framework for gender equality. While the level of female labor force participation has risen, the rate is still significantly lower than for men and several other labor market indicators – such as unemployment risk or informality– are higher for women, pointing to structural disadvantages.

25. **Paraguay’s indigenous people continue to be considered the most vulnerable social group of Paraguay.** There are about 20 different indigenous ethnic groups comprising around 115,000 people (1.7 percent of the country’s total) with the large majority living in rural areas (around 91.5 percent).¹² Language is an important reference for many of the indigenous peoples as more than three-quarters of the indigenous people speaks the language of their respective ethnicity (there are five main linguistic groups). Most indigenous people lack legal titles to their traditional territories,¹³ only 2.5 percent have access to potable water and 31.2 percent to electricity.¹⁴ Illiteracy among indigenous people is estimated at 38 percent (seven times higher than the national average), morbidity at 30 percent, and only 39 percent have consulted a physician about ailments or accidents. Labor force participation is 52 percent – lower than the national average – and more than four fifths of those working are employed in the primary sector (agriculture, hunting and fishing). Public expenditures targeted to indigenous communities and people amounted to 0.2 percent of the national budget in 2012.¹⁵ Promoting income generation, enabling access to basic services (water, sanitation and health, decent housing and electricity), and restituting and finalizing titling of indigenous lands are the main strategies for improving the well-being of Paraguay’s indigenous peoples that are foreseen in the NDP.¹⁶

C. Economic Developments and Outlook

26. **Robust economic performance was underpinned by a solid macroeconomic framework.** Paraguay suffered from recurring and costly financial distress in the late 1990s, which was aggravated by weaknesses in the financial system and the contagion from the regional crisis in 2002. In response to that crisis, the GoP adopted an ambitious stabilization program in 2003, supported by Stand-By agreements with the IMF which supported significant structural reforms and resulted in improved fiscal revenue mobilization, the modernization of tax and custom administration, improvements in the regulatory framework of the financial sector and improvements in the business environment. In addition, the commodity boom and strong external demand supported stabilization and economic recovery. Fast export growth underpinned a strong upturn of private consumption and investment. As a result the GoP had eight consecutive years of overall budget surpluses during 2004-2011, and public debt fell by almost 30 percentage points as a share of GDP within the last decade. Inflation levels also decreased from an annual average of 10 percent in 1994-2003 to 6 percent in 2004-2013.

¹²Third National Indigenous Census. Preliminary Results, Paraguay, 2012.

¹³ Country Technical Note on Indigenous Peoples Issues, Paraguay, November, 2012, http://www.ifad.org/english/indigenous/pub/documents/tnotes/paraguay_en.pdf

¹⁴ Paraguay. Pan-American Health Organization, 2011

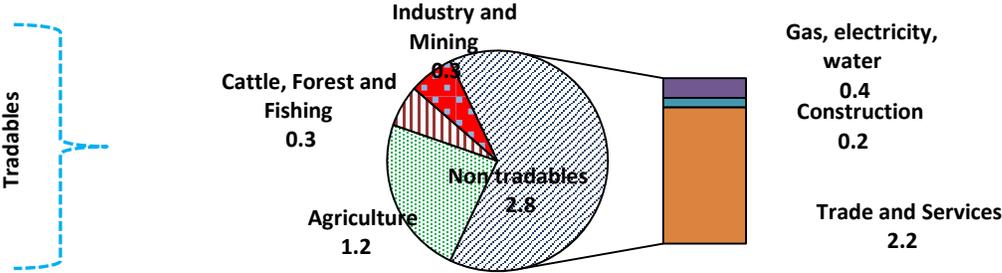
¹⁵ Elaborated from the Boost Database, Ministry of Finance.

¹⁶ Paraguay National Development Plan, May 2014.

27. **Paraguay is rich in natural resources which, if well managed, could accelerate poverty reduction and expand shared prosperity.** Paraguay has one of the best hydrological endowments in the world, mainly due to the hydropower plants¹⁷ which make it a leader in clean energy production and a net exporter of electricity. Electricity exports represent about 4 percent of GDP. Prospects for oil are present, as exploration drilling has started this year in *El Chaco* region.

28. **Modernization of the agricultural sector has been the backbone of economic growth.** Over the last fifteen years, Paraguay has witnessed a shift from a traditional and family-based agriculture to one which is modern and based on agribusiness with high-rent products (mainly soy and beef) and oriented to foreign markets (mainly Brazil and Russia). Exports, driven by the agricultural sector, have experienced sharp increases within the last decade, jumping from 4 percent of annual growth in 1994-2003 to 15 percent in 2004-2013. This has contributed in turn to an almost tenfold increase in foreign reserves since 2002 (from US\$640 million to US\$5,871 million). Imports also increased substantially, growing by 22 percent annually during 2004-2013, compared to 4 percent in 1994-2003. Imports were encouraged by the need for more and better capital goods to support agricultural transformation and an appreciating domestic currency.

Figure 5: Agriculture and non-tradables were dominant in GDP Growth (supply side, contributions to growth)



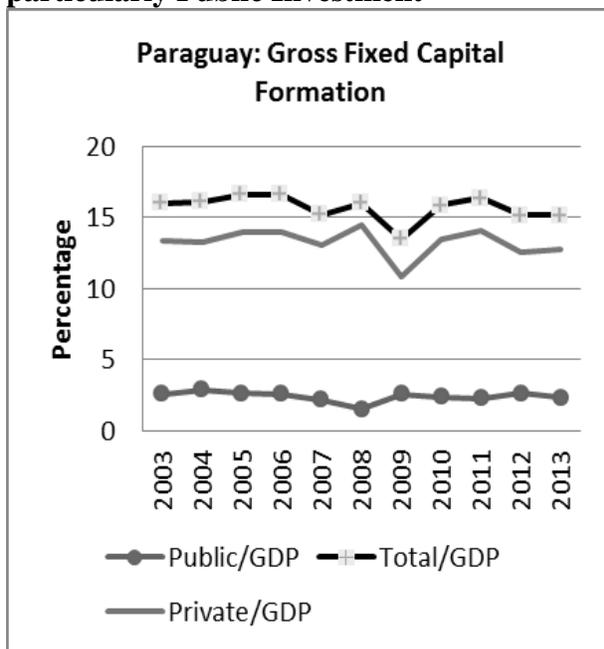
Source: CBP

29. **On the supply side, agriculture was the second biggest contributor to GDP growth after trade and services, while on the demand side private consumption was the driving factor.** During 2003-2013 about 1.4 percent points of the 4.9 percent annual average GDP growth came from the expansion of agriculture, while trade and services contributed 3.2 percentage points. On the demand side private consumption was the engine of growth, contributing on average 3.9 percentage points to yearly GDP growth. Another 1.4 percentage points of the average yearly growth came from total gross fixed capital formation. Agricultural expansion had a positive impact on both private consumption and total investment. Due to strong external demand the contribution of net exports to growth was also positive (See Fig. 5).

¹⁷ The hydroelectric plants of Itaipú (14,000 MW) and Yacyretá (3,200 MW), are both bi-national entities shared with Brazil and Argentina, respectively. Paraguay’s share is 8,810 MW, with low production costs, and the excess production over domestic demand is exported to Brazil and Argentina, respectively.

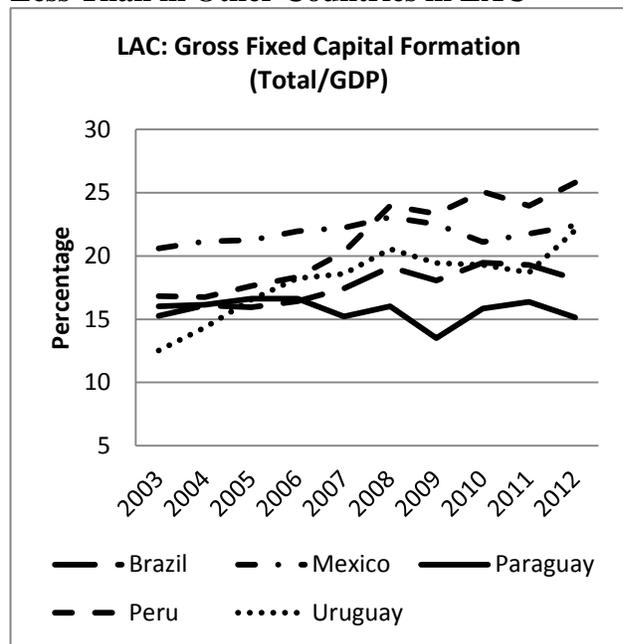
30. **Paraguay invests less compared to its regional peers.** Total investment has been only around 16 percent of GDP over the last decade. Compared to many other LAC countries which invest about 20 percent or more of GDP, this is relatively low. And considering that LAC invests much less than fast growing East Asian economies, Paraguay's investment levels are especially low by international comparison. The private sector has been the main driver of investment with an investment to GDP ratio of about 13-14 percent. Central Government investment in Paraguay has been stable around 2.5 percent of GDP. This is almost half of what other countries investing in LAC, such as Mexico, Peru or Uruguay (see Figures 6 and 7).

Figure 6. Total Investment is Low, particularly Public Investment



Source: GoP and CBP

Figure 7: Paraguayan Public Investment Is Less Than in Other Countries in LAC



Source: WDI and CBP

31. **The concentration of the economy in agriculture has increased volatility.** Paraguay's economic performance closely tracks the agricultural production of its top three commodities in terms of export and production value: soy, beef, and maize.¹⁸ The dynamics of GDP growth reflects an increase of volatility of agricultural GDP as the agricultural share in the economy has increased over time. Overall, agricultural GDP in Paraguay is far more volatile than the aggregate. Weather related shocks alone account for more than 50 percent of agricultural GDP volatility (See figure 8 and Box 1).¹⁹

¹⁸ FAO Stat, <http://faostat.fao.org/site/666/default.aspx>

¹⁹ Growth Volatility in Paraguay: Sources, Effects and Options, World Bank, 2013

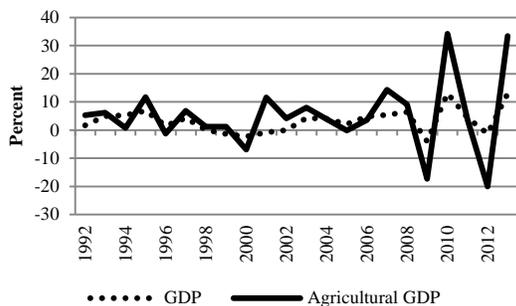
Box 1. Economic volatility is high in Paraguay

Growth volatility is driven by external shocks and agricultural sector. In collaboration with national authorities, the WBG undertook a volatility study in 2013 to evaluate its sources and impact on the economy, with a view to develop policies for mitigating the impact of volatility. According to the findings, about half of growth volatility comes from external shocks, particularly external demand and world interest rates. The other half stems from internal shocks, with a higher impact on agricultural production than total GDP. Most of the vulnerability affecting the agricultural sector is related to exogenous shocks such as weather conditions (droughts and floods) and fluctuations in international commodity prices. The larger weight of agriculture in the country’s GDP has increased overall GDP volatility in recent times, putting Paraguay among the top countries with the highest volatility in LAC. Such high levels of volatility have negative outcomes in terms of achieving sustainable economic growth and continuous poverty reduction. In the short run, it affects sectors linked to the agribusiness chain such as transport, trade and financial services. In the medium-run, the consequences fall mostly on infrastructure and investments in general, pushing them below their potential. All of these have fiscal revenue implications, making revenue collection unstable and unpredictable, thereby decreasing the government’s margin to tackle poverty and reduce inequality. Public policy should then be concentrated in risk management by devising instruments that help avoid or mitigate certain economic shocks. Diversifying the economy, preventing foot-and-mouth disease, establishing fiscal rules and creating stabilization funds are some of the options to strengthen the resilience of the Paraguayan economy.

A further study on agricultural risks had the objective to identify, quantify and prioritize those risks, and propose policy options to reduce the volatility of sectoral output and family farming income. The study shows that, on average, Paraguay loses about 5 percent of the agricultural GDP due to production risks that could be managed. The most notable risk is drought, while animal health problems such as foot and mouth diseases also having significant economic consequences. Export prices for family farm products, such as sesame and cotton, are subject to large fluctuations which are transmitted directly to the producers. Consequently, rural poverty in Paraguay is closely linked to vulnerability to agricultural risks.

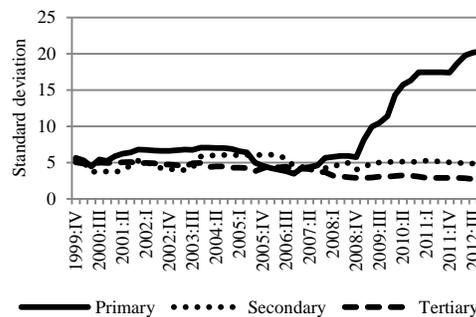
Figure 8: Agricultural Performance Drives Volatility

Growth volatility has recently increased



Source: CBP
Note: *projected

Agricultural GDP growth volatility is the main factor behind GDP growth volatility (20-quarter standard deviation of year-on year growth)



Source: World Bank calculations based on CBP data

Recent Economic Developments

32. **The economy continues to expand based on favorable agricultural output and commodity prices.** Boosted by agricultural production and exports, GDP growth bounced back to 13.6 percent in 2013, following a contraction of 1.2 percent in 2012. GDP growth is expected to be moderate at 4.8 percent in 2014 according to the CBP's most recent estimates.

33. **Inflation remains low and is closely monitored.** In 2013, consumer price inflation was 3.7 percent and annual consumer price inflation has remained within the CBP's target range (2.5 - 7.5 percent) for the seventh year in a row. For 2014, the inflation rate is estimated to be around 5 percent. In February 2014, the CBP initiated a monetary contraction by increasing its policy rate from 5.5 percent to 6.75 percent. The rate has been kept at this level since then.

34. **The external sector continues to perform strongly, leading to currency appreciation and increase in reserves.** Following the surplus of 2.1 percent of GDP in 2013, the current account surplus was 1.3 percent of GDP during the first quarter 2014. Paraguay's chief export products are soy and beef, contributing to 38 percent of the total in 2013, with Brazil (30 percent) and Russia (10 percent) as the main export destinations.²⁰ The exchange rate appreciated gradually, while the stock of international reserves reached US\$7.1 billion in October 2014, exceeding 7 months of imports -- about 10 times higher than a decade ago.

35. **The fiscal deficit remains below two percent.** Government budget deficits were 1.7 percent and 1.9 percent of GDP respectively in 2012 and 2013. The recent deterioration in fiscal accounts was mainly a result of weak performance of revenue collection, in particular the selective consumption tax and import taxes, despite a strong economic expansion. The Government adopted measures at the end of 2013 to curb the declining fiscal balances and enable the expansion of fiscal space for investments. These measures included the approval of the Fiscal Responsibility Law (FRL) to enhance fiscal discipline and stability as well revenue enhancement measures to improve tax collection (see Boxes 2 and 3). Historically, Paraguay has had low tax efforts and the tax-to-GDP ratio remains one of the lowest in LAC. The GoP has set long term revenue targets and is putting efforts to increase tax revenues.

Box 2. Paraguay's reforms to increase fiscal discipline and limit the growth of current expenditures

The Paraguayan Legislative Branch approved a Fiscal Responsibility Law (FRL) at the end of 2013. The FRL supports stability and sustainability of public finances. It also establishes multi-annual budgeting and the need to attach a debt sustainability analysis and estimations of some macroeconomic variables to the budget proposals in order to provide more predictability to medium term fiscal policy. To increase fiscal discipline, the FRL sets an upper limit of 1.5 percent of GDP for the fiscal deficit for any given year, unless there is a case of national emergency, international crisis or a downturn of economic activity. In addition, the Law puts limits on wage increases and public primary current expenditures. In this regard, the FRL provides a sound anchor to underpin fiscal sustainability. Nonetheless, stronger budget institutions are needed to improve the quality of spending, along with strengthened tax and customs administration and capacity to deal with potential risks from Public-Private Partnerships (PPPs). In fact, the FRL is widely seen as a first important step but still insufficient in ensuring long term fiscal sustainability as the law does not establish penalties for deviations (e.g. when the fiscal deficit exceeds 1.5 percent of GDP).

²⁰ Without considering the European Union as a trade bloc

36. **Public debt is low and stable, yet it is expected to increase gradually.** Public debt fell slightly from 14.4 of GDP in 2012 to 14.1 percent of GDP in 2013. Central Administration debt represents about 91.1 percent of total public debt. Public debt is mostly external (almost 80 percent) and denominated in United States Dollars. The authorities have decided to take advantage of historical low interest rates and improved access to international capital markets to finance an ambitious investment program in the next years. Following a successful sovereign bonds issuance of US\$1 billion in August, public debt is expected to increase to 18.5 percent of GDP by the end of 2014.

Box 3. Paraguay is determined to enhance fiscal revenues

In spite of significant progress in strengthening fiscal policy framework, public revenues are still low in Paraguay. A tax reform in 2004 helped to raise tax revenues from 8.7 percent of GDP in 2003 to 12.1 percent in 2011. Nonetheless, tax revenues have stagnated around 12 percent of GDP in the last two years. This is significantly lower than the LAC average of 18 percent. To address the challenge of low fiscal revenues and thereby support growth enhancing investment and poverty reduction programs, the GoP has adopted, since 2013, several fiscal measures aimed at increasing public revenues. Tax policy reforms included an increase in the VAT rate applied to the financial sector from 5 percent to the standard rate of 10 percent, as well as defining a VAT collection base for agricultural products (5 percent rate). It is expected that these actions would generate about 30 percent increase in total VAT collection by 2016. Moreover, a new agriculture sector corporate tax (IRAGRO) was introduced in December 2013, both to boost fiscal revenues and to make the tax system more progressive. IRAGRO broadens the tax base and is expected to increase the contribution of the agricultural sector to total tax revenues from 6 percent to around 9 percent by 2016. In parallel, the tax administration office (SET) is in a process of strengthening its institutional capacity. The GoP is targeting an 18 percent of tax to GDP ratio by 2030.

Economic Outlook

37. **The macroeconomic outlook is favorable overall; however some vulnerability will remain in the short run.** As shown in Table 1, Paraguay's economic growth is expected to return to historical levels between 4.5 percent and 5 percent in the few next years (4.8 percent expected for 2014 according to CBP's data). In the medium-term, GDP growth is expected to increase and be less volatile as the GoP's macroeconomic framework is maintained and structural policies are expected to foster private investment, improve productivity and encourage economic diversification. Nonetheless, droughts, floods as well as other climatic phenomena are expected to still have a strong influence on GDP growth. As Paraguay is a small and increasingly open economy, it will continue to face downside risks such as fluctuations in international demand and commodity prices for its agricultural exports. In relation to this, a weak economic outlook for Brazil and Argentina is an additional source of risk for the Paraguayan economy.

38. **On the fiscal front, projected increases in fiscal revenues and the strict control of recurrent spending will support the expansion of public investments consistent with a prudent increase of indebtedness.** Fiscal deficits are projected to be around 1.5 percent of GDP in 2014 and 2015, with a gradual improvement in the following years. The full implementation of the FRL is expected to limit the growth of recurrent spending, creating fiscal space for the expansion of investments. Here, though, implementation capacity remains a core bottleneck for the country.

39. **Inflation prospects are also favorable.** The adherence of the CBP to the inflation targeting regime in recent years is likely to have inflation expectations converging to the center of the target band (5 percent) from 2015 onwards.

40. **The IMF carries out annual Article IV consultations.** The latest Article IV consultation report was issued in February 2014, with a positive overall outlook for the country. The Bank and IMF teams consult each other regularly and through bi-annual country-team level consultations.

Table 1: Paraguay: Selected Economic Indicators and Projections

	Actual			Projections			
	2011	2012	2013	2014	2015	2016	2017
(annual % change, unless otherwise stated)							
Income and prices							
Real GDP	4.3	-1.2	14.2	4.0	4.5	4.5	4.5
Nominal GDP	14.6	0.0	14.7	7.8	9.5	9.5	9.5
Consumer prices (eop)	4.9	4.0	3.7	3.7	5.0	5.0	5.0
Nominal exchange rate (Guarani per USD, eop)	4439.9	4288.8	4524.0	..	..	..	..
Monetary sector							
Currency issue	11.6	17.5	13.2	10.1	18.1	11.5	11.5
Credit to private sector	24.8	12.6	23.9	19.0	21.0	19.0	18.0
Liabilities to private sector	13.9	12.2	23.8	17.2	19.0	18.4	17.2
External sector							
Exports, percent volume change	2.0	-3.6	23.6	3.9	5.9	4.3	4.6
Imports, percent volume change	13.8	-11.0	7.2	4.5	5.2	5.1	5.1
Real effective exchange rate	13.4	-0.3	-2.6	..	..	..	..
(% of GDP, unless otherwise stated)							
Current account							
	0.5	-1.0	2.1	1.1	-1.1	-0.6	-0.7
Merchandise exports, percent of GDP	53.6	47.7	45.7	44.3	41.1	39.6	38.6
Merchandise imports, percent of GDP	50.1	44.3	40.1	39.6	37.4	36.3	35.5
Net international reserves (in millions USD)							
	4983	4994	5871	7240	7280	7285	7300
(Stock in months of imports)	4.3	4.5	6.2	7.5	7.1	6.6	6.3
Fiscal accounts							
Central government revenues	18.0	19.0	16.6	18.1	19.1	19.5	20.0
o/w Tax revenues	12.6	12.7	11.5	12.7	13.4	13.7	13.9
Central government expenditures	17.3	20.8	18.6	19.8	20.6	21.0	21.5
Central government overall balance	0.7	-1.8	-1.9	-1.7	-1.5	-1.5	-1.5
General Government debt	11.5	14.1	14.2	19.0	18.0	17.2	16.8
Memorandum items							
Nominal GDP (in billions of Guaranies)	105,203	108,832	124,853	134,530	147,310	161,304	176,628
Nominal GDP (in billions of USD)	23.3	24.9	28.1	30.0	33.4	36.2	38.8
Per capita GDP, current US\$	3814	3680	4137	4337	4749	5057	5338

Sources: IMF Article IV, Central Bank of Paraguay, Ministry of Finance of Paraguay, World Bank staff estimates and projections

D. Development Challenges

41. **Paraguay's development agenda includes a combination of new challenges to ensure sustainability of recent gains in growth, poverty reduction and shared prosperity, and long standing structural obstacles.** Emerging new challenges include improving resilience to risks and vulnerability in order to preserve and build on the gains in poverty reduction and shared prosperity of the last few years. Long standing structural obstacles include strengthening pro-poor service delivery, including access and quality, and fostering inclusive markets.

42. **With the 'golden decade' of growth coming to a close, Paraguay is confronted with the task of overcoming development challenges while managing its structural transformation.** The challenges include unequal land distribution, substantial differences in endowments and opportunities between the poor and non-poor, and concentration of economic activity and indirectly public revenues in an agriculture sector dependent on an increasingly volatile climate. At the same time the structural transformation is well underway, with jobs moving from on to off farm, people moving from rural to urban space and production moving from primary to higher-value.

43. **Thanks to its abundant natural resources wealth, Paraguay is well positioned to ensure that the underlying conditions necessary to overcome the challenges and facilitate the transformation are in place.** Managing the risks associated with economic activity that is increasingly concentrated in a few sectors will be key to making sure that the rural poor are not disproportionately vulnerable to volatility and the gains from the last decade are not lost. Boosting pro-poor delivery of public goods and services such as education, health, and basic infrastructure is critical to creating better opportunities for the more disadvantaged segments of the population and putting in place the conditions to reap the benefits of the demographic dividend going forward.

Strengthening Resilience to Risks and Volatility

44. **The commodity and climate related exposure risks are creating challenges for Paraguay at both macro and sectorial levels.** Paraguay is a relatively small open economy with increasingly higher exposure to external shocks. While the favorable global environment of commodity prices supported the economic recovery after 2002 with important dividends to the society, reliance on few agricultural products in limited markets has led to increased volatility of GDP. Shocks are mostly driven by the agriculture sector through commodity price fluctuations, weather changes and animal diseases such as foot-and-mouth disease which have interdependence to the macro-fiscal framework. In addition to posing direct challenges to households whose primary source of income is from agriculture, volatility also has a significant impact on tax revenues and fiscal planning and management. Moreover, not taxing the agricultural sector until recently has created disincentives for diversifying the economy beyond agriculture. Lack of access to finance and underdevelopment in financial literacy exacerbates the risks and the impact of volatility on the poor. Heavy reliance on agriculture also creates challenges for environmental sustainability.

45. **Households have few risk mitigation instruments, and this is further hampered by lacking access to the financial system.**²¹ About 45 percent of adults do not have an account or borrow at a formal institution, use mobile money services, or have insurance. They receive their wages and transfer domestic remittances in cash only. These adults are disproportionately poor, have a primary education or less, and are unemployed or out of the work force. With only 29 percent of the adults having an account at a formal institution, account penetration in Paraguay is significantly less than the regional average (39 percent). Variations in the ownership of formal accounts track closely demographic and socio-economic characteristics. The largest gaps are related to income and education levels, though there are also significant differences across rural and urban populations, employment categories, and regions. Access in rural areas is particularly low, with only about 10 percent of the population reporting having an account and less than 8 percent reporting any savings. This combination of low savings and poor access to formal financial institutions poses a challenge in the event of household shocks. Promoting sound financial inclusion will be essential for helping poor households to improve their livelihoods and reduce their vulnerability to shocks and emergencies, by enabling them to build assets, smooth consumption and manage risks. Furthering responsible and sustainable access to financial services for poorest households will also require strengthening the regulatory and supervisory framework –particularly for non-banking financial institutions– as well as enhancing financial literacy, consumer financial capabilities, and consumer protection mechanisms.

46. **The sustainability of Paraguay’s growth model is under threat from environmental degradation.** Apart from significant climate risks, rapid agricultural expansion and intensification creates serious challenges to sustainability. Agricultural expansion is contributing to the second highest deforestation rate in the world (13,000 ha per year) according to the World Wildlife Fund (2013) and the consequent loss of unique and valuable biodiversity. Forests also play a valuable role in stabilizing local hydrology, which is important for a country so dependent on hydropower, as well as for soil conservation (again, critical for a country dependent on agriculture). Intensification and the associated increase in use of fertilizers and pesticides contribute to the contamination of water resources. Unplanned urbanization is also contributing to water problems, particularly around Asuncion where disposal of untreated wastewater is contributing to the eutrophication of Lake *Ypacaraí*. While there has been substantial progress in the last decade in bringing down the rate of deforestation and improving water resources management, enforcement of environmental legislation and regulation remain weak due to low institutional capacity, overlapping and at times with conflicting institutional responsibilities and weak governance.

47. **Addressing key issues related to climate change will also help reduce agriculture based risk and volatility.** Land use change and forestry are the largest contributors to greenhouse gas emissions in the country. Agriculture is highly vulnerable to climate variability and this, coupled with problems of land degradation in the country, contributes to increased volatility. The emission reduction potential is large, particularly through improved agricultural practices and reforestation. Carbon trading opportunities may also be an opportunity worth exploring.

²¹ All figures are from the 2013 financial inclusion survey carried out by The CBP which incorporated an expanded version of the standardized Findex questionnaire.

48. **In order to capitalize on its opportunities, Paraguay needs to improve its public sector capacity of service delivery.** Paraguay's young population is a window of opportunity for the country to accelerate its growth and economic development. The expected future income from *Itaipú* is another significant opportunity to propel the country to upper-middle income levels. However, the demands on the country during this transition are many. With a large portion of its population still lacking access to vital and quality services in rural areas, migration to cities requires increased employment generation in modern sectors, especially for the young. Large investments in infrastructure are needed to improve regional connectivity and access to markets, particularly for the poor as well as small firms. The key to success will be raising state capacity and governance to take advantage of such opportunities, leading to effective program and budget execution. Fiscal space for the necessary investment demand requires increasing tax revenues. Shifts towards progressive taxes and expenditures would make the effect of fiscal policies significantly more pro-poor.

Box 4. The Paraguay Public Expenditure Review

A Public Expenditure Review (PER) was carried out by the WBG in collaboration with the GoP between 2013 and 2014. The purpose of this study was to answer the following question: Has fiscal policy in Paraguay contributed to poverty reduction and shared prosperity, given the structure and challenges of the economy? The PER concludes that there has been some progress in fiscal policy during the last decade, with increasing fiscal consolidation (sustained fiscal surplus in 2004-2011 and Fiscal Responsibility Law approved at the end of 2013); a continuously decreasing debt-to-GDP ratio; larger social expenditures; and higher revenue collection (tax reform in 2004 and implementation of an Agricultural Income Tax Law (IRAGRO) at the end of 2014). Despite these achievements, several challenges still remain. In the short-run, there is a need of turning fiscal policy from pro-cyclical to counter-cyclical, so as to buffer negative shocks and prevent the economy from overheating. In the long-run, increasing investment levels as well as the accumulation of physical and human capital are needed to ensure sustained economic growth. In fact, the study finds that both revenues and expenditures are rather low in comparison to other LAC and lower-middle-income countries, in particular tax collection, social and capital expenditures. In addition to being low, public spending in Paraguay is not efficient and is not progressive. The latter is especially relevant in social sectors like health and education, which reveal a lack of progressive spending and even shows some regressive spending for some expenditure categories. These challenges prevent fiscal policy from being a main player in reducing poverty and promoting shared prosperity.

49. **Low revenue mobilization has traditionally constrained the Government's ability for public investment.** Paraguay tax revenue potential is underdeveloped. Fiscal consolidation has been critical for improved growth and macroeconomic stability. Current expenditures, however, were affected less by the consolidation while space for investment was limited. The share of current expenditures was about 75 percent of the total government expenditures in 2013. Along with low institutional capacity in budget execution, this has hampered the government's ability to address serious infrastructure bottlenecks to improve service delivery and the country's prospects for higher and sustained integrative growth.

50. **Spending on social infrastructure is low and needs to be better targeted to the poor.** Improving access to and quality of public services for the poor is critical to helping them emerge from, and remain out of, poverty. Spending on social and basic services remains very low compared to other countries in the region. For example, public investment in education has declined since the beginning of the 2000s, from 5 percent of GDP to 4 percent, below the

regional average of 5 percent of GDP.²² Moreover, public investments on education are concentrated in Asunción and other urban areas. Public expenditure on health has increased to four percent of GDP in 2011 but remains among the lowest in the region. Access to health services is very limited in the remote rural regions of the country.

51. **The existing tax regime is regressive.** In addition to a low level of taxation, taxes are also regressive, further exacerbating inequality. They are regressive because of their heavy dependence on indirect measures such as the VAT, which accounted for 53 percent of total tax revenues as of July 2014. Incidence analysis carried out in 2010 shows the bottom decile paying an average of 43 percent of income in indirect taxes, resulting in increases in extreme poverty from 14 percent based on disposable income (market income, less direct taxes, plus direct transfers) to 16 percent, as measured by the international \$2.50-a-day poverty line. A large number of exemptions and differentiated rates (which were designed to boost the growth of priority sectors) eroded the tax base. While low taxation has played a major role in attracting investment in the agriculture sector that have fueled the country's export growth, the lack of neutrality of the existing tax system creates artificial profitability for its beneficiaries.

52. **Strengthening public sector management, transparency and overall governance at all levels of GoP is needed to improve efficiency of spending.** Limited capacity for planning, implementing and monitoring public investments is common in most ministries and national agencies, aggravated by low capacity of municipal governments to enforce minimum standards of quality of service delivery and monitor effectiveness. Effectively holding government accountable for service delivery and use of public funds is especially important to fight corruption, especially at the local level. Improving public sector performance requires setting clear rules on how public funds are allocated to the different parts of the country and incentivizing providers of services to deliver efficiently and with quality by rewarding performance and strengthening accountability to citizens.

53. **Quality of schooling is an important driver of social mobility but varies widely between urban and rural areas.** According to the Second Regional Comparative and Explanatory Study (SERCE), Paraguay ranks 12 out of 17 countries in Latin America in terms of student learning. Additionally, there are noticeable differences in performance depending on location and level of the parent's education. An urban child in a household with a wealthier socioeconomic background scores similarly to the average Brazilian child on tests (Brazil was sixth among the countries studied), whereas a poor rural child is likely to score below the mean in any country in the study, including the countries with the lowest performance levels (Dominican Republic, Ecuador, and Guatemala). Designing and enacting an education finance law to provide the education system with the necessary resources, ensure basic school inputs in all schools and distribute the resources on the basis of equity criteria is a priority policy.

54. **Reducing gaps in access to basic health services requires allocating more resources to poor areas and in a more efficient way.** This can be done through: (i) strengthening the primary health care (PHC) network in marginalized and rural areas; (ii) introducing output-based financing as mechanisms to transfer money to regional and local health councils and strengthen

²² Low investment in education and a very young demographic profile explain the five-fold difference in public expenditure per primary school pupil between Paraguay and the other MERCOSUR members.

governance of the whole health system; and (iii) using innovative technology (e-health, e-medicine) to deliver or control specific health services in remote areas.

55. Setting up a comprehensive and efficient safety net system for the poor requires resources and reliable information. Although there has been some initial progress in establishing social assistance programs targeted to the poor and vulnerable groups (such as the conditional cash transfer program *Tekoporã* and the non-contributory pension program *Adultos Mayores*), they have not been sufficiently efficient or broad in coverage to lift a significant number of the extreme poor out of poverty. Improving targeting of these programs and having a single registry of beneficiaries of all conditional cash transfer programs are two important steps to make progress.

56. Fundamental challenges in the water and sanitation sectors are low coverage and inequality in service provision. Low coverage is evident in the provision of safe water in rural areas (especially the poorest) and access to sanitary sewers and adequate treatment of discharge in the Asuncion metropolitan area. Addressing these challenges involves investment in expansion of coverage and an effective policy of fees and subsidies to ensure satisfactory operation and maintenance.

Fostering Integrative Markets

57. Sustaining high economic growth and continuing with the ongoing structural transformation will require improving connectivity and reducing logistic costs as well as increasing the efficiency and reliability of value chains for Paraguay's exports. Paraguay has benefited significantly from the commodity boom in the last decade as evidenced by its robust economic performance. However, as the initial positive impact of the boom vanishes, existing structural challenges are becoming more constraining for Paraguay's rural development and export markets. Connectivity at regional and rural level is poor and an obstacle for business development. In addition, transport and logistics costs are high, undermining profitability of firms. While the country has moved towards modern agriculture with large scale firm based production, small firms and families are significantly lagging behind the transition. Problems and inefficiencies in production and export value chains are both leading to cost increases and weaknesses in capacity to respond to market demand.

58. Improving small farm productivity and integrating smaller agricultural producers into export value chains remain a challenge. Paraguay's strong economic performance has been driven by agricultural production and exports by a sub-sector of capitalized entrepreneurial producers who are fully integrated into world markets. Smaller producers and firms in the other sectors maintain low levels of productivity and have limited linkages to dynamic commercial markets. These low productivity levels and deficient market integration are also associated with several factors including shortcomings in the business environment, poor use of technology, limited access to extension and business services, and limited access to finance. This situation is compounded by weak public-private dialogue and lack of inter-institutional coordination mechanisms which hamper the effectiveness of authorities' initiatives to foster integrative growth.

59. **Agriculture plays an important role in food security, particularly for smallholders that have less than 10 hectares (almost 60 percent of total agricultural producers in the country).** There has been an accelerated concentration of lands in large farms mainly within some of the most fertile regions in the country (i.e. Alto Parana, Canindeyu and Caaguazu). Rural land sale and rental markets appear to be transferring land to households with higher productive capacity. However, cultivation of more lucrative crops (e.g. soy) is correlated with higher land inequality and foreign ownership of land. About 87 percent of soy, cattle, and export crops are produced on large landholdings (over 100 hectares) with limited or no spill-overs to smaller production units.

60. **Paraguay's low levels of connectivity further exacerbate exclusion.** Transport is a critical component of Paraguay's economy. Being landlocked makes it heavily dependent on road and fluvial transport to connect with neighboring countries for its exports. The challenges go beyond the road network since other transport systems still fall short of desired standards. Paraguay scores low on the density of km of roads per country surface area (148 km per 1000 km² compared to 333 km per 1000 km² for lower-middle-income countries), but relatively well on km of roads per 1000 persons (9 km per 1000 inhabitants compared to 4.9 for lower-middle-income countries). The road network is heavily concentrated in the south-eastern part of the country, leaving the northwest poorly connected to the rest of the country and its neighbors. The significant shortfalls in the quality of the transport infrastructure add to this burden and contribute to volatile price formation. Drought induced delays in river transport cause local commodity prices to fall and local food prices to rise. Given its crucial role, it is therefore imperative to prevent the sector from becoming a binding constraint to integrative growth.

61. **Unplanned urban sprawl is becoming a development challenge.** The Gini coefficient in the urban area has been rising, possibly as a consequence of more people moving in search of wage earning opportunities. Many of the urban poor live in precarious settlements in risk-prone flood areas, with about two thirds of unplanned settlements in urban areas classified as poor. Furthermore, in Asuncion metropolitan area, it was estimated that there were about 150,000 homeless people in 2011 and that more than 800,000 families have some kind of deficit in housing. Only about 15 percent of them have access to sewerage and 75 percent or less have 24-hour water service. Transportation to and from work is becoming increasingly difficult, due to weak public transport infrastructure and congestion.

III. WBG PARTNERSHIP STRATEGY

A. Government Program and Medium-term Strategy

62. **The GoP has prepared its first National Development Plan 2014-2030.** The NDP's overall goals include a focus on eliminating extreme poverty and realizing a growth in incomes of the bottom 40 percent higher than average incomes. As such, the WBG's twin goals are well aligned with the NDP. The Plan establishes an ambitious agenda until 2018 which aims to create an inclusive society with an innovative and productive private sector that generates jobs and opportunities. The vision foresees an improved targeting of social safety nets to the vulnerable groups, and an economy linked to regional value chains, and to the world. The NDP also

establishes a monitoring system to track overall progress and, in particular, of the flagship program "*Sembrando Oportunidades*" –Sowing Opportunities– which targets the rural poor. The NDP has been widely consulted with development partners, civil society, private sector and local authorities.

63. **The NDP is organized around three thematic pillars:** (i) Poverty Reduction and Social Development, (ii) Inclusive Economic Growth, and (iii) Insertion of Paraguay into World Markets. The NDP includes four transversal themes: equal opportunity, efficiency and transparency, land management, and environmental sustainability. The Plan is anchored in a medium term economic framework which supports sustainable fiscal policies, enhanced tax revenue efforts, improved efficiency in social protection policies and targeting, and widened financial inclusion.

64. **Pillar I -- Poverty Reduction and Social Development.** The challenges faced by the extreme poor and vulnerable would be addressed by providing equal opportunities in health care, education sanitation and housing, and other social services. The actions under this pillar include improved coverage and targeting of social protection schemes. The NDP proposes the rollout of an integrated information system to create a registry of approximately 250,000 families in situation of vulnerability to be linked to social schemes and agricultural programs, including education and health services.

65. **Pillar II - Inclusive Economic Growth.** Following successive years of strong economic growth, the role of the Government is described as providing support to productive processes, especially through public investments in services and infrastructure. This will enable access to markets and greater competitiveness. The NDP gives priority to funding infrastructure through Public Private Partnerships (PPPs). Some particular targets under this pillar include upgrading logistics infrastructure (e.g, the *hidrovía*), and the facilitation of market mechanisms to mitigate the agricultural risks (i.e., creation of commodities exchanges, agricultural or weather-related insurance and an increase in the number of certified companies with recognized quality standards and safeguards).

66. **Pillar III – International Insertion of Paraguay.** This pillar calls for coordination efforts between Paraguay and its key partners to expand trade and investment, as well as to protect key environmental assets, such as the watershed of the Paraguay and Parana rivers. The insertion of Paraguay into the world economy also requires efficient public institutions that guarantee the rule of law and an enabling environment for investors. The Plan spells out an ambitious regional agenda with Paraguay's neighbors to realize such investment.

67. **The national budget is aligned with the NDP.** The proposed government program includes a medium-term economic framework anchored in a credible and predictable budget closely linked to the NDP. The GoP has earmarked fiscal resources, including from royalties from the bi-national hydropower plants for social sectors, and external financing from international capital markets, direct foreign investment and multilateral financing to support the overall implementation of the NDP. The main economic institutions leading these efforts are the Ministry of Hacienda (MoH) and the Secretary of Technical Planning (STP) which have coordinated the preparation of the NDP through a consultative process that involved all

stakeholders in the country (the national, regional and local governments, civil society and development partners). The NDP will be regularly monitored and reports made available to the public at large.

B. Proposed WBG Engagement

68. **The proposed WBG engagement in Paraguay consists of a portfolio of financial, knowledge and convening services focused on promoting shared prosperity and reducing poverty in a developmentally sustainable manner.** The CPS builds on lessons learned and outlines a program that further strengthens the collaboration within the WBG and with other key development partners (for the lessons learned from the FY10-14 CPS Completion Report (CPSCR), please refer to Annex 2).

Lessons learned and stakeholder consultations

69. **Strengthening portfolio performance, increased selectivity and strategic focus are critical for the new engagement.** Weak coordination has, in the past, negatively impacted portfolio performance and led to several knowledge products falling short of their potential policy impact. The experience of IFC, especially in supporting the burgeoning agribusiness sector –working with local banks on micro, small and medium enterprises (MSME) lending mechanisms– has been very effective, reaching close to 33,000 farmers. Given the important leadership role of the MoH and the STP in designing the NDP, a close coordination with both institutions as well as line ministers is vital for effective program development and implementation.

70. **The WBG will seek to streamline its engagement and work closer with the Legislative Branch and other development partners.** Lack of effective dialogue between the Executive and Legislative Branches about the intended plans and objectives of the IBRD loans was a critical element in driving delays in obtaining the respective legislative approvals (with an average delay of 8 to 9 months). The WBG will make a conscious effort to initiate a structured dialogue with the Parliamentarians in the Legislature and seek to provide the necessary information and details on WBG operations, procedures and issues of specific interest to them. The proposed WBG program will focus, throughout, on strengthening the capacity to manage public resources (including WBG financed projects), improving good governance through social accountability mechanisms and promoting transparent public management. Better coordination with other development partners will be made to ensure more effective collaboration, either by creating dialogue spaces or by participating more actively in already established fora.

71. **Knowledge services should develop dissemination mechanisms fully integrated in the analytical process and aim to serve as a platform for policy dialogue on issues identified in the result areas.** During the 2009-2014 period, the WBG delivered 31 Analytical and Advisory Activities (AAAs) products that provided analysis of public sector management, financial and private sector strengthening, economic policy, land management, education reform, etc. While some analytical pieces were well received and had positive policy impacts (e.g. tax reform, SOE reform) and informing dialogues on poverty (equity assessment, volatility study), others have not had the desired impact and their public availability was limited. This left an important body of analytical work under-used. Under the new CPS, the Government and the

WBG have agreed to a joint analytical and advisory program, to be complemented by Reimbursable Advisory Services (RASs) and just-in-time policy notes on specific topics following the pattern adopted by several MICs. Further, the WBG will also promote increased South-South knowledge exchanges which will be valuable for all stakeholders.

72. **The Government and the WBG held consultations to support the formulation of this CPS.** Meetings held in Asuncion sought inputs from the international development community; key opinion leaders in the country; representatives of the private and financial sector and civil society represented by organizations working on issues of poverty, citizen participation, transparency, education and anti-corruption. Important topics covered and concerns raised included the importance for Paraguay to strengthen the capacity of the public sector (particularly for implementing public investment programs), to focus its development policies on the medium-to-longer-term, and to integrate environmental sustainability in an inclusive way in the development framework (see Annex 6 for a more detailed description).

C. Proposed WBG Program

73. **The CPS applies several filters in identifying the outcomes of its support.** First, the expected results of the CPS are linked to the twin goals of poverty reduction and shared prosperity as described in this section. The program seeks to support Paraguay to address longer-run developmental bottlenecks to sustained poverty reduction and improved equity, while being cognizant of the past complex implementation experience in the country. Second, the CPS expected results reflect the priorities of the government's NDP that is focused on the sustainability of the growth patterns, sharing the benefits of growth with the poor and near poor, and increasing the resilience to economic and nature risks. Third, the WBG support is closely related to analytical work and technical assistance (TA) in place which provide a good understanding of the delivery chains and risks, and the coordination with other development partners. A tighter WBG coordination should also enhance delivery.

74. **In addition, the CPS is selective by focusing on fewer and larger operations and a sharper, co-financed AAA program.** Based on lessons from the past, the WBG will limit the number but work towards larger operations. Attention during the first two years will be on infrastructure and policy through a contingent DPL. The investment support of the CPS focuses on the asset supply of poor households, and includes specific targets of achieving synergies between the different IBRD financed operations and IFC programs which can support the GoP to create an operational platform to tackle poverty within the NDP. In developing a joint IBRD/IFC program, the analytical and advisory services will be designed under a coordinated and co-financed Paraguay Analytical and Advisory Program (PAAP) to match the results areas and will support the overall CPS objectives. Specific attention will be placed on contributing to poverty reduction and increasing shared prosperity through the PAAP, particularly in the social sectors through targeted TA. The WBG, as part of the CPS, is launching a focused effort to improve project implementation performance by mitigating potential risks to the delivery of objectives. Adjustments will be made during the Performance Learning Review at the mid-point of CPS implementation.

75. **The proposed WBG Program is fully aligned with the NDP and aims to contribute to its overall poverty and equity targets.** Hence, the higher level objective of this CPS is that

of the NDP to reduce extreme poverty to 9 percent by 2018 and fostering income growth of the bottom 40 percent, which is higher than the national average. More specifically, the proposed WBG program in this CPS is integrated into priority objectives within the NDP which it will support, given the WBG's current engagement and comparative advantage. Thus the proposed WBG program has selectively been built around three results areas: (i) strengthening resilience to risks and volatility; (ii) boosting pro-poor delivery of public goods and services; and (iii) fostering integrative markets. The results framework chosen for the CPS derives from the targets outlined in the NDP; and the WBG program results try to go, in most cases, beyond the individual achievements of a specific activity and will require the IBRD and IFC to work closely together in the programming of its instruments.

Results Area 1: Strengthening Resilience to Risks and Volatility

76. **Under the CPS, the WBG will continue to support authorities' efforts to mitigate the costs associated with the vulnerability of the poor to exogenous risks.** First, efforts will focus on strengthening the ability of the households and producers –in particular the poor– to cope with price and climate shocks by furthering access to financial services, enhancing agricultural risk management and promoting sustainable agricultural practices. Second, efforts will focus on strengthening the public finance management to help mitigate the impact of growth volatility and enabling private sector investments. It will also advise on the implementation of the FRL that aims to help the government manage volatility and its impact on fiscal balances. By defining a ceiling for the overall fiscal deficit and limitations on wage increases and public primary current expenditures, it formally requires the preparation of a medium term fiscal plan and will support a predictable fiscal policy to anchor private sector expectations and encourage investment.

Result 1.1: Enhanced agricultural risk management

NDP 2030 Indicator:

* *Mitigate the costs of natural disasters caused by climatic events*

WBG Result Indicators:

* *Agricultural insurance penetration rate increased by 15 percent by 2018 (2013 Baseline: 0.39 percent) – will be measured disaggregated by gender in 2018.*

77. **The WBG will support the development of an integrated agricultural risk management program that will help promote more equitable sustainable growth.** Improved agricultural risk management is imperative given the weight of agriculture in the country's economy as well as the potentially large impact of increased agricultural volatility on the low income segments of the population. The WBG's support will come from technical assistance and through the *Proyecto de Desarrollo Rural Sostenible* (Sustainable Rural Development Project - PRODERS). Ongoing technical assistance provides support to the development of: (i) improved sanitary and phytosanitary legislation, (ii) design of agricultural insurance schemes for small farmers (increasing the insurance penetration rate measured as the volume of insurance premiums over agricultural GDP), (iii) better price formation through the introduction of a formal commodities exchange, and (iv) increased access to information on weather. PRODERS will support the development and deployment of an information system that will facilitate rapid

response to emerging animal health issues. The outbreak of foot and mouth disease in September 2011 demonstrated the vulnerability of the sector. The cattle industry was forced to slaughter some 1,000 animals to quell the outbreak and beef exports were banned for 80 days. Furthermore, droughts and floods have produced significant losses both in terms of agriculture export commodities as well as for family farmers producing for local markets, highlighting the urgent need for developing the market for risk transfer instruments, like agriculture insurance, to be able to smooth out incomes in light of natural disaster events.

Result 1.2: Improved Financial Inclusion

NDP 2030 Indicator:

- * *Reaching financial inclusion of 100 percent of households by 2030*

WBG Result Indicators:

- * *50 percent of adults with savings accounts by 2018 (2013 baseline: 29 percent) - disaggregated by gender*
- * *163,000 individuals and microenterprises accessed to microfinance client services by 2018 (2012 baseline: 125,000)*
- * *7 percent of farmers with improved access to markets and access to enhanced productivity and financial services by 2018 (2013 baseline: 5 percent)*

78. **The WBG will continue to support efforts to broaden and deepen Paraguay's financial sector and promote sound and responsible financial inclusion.** The development of inclusive and efficient financial markets will help poor households improve their livelihoods and small businesses grow by enabling them to save, invest and cope with economic uncertainties. The WBG assistance combines advisory services, policy-based lending, and investment lending. Ongoing advisory services will continue to support the design and implementation of a comprehensive National Financial Inclusion Strategy, coordinating and leveraging efforts from public and private stakeholders as well as the donor community. The related institutional and regulatory reform agenda will be supported by a DPL. IFC will continue to support the financial sector development and financial inclusion agenda through ongoing investment operations, which could be strengthened through targeted advisory assistance to government and the key financial institutions to ensure the availability of financial services to more citizens and MSMEs. IFC's business operations in financial markets since FY13 are cumulatively expected to increase access to financial services for about 17,500 SME clients and 163,000 microfinance clients, most of them in rural areas and agribusiness.

Result 1.3: Improved environmental management

NDP 2030 Indicator:

- * *Reduce to zero the illegal deforestation rate*

WBG Result Indicators:

- * *Improved forest management and conservation practices introduced on an area equivalent to 18 percent of the current Alto Paraná Atlantic Forest area²³ by 2018 (Baseline 2014: 9 percent)*

²³ Total current area of Alto Paraná's Atlantic Forest is 1,702,000 hectares. Source WWF, 20014, www.wwf.org.py/que_hacemos/bosque_atlantico/.

79. **The WBG program assistance to the environmental sector focuses on institutional strengthening and forest land conservation.** Rapid environmental degradation weakens the contribution of Paraguay's natural resources wealth to growth. Technical assistance on institutional strengthening will focus on environmental compliance of sector agencies, such as the Secretary for the Environment in issuing water extraction licenses or the Ministry of Public Works in managing wastes produced by road construction. The WBG program continues to conserve the Atlantic Forest located in Paraguay through the introduction of sustainable forestry and land management practices that reducing emissions from deforestation and forest degradation.

Results Area 2: Boosting Pro-Poor Delivery of Public Goods and Services

80. **During the CPS period, the WBG will focus on the pro-poor delivery of public goods and services.** This includes support for efforts to raise revenue collection, make both taxing and spending more pro-poor, delivering quality services to the poor, and improving the accountability and transparency of public spending for the poor. The existing IBRD investment portfolio, a new DPL project, as well as analytical and advisory services, including the PAAP, would support the achievement of these results.

Result 2.1: Increased Revenues and Progressivity of Fiscal Management

NDP Indicator:

* *Improvement in the tax/GDP ratio to 18 percent by 2030*

WBG Result Indicators:

* *Total tax/GDP ratio increased from 11.5 percent (2013) to 14 percent (2018) and the progressivity of the tax system improved compared to the base year 2013*

* *Progressivity of expenditures in social and infrastructure service delivery improved by 2018 compared to baseline in 2013*

81. **A core result of the WBG's program during the CPS will be to support Government in raising the level and improving the incidence of taxation.** Although Paraguay has undergone a thorough fiscal reform program since 2002, there remains an unfinished agenda to further raise fiscal revenues, render fiscal policy more progressive, and increase spending on priority social programs where expenditures are low and outcomes remain weak.

82. **The Government has taken initial steps to simultaneously enhance its ability to collect tax revenues and to make the system more neutral for consumption and investment decisions.** The Bank will continue providing support for expanding the tax base and reducing regressive taxes as well as strengthening institutional capacity of the Tax Administration. The WBG is supporting the Government's efforts to improve public spending efficiency through its advisory services. The proposed DPL/DDO will support (i) increasing the value added tax (VAT) rate applied to the financial sector from 5 percent to the standard rate of 10 percent; (ii) defining the VAT collection base for the agriculture sector and establishing a 5 percent rate to this tax base; (iii) replacing the existing agricultural income tax with a new Tax on Agriculture

Income (Corporate tax for agricultural activities – IRAGRO) to fix the loopholes in the system. Estimates are that these efforts will increase the ratio of tax collection to GDP and reduce the burden on the bottom 40 percent.

83. **The WBG will also provide technical assistance –under the PAAP– to the STP on the overall monitoring and evaluation of the NDP as well as on the development of instruments for targeting.** Such technical assistance would be geared to (i) monitor progress towards overall poverty and inequality targets in Paraguay, including analysis as to the main drivers of poverty dynamics; (ii) develop an overall framework for executing and monitoring the implementation of the NDP, and executing it; (iii) update the targeting instruments of several programs aiming to reach the most vulnerable groups, including the conditional cash transfer program *Tekoporã* and the non-contributory pension program for the elderly *Adultos Mayores*; and (iv) support the design and implementation of a single registry of beneficiaries of all social programs, which constitutes a necessary pillar for an inclusive, transparent and efficient social protection system. For the latter, the WBG will facilitate South-South knowledge exchanges.

Result 2.2: Improved Access to Quality Public Services for the Poor

NDP 2030 Indicator:

- * *Universalization of access to potable water and improved sanitation (currently 85 percent and 79 percent)*

WBG Result Indicators:

- * *10 percent of urban extreme poor in Asunción metropolitan area benefiting from improved environmental sanitation by 2018 (2014 Baseline: 0) –disaggregated by gender*
- * *Indigenous peoples with access to sustainable water increased from 2.5 percent (2013) to 6.5 percent (2018) - disaggregated by gender*

84. **The WBG will maintain its engagement on providing improved access to and better quality of basic services for the rural poor, emphasizing the provision of improved water and sanitation.** Three ongoing IBRD programs and a grant-funded project will work on bettering basic services to the poor, largely but not exclusively based on geographic targeting to the poorest districts. The largest (including a recently approved additional financing) of these operations is the integrated rural development program PRODERS that focuses on community-based delivery of basic infrastructure services in the poorest districts of the country. The Biodiversity Project supports demand based provision of basic infrastructure to poor indigenous communities. Ongoing investments in water and sanitation support access to sustainable water systems in indigenous communities, with an emphasis on their operation and maintenance to increase sustainability. The ongoing energy operation aims to improve the reliability and quality of electricity throughout the country.

85. **In addition the WBG program will pay specific attention to institution building activities designed to improve delivery of quality services through resources planning and management.** The ongoing roads project helps the Ministry of Public Works and Communications (MOPC) prioritizing road maintenance activities. The water and sanitation project focuses on improved management of the water utility. The agricultural program supports community organization development and capacity building. The energy project supports

institutional strengthening to improve managerial decision making.

Result 2.3: Improved Social Accountability and Transparency

NDP 2030 Indicator:

- * *Ensuring the transparency of public expenditures at all three levels of the Government and in all three democratic powers*

WBG Result Indicators:

- * *Open Information Law²⁴ fully implemented by at least 20 percent of government agencies by 2018 (2014 baseline: 9 percent)*
- * *At least 10 new education sector information tools and 15 datasets available for internal management and public access by 2018 (2014 baseline: 0)*
- * *At least two social accountability mechanisms under the Open Government initiative are successfully implemented by independent CSOs by 2018 (2014 baseline: 0)*

86. **The WBG will support the GoP in its open government and transparency agenda that includes enabling greater civic engagement (easing public access to relevant information on government budgets, budgetary processes, norms of service, and service performance data).** Except for the ongoing energy program, all IBRD ongoing and planned investment program include social auditing that enables citizens to provide structured feedback to public sector on the quality of services delivery. In PRODERS and the Biodiversity Project, this includes opportunities for communities to identify and prioritize the assistance they receive to address their development needs. In the Water and Sanitation Project, this includes the development of “citizen’s commitment charters” between the communities and the state-owned water and sanitation utility. This social watch mechanism tracks standards and improvements, including reports on service providers and the quality of services. It provides for complaints mechanisms and establishes rights and obligations for users. Importantly, the WBG has been invited in by the Government to work with the *Tekoporã* conditional cash transfer program to develop a model for civil society-government partnership for more transparent and accountable implementation of the program. Further, all AAA activities under the PAAP will include an actionable – or content – social accountability angle.

87. **As part of the CPS, a special attention will be given to provide technical assistance to the Ministry of Education to strengthen four policies that are critical to improving the transparency, accountability and effectiveness of the education system.** First, it will support a thorough review of education financing and the development of alternative resource-allocation options for basic school inputs, which are currently regressive and distribute more resources to areas that have better endowments. This is geared to prepare the grounds for an Education Finance Law which would regulate all public resources allocations, including the *Fondo Nacional de Inversión Pública y Desarrollo* (National Public Investment and Development Fund - FONACIDE), determining in a clear and transparent way the responsibility of education authorities at all levels: national, departmental, municipal and in the schools. Second, it will focus on identifying the policy levers to improve efficiency and quality of service delivery.

²⁴ The Open Information Law (Ley 5189/2014) makes mandatory the publication of salaries and allowances received by the civil service.

Special attention will be paid on revising policies to improve quality of teaching, which have been found in Paraguay and elsewhere to be the most important determinant of the effectiveness of an education system.²⁵ Pre-service teacher professional development, in-service teacher training and evaluation of teachers are going to be the initial areas of focus. Third, the WBG would support strengthening the education information system to provide the mechanisms for evidence-based policy making and better accountability and overall governance. Finally, the WBG will provide technical assistance to help the Ministry of Education prepare sound proposals to be financed by FONACIDE.

Results Area 3: Fostering Market Integration

88. The WBG aims to support Paraguay in fostering market integration to create better opportunities for smallholder farmers to participate in markets and for overall connectivity to improve. This will be achieved through a comprehensive program that increases productivity of the small farmers complemented by interventions that decrease the time and cost of access to markets as well as leverages private sector knowledge and capital to improve connectivity and reduce logistics costs. Complementary support to a dynamic and rapidly growing private sector will include advisory services to promote improved access to business services, technology and finance to link producers to emerging value chains.

Result 3.1: Improved Agricultural Productivity and Access to Markets for Small-holder Farmers

NDP 2030 Indicator:

- * *Reducing to less than 3 percent the productivity gap of land use between family farming and commercial farming*

WBG Result Indicators:

- * *Income of 15 percent of poor households (out of 130,000) in Concepción, San Pedro, Canindeyú, Caaguazú and Caazapá increased by 30 percent by 2018 (2013 Baseline: annual income is G4 million) disaggregated by gender.*
- * *130 additional indigenous communities' (representing more than 50 percent of Indigenous Peoples in Paraguay) economic development improved through enhancement of organizational capacity and better quality living conditions by 2018 (2014 baseline: 45 communities) disaggregated by gender.*

89. The WBG will pilot support for smallholder farmers to increase technical knowledge and to access inputs as a contribution to greater productivity. Financing from PRODERS will improve the socio-economic conditions of small-scale farmers and indigenous communities through increasing the number of extension agents and providing farmers with access to inputs while linking them to value chains. The project is designed to increase the incomes of 25,500 small-holder farmers by 30 percent by 2018 and recent simulations suggest this may help lift an additional 125,000 people out of poverty. IFC's trade finance program with five Paraguayan banking institutions worth US\$110 million has guaranteed over US\$450 million in trade flows, primarily related to fertilizers, agricultural machinery, agricultural commodities,

²⁵ World Bank (2013b) “*Estado del arte de la profesión docente en Paraguay. Ideas inspiradoras para la elaboración de políticas educativas*” Bruns and Luque (forthcoming) “Better Teachers for Latin America and the Caribbean New Evidence on How to Raise Teacher Quality and Student Learning”.

and leather and meat. Looking ahead, IFC intends to further expand this collaboration by strengthening the country's agricultural sector and small-scale farmers, aiming to increase or improve sustainable farming opportunities for close to 11,000 farmers. The WBG will work with government on scaling-up these pilot interventions and will revisit the broader impact during the progress report. The results indicators are based on household surveys which include gender related questions, such as if the head of household is a woman, among many others.

Result 3.2: Increased private investments in logistics projects/initiatives and reduced logistics costs

NDP 2030 Indicator:

* *Consolidation of an efficient and effective transport network that reduces logistics costs to internationally competitive levels*

WBG Result Indicators:

* *At least two public private partnership transactions in transport/logistics by 2018 (2014 baseline: 0).*

* *Travel time on two 200 km segments of roads in selected priority Departments (San Pedro, Caaguazú and Caazapá, or similar) reduced by at least 30 minutes by 2018 (Baseline 2014: average travel time for a 200 km segment of a national road is 3 hours and 20 minutes)²⁶*

90. **The WBG prioritizes, jointly with other development partners, supporting Paraguay in raising the connectivity and integration of isolated rural communities.** Paraguay has launched a large program involving the Inter-American Development Bank (IADB), the Development Bank of Latin America (CAF), the Japan International Cooperation Agency (JICA) and the WBG to improve road infrastructure and connectivity in the poorest parts of the country through investments in feeder and trunk roads. The WBG will continue working on critical components such as rehabilitation of trunk roads in selected corridors in the poorest districts, institutional strengthening to improve asset maintenance and the launching of a road safety program designed to address the rapidly increasing public health crisis associated with road accidents and fatalities. Under the CPS, the WBG will finance a share of the ambitious investment plans in rural roads through existing and potentially new financing commitments.

91. **Technical assistance will help Paraguay identify logistics bottlenecks and ways of addressing them.** Improving competitiveness and bringing down the costs of doing business in Paraguay requires addressing the infrastructure gap, particularly in the transport sector. Ongoing TA²⁷ on the costs of transporting export commodities from the farm to the market reveals that logistics costs are currently estimated to be half of the freight on board cost of delivering grain to port in Asuncion. Particularly telling is that road congestion in Asuncion, both access to the metropolitan area and to the port terminals, represents 25 to 30 percent of the inland transport from the farm to gateway port. This TA will help identify logistical bottlenecks and set priorities for investment.

²⁶ Measured by using the Moving Car Observer Methodology

http://www.researchgate.net/publication/265163097_Application_of_Moving_Car_Observer_Method_for_Measuring_Free_Flow_Speed_on_Two-lane_Highways

²⁷ World Bank. Draft Farm to Market Study. 2014.

92. **The Government has identified public private partnerships (PPPs) as one of the instruments they will use to close the infrastructure gap while bringing innovation and efficiency to infrastructure asset management.** As IBRD, IFC is engaged in infrastructure and service investments to enhance the competitive advantage of Paraguay’s agribusiness sector through key infrastructure investments. IFC’s support to barge transport operators in the *hidrovía* covers about 30 percent of the country’s soy production and 40 percent of fuel transport. Over the next CPS period, IFC is keen to expand its financing of critical infrastructure investments, including direct investments and advising the GoP on the structuring of PPP projects. The focus of the WBG’s assistance in this area is to strengthening the Government’s program through the development of institutional capacity as well as financing options for key infrastructure assets such as roads, airports and the *hidrovía*.

D. Implementing the FY15-18 Country Partnership Strategy

93. **The overall WBG financial support is expected to be in the range of US\$900 million to US\$1,100 million during the CPS period.** This includes an indicative IBRD program of about US\$600 - US\$700 million as well as expected IFC financing for the private sector in the range of US\$300 - US\$400 million, assuming appropriate market conditions. The Multilateral Investment Guarantee Agency (MIGA) will also play a role to facilitate and broaden the involvement of foreign private investments within PPP initiatives by providing political and credit risk insurances to foreign investors. The actual volume of IBRD lending will depend on how program performance evolves in the course of the CPS period, continued government interest in IBRD financing, and on IBRD’s lending capacity and demand from other borrowers.

94. **Total current IBRD exposure to Paraguay is US\$352.2 million with FY14 disbursement totaling US\$47.2 million.** The active portfolio consists of 4 IBRD loans for a total of US\$375 million – US\$265.2 million remains undisbursed (See Table 2). The Bank also manages a portfolio of 10 trust funds (of which one GEF project) for a total of US\$5.6 million. Only two of these are Bank administered Trust Funds (TFs). The disbursement rate for FY14 was 21.8 percent, a strong increase from FY13 8.64 percent.

Table 2: IBRD Portfolio FY10-14

• Fiscal year	2009	2010	2011	2012	2013	2014	2015
# Projects	6	3	4	5	4	4	4
Net Commitment Amount	317.5	175.5	275.5	375.5	275.5	375.5	375.5
# Problem Projects	3	0	3	3	3	2	1
% Potential	16.7	66.7	0.0	40.0	25.0	50.0	50.0
# Projects at Risk	4	2	3	5	4	4	3
% Commitment at Risk	48.3	57.8	63.7	100.0	100.0	100.0	73.4
% Problem Projects	50	0	75	60	75	50	25
% Proactivity		100		33	0	33	75
Tot Undisbursed Balance	183	170.5	258.3	236.9	216.4	269.1	265.2
Tot Disbursed in FY (No DPLs)	5.8	2.2	12.2	21.5	20.5	47.2	3.9
Disbursement Ratio	4.7%	1.2%	7.2%	8.3%	8.6%	21.8%	1.5%

Source: World Bank

95. **With a portfolio of US\$ 292 million IFC supports the development of a competitive**

private sector with a special focus on ensuring regional integration through trade. In particular, IFC concentrates on supporting the development of the agriculture market; (ii) enhancing and sustaining economic growth and trade by improving transport services, infrastructure and communication networks; and (iii) strengthening the financial system and providing access to finance to SMEs.

Table 3: IFC portfolio (FY10-FY14)

IFC Variable	FY10	FY11	FY12	FY13	FY14
# Projects	10	8	9	7	11
Commitments \$m	101.6	217.7	145.0	116.5	203.6
Mobilization \$m	-	20.0	11.8	3.0	20.0
Own account + Mob \$m	101.6	237.7	156.8	119.4	223.6
Portfolio (net commitments \$m)	134.2	260.8	234.3	212.2	291.8
Outstanding portfolio (exposure \$m)	97.0	169.8	203.4	179.3	191.1
DOTS Development Outcome (% successful)	None Reported	None Reported	100%	67%	100%

Source: IFC

96. **The WBG program performance during the FY10-14 CPS was rated moderately unsatisfactory.** As the results under the new strategy will be largely influenced by the ongoing portfolio the team has taken into consideration the lessons learned (see Annex 2) in the design of the proposed approach. The successful IFC engagement provides an excellent opportunity for IBRD-IFC synergies and joint activities under the new CPS and cooperation will be furthered under the new engagement areas.

97. **Close supervision and implementation support need to be strengthened further under the new CPS.** The IBRD program has faced important challenges, particularly in the implementation of Investment Project Financing (IPF), which will continue to be addressed during the new CPS. Implementation of the four active IPF operations (in agriculture, energy, roads, and water and sanitation) has experienced significant challenges starting with major delays in becoming effective. The effectiveness delays of the projects coupled with rather complex design and safeguards arrangements, involving several institutions and high staff turnover (partially due to the political crisis in 2012) have impacted the overall portfolio execution. While disbursements picked up in FY14 with a disbursement ratio of 21 percent, the challenge is how to sustain this pace during the new CPS period. Going forward, the WBG will provide close implementation support including regular portfolio performance reviews and, for new engagements, use simpler project design avoiding schemes with several implementing agencies to reduce coordination demands.

98. **While Development Policy Loans (DPLs) suffered from similar effectiveness delays, their implementation has been more successful in supporting critical public sector reforms.** Effectiveness delays did not have a major impact on the achievement of results of the DPL operations given that they focus on policy and institutional actions that are completed prior to the operation becoming effective. DPLs have focused on public sector management using the rich analysis from years of economic and sector work. The lessons learned from designing DPLs in Paraguay underscore the importance of national ownership of reform actions and striking the right balance between political feasibility and depth of reforms. A strong knowledge background is essential for the choice of policy actions and evaluation of their relevance and political

feasibility. More specifically expertise in the specificities and challenges of the country is essential for a proper assessment of the support for reforms across constituencies and gauging of political risk. Sustained engagement on the part of the Bank is also considered critical for supporting reform processes over the medium term.

99. **Implementing the strategy the WBG will keep different levels of engagement, starting with the twice-a-year portfolio reviews that involve the MoH, the line ministries, and the WBG teams and management.** In addition, some innovations already in place, such as the use of e-disbursement on a pilot basis with the GEF Paraguay Biodiversity project could be extended to other projects. All portfolio procurement plans are now published on the Procurement Plan Execution System (SEPA - www.iniciativasepa.org) which brings public disclosure to past and future procurement actions. Additionally, the Implementation Status and Results Reports (ISRs) are now translated in Spanish and made available to upload on the clients' official websites.

100. **Mainstreaming gender in the WBG.** The WBG will continue to mainstream gender issues both in lending and non-lending activities, and the gender disaggregated indicators will be updated by the time of the Performance Learning Review. It will introduce the SWIFT (*Survey on Well-being via Instant and Frequent Tracking*) monitoring system for every new operation to track disaggregated data and monitor potential differences in impact on men and women. SWIFT's survey will register the respondent's and all household members' gender for statistical purposes. In addition, the SWIFT team, in collaboration with the WBG Gender Team, will consider additional gender-specific questions pertaining to, *inter alia*, domestic violence, employment opportunities and access to social services, which might be relevant for a more comprehensive understanding of these issues (for more detail see Annex 10).

101. **The Bank will continue its support for further developing the country systems.** The country Public Financial Management (PFM) system has not been fully utilized in the implementation of the IBRD Paraguay portfolio due to a number of issues including: (i) complicated flow of funds procedures; (ii) lack of skilled staff and high personnel turnover in the implementing agencies; and (iii) the need for an upgrade of the accounting module of the *Sistema de Contabilidad* (Integrated Financial Management System – SICO) at the government level. In recent years some progress has been made with the introduction of budget commitments, development of the *Modelo Estándar de Control Interno del Paraguay* (Standard Model of Internal Control Manual - MECIP). Nevertheless, challenges remain and particular attention will be paid to strengthening internal controls and building institutional capacity of the internal audit function to facilitate transitioning to use of country systems.

102. **Procurement strengthening will be furthered under the CPS with the goal of preparing the transition to use of the country's procurement systems.** The Bank is supporting the *Dirección Nacional de Compras Públicas* (National Procurement Office - DNCP) to strengthen their Public Procurement System. The pilot program using reverse auction system for shopping of goods (up to US\$50,000) in Bank-financed projects has closed with promising results. Significant savings were obtained and the Bank is looking into extending it up to National Competitive Bidding thresholds. In addition, DNCP has taken the first steps in the "framework contracts" method. The Bank is closely monitoring the development of this initiative with the possibility to gradually incorporate this method in Bank-financed projects. In addition

the Bank has started to work with DNCP to provide technical assistance and support: (i) DNCP system re-engineering (e-procurement); (ii) digital signature certification; (iii) open contracting; (iv) complaint system; and (v) internal management system for the *Unidades Operativas de Contrataciones* (Decentralized Public Procurement Agencies -UOC). The benefits of this support and assistance would have an impact not only on Bank's financed Projects, but also on the whole Paraguayan public investment system.

103. **The CPS will continue to support the Open Government and Open Data initiatives agenda articulated in the NDP.** The initiatives aim to increase public sector transparency and improve social accountability mechanisms. The GoP issued its second Open Government 2014-2016 Action Plan in July 2014, following President Cartes' declaration of that "what is public shall be public". The NDP endorsed an international social accountability initiative under the Global Partnership for Social Accountability (GPSA) in which Paraguay was among eight countries selected to enhance citizen engagement to facilitate the dissemination of public information, and make the GoP more accountable. Ongoing IBRD operations have a mechanism for social accountability, and through the GPSA grant, a group of CSOs will audit social spending in the *Tekoporã* program and related social protection networks. All IBRD and GEF operations will apply SWIFT to monitor progress in their impact on poverty reduction and shared prosperity indicators, and with the inclusion of gender specific impacts.

104. **Partnerships and Coordination.** Development partners are mostly engaged in strengthening commercial and international trade ties, and the specialized financial support is provided by multilaterals, such as the IADB, the CAF and the European Union (EU). In the governance agenda, the WBG also works closely with lead of the United States Agency for International Development (USAID). The WBG is particularly focused on the poverty reduction agenda, at the request of the GoP, and with the lead of the MoH and STP in the Social Cabinet, coordination meetings are being organized since 2014 to disseminate the NDP (see Annex 4 for a more detailed description the main programs in Paraguay). The process of harmonizing development partners in Paraguay has had different arrangements through time and the WBG would continue to facilitate that dialogue, such as during the consultations during the CPS (see Annex 6 on more details from the consultations with stakeholders).

IV. MANAGING RISKS

105. The outcomes targeted by this CPS are subject to various economic and political risks as well as risks related to institutional capacity and program implementation. Overall risk is rated as "substantial" with several risk categories described in more details below.

106. **Economic risks.** The main risk in Paraguay is the economic management of volatility derived from agriculture. Paraguay's economic growth has become more volatile in recent years which stems from external shocks and shocks to an agricultural sector, whose weight within the overall economy has grown in recent decades. Volatility has wide-ranging impacts on the economy, including productive sector performance, tax revenue, and on poverty and equality rates. Particularly, poor people working in agriculture are exposed to sharp swings in activity and thereby in their incomes. Volatility also renders planning and forecasting more difficult for macroeconomic management. A related risk is the exposure of Paraguay to external shocks due to limited diversification of its product base and trading partners. Paraguay remains highly

vulnerable to regional and global economic fluctuations and to weather-related shocks. In particular, the slowdown in Paraguay's main trade partners, Argentina and Brazil, may negatively affect demand for Paraguayan exports. Another challenge is linked to the limited fiscal resources that constrain spending on human development and growth enhancing policies. However, as the country's exports are mainly commodities, reductions in the demand of regional partners can be compensated in other international markets, albeit with a lag. Adverse shocks to the Paraguayan economy are likely to have adverse impacts on government revenues and the ability of the Government to provide public services and investment.

107. **Institutional capacity and implementation risk.** Public sector capacity constraints are considerable in Paraguay and constitute a major challenge to successful budget execution, completion of key investment projects and implementation of reform programs. The limited number of technical staff in core ministries and project implementation units poses implementation risks. Investment projects supported both under the government budget and by international financial institutions suffer from long years of slow implementation with major cost increases in the overall value of the projects. The Government's ambitious agenda for attracting large infrastructure investments through PPPs may not materialize due to weak investment programming capacity and regulatory risks. There are also limitations in the assessment and mitigation of social and environmental risks, which may result in excessive delays in the implementation of infrastructure projects. In addition weak inter-institutional coordination could put the success of the Government's reform program at risk. However, the Government's NDP aims at increasing inter-institutional coordination and establishing Monitoring and Evaluation (M&E) mechanisms for achieving results on time. The WBG will continue supporting the MoH and other line ministries to build fiduciary capacity for better management public investments. The Bank also supports institutional capacity through its non-lending TA for strengthening Tax Administration and SOEs' corporate governance structure.

108. **Governance risks and corruption.** Paraguay ranks very low in good governance indicators, such as the perception of corruption measured by Transparency International which places Paraguay in the 150th place out of 177 countries.²⁸ Tackling corruption and improving governance is more than a short-term development goal. Importantly, the Government is pursuing a number of important initiatives, including the dissemination of public information through public websites, using feedback hotlines for public procurement and discussing in the Legislative Branch a public information law. The WBG will continue supporting initiatives aligned with the open government agenda of the NDP and providing fiduciary support to implementation units in line ministries. The WBG will also be supporting social accountability schemes from independent civil society organizations under a grant from the GPSA.

109. **Political Risks:** The Paraguayan political system elects the President and the members of the Legislative Branch for a period of five years simultaneously. President Cartes currently enjoys a majority in the Legislative Branch. Nevertheless, Paraguayan political dynamics does not always imply an alignment between the governing party and its Legislature representatives. Therefore, ensuring the support from the Legislative Branch for the approval of IBRD loans is a key issue that needs to be dealt in a one-by-one basis. The election of mayors will take place in 2015 and it can potentially influence the political scene. However, the WBG program is focused

²⁸ <http://www.transparency.org/cpi2013/results>

on poverty reduction and shared prosperity, an area which is a priority across the political spectrum. The WBG will make a special effort to reach different parties in the Legislative Branch to better explain the scope and priorities of the WBG program in Paraguay.

Annex 1. Results Framework - Paraguay Country Partnership Strategy FY15-18

Results Area	National Development Plan/ Indicators	Expected WBG Result	CPS Outcomes/ Indicators	Key WBG Activities (FY15/16)
1. Strengthening Resilience to Risks and Volatility	<p>GoP aims to strengthen public institutions to help mitigate the impact of growth volatility and enable private sector investment, in particular to protect the poor</p> <p>NDP 2030 target: <i>Mitigate the costs of natural disasters caused by climatic events</i></p>	<p>#1.1 Enhanced agricultural risk management</p> <p>WBG will support the development of an integrated agricultural risk-management program to promote more equitable and sustainable growth</p>	<p>Agricultural insurance penetration rate increased 15 percent by 2018 (2013 Baseline: 0.39 percent)</p> <p>- <i>Indicator will include gender dimension.</i></p>	<p>Financial services: <i>Ongoing:</i></p> <ul style="list-style-type: none"> - PRODERS <p>Knowledge services: <i>Ongoing:</i></p> <ul style="list-style-type: none"> - Farm to Market study <p><i>Proposed:</i></p> <ul style="list-style-type: none"> - Programmatic Agricultural Risk Management (partly under PAAP)
	<p>GoP plans to assist in developing inclusive and efficient financial markets which are critical in helping poor households improve their livelihoods and small businesses grow by enabling them to save, invest and cope with economic uncertainties</p> <p>NDP 2030 target: <i>Reaching financial inclusion of 100 percent of households by 2030</i></p>	<p>#1.2 Improved financial inclusion</p> <p>WBG will support the development of a comprehensive National Financial Inclusion Strategy in coordination with public and private stakeholders and the international development community</p>	<p>50 percent of adults with savings accounts by 2018 (2013 baseline: 29 percent).</p> <p>- <i>Indicator is gender disaggregated.</i></p> <p>163,000 individuals and microenterprises accessed to microfinance client services by 2018 (2012 baseline: 125,000)</p> <p>7 percent of farmers with improved access to markets and access to enhanced productivity and financial services by 2018 (2013 baseline: 5 percent)</p>	<p>Financial services: <i>Ongoing:</i></p> <ul style="list-style-type: none"> - SME and Agribusiness competitiveness (IFC) <p><i>Proposed:</i></p> <ul style="list-style-type: none"> - IFC's business operations in financial markets and the creation of the collateral registry <p>Knowledge services: <i>Proposed:</i></p> <ul style="list-style-type: none"> - Programmatic Financial sector inclusion development (partly under PAAP) - Farm to Market study
	<p>Paraguay has one of the highest deforestation rates in the world and</p>	<p>#1.3 Improved environmental management</p>	<p>Improved forest management and conservation practices</p>	<p>Financial services: <i>Ongoing:</i></p>

	wants to introduce sustainable forestry and land management to reduce deforestation and forest degradation NDP 2030 target: <i>Reduce to zero the illegal deforestation rate</i>		introduced on an area equivalent to 18 percent of the current <i>Alto Paraná</i> Atlantic Forest area by 2018 (Baseline = 9 percent)	- PRODERS - Conservation of Biodiversity and sustainable land management. (GEF) Knowledge services: <i>Proposed:</i> - Programmatic Agricultural Risk Management (partly under PAAP) - Technical Assistance on Extractives (partly under PAAP)
2. Boosting Pro-poor Delivery of Public Goods and Service	The current tax structure is regressive and the GoP will seek to bring additional progressivity to the most regressive tax system in LAC NDP 2030 target: <i>Improvement in the tax/GDP ratio to 18 percent by 2030</i>	# 2.1 Increased Revenues and Progressivity of Fiscal Management WBG will support GoP in raising the tax level, improving the distribution of taxes and overall M&E of the NDP	Total tax/GDP ratio increased from 11.5 percent (2013) to 14 percent (2018) and the progressivity of the tax system improved compared to the base year 2013 Progressivity of expenditures in social and infrastructure service delivery improved by 2018 compared to baseline in 2013	Financial services: <i>Proposed:</i> - DPL-DDO Knowledge services: - Under PAAP (TBC) <i>Ongoing:</i> - TA for <i>Tekoporã</i> and <i>Adultos Mayores</i> programs <i>Proposed:</i> - Programmatic Equity and Poverty (volatility, pro-poor fiscal policy, M&E), partly under PAAP - South-South Cooperation
	NDP aims to increase access to basic service to the most underserved communities NDP 2030 target: - <i>Universalization of access to potable water and improved sanitation (currently 85 percent and 79 percent, respectively)</i>	# 2.2 Improved access to quality public services for the poor The WBG supports inclusion through improved access to and better quality of services to the rural poor	10 percent of urban extreme poor in Asunción metropolitan area benefiting from improved environmental sanitation by 2018 (2014 Baseline: 0) - <i>Indicator is gender disaggregated</i> Indigenous peoples with access to sustainable water increased from 2.5 percent (2013) to 6.5 percent (2018)	Financial services: <i>Ongoing:</i> - Water & Sanitation project - Rural roads project - PRODERS - Energy project <i>Proposed:</i> - DPL-DDO - Rural roads IPF Knowledge services: <i>Proposed:</i>

			- <i>Indicator is gender disaggregated</i>	- TA- Targeting support to <i>Sembrando Oportunidades</i> - Programmatic Agriculture risk management and environmental protection (partly under PAAP)
	<p>NDP has efficient and transparent public sector management as one of its main strategic trusts</p> <p>NDP 2020 target: - <i>Ensuring the transparency of public expenditures in all three levels of the Government and in all three democratic powers</i></p>	<p>#2.3 Improved social accountability and transparency</p> <p>The government increased transparency and accountability of its budget. The WBG will support the implementation of GoP's Open Government and transparency agenda by including social auditing in its new investment program and strengthening social accountability mechanisms in the existing portfolio</p>	<p>Open Information Law²⁹ fully implemented by least 20 percent of government agencies by 2018 (2014 baseline: 9 percent)</p> <p>At least 10 new education sector information tools and 15 datasets available for internal management and public access by 2018 (2013 Baseline: 0)</p> <p>At least two social accountability mechanism under the Open Government initiative (such as the social auditing of the <i>Tekoporã</i> program) successfully implemented by independent CSOs by 2018</p>	<p>Financial services: <i>Ongoing:</i></p> <ul style="list-style-type: none"> - PRODERS - Water & Sanitation project - Rural roads project <p><i>Proposed:</i></p> <ul style="list-style-type: none"> - DPL-DDO - Rural roads project <p>Knowledge services: <i>Ongoing</i></p> <ul style="list-style-type: none"> - TA- GPSA grant for Social Accountability <p><i>Proposed:</i></p> <ul style="list-style-type: none"> - Programmatic Governance AAA (partly under PAAP) - TA to the Ministry of Education to improve quality of education and help target FONACIDE funds to needed schools (partly under PAAP)
3. Fostering market integration	<p>The NDP aims at fostering market integration to create better opportunities for small-holder farming communities to participate in markets and improve overall connectivity</p> <p>NDP 2030 target:</p>	<p>#3.1 Improved agricultural productivity and access to markets for small-holder farmers</p> <p>The WBG will support increased productivity of small-holder farmers through</p>	<p>Income of 15 percent of poor households (out of 130,000) in Concepción, San Pedro, Canindeyú, Caaguazú and Caazapá increased by 30 percent by 2018 (2013 Baseline: annual income is G4 million)</p>	<p>Financial services: <i>Ongoing:</i></p> <ul style="list-style-type: none"> - PRODERS - Rural Roads Project - SME and agribusiness competitiveness (IFC) <p><i>Proposed:</i></p> <ul style="list-style-type: none"> - Micro financing to farming

²⁹ The Open Information Law (Ley 5189/2014) makes mandatory the publication of salaries and allowances received by the civil service.

	<p>- <i>Reducing to less than 3% the productivity gap of land use between family farming and commercial farming</i></p>	<p>interventions that increase technical know-how and access to inputs and markets</p>	<p>- <i>Indicator is gender disaggregated</i></p> <p>130 additional indigenous communities' (representing more than 50 percent of Indigenous Peoples in Paraguay) economic development improved through enhancement of organizational capacity and better quality living conditions by 2018 (2014 Baseline: 45 communities)</p> <p>- <i>Indicator is gender disaggregated</i></p>	<p>communities (IFC)</p> <p>Knowledge services: <i>Proposed:</i></p> <ul style="list-style-type: none"> - PA Financial sector inclusion development - Farm to market study
	<p>GoP aims at improving road infrastructure and connectivity in the poorest parts of the country through investments in feeder and trunk roads</p> <p>NDP 2030 target:</p> <p>- <i>Consolidation of efficient and effective transport network that reduces logistics costs to internationally competitive levels</i></p>	<p><i>#3.2 Increased private investments in logistics projects/initiatives and reduced logistics costs</i></p> <p>The WBG plans to help GoP identify logistics bottlenecks and attract private knowledge and funds to addressing them</p>	<p>At least two public private partnership transactions in transport/logistics by 2018 (2014 baseline: 0).</p> <p>Travel time on two 200 km segments of roads in selected priority Departments (San Pedro, Caaguazú, Caazapá or similar) reduced by at least 30 minutes by 2018 (Baseline 2014: average travel time for a 200 km segment of a national road 3 hours and 20 minutes; 2018 target: average travel time for a 200 km segment of a national road 2hours and 50 minutes).</p>	<p>Financial services: <i>Ongoing:</i></p> <ul style="list-style-type: none"> - Rural Roads project - PRODERS <p><i>Proposed:</i></p> <ul style="list-style-type: none"> - Rural Roads project <p>Knowledge services: <i>Proposed:</i></p> <ul style="list-style-type: none"> - Farm to market study - TA in PPP

Annex 2. Paraguay CPS FY10-14 Completion Report (CPSCR)

CPS May 5, 2009 Report No. 48087-PY
CPSPR April 9, 2012 Report No. 66782-PY

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I. INTRODUCTION

1. This Country Partnership Strategy Completion Report (CPSCR) is a self-evaluation by the World Bank Paraguay country team of its performance in implementing the Country Partnership Strategy (CPS - report #48087-PY) for the period FY09-14. The CPSCR summarizes and evaluates the support provided through the delivery of a tailored development solutions package of financial, knowledge, and convening services. The CPSCR is intended to (a) assess CPS program performance to achieve the Bank's³⁰ expected outcomes measured against the updated CPS Results Matrix; and (b) assess the Bank and IFC performance in delivering their respective programs.³¹ The CPS implementation lessons are aimed to help formulate the new engagement with Paraguay.

2. The CPS provided a framework for a flexible, knowledge-focused partnership with somewhat less innovative tailored financial solutions in three key thematic areas: (i) Governance and Anti-Corruption; (ii) Poverty; and (iii) Economic Growth with Inclusion.

3. The CPS Progress Report of April 2012 (CPSPR – report #66782-PY) reaffirmed the Bank's support to the three key original thematic areas, while introducing some adjustments to the results framework in light of shifting priorities and implementation fine-tuning. The program performance is evaluated against the adjusted framework.

4. The lending program has responded to evolving Government priorities; it supported structural areas of the Government's long term development program, as well as its response to the impact of the global economic crisis of 2009.³² More specifically, the program supported the government's economic policies and its capacity to provide basic services. The economic policy components provided support in areas such as fiscal transparency and macroeconomic policy; it also provided budget support after the global crisis. The other aspect of the Bank's program provided greater access to basic infrastructure services, such as water, sanitation, electricity, and transportation. In the timeframe of the CPS, four lending operations for a total of \$364 million were approved.³³

5. Knowledge and convening services have become an important element of the Bank's engagement with Paraguay; the Bank delivered 31 analytic and advisory activities (AAA) in the timeframe that spans this report, in areas such as governance/anticorruption, fiscal framework, service delivery, and growth/competitiveness. This effort was not unaffected by the aforementioned changes in the national administrations, which produced conflicting priorities and demands.

6. In the private sector, IFC has had a highly successful program, significantly increasing its investments in Paraguay since 2009. The program has a strong focus on financial services, but

³⁰ From this point forward, references to the "Bank" refer exclusively to IBRD.

³¹ IBRD and IFC strategies were developed separately, because IFC began operations in the country after the CPS was drafted and discussed by the Board of Executive Directors.

³² The difficult period of the global economic crisis was exacerbated by drought and outbreaks of foot/mouth disease in the cattle industry. This period also experienced strong political turmoil, leading to the impeachment of President Fernando Lugo in June 2012; this was followed by three different governments in the CPS timeframe.

³³ Unless otherwise specified, the currency used throughout this report is the U.S. dollar.

has also supported Paraguay's burgeoning agribusiness sector and made several river transportation investments. These enabled IFC to reach substantial numbers of the poor and underserved. IFC transactions with local banks have supported microfinance, small and medium-size enterprises (SMEs), and small farms through earmarked loans to increase the availability of longer-term and local currency financing to these client segments.

7. Overall, program implementation was slow for most of the CPS timeframe. In coordination with the respective governments, the Bank continually worked to improve implementation, including by providing: (a) capacity-building workshops in procurement, safeguards, and financial management; and (b) monthly project-specific procurement support. As a result of this concerted effort, implementation improved in the second half of the CPS, with the portfolio reaching a 21.8 percent disbursement ratio in FY14. However, implementation challenges remain. The combination of complex project design, lack of coordination between co-executors of different components of the projects, frequent staff turnover in some project implementation units (in particular because of the political turmoil in 2012), limited technical and safeguards capacity, complex safeguards arrangements, and inadequate resources to learn about other experiences contributed to implementation challenges.

8. Traditional politics in the Legislative Branch was an important element driving effectiveness delays. Overall, projects took an average of 8.9 months to become effective; for lending operations the average delay was 9.4 months and for trust funds the average was 8.2 months. When combined with limited local capacity to prepare and manage projects and frequent staff turnover, implementation delays were inevitable.

9. Based on an extensive analysis of the CPS outcomes during the implementation period, the program performance is rated **moderately unsatisfactory** and the Bank's performance in implementing the strategy is rated as **fair**.

II. CPS PROGRAM PERFORMANCE

A. OVERVIEW

10. Program performance evaluates the expected results by end FY-14 as presented in the CPS and updated in the CPS Progress Report of April 2012. CPS performance, particularly the pace of implementation, was a challenge throughout the period; this is reflected in the achievement of the intended objectives, which were in the most part partially achieved. Of the 42 outcomes in the results matrix, 14 were achieved, 17 partially achieved, and 11 not achieved. Furthermore, three of the four active lending operations have been rated "problem projects" for most of the CPS period under review. Thus, the World Bank's **overall program performance is rated moderately unsatisfactory**.

B. PROGRESS BY STRATEGIC ENGAGEMENT THEMES

Pillar 1. Governance and Anticorruption: Strengthening state institutions to improve policymaking, public service provision, and rule of law for investments and households

11. ***Fighting corruption and increasing transparency.*** To promote good governance and anticorruption, the Bank provided analytical and advisory activities and built in governance in lending operations. Two Development Policy Loans (DPLs) (P113457 and P117043) successfully helped to establish internal financial controls for intensified government accountability. Specifically, they contributed to the implementation of a merit-based civil service recruitment and promotion system, as well as to the establishment of internal control norms for ministerial budgeting. Through the Global Partnership Facility (GPF) Building Accountability Coalition Project (P117391), training was provided to 196 journalists, as well as capacity-building programs for various ministries creating frameworks for the transparent dissemination of information in Government agencies. In addition, specific attention was given to governance in the portfolio: the Road Maintenance Project (P082026) developed an Improve Governance Action Plan (IGAP), which has been functioning within an electronic platform (Control Board) since 2010; the uses of the Control Board and IGAP have been expanded to all activities and projects managed by the Ministry of Public Works. The Sustainable Agriculture and Rural Development Project (PRODESA) (P088799) has helped strengthen neighborhood committees in 30 micro watersheds to allow for control mechanisms for public sector investments; and the Water and Sanitation Sector Modernization Project (P095235) has its own website, as well as an action plan for a governance strategy and a framework to monitor governance indicators. Achievements include the establishment of quarterly reports on product delivery and outcome indicators within various government agencies. Through AAA, the Bank has assisted the institutional strengthening of the National Audit Office and the legislative budgeting process.³⁴

12. ***Modernization of the public administration to improve service delivery.*** The programmatic DPLs and some advisory services helped improve the functioning of the public administration across a range of institutions: ministries, the CBP, and state-owned enterprises (SOEs). At the request of the MoH, a Public Expenditure and Financial Accountability (PEFA) assessment led by the European Union (EU) was conducted jointly with IADB and the Bank until 2011. It concluded that important progress had been made in the area of internal controls and audit (in particular, a standardized internal control framework was introduced by decree and intensive capacity building to support implementation). The work on internal control and internal audit at the Central Government contributed to reform implementation at the Office of the Executive's Internal Auditor (AGPE), providing broader coverage and higher quality of the internal audit function, and expansion of a set of internal control rules within 70 percent of ministries, paving the way for the improvement achieved in various ministries. Support to the CBP included knowledge services (*FBS Payments System* P110984 and *RAS Payment Systems #2* P122533) to set up automated transfer systems for processing of payments as well as creating a legal and regulatory framework for their operation. The strategy envisioned improving civil servant recruitment and promotion practices by implementing a merit-based framework. Progress toward achieving indicators included a draft law that was presented during President Lugo's mandate. It delivered a diagnostic of the state of human capital in the MoH and provided concrete recommendations to improve its status; however, there was no enforcement mechanism for the system. A revision of intergovernmental transfers was undertaken.

13. ***Increasing the transparency of SOEs and setting a framework through which they can***

34 SFLAC Strengthening Paraguay National Audit Office (P120057) (Closing Date 30-Jun-2014), and Strengthening Congressional Legislative Process and Budget Oversight Capacity TA (P115219), respectively.

operate more efficiently was addressed through the public sector strengthening DPLs and their complementary knowledge services; as well as within the water and energy sector IPFs³⁵. The DPLs (P113457 and P117043) addressed SOE strengthening by: (a) developing a mechanism for the payment of SOEs' outstanding debt (this wasn't completed); (b) increasing the rate of timely payments (from 27 percent to 51 percent); (c) strengthening SOE internal audit systems; and (d) implementing Results-Based Management contracts. The Energy Sector Program experienced implementation delays – and the goal of reducing power outages and their adverse effects on the economy was not achieved because of implementation such delays. The Water and Sanitation Project has provided more tangible results: each W&S agency has developed its own website and various institutions are working on frameworks to provide more information (for example, financial statements) through these websites. Complementary knowledge services included PY Public Sector NLTA (P117046) and the PY Public Sector Effectiveness (P120699), which aimed to generate new pricing mechanisms to address SOE internal finances.

Pillar 2 Poverty: Improving investments in the social sectors (Health and Education) and focusing public spending on fighting extreme poverty

14. The WBG partnership under this pillar was designed to contribute to (a) employment generation and poverty reduction, (b) agrarian reform and reactivation of small-scale (household) agriculture, (c) increasing enrollment rates and the quality of secondary education, (d) increasing access to water and sewerage services for the entire population, and (e) increasing access to basic health services of good quality.

15. **Poverty reduction and employment generation.** Together with the Paraguay Public Sector Reform DPL (P113457), various poverty assessments³⁶ were conducted to analyze, through new methodologies, the determinants of poverty and to increase the impact of Government transfer programs. More specifically, the AAA focused on improving the scope and targeting of the government cash transfer program “Tekoporã”, as well as the non-contributory pensions program “Adultos Mayores.” Targeting under Tekoporã significantly improved through the introduction of a geographic targeting and door-to-door census. The number of households integrated into the program has exceeded its target (40 percent of households in extreme poverty are covered under the program) and various methods have been designed to fine-tune the programs' targeting; however, the frequency of transfers has been unstable since 2010 because of budgetary difficulties. At the same time, a chapter on Paraguay's non-contributory pension was included in the regional study Beyond Pensions in Latin America (P129699). Finally, during the last phase of the CPS, the Bank provided technical assistance (TA) to the Ministry of Justice and Labor to review and assess its National Employment Strategy, including the initial design of a Temporary Employment Program.

16. **Poverty and macroeconomics.** Preparing strategies to respond to the effects of an economic crisis that implicates employment was set as an important part of the Bank's

³⁵ Investment Project Financing (IPF)

³⁶ PY Equity Assessment and Poverty Support (P132332); PY Social Protection NLTA (P106877); NLTA Programmatic Poverty II (P123533); Paraguay HD Programmatic Activity (P146699).

engagement, for which it prepared a series of five AAA products.³⁷ The AAA activities examined the link between growth, employment, and poverty reduction; other activities analyzed these trends through the country's Mercosur trade strategy. The results show that growth and poverty reduction seem to be linked through three main phenomena: (a) high levels of initial inequality in income and assets holdings (such as land); (b) a rural growth pattern; and (c) rising food prices that affect the extremely poor. The Bank also engaged in the review of the National Employment Plan, which supported the creation of an independent Ministry of Labor, Employment and Social Security, to allow for a more rapid, focused, and efficient institution to respond to labor market issues.

17. ***Integrated agrarian reform and reactivation of small-scale agriculture.*** The preparation of a coherent reform of the agriculture sector was an important part of the actions set out by both the Government and the Bank to reduce poverty. The Bank's projects involved programs such as the aforementioned Sustainable Agriculture and Rural Development Project (PRODERS) (P088799)³⁸ to provide support to the rural poor population and to increase the number of indigenous communities with formal property titles. PRODER has been a success and additional financing was requested, which was processed by the Bank team in record time. A Country Land Assessment (P123711) was carried out to assess land use change and to evaluate the land property market. It established a strong link between access to agricultural credit and inequality, as well as limited access of the poor to leased land; it also recommended framing land reform within a broad rural development strategy and explained the risks of unsustainable grazing with respect to long-term soil erosion. In addition, the Bank supported Government efforts through facilitating a knowledge exchange about land reform experiences in LAC.

18. ***Increase enrollment rates and quality of secondary education.*** As part of a strategy to increase registration rates and the quality of secondary education, during the second half of the CPS period the Government requested Bank assistance to develop a methodology that would help identify the most important needs of the school system. To that end, the Bank delivered the "Improve Evidence-Based Decision-Making within the Ministry of Education of Paraguay" study (P129179), which found that reforms to improve access to education should focus on designing a financial structure to ensure the provision of basic infrastructure and school inputs, as well as putting in place policies to increase the quality of schooling, including explicit and transparent rules for recruiting, training, and motivating teachers. These findings were disseminated through several workshops to relevant partners.

19. ***Increase access to water and sewerage services for the entire population.*** The WBG addressed this goal through the rural and urban components of the PY Water and Sanitation Sector Modernization Project (P095235). Although the project experienced significant start-up delays, implementation is gaining momentum at the end of the CPS period and the development objective is still within reach. Under Component 1 (Support to the Modernization of the Sector), the project has so far developed and is implementing a Governance Action Plan to improve

³⁷ PY Equity Assessment and Poverty Support (P132332); PY Social Protection NLTA (P106877); NLTA Programmatic Poverty II (P123533); Paraguay HD Programmatic Activity (P146699); and PY Mercosur Trade Study (P108545).

³⁸ The project is currently ongoing and has obtained an additional financing for US\$ 100 million which is awaiting effectiveness by the Legislative Branch.

communication, participation, transparency, and accountability in the sector and is finalizing the preparation of the national water and sanitation policy and strategy. The second component focused on strengthening the Empresa de Servicios Sanitarios de Paraguay (ESSAP); this intervention has registered some progress and works are currently in progress. To date, the third component (Rural Water Supply, Sanitation and Hygiene education and Institutional Strengthening of SENASA) has provided access to safe water and sanitation services to some 17,500 people, of whom 6,200 are indigenous peoples who received access to improved sanitation services (latrines).

20. ***Increase access to basic health services of good quality.*** Through the Paraguay Health Sector Medium and Long-Term Vision study (P111929), the Bank, in partnership with the Ministry of Health and in coordination with other development agencies, prepared a policy framework to discuss measures to increase access to basic health services among the poor while simultaneously reducing their out-of-pocket expenditure on medication. The analysis was timely and of good quality and helped shape government's policy decisions, including the elimination of user fees. However, its impact was limited because of low demand from the client during the changes in government.

Pillar 3. Economic Growth with Inclusion: Fostering growth with a focus on employment generation and on improving income distribution, without destabilizing the country's macroeconomic framework, and in an environmentally friendly manner

21. Under pillar 3 the Bank's partnership focused on designing ways to: (a) appropriately respond to the global financial crisis, while safeguarding macroeconomic and financial stability; (b) moving toward a more sustainable pattern of growth, based on greater diversification of products and external markets; (c) supporting investments in infrastructure and human capital, as well as improving the investment and business climate; (d) finding new sources of growth and improving the economy's overall competitiveness; and (e) safeguarding the environment.

22. ***Responding to the global financial crisis and safeguarding financial stability.*** The Bank's engagement, articulated through a Public Sector Reform DPL (P113457) and complementary knowledge services, concentrated on building the institutions and conditions through which the country could absorb possible future shocks. These initiatives have helped improve the tax/GDP ratio,³⁹ fostered adoption of an anti-crisis counter-cyclical stabilization fund, and introduced a more effective tax policy aimed at large taxpayers. The complementary technical assistance completed various crisis simulation exercises, which helped to test government tools and procedures to manage financial distress and possible systematic crisis. IFC served its counter-cyclical role during the financial crisis, creating an Asset Management Company (AMC) to mobilize third-party and IFC contributions to capitalize banks worldwide. In 2009, AMC provided the first of such funds in Paraguay by investing during the crisis much-needed equity (\$20 million) in Banco Continental (Paraguay's second largest bank).

22. ***Financial inclusion*** has been an area of WBG support, and the build-up of IFC's investment portfolio with the country's main financial institutions is bearing fruit. As of end-2012, IFC's financial markets clients had approximately 20,000 SME loans outstanding for \$1.6

³⁹ The tax/GDP ratio reached 11.5 percent in 2013, against a target of 13.0 percent.

billion, making 2012 the third straight year during which Paraguay's average SME loan size ranked in the top two among LAC lower-middle-income economies. In addition, IFC clients supported 30,226 microenterprise loans outstanding for approximately \$36 million (~\$1,200/loan average). Overall, these investments have reached close to 33,000 farmers and have generated about \$3 million in tax revenue for the GoP. In addition, IBRD has delivered on knowledge services to analyze the possibility of developing a mobile phone-based payment system for the rural poor (P144971).

23. **Public spending targeting.** The internal financial control components within both DPLs focused on taking advantage of fiscal headway and utilizing it for targeted social spending. Economic and sector work (ESW) initiatives such as the PY Public Expenditure Review (P127351) identified the limitations of fiscal policy and the tax system on inclusive economic growth; it also presented policy options, but its impact was limited because of the change in government. Nonetheless, following this Bank support, the share of social programs in the overall budget expenditures increased during the crisis, while coverage of social protection programs increased more than six-fold; thus there was a partial achievement of the indicators for investment to GDP ratio (3 percent in 2013, against a target of 3.5 percent).

24. **Infrastructure investment and diversification.** To diversify and provide an improved business climate, the CPS focused on investment and maintenance of infrastructure for the national energy system and the road network. The Paraguay Energy Sector Strengthening Project (P114971) focuses on modernizing the energy agency (ANDE) and installing an advanced metering system for high energy consuming customers, with the objective of improving service quality by reducing power outages. The project experienced implementation delays but began to advance in February 2014 after the mid-term review. The construction and maintenance of road infrastructure was addressed through the Road Maintenance Project (P082026), which helped pave 1,210 km of roads and introduced performance-based contracting for road maintenance through the "Gestión y Mantenimiento de Carreteras por Niveles de Servicios" (GMANS) system. Regarding the complementary knowledge services, the PY Transport Sector Assessment (P106825) has provided a detailed diagnosis of road infrastructure quality and the Transport Sector Assessment TA (P106825) provided an analysis of the country's aerial, water, and terrestrial transport systems and government expenditures on these items. Improvements in river navigation were approached through technical assistance through the Support for the Design of River Navigation Concessions-Phase II (P122325), which evaluated the likely benefits of investing in river navigation; and the PY Infrastructure and Logistic (P129630) created an expert workshop to analyze the required infrastructure logistics to dredge the Paraguay River. Although there has been substantial progress in both investment operations and various knowledge services were delivered, the expected outcomes were not achieved due to the initial delays. IFC has had a strong engagement in the sector, providing financing to increase the availability and efficiency of barges in the hidrovía; IFC's support to barge transport operators in the hidrovía covers about 30 percent of the country's transport of soy production and 40 percent of fuel transport.

25. **Growth and competitiveness.** The Bank delivered a number of knowledge products, such as the Inclusive Competitiveness Study - Phase 1 (P126568), the Implications of Trade Liberalization (P119925) and the 2013 Public Sector Effectiveness study (P120699). The Inclusive Competitiveness Study found great potential in public-private partnerships (PPPs) and

contributed to the adoption of the PPP law. The trade liberalization study examined the literature on what represents a perfect customs union and presented a set of recommendations on how to use tariff revenue between countries, following the example of the EU and the Southern African Customs Union. IFC has also supported the increase in trade transactions through its global guarantee program. IFC's trade finance program with five Paraguayan banking institutions worth \$110 million has guaranteed over \$450 million in trade flows, primarily related to fertilizers, agri-machinery, agri-commodities, leather, and meat; this effort introduced Paraguayan local banks to global IFC client banks with which they had no previous relationship. IFC guarantees provided comfort to these global banks to undertake and increase transactions against a background of political risk in Paraguay. In 2013, IFC provided seed capital in a project to explore for oil and gas in the Chaco region, the success of which would be a game-changer for the country, potentially allowing the country to achieve fuel self-sufficiency. In 2012, IFC used trust funds to support the PPP program to analyze the potential concession of the country's main airport in Paraguay. In 2010, IFC also used Public-Private Infrastructure Advisory Facility (PPIAF) funds to diagnose the financial situation of the Municipality of Asunción and provided recommendations to improve financial management.

26. ***Safeguarding the environment.*** As part of the search for new paths toward growth and poverty reduction, the CPS focused on natural resources management in rural areas. This involved work on reducing unsustainable forest management practices and strengthening the institutions in charge of environmental management through the GEF-financed Project Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest of Eastern Paraguay (P094335). This project got off to a slow start because of overly complicated institutional arrangements coupled with frequent staff turnover in the project implementation unit (PIU).

III. WBG PERFORMANCE

27. **The Bank's performance is rated as fair albeit noting IFC's successful and sizable program expansion.** Although the Bank's engagement was aligned with the country's development objectives and correctly addressed some of the portfolio's fiduciary issues, it lost the opportunity to address the numerous issues that were identified during the time of the CPS Progress Report. The Bank team should have followed up on various activities more closely (for example, when restructuring operations); it also should have increased its presence in the country office in order to resolve the basic implementation and administrative issues that arose during the CPS. Knowing that effectiveness delays were a problem in the country, it should have engaged the Legislative Branch in a dialogue on the important development outcomes of new investment.

Design and Relevance

28. The CPS was relevant for the country and was aligned to the development goals and the Government's agenda and priorities. The CPS was envisaged to be flexible and responsive to Government requests. However, the political changes and turnover of officials made it difficult for the Bank to carry on the dialogue in the context of shifting priorities and demands by the different governments.

29. The CPS was designed to provide a total of \$364 million in new operations; it originally envisioned seven lending operations (three DPLs and four investment loans in land access, education, safety nets operation, and electricity). The original CPS period, 2009-mid-2013 was extended until December 31, 2013 to align the next strategy with the new Government's term. Although this strategy was not developed jointly with IFC (as previously explained), since 2009 it has incorporated a vast array of new IFC operations, which were reflected in the Progress Report and are included in the Results Framework (see Annex 1).

A. Program Implementation and Portfolio Performance

30. The portfolio experienced a series of challenges that ultimately shaped its performance (see Table 2). The challenges that defined its pace of implementation and disbursements were: (a) complex project designs; (b) delays in effectiveness; (c) the complex government annual budget cycle; (d) limited technical, fiduciary, and safeguards capacity; (e) lack of coordination among co-executors of different components of projects; (f) frequent staff turnover in some project implementation units, consequent upon political changes; (g) a limited use of South-South experiences; and (h) limited resources for supervising investment projects. These ultimately contributed to the performance rating of **Moderately Unsatisfactory**.

31. The Paraguay portfolio was adversely affected by political turmoil during the impeachment of President Fernando Lugo in 2012, which resulted in three presidential regimes during the CPS period: Mr. Fernando Lugo, followed by Mr. Federico Franco, who was succeeded by Mr. Horacio Cartes in August 2013. The Bank conducted an ongoing assessment of the situation and during this period implementation of the portfolio proceeded normally. However, it faced the challenge of working with a new administration (and in some cases with new PIU staff), which ultimately led to significant implementation delays. No new lending and technical assistance were approved during this period (June 2012–April 2013). The selected instruments were two DPLs focused on public sector reforms, each for \$100 million⁴⁰, and two investment loans, one to modernize the country's energy sector (\$100 million) and the other to modernize its water/sanitation sector (\$64 million).

32. The active portfolio carries ongoing projects from previous strategies. The PY Road Maintenance Project (P082026) disbursed 65.04 percent of its funds and the Sustainable Agriculture and Rural Development Project (P088799) disbursed 70.28 percent.⁴¹ The active portfolio's disbursement rate has shown improvements from the first quarter of FY14; the rate is currently 21.8 percent for FY14,⁴² which shows an improvement in disbursement indicators for the entire portfolio when compared to previous years (not including DPL disbursements).

33. Given its focus on the private sector as its inherent preferred creditor status, IFC's operations continued to grow during the political turmoil. This provided confidence in the private sector, strengthening IFC's status as a financier of preference. IFC has the largest disbursed and

⁴⁰ The CPS envisioned three DPLs, the final two were merged into a single \$100 million public sector strengthening project versus two \$50 million projects to take advantage of the Legislative Branch approval windows.

⁴¹ As of June 11, 2014.

⁴² As of June 30, 2014.

outstanding portfolio among all multilateral institutions in Paraguay, at \$260 million. IFC has booked 32 new operations since 2009.

Table 1. Portfolio Performance during CPS FY09-14

Fiscal year	2009	2010	2011	2012	2013	2014
# Projects	6	3	4	5	4	4
Net Commitment Amount	317.5	175.5	275.5	375.5	275.5	375.5
# Problem Projects	3	0	3	3	3	2
% Potential	16.7	66.7	0.0	40.0	25.0	50.0
# Projects at Risk	4	2	3	5	4	4
% Commitment at Risk	48.3	57.8	63.7	100.0	100.0	100.0
% Problem Projects	50	0	75	60	75	50
% Proactivity		100		33	0	33
Tot Undisbursed Balance	183	170.5	258.3	236.9	216.4	269.1
Tot Disbursed in FY (No DPLs)	5.82	2.23	12.205	21.48	20.46	47.2
Disbursement Ratio	4.67%	1.22%	7.16%	8.32%	8.64%	21.81%

34. Knowledge services were focused on strategic sector reforms linked to poverty reduction, inclusion, and governance. The Bank's engagement delivered 31 products: 13 ESW and 18 TA; these were focused on various themes, with public sector governance the leading one, followed by financial and private sector strengthening, and economic policy. However, even with the Bank's efforts to disseminate these works, AAA delivery encountered challenges within the CPS period. The main issue was the shifting political landscape, resulting in changing counterparts within Government agencies and their priorities.

35. Paraguay lags well behind its regional counterparts on the amount of South-South knowledge exchanges that it has completed. Only eight South-South knowledge exchanges were prepared in the time frame of strategy.

36. Aiming at presenting issues and options for the in-coming government, the Bank prepared and presented a set of Policy Notes in September 2013. The Notes were prepared for sectors in which there were successful past engagements and where the Bank has a comparative advantage.

37. Trust funds have been used selectively in the Bank program to support key institutional reforms and project implementation. Of the 19 (\$7.6million) trust funds approved during the CPS period, 11 were administered by the WBG, the rest by the recipient. These supported activities related to strengthening national budgetary oversight, public sector reform and governance, indigenous land regulation, natural resources management (GEF), and the national statistics office. Trust fund performance was poor; the underlying causes were the same as those encountered for lending operations. Effectiveness delays were also common, as a consequence of the need for the Legislative Branch approval for recipient-executed trust funds.

B. Management of Risks

38. Political risks identified at the beginning of the partnership had a strong effect on the effectiveness of the Bank's engagement. The Bank's strategies to ameliorate these risks consisted of: (a) support to the MoH to improve its communication strategy for building consensus and obtaining approval in the Legislative Branch; and (b) AAA to support ministries to better inform stakeholders of their investment programs and the results and impact of the reforms.

39. Macroeconomic volatility had a strong effect on overall partnership effectiveness. Paraguay is exposed to fluctuations in international demand and prices for commodities through its strong dependence on agriculture exports. Within the CPS period, the country experienced an unstable environment for its agriculture exports: first a strong deterioration of world demand, which gave way to a -4 percent growth rate in 2009, followed by an 13.1 percent growth rate in 2010, and finally sluggish growth toward the end of the CPS period (the average growth rate during the CPS timeframe was 4.49 percent). As an amelioration strategy, the Bank produced and delivered the PY Volatility Analysis (P143809), which presented a set of policy options to mitigate the impact of volatility on the poor and to improve the country's resilience to macroeconomic shocks.

40. Limited institutional capacity has caused delays in the Bank portfolio. Progress in the Bank program was affected by weak human resource capacity in the public sector, as well as limited inter-institutional cooperation. The Bank and the Government monitored the program through annual Country Performance Portfolio Reviews (CPPRs) and action plans to address the problems identified, but overall problems still remain, even though there has been a significant improvement in disbursements since the second quarter of FY14.

41. Social tensions regarding land tenure escalated; social risks were assessed as high. The CPS identified the pressures from social demands as a risk to deliver quickly on its program. The political transition generated high expectations, particularly among the rural poor and indigenous peoples, for urgent social needs and land tenure reform, which were not met due to political bottlenecks and a lack of consensus on an agenda. The Bank assisted in the mitigation of this risk by aiming to improve social safety net targeting and land use targeting.

42. The fiduciary risk was high in the CPS period. The Government made strong efforts to address weaknesses in its control system identified in the CPS; despite these efforts, the lack of accountability, inadequate human resources policies, and cumbersome procedures and work practices impeded the effectiveness of the strategy. The Bank will continue providing close supervision to the program and related technical assistance in future engagements.

43. Environmental and social risks have materialized in some projects. Implementation of infrastructure projects has raised some concerns at the community level or with indigenous people. The Government made efforts to address them. However, the lack of capacity combined with the complex design of safeguards instruments have led to implementation delays. The Bank has provided technical assistance and has deployed expert personnel to address specific issues with a more intensive supervision scheme.

IV. LESSONS LEARNED AND RECOMMENDATIONS

44. Given the experience of the implementation of this CPS, it is recommended:

- (a) To pay closer attention to the preparation stage of projects and to allocate additional resources to this phase of the cycle.
 - i. This could include the support to technical preparation of social and environmental management, where the existing instruments have shown to be complex and sometimes cumbersome to the existing capacity in the country.
 - ii. Projects should be designed assuming long effectiveness delays. The project's life span should be expanded taking into account an 18-24 month delay in effectiveness. During this period, teams should advance on the preparation of procurement documents in order to quickly advance when legally able.
- (b) Following the experience that led to an increase in the overall FY14 disbursement ratio to 21 percent, it is recommended that disbursement profiles be designed to start disbursements at a later stage of the project.
- (c) To strengthen the management capacity of the implementation teams in Paraguay in order to improve the execution and disbursement of the portfolio, through increased BB resources for supervising projects and enhanced efforts of supervision (e.g., monthly CMU-TTLs meetings to follow upon portfolio performance).
- (d) To maintain the capacity-building efforts such as the ones initiated during the second part of the CPS period, concentrating on fiduciary and safeguards topics. To continue the monthly capacity-building activities with PIUs and all relevant technical staff based on their demand and with workshops for all PIUs as needed. To continue capacity-building efforts aimed at strengthening country systems to be able to support WBG investment lending operations in the future CPS.
- (e) To promote the use of simple designs, avoiding schemes with several executors and unnecessary project complexities; this should help reduce coordination demands.
- (f) To develop a broader dialogue with The Legislative Branch in order to address project approval (such as the case of PRODERS); and the preparation of the new strategy.
- (g) To establish a smooth channel of communication with the main IBRD counterparts, the MoH and the STP.
- (h) To jointly prepare the next CPS in coordination with IFC.
- (i) To explore the use of different WBG instruments and services (DPLs, IPFs, TFs, Reimbursable Advisory Services, TA, ESW) and their complementarity in key areas on which the Bank and the Government agree. It is also recommended to increase the association between knowledge and lending services.
- (j) To increase the amount of South-South knowledge exchanges.
- (k) To involve the national indigenous peoples institutions as part of project governance or advisory structures in order to win their support when dealing with eventual claims or conflicts.
- (l) To simplify the CPS and Results Matrix design. Given the envelope and the size of the portfolio, it would be good to include up to 10 outcomes. It is also important to

present relevant and measurable indicators for all outcomes in order to correctly reflect the portfolio performance.

45. In order to prevent knowledge services from failing to influence decision making and policy design, the Bank must monitor AAA more closely. Within the next CPS the WBG must pursue a joint analytical and advisory program given the big demand for such services, which should be complemented by RASs and just-in-time policy notes on specific topics following the pattern adopted by many MICs.

46. The Bank can strengthen its collaboration with groups outside of the Government. As the World Bank Paraguay Country Survey FY13 shows, while perceptions of the way the Bank collaborates with the Government are relatively positive, there is room to improve the Bank's relationships with NGOs and groups outside the Government.

CPSCR Annex A. CPS Results Framework

CPS Outcomes	CPS Outcome Indicator ⁴³	Status and Evaluation Summary	Bank Group Program	Lessons Learned
I. Governance and Anticorruption: Strengthening state institutions to improve policy-making, public service provision, and rule of law for investments and households				
<i>Fighting corruption and increasing transparency-</i>				
Improving the independent role of the media as a “watchdog” of the powerful, generating a more plural communications environment.		<p>Achieved</p> <p>196 journalists trained on investigative journalism and using the acquired new skills.</p> <p>Feasibility study "System of public media" including options for regulatory provisions delivered and international seminar on Public Media (October 2011).</p> <p>Capacity-building program for Secretary of Communications and pilot with MoH in place.</p> <p>Supported the preparation of a study to compare international models of television stations and provided a possible institutional design for Paraguay that was used as a basis for drafting the decree that created the public television station in Paraguay.</p> <p>Supported Transparency week in 2011, which included seminars in Paraguay with regional experts to promote Access to Public Information legislation.</p>	<p>Knowledge Services</p> <p>GPF Building an Accountability Coalition to address systemic corruption in Paraguay (P117391) (Final Delivery/Completion Summary: 30-Aug-13) TF095023</p>	
Assisting the Government in improving the effectiveness and articulation of accountability institutions to fight corruption.		<p>Achieved</p> <p>Through the Strengthening Paraguay National Audit Office Project, the credibility and effectiveness of the institution have been enhanced, achieving these outcomes:</p> <ul style="list-style-type: none"> • The “Contraloría General de la República (CGR) capacity assessment report including an action plan was delivered (May 2012). • The Quality Assurance Review Scheme has been completed. • 30% of technical staff acquire modern auditing techniques 	<p>Financial Services</p> <p>SFLAC Strengthening Paraguay National Audit Office (P120057) (Closing Date: 30-Jun-14)</p> <p>Paraguay Strengthening Congressional Legislative Process and Budget Oversight Capacity (P115219) (Closing Date: 11-Jun-13) IP: MS, DO: MS⁴⁴</p> <p>Road Maintenance Project (P082026) (Closing Date: 28-Feb-14) IP: MS, DO:</p>	<p>One of the main lessons learned was the need for political support for proposed reforms. The success of the SOE reform was mainly based on the extraordinary Government commitment to reform this area.</p>

⁴³ The reformed CPS PR’s Results Matrix did not provide a quantitative indicator for all outcomes, when these issues arise the analysis will be approached through qualitative research methods.

⁴⁴ When projects are active or have not delivered their ICR/ICM the results matrix will not provide IP and DO ratings.

CPSCR Annex A. CPS Results Framework

CPS Outcomes	CPS Outcome Indicator ⁴³	Status and Evaluation Summary	Bank Group Program	Lessons Learned
		<p>and are able to carry out high quality audit.</p> <ul style="list-style-type: none"> 7% increase in the number of hits on the CGR website. ToRs for communication strategy is under preparation. Two annual Grant audit reports in preparation. <p>By improving The Legislative Branch' capacity to oversee, formulate, and disseminate legislation, the Strengthening the Legislative Branch Process and Budget Oversight Capacity Project contributed to improving the quality and efficiency of public expenditures through these outcomes:</p> <ul style="list-style-type: none"> A Dashboard was implemented to monitor certain segments of the budget. A contract was issued for the new payroll system and asset management system and is now in implementation in both the Legislative Branch. <p>Road Maintenance Project includes an Improvement of Governance Action Plan (IGAP). The strategy is under implementation and publication in MOPC's website (April 2013). The uses of the Control Board and the IGAP have been expanded to all activities and projects of the MOPC.</p> <p>The PY Water and Sanitation Modernization Project foresees a Good Governance Strategy for the different service utilities. The strategy aimed at supporting both the supply (corporate and other sector agencies) and demand (civil society, including private sector) sides of governance.</p> <ul style="list-style-type: none"> Each W&S sector institution has developed a website. Signature of citizen commitment charts setting key planning coverage, environmental and social safeguards management, and governing relations between citizens and municipalities and ESSAP and SENASA. Water and Sewerage Services Unit was created within the MOPC (DAPSAN), defining the policies for the sector. ESSAP is working on settling issues related to assets which will enable the publication of its financial statements on the website. Draft TORs and EOI being finalized related to SIAPS developed and generating reports. 	<p>MS</p> <p>Water and Sanitation Modernization Project (P095235) (Closing Date: 31-Mar-15) IP: MU, DO: MU</p> <p>Sustainable Rural Development Project (P088799) (Closing Date: 28-Dec-13) IP: MS, DO: S</p> <p>Paraguay Energy Sector Strengthening Project (P114971) (Closing Date: 31-Dec-15) IP: MU; DO: MU</p> <p>Paraguay Public Sector Reform (P113457) (Closing Date: 01-Mar-11).</p> <p>Public Sector Reform Development Policy Loan (P117043) (Closing Date: 31-Dec-13) IP: S, DO: S</p> <p>Knowledge Services</p> <p>StAR - Paraguay TA (P116759) (Completion Date: 28-Jun-12)</p> <p>PY Public Sector Effectiveness (P120699) (Completion Date: 26-Dec-12)</p>	

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		<ul style="list-style-type: none"> • Draft TORs developed for the Information Management System in order to generate reports for managerial decisions. • The project's procurement plan has been published in the "Sistema de Ejecución de Planes de Adquisiciones" (SEPA). <p>The PRODERS Project has helped strengthen neighborhood committees in 30 micro watersheds in the State of San Pedro and Caaguazu, allowing for social control mechanisms for public sector investments. The Procurement and Disbursement Plans prepared and submitted in a systematic manner throughout the life of the project.</p> <p>The Energy Sector Strengthening Project has reviewed draft ToRs for the development of the institutional assessment of the electricity sector.</p> <p>Paraguay Public Sector Reform: Annual publication of available audited financial statements for the fiscal exercise of 2008 and the audit of 2009 financial statements were carried out.</p> <p>Public Sector Reform Development Policy Loan:</p> <ul style="list-style-type: none"> • Seven SOEs have management contracts establishing targets that are monitored on a regular basis by UMEP. These companies are ANDE, ANNP, COPACO, ESSAP, INC, PETROPAR and DINAC. <p>As part of the PY stAR (P116759): The asset recovery specialized unit (SU) has yet to commence operation and as a result there has been no appropriate counterpart and no significant activity has been undertaken.</p> <p>As for the SOE component, the law institutionalizing the Consejo Nacional de Empresas Publicas was approved by the Legislative Branch in September 2013. This law assures a sustainability of the reforms undertaken during the past five years and will further initiate advances through its implementation.</p>		
Modernization of the Public Administration to improve service delivery				
Increase effectiveness of internal control and internal audit function.	PEFA Indicators for Internal Control and Internal Audit (PI-20 and PI-21) have been	Partially Achieved Five of 11 ministries, representing 70% of the overall budget, have established internal control norms and committees and are	Financial Services Paraguay Public Sector Reform (P113457) (Closing Date: 01-Mar-11)	

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	<p>upgraded.</p> <p>Baseline: D+ (IFA 2008) Target: C (2013)</p>	<p>using a standardized internal control framework; consequently, the PEFA Rating for internal control and external audit (PI-20 and PI-21) has increased from D+ in 2008 to C in 2010. The Government has issued two decrees to upgrade the Office of the Executive's Internal Auditor (AGPE) to ministerial level, accompanied by a significant increase in its budget and intensive staff training.</p> <p>Paraguay Public Sector Reform</p> <p>Annual publication of available audited financial statements for the fiscal exercise of 2008 and the audit of 2009 financial statements were carried out.</p> <p>Public Sector Reform Development Policy Loan:</p> <ul style="list-style-type: none"> • All audit reports for 2011 of SOE Oversight have been published on the UMEP website. In an effort to increase the quality of audits, audit companies for five SOEs have been selected by UMEP for this year. • Audited financial statements reports for seven of nine SOEs were published before June 30, 2012 (on time). ANNP audit report was published on July 17, 2012 and FEPASA (railroad) is not operational, so no audit report was prepared. <ul style="list-style-type: none"> • Seven SOEs have management contracts establishing targets that are monitored on a regular basis by UMEP. These companies are ANDE, ANNP, COPACO, ESSAP, INC, PETROPAR, and DINAC. <p>Through the Strengthening Paraguay National Audit Office Project, the credibility and effectiveness of the institution has been enhanced, achieving these outcomes:</p> <ul style="list-style-type: none"> • Contraloría General de la Republica capacity assessment report including an action plan was delivered (May 2012). • The Quality Assurance Review Scheme has been completed. • 30% of technical staff acquire modern auditing techniques and are able to carry out high-quality audit. • 7% increase in the number of hits on the CGR website. ToRs for communication strategy is under preparation. <p>The Strengthening Congressional Legislative Process and Budget Oversight Capacity Project contributed to improve the quality and efficiency of public expenditures through these</p>	<p>Public Sector Reform Development Policy Loan (P117043) (Closing Date: 31-Dec-13) IP: S, DO: S</p> <p>SFLAC Strengthening Paraguay National Audit Office (P120057) (Closing Date: 30-Jun-14) IP: - DO: -</p> <p>Paraguay Strengthening Congressional Legislative Process and Budget Oversight Capacity (P115219) (Closing Date: 11-Jun-13) IP: MS, DO: MS</p> <p>Knowledge Services</p> <p>PEFA (Dec 2011)</p>	

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		<p>outcomes:</p> <ul style="list-style-type: none"> A Dashboard was implemented to monitor segments of the budget. A contract was issued for the new payroll system and asset management system and is now in implementation in the Legislative Branch. 		
The clearing and settlement of the CBP's payment system has been modernized and Government payments are made through an automated transfer system.		<p>Achieved A new Automated Transfer System has been implemented with Bank assistance. The legal and regulatory framework for operating the system has been created and operational rules have been communicated to private sector banks.</p>	<p>Knowledge Services PY - RAS Payment Systems #2 (P122533) (Completion Date: 23-Jun-13) Paraguay (FBS) Payment System (P110984)</p>	
Personnel recruitment and promotions are based on merit and professional skills.	Public sector institutions following competitive recruiting and promoting practices and reporting to the Civil Service Secretariat (SFP). Baseline: 0, only some consultants (2007) Target: 40% of public sector institutions (2013)	<p>Partially Achieved The civil service law was drafted and presented to President Lugo in 2012. The TA activity provided a diagnostic of the state of human capital in the MoH and concrete recommendations. A study to present a roadmap to strengthen public sector salary and classification was presented but classified as confidential; it was used to inform internal policy dialogue with the executive. Since August 2008, over 13,000 promotions and recruitments have been decided through competitive processes following the Secretariat of Public Services (SFP) guidelines and methodology. These letters, however, remain voluntary as there is no enforcement mechanism in place.</p>	<p>Financial Services Public Sector Reform Development Policy Loan (P117043) (Closing Date: 31-Dec-13) IP: S, DO: S Paraguay Public Sector Reform (P113457) (Closing Date : 01-Mar-11) Knowledge Services Paraguay Enhancing Public Sector Effectiveness - SFLAC (P120699) (Final Delivery/Completion Summary: 26-Dec-12)</p>	<p>Exchange of international experience and dialogue among practitioners seems to be a good vehicle for reform initiatives. Politically sensitive reform areas (such as civil service reform) require time and political support. Technical assistance and dissemination significantly supported the dialogue with the country on reform issues and contributed significantly to Bank engagement in the country. A strong knowledge background was essential for the choice of policy actions, simultaneously combining relevance and political feasibility. More specifically, the team's expertise in the specificities and challenges of the country was essential for a proper assessment of the support for reforms across constituencies and the gauging of political risk. (ICR for PS DPL P117043)</p>
	Public sector institutions supervised by the Civil Service Secretariat (SFP). Baseline: 40% of institutions (2008) Target: 80% (2013)	<p>Not Achieved 30% of public sector institutions are supervised by the SFP.</p>		
	- Number of civil servants earning below minimum wage. Baseline: 28,000 (2008) Target: 0 (2013)	<p>Partially Achieved Number of civil servants earning below minimum wage was reduced to less than a third, from 28,000 in 2008 to 9,000 in 2010.</p>		

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SOEs finances and operations are transparent and subject to greater scrutiny by Government and civil society.		<p>Partially Achieved The Inter-ministerial Council of SOEs (CEP) and the SOEs Monitoring Unit (UMEP) were established soon after the presidential elections of 2013. The ability to combine CEP's fast inter-institutional decision-making capacity with the professional and technical monitoring of UMEP created a responsive, technically-sound SOE supervisory body. The Board of CEP meets regularly, and its agenda is jointly prepared by CEP's executive secretary and UMEP.</p> <p>Public Sector Reform Development Policy Loan By June 2010, all SOEs had already signed their respective external audit contracts with independent audit firms according to procedures established by UMEP and the National Public Procurement Law. Eight SOEs have concluded and published their reports.</p> <p>The Energy Sector Strengthening Project has reviewed draft ToRs for the development of the institutional assessment of the electricity sector.</p> <p>To support the SOE monitoring the AAA activity provided: training in supervision of SOEs with the Government of Uruguay; Regional Workshop on Supervision of SOEs in Latin America; International Seminar on Corporate Governance of SOEs; Comparative Study on the Management of SOEs in Latin America and the experience in Paraguay; an analysis of the Paraguayan oil industry and its national oil company PETROPAR.</p>	<p>Financial Services Public Sector Reform Development Policy Loan (P117043) (Closing Date: 31-Dec-13) IP: S; DO: S Paraguay Energy Sector Strengthening Project (P114971) (Closing Date: 31-Dec-15) IP: MU, DO: MU Water and Sanitation Modernization Project (P095235) (Closing Date 31-Mar-2015) IP: MU; DO: MU</p> <p>Knowledge Services Paraguay Enhancing Public Sector Effectiveness - SFLAC (P120699) (Final Delivery: 26-Dec-12) PY Public Sector NLTA (P117046) (Completion Summary: 30-Jun-10)</p>	
Modernization of the Public Administration to improve service delivery				
Increased quality of basic service delivery by SOEs (The present outcome was added due to a lack of outcome in the CPSPR's reformed matrix)	Rate of timely payments reaches 60% for basic services provided to the state by SOEs (electricity, water, and telecommunication. (Baseline 2008: 27%).	<p>Partially Achieved The MoH establishes clear rules with respect to transfers and payments between SOEs and the Central Administration. In 2010, CEP-designated members from of an inter-institutional technical commission (CTI) calculated accrued debits and credits maintained between the SOEs and Central Administration. Rate of timely payments of SOE-provided services jumped from 27% in 2008 to 51% in mid-2010.</p>	<p>Financial Services Public Sector Reform Development Policy Loan (P117043) (Closing Date: 31-Dec-13) IP: S, DO: S Paraguay Energy Sector Strengthening Project (P114971) (Closing Date: 31-Dec-15) IP: MU, DO: MU Water and Sanitation Modernization Project (P095235) (Closing Date: 31-Mar-15) IP: MU, DO: MU</p>	

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	Coverage of ESSAP water access as measured by the percentage of households in urban areas with access to water has increased to 89.2% (baseline 2010: 79.4%).	Not Achieved ESSAP and ANDE are receiving enhanced support from Bank Procurement Specialist and consultant on technical issues and utility transformation to prepare bidding documents. Same kind of intensive support is required for Financial Management. They also receive appropriate fiduciary management of public investments. In both cases, contract implementation is underway after strong delays. Under component 3 of the project, the engagement has enabled access to safe water and sanitation services to around 17,500 people, of whom 6,200 are indigenous peoples who received access to sanitation services.		
	Number of hours of power outage as measured by hours/year per user has declined to 11 hours (Baseline 2010: 36.3 hours/year).	Not Achieved There is no up-to-date information on this indicator. The physical works that will bring results have not yet started.		
II. Poverty: Improving investments in the social sectors (health and education) and focusing public spending on fighting extreme poverty				
<i>Employment Generation and Fighting Poverty (especially in light of the effects of the global financial crisis on Paraguay)</i>				
Focus the limited country capacity and financial resources on programs	Increase the number of beneficiaries (households) for the conditional cash transfer program—Tekoporã and PRO-PAIS II. Baseline: 13,679 (2008) Target: 83,100 (2013)	Achieved Target surpassed as programs benefitted 98,000 households living in extreme poverty (Tekoporã: 83,000 and PRO-PAIS II: 15,000). Between 2007 and 2010, poverty rates declined to 19.4% (extreme) and 34.7% (overall), but high growth in 2010 left extreme poverty rates practically unchanged for that year.	Financial Services Paraguay Public Sector Reform DPL (P113457) (Closing Date: 01-Mar-11) Knowledge Services PY Equity Assessment and Poverty Support AAA (P132332) (Final Delivery/Completion Summary: 15-May-14) PY Social Protection NLTA (P106877) (Final Delivery: 20-Dec-10) NLTA Programmatic Poverty II (P123533) (Final Delivery/Completion Summary: 10-Mar-13) Paraguay HD Programmatic Activity (P146699) (Final Delivery/Prog. Completion Summary: 12-Jun-15)	
	Improve targeting of social expenditures on cash transfer programs.	Partially Achieved Targeting conditional cash transfers significantly improved as beneficiaries for the Tekoporã program were identified by a two-fold approach of geographic targeting and a door-to-door census. The Bank is supporting the Government in updating the targeting instrument. The TA for the Tekoporã program is still underway. The Bank helped design a targeting instrument for the Adultos Mayores program. Due to the change in government the new targeting instrument was never implemented.		
Retool institutional capacity to address other important poverty concerns, particularly those arising from the crisis, via decentralized mechanisms, such as community-driven projects.		Partially Achieved A poverty assessment (NLTA) was conducted to analyze the impact of rising inequality and food prices on national poverty	Knowledge Services NLTA Programmatic Poverty II (P123533) (Final Delivery/Completion	(i) Key to have full Government ownership of the process and strong relationships with counterparts. Successful outcomes, and the

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		<p>rates. It also presented the new poverty methodology, analyzed the determinants of poverty, analyzed trends in the urban labor market, and analyzed the possible poverty impacts of a (simulated) expansion in monetary transfer programs (both CCTs and the new non-contributory pension law).</p> <p>The Equity Assessment in Paraguay aimed to contribute to an understanding of the patterns behind the weak linkages between poverty reduction and economic growth, and thus the limited capacity of the economy to create a strong middle class, under the hypothesis that equity-enhancing policies should be conceptualized within a broader discussion regarding the pattern of growth.</p>	<p>Summary: 10-Mar-13)</p> <p>PY Social Protection NLTA (P106877) (Final Delivery: 20-Dec-10)</p> <p>PY Equity Assessment and Poverty Support AAA (P132332) (Final Delivery/Completion Summary: 15-May-14)</p>	<p>possibility to build on them, require that counterparts be fully involved and trained in the process -- as is the case in the revision of the poverty methodology. This slows the process down, but assures quality, full Government ownership, and strengthened capacity throughout the institution. Strong and fluid communication also ensures continuous engagement.</p> <p>(ii) The importance of a phased strategy that builds continually on previous successes. Programmatic work is important, especially in the slow but key issues of building capacity in government institutions, such as National Statistical Office.</p> <p>(iii) Client engagement is crucial but can be complicated as counterparts can change quickly. The impeachment of Paraguay's president did not affect the National Statistical Office (maintaining the work on the poverty methodology); however it did change counterparts in the Hacienda Ministry and the STP. This leads to delays and more costs to rebuild relationships and work programs.</p>
Develop active labor market policies to prepare the country, and especially vulnerable groups, to respond to the effects of an economic crisis that may harm employment.		<p>Achieved</p> <p>The Bank helped the Ministry of Justice and Labor with (i) the design of the Temporary Employment Program "Nambapoo Paraguay," which, however, never went beyond the pilot phase; and (ii) the review of the National Employment Strategy. The program has been designed and is ready to be implemented.</p>	<p>Knowledge Services</p> <p>Social Protection Policy Dialogue IO</p>	
<i>Integrated Agrarian Reform, and reactivation of small-scale (household) agriculture</i>				
Increase national agricultural data quality in order to refine government interventions.	Land use change detection completed for major hot spots.	<p>Achieved</p> <p>For those areas where major deforestation or urbanization was suspected to have taken place various assessments were conducted to determine their current state.</p>	<p>Financial Services</p> <p>PY PRODERS Sustainable Agriculture & Rural Development (P088799) (Closing Date: 28-Dec-17) IP: MS, DO: S</p> <p>Knowledge Services</p>	
	Land market analysis completed for major hot spots.	<p>Achieved</p> <p>Various studies on the relationship between land tenure and poverty were completed and delivered to the relevant authorities.</p>		

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(The present outcome was added due to a lack of outcome in the CPSPR's reformed matrix)	First round of national dialogue on evidence-based land policy complete.	Achieved Broad -based stakeholder support achieved for evidence-based land policy options, to facilitate more environmentally and socially sustainable agricultural growth and urbanization. Paraguay Land Assessment focusing on land use and land tenure dynamics from a market perspective launched mid-2011. An update on the forest land cover within the Atlantic Forest biodiversity corridor, located in eastern Paraguay, was completed in 2013, including a landscape-scale description of the forest remnants, and a description of the correlation between the distribution of the forest remnants and indigenous peoples' lands.	Paraguay land dialogue (P123711) (Final Delivery/Completion Summary: 16-Dec-13) AAA PY Equity Assessment and Poverty Support (P132332) (Final Delivery/Completion Summary: 15-May-14) NLTA Programmatic Poverty II (P123533) (Final Delivery/Completion Summary: 10-Mar-13) PY Public Sector NLTA (P127499) (Final Delivery/Completion Summary: 20-Mar-13) Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest of Eastern Paraguay (P094335) (Closing Date: 12-Apr-16) GEO: U, IP: MS	
Launch integrated agricultural support programs for the rural poor (The present outcome was added due to a lack of outcome in the CPSPR's reformed matrix)	Launch program to provide integrated support to the rural poor in San Pedro and Caaguazu. Baseline: 0 (2008) Target: 300 communities and 60 indigenous communities (2013)	Achieved As of end-2013, 150 neighborhood development committees were established, together with 40 indigenous community organizations. 143 micro-watershed participatory management plans are being implemented. 4600 small farms have seen their production increase by 30%. It is expected that PRODERS will benefit more than 9,150 poor families by the end of FY14. Number of sub-projects granted by PY BIO: 0		PIUs with limited experience in territorial extension work should allow for extra time on their work plans to develop and pilot their sub-project manuals, and take advantage of the lessons learned by other projects operating in similar areas, social contexts, and under similar fiduciary conditions.
Formalize land tenure for indigenous communities. (The present outcome was added due to a lack of outcome in the CPSPR's reformed matrix)	Increased number of indigenous communities with formal property titles. Baseline: 0 (2008) Target: 30 (2013)	Not Achieved Through PRODERS one indigenous community has obtained formal land titles and 20 are being provided support to have their tenure regularized. PRODERS also financed micro-catchment activities in indigenous communities to increase agricultural production and productivity. The W&S project is currently working with indigenous communities and has increased coverage of WSS.	Financial Services PY PRODERS Sustainable Agriculture & Rural Development (P088799) (Closing Date: 8-Dec-17) IP: MS, DO: S Water and Sanitation Modernization Project (P095235) (Closing Date: 31-Mar-15) IP: MU, DO: MU	In projects that might affect indigenous peoples, it is advisable to involve the national indigenous peoples institutions as part of the project's governance or advisory structures in order to win their support when dealing with eventual claims or conflicts. However, their involvement might require some level of strengthening both in terms of provision of resources and capacity building.
<i>Increase enrollment rates and quality of secondary education</i>				
Improve evidence-based decision-making within the Ministry of Education	Ensuring basic conditions in all public schools (primary and secondary)	Partially Achieved The GOP requested WBG assistance to develop a methodology	Knowledge Services Improve Evidence-Based Decision-	

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on:	Designing an effective strategy to enhance teachers' quality	to identify the most important needs of the school system in order to help prioritize expenditure based on a set of benchmarks and a diagnostic of current teachers' policies, together with a plan for improving teachers' qualifications (pre and in service training). The activities had been developed with a workshop.	Making within the Ministry of Education of Paraguay (P129179) (Final Delivery/Completion Summary: 30-Sep-13) Paraguay HD Programmatic Activity (P146699) (Final Delivery/Prog. Completion Summary: 12-Jun-15)	
<i>Increase access to water and sewerage services for the entire population, including indigenous populations</i>				
Increase coverage of water and sanitation system in rural and urban areas; and in particular, increase the number of additional families (over 2007).	Using sanitation systems in the Asunción metropolitan area: Target of 15,000 new families by 2013.	Not Achieved The Water and Sanitation project is approved and effective, but is suffering implementation delays. Results so far are that the rural component of the project has delivered 30 rural water distribution systems, increasing potable water access to around 700 people; the basic sanitation element will increase access to 7,000 people in rural communities. DAPSAN initiative ("mesa de coordinación") to improve sector stakeholders' coordination is promising. Meanwhile, Water and Sanitation project requires better coordination with DAPSAN. Talks on ESSAP concession contract are progressing well.	Financial Services Water and Sanitation Modernization Project (P095235) (Closing Date: 31-Mar-15) IP: MU, DO: MU	
	Using water supply systems in rural and indigenous areas: Target of 5,000 new families by 2013.			
	Using basic sanitation in rural areas: Target of 4,000 new families by 2013).			
<i>Increase access to basic health services of good quality</i>				
Reduce out-of-pocket payments on drugs and increase access to basic health services, especially for the poor and those in remote areas.	Policy of free drugs designed and implemented	Not Achieved Policy of free drugs designed and implemented. Workshops on public sector long-term health priorities completed. Findings and recommendations delivered to client.	Knowledge Services Paraguay Health Sector Medium and Long Term Vision: Building a Healthy Future AAA (P111929) (Final Delivery/Completion Summary: 12-Apr-13)	
	Family Health Units Program designed and under implementation	Achieved Family health Units (FHUs) have been designed and implemented. As of 2012 over 704 have been created.		
	Social health determinants are analyzed to design health policies	Achieved Studies on the determinants of social health in the country were delivered to the authorities within the then named "Ministerio de Salud" of the country.		
III. Growth with Inclusion: Fostering growth with a focus on employment generation and on improving income distribution, without destabilizing the country's macroeconomic framework, and in an environmentally friendly manner.				
<i>Appropriately responding to the global financial crisis, while safeguarding macroeconomic and financial stability</i>				
Adoption of a countercyclical fiscal policy to mitigate the	The overall fiscal balance to move from surplus to deficit, but to avoid sharp increases in	Partially Achieved Overall fiscal deficit was 1.7% in 2012 and 1.9% in 2013. Adoption by the Legislative Branch of the emergency, anti-	Financial Services Public Sector Reform Development Policy Loan (P117043) (Closing Date:	Strong national ownership proved to be a crucial element of a successful operation. The strong commitment

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impact of the crisis on the most vulnerable population, but maintaining a sustainable fiscal stance in terms of public debt to GDP.	the debt/GDP ratio the average deficit should be around 1% of GDP (2009-2011)	crisis, package of \$300 million which is co-financed by IADB, CAF, Japan, and the World Bank. An anti-crisis plan was launched, helping the country's economic recovery in 2010 and neutralizing the effects of the crisis on poverty rates.	31-Dec-20) IP: S, DO: S Knowledge Services Paraguay Public Expenditure Report (P127351) (Final Delivery/Completion Summary: 28-Oct-13) MTDS - Paraguay (P124439) Paraguay Public Sector Reform (P113457) (Closing Date: 01-Mar-11) PY - RAS Payment Systems #2 (P122533) (Final Delivery/Completion Summary: 23-Jun-13)	with the reforms is evident by the fact that despite the political instability during the project's implementation, changes were made and outcomes achieved. Sustained engagement on the part of the Bank continues to be critical to effectively support reform processes over the medium and long term. The uninterrupted relationship between the Bank and the counterpart even at times when significant reform was not feasible laid the groundwork for an effective partnership when the opportunity was presented. Supporting a policy area that counts on the clear commitment from the Government allows for increasingly complex and impactful reforms. In particular, the Government's focus on large taxpayers shows its commitment to shift from improving basic core processes to second-generation reforms, and the program's successful support of these measures exhibits the Bank's adequacy as a development partner in the policy area. (ICR for PY PS DPL P117043)
	Increased tax/GDP ratio Baseline: 11.9% (avg 2004-08) Target: 13.0% (2013)	Partially Achieved Tax/GDP ratio reached 13.5% in 2010, surpassing the set target and allowing the Government to maintain a positive overall fiscal balance even during the crisis. The ratio was 11.5% in 2013.		
	Ratio of audits of large tax payers that result in additional assessment exceeds 70%. (we will assume that the target date is 2013 since no information was provided in CPSPR)	Partially Achieved The Subsecretaría de Estado de Tributación (SET) has strengthened its audit capacities for large taxpayers through: (i) the issuance of a resolution by SET and the Superintendencia de Bancos to allow for the audit of financial institutions classified as large taxpayers; and (ii) the implementation of a training program for auditors from the large taxpayers unit (DGGC). The ratio of audits of large tax payers that results in additional assessment was 55% in 2010.		
Utilizing the fiscal headroom to increase targeting of public spending, away from wages and other recurrent spending and toward capital and social protection items.	Increase public investment/GDP ratio. Baseline: 1.7% in 2008 Target: 3.5% in 2013	Partially Achieved Public investment/GDP reached 3% in 2013. The share of social programs in the overall budget expenditures increased from 47.8% in 2006-2007 to 50.8% during the crisis while coverage of social protection programs increased more than six-fold. Social spending was 45.7% of overall budget expenditures for 2012.	Knowledge Services PY Equity Assessment and Poverty Support (P132332) (Final Delivery/Completion Summary: 15-May-14) NLTA Programmatic Poverty II (P123533) (Final Delivery/Completion Summary: 10-Mar-13)	

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	Increase coverage for the conditional cash transfer program Baseline: 2008: 18,700 Target: 75,000 in 2013	Achieved A Social Economic Unit was created within the MoH to support the design and evaluation of social programs. CCT programs beneficiaries reach 98,000.	Paraguay HD Programmatic Activity (P146699) (Final Delivery/Prog. Completion Summary: 12-Jun-15) Paraguay Public Sector Reform (P113457) (Closing Date: 01-Mar-11) PY Social Protection NLTA (P106877) (Final Delivery: 20-Dec-10)	
<i>Moving toward a more sustainable pattern of growth, based on greater diversification of products and external markets; supporting investments in infrastructure and human capital, and improvements in the investment and business climate, that will unambiguously move the country in that direction in the short to medium term</i>				
Launch investment program to improve the transmission and transformation capacity, as well as improvement of the system losses.		Not Achieved Energy Sector Strengthening Project effective. Preparation of key documentation is well advanced to begin implementation of works. Disbursement is less than 1%.	Financial Services Paraguay Energy Sector Strengthening Project (P114971) (Closing Date: 31-Dec-15) IP: MU, DO: MU	To translate the recent growth of the economy of Paraguay into an environmentally sustainable one, the new partnership must focus on aiding institutional reforms, building law enforcement capabilities, and implementing cross-sectoral policies.
Improve the quality of road infrastructure through the increase of km of road under systematic road maintenance.	Baseline: 25% of paved road network under routine maintenance in 2007 Target: 50% by 2013	Achieved 1,218 kilometers of roads are maintained through performance-based contracts. Also, an estimated 50 percent of the paved road network was under routine maintenance in 2010.	Financial Services Road Maintenance Project (P082026) (Closing Date: 28-Feb-14) IP: MS, DO: MS Knowledge Services PY Transport Sector Assessment (P106825) (Final Delivery/ACS: 26-Nov-08)	
Improve national transport logistics network (The present outcome was added due to a lack of outcome in the CPSPR's reformed matrix)	Achieve a 10-foot operational depth and 24-hour navigation on 90% of the year in waters of Paraguayan rivers and shared jurisdiction in the Paraguay and Parana rivers.	Not Achieved The strategy to develop the institutional framework of river navigation (and the role of the ANNR, the state's port authority, in this framework) was not developed. Completed the necessary study to assess the convenience of implementing the dredging and maintenance of the river through a public works, PPPs or other contractual arrangement. Completed the technical studies to implement the dredging of the Paraguay river.	Financial Services Paraguay: Support for the Design of River Navigation Concessions-Phase II (P122325) (Final Delivery/ACS: 28-Mar-12) Road Maintenance Project (P082026) (Closing Date: 28-Feb-14) IP: MS, DO: MS	

CPSCR Annex A. CPS Results Framework

CPS Outcomes	CPS Outcome Indicator ⁴³	Status and Evaluation Summary	Bank Group Program	Lessons Learned
		A feasibility study on concessions for river navigation was prepared in 2011.	IFC investment in logistic company for river transportation.	
	Reduce transport cost by 30% through dredging of the Paraguay river.	Not achieved No activities were undertaken to reduce river navigation costs. The rural roads project (P082026) strives to reduce the amount of vehicle breakdowns. But no measurement is possible due to the fact that “some indicators are designed in such a way that baseline, and ex-post values need to be compared to measure the development impact with no intermediate values measured” (ISR for P082026).		
Sources of growth and overall competitiveness				
Competitiveness strategies and action plans agreed upon by stakeholders (through a public-private dialogue mechanism) for pilot sectors/regions.		Partially Achieved Preliminary methodology agreed upon with the Government and pilot selection process initiated for technical assistance to develop pilot competitiveness strategies and action plans.	Financial Services PY PRODERS Sustainable Agriculture and Rural Development (P088799) (Closing Date: 28-Dec-17) DO: MS,;IP S IFC’s ongoing financial sector operations.	
Launch dialogue on sources of growth (including the potential role of the modernization of agricultural enterprises).		Partially Achieved Participatory diagnostic prepared on major constraints to sustainable growth. A multi-sectoral workshop was held on November 2011, where Bank and Social Ministries discussed the issues of growth, poverty reduction, and inclusion.	IFC’s ongoing operations in logistics. IFC’s investment in selected agribusiness companies.	
Business climate is improved by reductions in red tape.	Baseline: 291 days to deal with construction permits (2009) Target: 137 days to deal with construction permits (2013)	Achieved Business climate improved by making it easier to obtain a construction permit. In 2010, the creation of a “single window” for building permit approvals and associated regulatory changes reduced the time to obtain a building permit from 63 to 21 days in Asuncion.	Knowledge Services PY NLTA Programmatic Poverty II (P123533) (Final Delivery/Completion Summary: 10-Mar-13) Paraguay Inclusive Competitiveness (P126568) (Final Delivery/Completion Summary: 14-Nov-13) Access to Finance - Factoring (P144971) (Final Delivery/Completion Summary: 31-Dec-13) Agricultural Risk Assessment Phase I (under development) PY Volatility Analysis (P143809) (Final Delivery/Completion Summary: 13-Mar-14)	

CPSCR Annex A. CPS Results Framework

CPS Outcomes	CPS Outcome Indicator ⁴³	Status and Evaluation Summary	Bank Group Program	Lessons Learned
<i>Safeguarding the environment</i>				
Decline in unsustainable forest management practices and reduction of the expansion of the agricultural frontier as a result of the implementation of PES in pilot areas.		Not Achieved Agreement with OAS and Instituto de Derecho y Economía Ambiental (IDEA) to promote payment for ecosystem services and sustainable agriculture. Initial delay because of the finalization of the legal documentation.	Financial Services Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest of Eastern Paraguay (P094335) (Closing Date: 12-Apr-16) GEO: U, IP: MS	
Strengthening of the national capacity to enable the development of Clean Development Mechanism (CDM) projects and other mitigation activities.		Achieved Completion of the Carbon Finance Assist Country Work Program. Two workshops and five technical studies were successfully carried out to assess the low carbon potential in relevant productive sectors.		
Establishing a biological corridor and encouraging sustainable agricultural practices.		Partially Achieved Following a very slow project implementation startup, an extension of the closing date was granted in March 2014. The current closing date is April 10, 2016. As of May, 2014, the first project's activities were already showing firm outputs in line with the expected results. Project implementation has been improved by a more strengthened Project Implementation Unit and by an active coordination with Secretary for the Environment (Secretaría del Ambiente SEAM). However, the project has not yet made an impact at the outcomes level. The project will be restructured to adjust its results framework in order to deliver the project PDO in the new timeframe. The dialogue with representatives from indigenous communities in the project target area has continued and there are ongoing discussions related to their participation in the project in the context of the project's Indigenous People Strategy. The Instituto Nacional de Asuntos Indígenas (INDI) has approached the project to request participation and to offer support.		In projects that might affect indigenous peoples, it is advisable to involve the National Indigenous Peoples institutions as part of the project's governance or advisory structures in order to win their support when dealing with eventual claims or conflicts. However, their involvement may require some level of strengthening both in terms or provision of resources and capacity building. Although implementation of projects with bi-national entities might not require going through usual formal procedures before effectiveness (e.g., The Legislative Branch approval), it is advisable to promote the use of simple designs, avoiding schemes with several executors and unnecessary formal complexities; this will help to reduce coordination demands. The use of bi-national entities as executants may help to ensure a smooth availability of co-funding and counterpart human resources, which are of great value for project execution. The lack of long-term policies,
Strengthening the institutional capacity of Ministerio de Agricultura y Ganadería (MAG) and SEAM to improve management capacity.		Partially Achieved The PIU has conducted a key training activity on forestry management issues led by the Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) from Costa Rica. This has involved more than 100 participants from Itaipú, SEAM, and other stakeholders in the project area of influence, as well as experts from PRODERS.		
Strengthening the National Protected Areas System.		No Achieved No activities have been undertaken.		

CPSCR Annex A. CPS Results Framework

CPS Outcomes	CPS Outcome Indicator ⁴³	Status and Evaluation Summary	Bank Group Program	Lessons Learned
				<p>grounded on wide political consensus, combined with some degree of political instability can severely delay project implementation.</p> <p>Actions aimed at strengthening institutional capacities may prove pointless when the intended beneficiaries do not have clear and pre-defined priorities, or lack certain “basic needs.” In these cases, extra and sustained hand-holding may be needed, as well as great flexibility to adapt to changing, short-term requirements.</p>

CPRSC Annex B. Planned Lending Program and Actual Deliveries

CPS Plans (2009-2013)			CPS Completion Report	
Project	US\$m	Projects	Status	US\$m
DPL 1 (FY09)	100	Public Sector Reform Development Policy Loan (P117043)	Approved	100
DPL 2 (FY10)	50	Public Sector Reform Development Policy Loan (P113457)	Approved	100
DPL 3 (FY12)	50		Dropped	
Land Access (FY10)	35		Dropped	
Education (FY10)	30		Dropped	
Safety Nets Operation (FY11)	tbd		Dropped	
Electricity (FY10)	tbd	PY Energy Sector Strengthening Project (P114971)	Approved	100
IFC Barge Project				
IFC Trade Lines				
<i>Additional Actual Projects</i>				
		PY Water and Sanitation Sector Modernization (P095235)	Approved	64
Total	265			364

CPSCR Annex C. Delivered AAA (FY09-14)

Fiscal Year	Network Code	Responsible Unit Acronym	Product Line	Project ID	Project Short Name	
1	2009	PREM	LCSPE	EW	P108545	PY SCL Mercosur Trade Study
2	2009	SDN	LCSTR	EW	P106825	PY Transport Sector Assessment
3	2010	PREM	LCSPP	EW	P101174	PY Programmatic Poverty
4	2010	FPD	LCSPF	TA	P110984	PY (FBS) Payments System
5	2010	PREM	LCSPE	TA	P119925	PY Implications of trade liberalization
6	2010	PREM	LCSPS	TA	P117046	PY Public Sector NLTA
7	2010	HDN	LCSHS-DPT	TA	P106877	PY Social Protection NLTA
8	2011	PREM	PRMED	EW	P124439	MTDS - Paraguay
9	2011	FPD	FFSFP	EW	P121994	FSAP Update Paraguay
10	2011	SDN	LCSTR	TA	P122325	PY River PPP Study – Phase 2
11	2012	FPD	LEGPS	EW	P123006	Paraguay ICR ROSC
12	2012	PREM	STR	TA	P116759	StAR - Paraguay TA
13	2012	SDN	LCSSEN	TA	P106199	PY CDM TA for Paraguay
14	2013	HDN	LCSHH	EW	P111929	PY Health Sector Mid and long term vision
15	2013	FPD	LCSPF	TA	P122533	PY - RAS Payment Systems #2
16	2013	PREM	LCSPP	TA	P123533	PY NLTA Programmatic Poverty II
17	2013	PREM	LCSPS	TA	P127499	PY Public Sector NLTA
20	2013	PREM	LCSPS	TA	P120699	PY Public Sector Effectiveness
19	2013	HDN	-	IO	-	Namba'po Paraguay and the National Employment Program
20	2014	PREM	LCSPE	EW	P132352	PY Policy Notes (MST)
21	2014	SDN	LCSAR	EW	P123711	PY Land Dialogue
22	2014	PREM	LCSPE	EW	P127351	PY Public Expenditure
23	2014	PREM	LCSPP	EW	P132332	PY Equity Assessment and Poverty Support
24	2014	PREM	LCSPE	EW	P143809	PY Volatility Analysis
25	2014	SDN	LCSAR	EW	P149948	Agriculture Sector-Wide Risk Assessment
26	2014	FPD	LCSPF	TA	P144971	PY - JIT Access to Finance - Factoring
27	2014	FPD	LCSPF	TA	P131173	Paraguay #10188 Crisis Simulation Exercise
28	2014	SDN	LCSTR	TA	P129630	PY Infrastructure and Logistic
29	2014	FPD	LCSPF	TA	P126568	PY Inclusive Competitiveness
30	2014	SDN	LCREA	TA	P117391	PY Building an Accountability
31	2014	HDN	LCSHE	TA	P129179	Improve Evidence-Based Decision-Making
32	2014	FPD	LCSPF	TA	P143926	PY Access to Finance - Factoring

Annex 3. Monitoring and Evaluation of the CPS FY15-18 Results Framework

Results Area 1 - Strengthening Resilience to Risks and Volatility

Result 1.1: Enhanced agricultural risk management

WBG Result Indicators:

(i) Agricultural insurance penetration rate increased by 15 percent by 2018 (2013 Baseline 0.39 percent).

Agricultural insurance is typically one of many tools that farmers can use as part of their comprehensive strategy for managing agricultural production risks. It is measured by the ratio between agricultural insurance premiums and the agricultural GDP for the same year. Baseline and target data sources for the agricultural insurance premiums and for the agricultural GDP are reports from the CBP.⁴⁵ For comparison purposes, the EU insurance penetration rate is around 1 percent.

Result 1.2: Improved Financial Inclusion

WBG Result Indicators:

(i) 50 percent of adults with savings accounts by 2018 (2013 baseline: 29 percent).

One of the indicators for the National Financial Inclusion Strategy is to increase the number of adults with savings accounts in Paraguay from 29 percent in 2013 to 50 percent in 2018. Paraguay conducted a Financial Inclusion Survey (FINDEX) in 2013 which provided the baseline result of 29 percent. In the same year, the LAC regional average of adults who have a savings account was 39 percent. Thus, Paraguay has aimed to increase the number of adults who have savings accounts through a number of supporting policy actions identified in the National Strategy. As part of the National Strategy Plan, the GoP will launch a new survey to track down progress, and will be carried out by 2017 in order to demonstrate the survey results by 2018.

(ii) 163,000 individuals and microenterprises accessed to microfinance client services by 2018 (2012 baseline: 125,000).

The 163,000 figure represents just the additional reach IFC's clients expect to achieve in total in Paraguay in the outlook period over the baseline/actual amount of 125,000 in 2012. In terms of measurement, the figure represents the number of loans outstanding below \$10,000 to individuals and microenterprises.

⁴⁵ Both reports are annually published at <http://www.bcp.org.py> (see: *Estadísticas del Sector Asegurador* (Insurance Sector Statistics) and *Anexo Estadístico del Informe Económico* (Statistical Annex to the Economic Report)).

(iii) 7 percent of farmers with improved access to markets and access to enhanced productivity and financial services by 2018 (2013 baseline: 5 percent).

This figure represents the number of farmers serviced by IFC clients, and these farmers are expected to benefit from (i) improved access to markets, inputs and services; (ii) improved functioning of markets and services; (iii) improved financial outcomes; or (iv) training on practices to improve productivity or promote sustainability” of their farming activities. As of December 2013, 33,000 farmers have been reached (out of a total of 638.590⁴⁶). The target for the CPS period is 45,000 farmers. Source: IFC Development Impact Department.

Result 1.3: Improved environmental management

WBG Result Indicator:

(i) *Improved forest management and conservation practices introduced on an area equivalent to 18 percent of the current Alto Paraná’s Atlantic Forest area⁴⁷ by 2018 (2014 Baseline: 9 percent).*

Despite its ecological importance, Paraguay suffers from severe environmental degradation. In particular, Paraguay’s deforestation rate was until recently one of the highest in Latin America. Deforestation has greatly reduced both the extent and continuity of Paraguay’s remaining forest cover. This deforestation, combined with further unsustainable land management practices including slash-and-burn agriculture, extensive grazing and the practice of mono-cultivation of cotton, and more recently soybeans and sugarcane, are also leading to soil erosion, loss of soil fertility and decreased quantity and quality of water resources,—constraining the livelihoods and productivity of farmers within the region. Additionally, erosion and siltation is affecting the operation of the country’s main source of public revenue, the *Itaipú* hydroelectrical dam.

By 2018 it is expected that protected areas included in the project will be strengthened based on the use of the GEF Strategic Priority#1 tracking tool⁴⁸. The target of 310,799 ha includes: (i) the area where subprojects are expected to be implemented (2018 target: 120,000 ha – 2014 baseline: 0); plus (ii) the area where private reserves are expected to be implemented and/or created (2018 target: 124,374 ha – 2014 baseline: 107,734 ha considering the area of the existing private reserves (Natural Reserve *Mbaracayu* Forest, *Morombi* natural reserve, *Ypeti* natural reserve and *Tapyta* natural reserve); plus (iii) the public protected areas where the system is expected to be strengthened (2018 target: 66,425 ha – 2014 baseline 58,000 ha including *Caazapá* national park, *Ñacunday* national park and 6 reserves belonging to *Itaipú*). Progress

⁴⁶ Total number of farmers according to the 2013 National Household Survey.

⁴⁷ Total current area of Alto Parana’s Atlantic Forest is 1,7002,000 hectares. Source: WWF, 2014 (Available at http://www.wwf.org.py/que_hacemos/bosque_atlantico/).

⁴⁸ A World Bank/WWF Alliance for Forest Conservation and Sustainable Use (‘the Alliance’) was formed in April 1998, in response to the continued depletion of the world’s forest biodiversity and of forest-based goods and services essential for sustainable development. As part of its program of work the Alliance set a target of 50 million hectares of existing but highly threatened forest protected areas to be secured under effective management by the year 2005. To evaluate progress towards this target the Alliance has developed a simple site-level tracking tool to facilitate reporting on management effectiveness of protected areas within WWF and World Bank projects.

towards the achievement of this indicator will be informed by Project Management Unit through its semi-annual reports with data collected a monitoring and evaluation system. 2018 information will also be provided by the Project Management Unit.

Results Area 2: Boosting Pro-Poor Delivery of Public Goods and Services

Result 2.1: Increased Revenues and Progressivity of Fiscal Management

WBG Result Indicators:

(i) Total tax/GDP ratio increased from 11.5 percent (2013) to 14 percent (2018) and the progressivity of the tax system improved compared to the base year 2013.

Baseline data source on total tax/GDP ratio is the Ministry of Hacienda (MoH) with data collected by the Tax Administration Office (SET), and 2018 information will also be provided by MoH. Improvement in progressivity will be evidenced by estimating the share of tax collection via progressive taxes to total tax revenue in the base year and comparing the same estimation for 2018. The Public Expenditure Review (PER) carried out by the Bank in 2013 includes an analysis of taxes by income deciles and this will be used to inform the baseline values. During the implementation of the CPS, the Bank will carry out an update of this document using the same methodology in order to generate the corresponding numbers in 2018.

(ii) Progressivity of expenditures in social and infrastructure service delivery improved by 2018

The PER mentioned above also has a chapter focused on the role of fiscal policy on poverty reduction where progressivity of public expenditures is evaluated. This document includes, inter alia, a review of the expenditures on health and education per quintile that will serve as a baseline for 2013. During the implementation of the CPS, the Bank will carry out an update of this document using the same methodology in order to generate the corresponding numbers in 2018.

Result 2.2: Improved Access to Quality Public Services for the Rural Poor

WBG Result Indicators:

(i) 10 percent of urban extreme poor in Asunción metropolitan area benefiting from improved environmental sanitation services by 2018 (2014 Baseline: 0).

Definition of access to improved environmental sanitation services: environmental sanitation refers to access to an enhanced water and sanitation services including network sewerage connection ensuring hygienic excreta and *sullage* disposal and a clean and healthy living environment both at home and in the neighborhood of users. Coverage is the proportion of people using improved environmental sanitation facilities: 57 Km of a rehabilitated secondary distribution water network, 8.4 km of a new sanitation network and 33 Km of new primary sanitation collectors in the watershed of Itay. Baseline and target data will be produced by ESSAP monitoring framework for key management and service delivery indicators.

(ii) Indigenous peoples with access to sustainable water increased from 2.5 percent (2013) to 6.5 percent (2018).

A rural water system is considered to be sustainable when: (a) the system is designed to ensure long-term supply (designed appropriately for yield of source), (b) it is functioning as intended and delivers the service either continuously or regularly, depending on the service level selected; (c) a long term institutional, social, technical and financial mechanism is in place that guarantees operation and maintenance of the system: and (d) the water committee has an incentive to carry out its tasks and meet on a regular basis.

Access to a sustainable water is also defined as access to safe drinking water, which means that the source is less than 1 kilometer away from its place of use and that it is possible to reliably obtain at least 20 liters per member of a household per day; sustainable water is water with microbial, chemical, and physical characteristics that meet WHO guidelines or national standards on drinking water quality. Access to sustainable or safe drinking water is the proportion of people using improved drinking water sources: household connection; public standpipe; borehole; protected dug well; protected spring; or rainwater. Baseline data source is a Country Technical Note on Indigenous Peoples' Issues for Paraguay prepared by the International Fund for Agricultural Development - IFAD⁴⁹. 2018 target data will be produced by ESSAP monitoring framework for key management and service delivery indicators.

Result 2.3: Improved Social Accountability and Transparency

WBG Result Indicators:

(i) Open Information Law⁵⁰ fully implemented by least 20 percent of government agencies by 2018 (2014 baseline: 9 percent).

The measures supported in this area are expected to improve transparency and accountability of the GoP's public financial management systems, which will contribute towards a more efficient delivery of public services as well as increased participation of civil society actors in the fight against corruption. This indicator will be considered achieved if information on budget execution and civil service salaries is available and updated for at least 70 government agencies (out of 394) at the MoH portal by 2018 (baseline: 'No' in 2013; target: 'Yes' in 2018).

(ii) At least 10 new education sector information tools and 15 datasets available for internal management and public access by 2018 (2014 baseline: 0)

Information Tools will be information and communication technological tools that will help the Ministry of Education to better understand and analyze data. These would mainly include visualizations of key education data sets and could also comprise the design and development of

⁴⁹ The complete report is available at:

http://www.ifad.org/english/indigenous/pub/documents/tnotes/paraguay_en.pdf

⁵⁰ The Open Information Law (Ley 5189/2014) makes mandatory the publication of salaries and allowances received by the civil service.

applications for the manipulation of these data. The target for the new information tools would be 10 (3 in year one; 3 in year 2; and 4 in year 3) and while during year one the main focus of these tools will be on teacher data, the focus for tools to be developed during subsequent years will be determined later. Data sets would be new data or new aggregations of existing data. Target for new data sets would be 15 additional data sets over the three years (5 each year). Datasets for year one will make information available to the public on, inter alia, FONACIDE and schools eligible for FONACIDE resources, school matriculation, and school infrastructure data. Sources of data for both target values will be annual reports from the Ministry of Education.

(iii) At least two social accountability mechanisms under the Open Government initiative successfully implemented by independent CSOs by 2018 (2014 baseline: 0).

The GoP has requested support from the Global Partnerships for Social Accountability to develop a model for a civil-society government partnership for a more transparent and accountable implementation of the *Tekoporã* Program. Thereafter, through a competitive process, a grant has been provided to a coalition of civil society organizations which will create an enabling environment in which citizen feedback is used to solve fundamental problems in service delivery and to strengthen the performance public institutions. The program includes activities towards strengthening the Beneficiaries' Voice and Civil Society Oversight by raising awareness of the benefits of the *Tekoporã* Program, improving the quality, effectiveness and efficiency of the *Tekoporã* program using social accountability and gathering information tools, and managing knowledge for program transparency, improvement, sustainability and management. The indicator is then to successfully implement this initiative by the end of 2018. Additionally, a social accountability mechanism is expected to be successfully implemented as part of at least one IBRD Investment Project Financing operation under the current active portfolio.

Results Area 3: Fostering Market Integration

Result 3.1: Improved Agricultural Productivity and Access to Markets for Small-holder farmers

WBG Result Indicators:

(i) Income of 15 percent of poor households (out of 130,000) in Concepción, San Pedro, Canindeyú, Caaguazú and Caazapá increased by 30 percent by 2018. (2013 Baseline: G4 million/year).

Farmers' net income with and without the project estimated through annual socio-economic surveys for beneficiary farmers and control group (2013 Baseline annual income is G4 million). Net incremental income per farmer could vary from 24 percent to over 100 percent depending on the farmers' initial conditions, the cropping pattern and the farmers' own dynamics. Data sources are reports from the Ministry of Agriculture and Livestock (MAG) with data collected under yearly socio economic surveys carried out by PRODERS M&E team. 2018 information will also be provided by MAG.

Background info: The number of 25,500 comes out from the target of the original loan (50 percent of 9,150 families) and the target of the Additional Financing (70 percent of 29,850 families). The baseline is 4,600 since is the number of families already benefited by the project. The difference (20,900 farmers and their families), represent approximately 15 percent of the total poor households in the five Departments mentioned in the indicator (132,000 –this has been calculated dividing the total number of poor in those departments by 4.5 –which is the average size of a rural household).

(ii) 130 additional indigenous communities' (representing more than 50 percent of Indigenous Peoples in Paraguay) economic development improved through enhancement of organizational capacity and better-quality living conditions by 2018 (2014 Baseline: 45 communities).

The 130 indigenous communities are considered high priority due to the high incidence of poverty and the degree to which the natural resources on which they depend for survival are degraded. Enhanced living conditions include a strengthened community organization⁵¹, skills for self-governance, and better access to markets and value chains for their products. Access of each indigenous community to this line of support under PRODERS has been decided based on the Indigenous Peoples Land Access and Natural Resources Use Index⁵² designed by the project and prepared with the communities and their associations. The Indigenous Communities' Development Plans are monitored and evaluated annually by means of a participatory process by project beneficiaries and technicians who submit reports on subprojects implementation to the PMU. Baseline data sources are reports from the MAG with data collected under yearly socio economic surveys carried out by the PMU Monitoring and Evaluation team. 2018 information will also be provided by MAG based on the aforementioned reports and on an independent evaluation of activities with indigenous communities that will be carried out as part of the project mid-term and final evaluations.

Result 3.2: Increased private investments in logistics projects/initiatives and reduced logistics costs

WBG Result Indicators:

(i) At least two public private partnership transactions in transport/logistics by 2018 (2014 baseline: 0).

The National Development Plan (NDP) gives a special role to funding infrastructure investments through Public Private Partnerships (PPPs). The WBG will monitor these transactions during the implementation of the CPS. Target for this indicator will be reached when at least two public private partnership transactions have been successfully processed under the new PPP law.

⁵¹ This means the creation or strengthening of Community Development Groups, Micro-Catchment Development Committees, Municipal Steering Committees, and/or Indigenous Associations. For More information, please see the Sustainable Agriculture and Rural Development Project Appraisal Document (Report

⁵² The Index measures: (i) communities' knowledge about the location of their lands, their confirmed delimitation and legal status (including the availability of land titles), and the level of utilization of lands that are under the communities' name; and (ii) the existence of conflicts on the use of the lands in terms of physical occupation, and the existence of problems with regards to litigation and other types of claims.

(ii) Travel time on two 200km segments of roads in selected priority Departments (San Pedro, Caaguazú and Caazapá, or similar) reduced by at least 30 minutes by 2018 (Baseline 2014: average travel time for a 200km segment of a national road 3hrs and 20 minutes; target: average travel time for a 200km segment of a national road 2hrs and 50 minutes).

The transport sector is an integral part of Paraguay's economic ecosystem given the country's landlocked condition, and its status as a major producer and exporter. National, departmental and tertiary road networks need priority attention in order to improve connectivity of rural populations and production to the main consumption centers and export nodes. Travel time is defined as the travel time based on average travel speeds for two targeted segments of 200km of national roads in two Departments with high level of poor population to be determined. Baseline data sources are reports from the MOPC. 2018 information will also be provided by the MOPC.

Annex 4. Portfolios of other Development Partners

*Development Bank of Latin America (CAF)**

Recent Approvals

Project Title	Commitment Amount (US\$ million)	Approval Date
Support to the Strategic Economic and Social Program	75	2013
Road improvement and reconstruction of the regional integration corridors program	222	2013
500 KV transmission line Yacyreta - Villa Hayes Project	50	2013
Proyecto de Mejoramiento de Caminos Vecinales y Puentes en áreas rurales, mediante el uso intensivo de mano de obra local en la Región Oriental	50	2014
TOTAL	397	

Current Program

Project Title	Commitment Amount (US\$ million)	Approval Date
Road rehabilitation and paving of the regional integration corridors, Route 11 and branches of Route 10 project	10.0	2005
Complementary Works to the Route 10 program	9.5	2007
Support to the Social and Infrastructure Program - PAISI	85.0	2010
Support to the Interconnected Transmission and Distribution Grid Program	75.0	2012
TOTAL	179.5	
GRAND TOTAL	576.5	

* *Source:* CAF field office in Paraguay

Inter-American Development Bank (IDB)

Current Program

Project Title	Commitment Amount (US\$ million)	Approval Date
Small and medium enterprise development	7.9	2001
Social Investment program II	22.3	2002
Science and Technology project	6.5	2005
Judicial System Strengthening program	6.3	2006
Civil Service Strengthening program	4.2	2006
Modernization of public management of agricultural support	31.5	2006
INCOOP institutional strengthening	3.6	2006
Road rehabilitation and maintenance program phase I	134.0	2006
ANDE transmission line program	69.5	2006
Program “Escuela Viva”	45.0	2007
Exports support program	10.0	2007
Fiscal management strengthening and modernization	9.5	2008
National program of rural roads second phase	65.6	2009
Potable water and sanitation for rural and indigenous communities	12.0	2009
FAPEP – Center for reconversion, Public Transportation	4.9	2010
Center for reconversion, Public Transportation	47.0	2010
Center for reconversion, Public Transportation	78.0	2010
National Tourism program	10	2010
National statistical system development – individuals and housing	12.5	2011
Sanitation and water program for Chaco and the Oriental region	20.0	2011
Modernization of the Banco Nacional de Fomento	5.7	2011
Third program under CCLIP for the financing of AFD	32.0	2011
Third program under CCLIP for the financing of AFD	18.0	2011
Support program for job insertion	5.0	2011
Program for early childhood development	27.0	2012
Transmission system support program	50.0	2012
Road rehabilitation and maintenance program phase II	51.2	2013
Road rehabilitation and maintenance program phase II	70.8	2013
Investment promotion program	10.0	2013
TOTAL	865.1	

Inter-American Development Bank (IDB) - Private sector

Project Title	Commitment Amount (US\$ million)	Approval Date
Cementos Tupi	51.8	2011
Banco Regional SME Financing Partnership	20.0	2013
Promoting soybean industrialization in Paraguay	92.0	2013
Sudameris Bank SME Financing Partnership	10.0	2013
Sudameris Bank SME Financing Partnership	10.0	2013
Vision Banco – low income family housing	2.5	2010
Improving opportunities for small producers	3.0	2012
Development of Associative platforms for access to finance	6.0	2012
Electroban SAECA: Productive financing for microenterprises	6.0	2013
Rural microcredit for small producers and households led by a women program	.3	2009
Export model for organic sugar	.3	2010
	201.8	

European Union (EU)

The EU is presently finalizing its Multi-Annual Indicative Program for the period 2014-2020, which is expected to be adopted in the second half of 2014. The strategic objectives are to contribute to Paraguay's social, economic and institutional development, to promote regional integration on the South American continent and to develop partnerships for bilateral and global issues of common interest. The financial and technical cooperation instruments (grants) will be used for:

- Human capital development, improving productivity of the labor force and reducing inequality and poverty. The focus will be on improving access to, and quality of, education;
- Improving the business climate, conducive to trade and investments, strengthening of the policy-making and implementation capacities of institutions in this field, improving the participation of private-sector entities in policy design, and reducing the administrative burden for businesses;
- A stable and socially inclusive Paraguay. The support in this field will concentrate on the design and implementation of policies that promote a more equal wealth distribution, increase social cohesion and reduce poverty;
- Strengthening of democratic institutions in Paraguay, among others by implementing the recommendations of the 2013 EU's Election Observation Mission.

In the area of development cooperation, the EU and its Member States⁵³ have agreed to start a joint programming process, including a joint analysis and response to coordinate their programming exercises, covering the 2014-2020 period.

Indicative amounts for the 2014-2020 Program

Sector	Amount (m€)	% of total
Education	85	51%
Private sector development	20	12%
Social Protection	48	28%
Democracy, Participation and Institutional Strengthening	10	6%
Support measures	5	3%
TOTAL	168	100%

⁵³ Including France, Germany, Italy, Spain and the United Kingdom.

Annex 5. Gender Analysis

1. **Paraguay has made progress over the last decade in promoting women's empowerment and gender equality.** However, there are still challenges to be addressed in order to reduce the gender gap in several dimensions. In preparation of the CPS, the WBG Gender Team conducted a review of gender coverage in the portfolio, followed by one-on-one interviews with Task Team Leaders to analyze how gender is incorporated in the Bank's program in Paraguay.

2. **Legal and institutional framework: Paraguay has ratified major International Human Rights Instruments on the rights on women⁵⁴ to establish the basis of a legal framework aiming to protect and promote women's rights and gender equality in Paraguay.** This includes the American Convention of Human Rights, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, and the Convention on the Prevention, Punishment and Eradication of Violence against Women (*Belém do Pará*). Over the last decade, laws have been amended and new laws have been implemented by the Paraguayan government in order to promote women's empowerment and gender equality in the country.⁵⁵ The National Constitution of 1992 ensures equal rights for all. Specifically, the Constitution establishes equal rights among people (Article 46), equal rights between women and men (Article 48), and non-discrimination (Article 88). The Constitution also guarantees the protection of women against violence (Article 60) and it ensures equal labor rights for men and women (Article 89).

3. **The Women's Secretariat of the Presidency of the Republic was elevated to the rank of a Ministry in 2012.** The Ministry designs plans and implements them to promote equality of opportunity between women and men. It currently coordinates the implementation of the Third National Plan for Equality between Women and Men 2008-2017.⁵⁶

4. **In terms of gender equality in endowments, specifically health and education, Paraguay has made clear progress but it lags behind LAC averages particularly in sexual and reproductive health outcomes.** With regards to education, the female-to-male ratio in primary enrollment has remained almost the same for the last decade (0.96 in 2000 and 2011)⁵⁷. While boys are slightly favored in primary enrollment compared to girls, the gender gap is reversed in favor of girls as the level of education increases. The female-to-male ratio in secondary education was 1.05 and the ratio in tertiary education reached 1.31 in 2011. This trend is similar to the LAC region, where the gender gap in favor of girls grows as well with increasing levels of education (1.07 and 1.27 for female-to-male ratio in secondary and tertiary education for 2011 respectively). Paraguay and the LAC region have followed the same trend when it comes to persistence to last grade of primary education. In the case of Paraguay, 86.2 percent of female children reached the last grade of primary education, compared to 81.6 percent of boys in 2010 (LAC: 85.8 percent of female children versus 81.4 percent of boys, 2010). Similarly, the

⁵⁴ *Observatorio de Género de la Corte Suprema de Justicia de Paraguay*

<http://www.pj.gov.py/contenido/537-observatorio-de-genero/537>

⁵⁵ *III Plan Nacional de Igualdad de Oportunidades entre Hombres y Mujeres, 2008-2017*

[http://www.mujer.gov.py/userfiles/file/IIIPNIO\(1\).pdf](http://www.mujer.gov.py/userfiles/file/IIIPNIO(1).pdf)

⁵⁶ Ministry of Women (*Ministerio de la Mujer*) - <http://www.mujer.gov.py/>

⁵⁷ Unless specifically mentioned otherwise, all data in this note stem from GenderStats (World Bank).

rate of male repeaters is higher than the rate of female repeaters (5.7 percent and 3.6 percent in 2010 respectively) in primary education as well as in secondary education – although overall lower (1.3 percent and 0.5 percent in 2010 respectively). Paraguay performed better than the LAC region in terms of adult literacy rate (94.8 percent and 92.8 percent for men and women respectively in 2010, compared to 92.2 percent and 90.9 percent for men and women respectively in 2011 in LAC). Literacy rates amongst the youth are even higher – standing at 98.7 percent for girls and 98.5 percent for boys in 2010, slightly higher than the average in the LAC region where it reached 97.3 percent for girls and 96.8 percent for boys in 2011.

5. Although the indicators for sexual and reproductive health have improved over the last decade, Paraguay lags behind compared to the LAC region (particularly in maternal mortality and skilled birth attendance rates). The maternal mortality rate (MMR) has shown an improvement in the last decade. It dropped from 110 deaths per 100,000 live births in 2000 to 99 deaths per 100,000 live births in 2010.⁵⁸ However, this still compares high to the average in the LAC region (80 deaths per 100,000 live births in 2010). Relatedly, the rate of births attended by skilled health staff increased from 77.1 percent in 2004 to 81.9 percent in 2008. However, Paraguay's rate is still below the average one for the LAC region (90.12 percent in 2010). The share of pregnant women receiving prenatal care has increased from 94.2 percent in 2004 to 96.3 percent in 2008, a rate now almost the same as the average rate in the LAC region (96.2 percent in 2009). The contraceptive prevalence rate has also consistently increased in the last few years from 72.8 percent in 2004 to 79.4 percent in 2008 – which puts Paraguay close to rates of its neighboring country Brazil (80.6 percent) and above, for example, Colombia (77 percent).⁵⁹

6. Economic opportunities: Similar to many countries in LAC, despite women's achievements in education, challenges still persist regarding their economic opportunities. They participate less in the labor market, earn lower wages, and suffer from higher unemployment and informality rates compared to their male counterparts. In Paraguay, women have made clear progress in labor force participation reaching 53.8 percent in 2012, a rate higher than the average for the LAC region (51.2 percent in 2012). Female labor force participation for young women (percentage of female population aged 15-24) is also higher (49.7 percent) than the average for the LAC region (42.6 percent). The female-to-male labor force participation ratio was 0.72 for Paraguay in 2012 (higher than the average ratio for LAC of 0.65 in 2011) - indicating that the gender gap is still in favor of men. Part-time work force is rapidly increasing in Paraguay, especially for women: From 24 percent (percentage of total female employment) in 2000 to 31 percent in 2010. The male part-time employment participation only increased to 14 percent in 2010.⁶⁰ While part-time regulations greatly enable women to conciliate domestic/care with remunerated work, it also comes at the cost of lower income and the reduction of probability to being promoted. Total female unemployment rate for Paraguay has slightly dropped from 8.8 percent in 2006 to 6.1 percent in 2012 and is now below the average for the LAC region (8.4 percent in 2011). At the same time, female unemployment is higher than the male unemployment rates (3.9 percent, in 2012 for males in Paraguay and 5.5 percent for males in the LAC region in 2011) both in Paraguay and in LAC. Moreover, the gender gap increases when unemployment amongst youth is analyzed. In Paraguay, the unemployment rate for young

⁵⁸ WHO

⁵⁹ Centro Paraguayo de Estudios de Población (CEPEP). *Encuesta Nacional de Demografía y Salud Reproductiva 2008 (ENDSR 2008). Informe Final*

⁶⁰ World Bank Indicators

girls is 14.6 percent (2011) compared to 9 percent for young males. The LAC average rate for young female unemployment is even higher (18.2 percent) – and so is the young male unemployment rate (12.4 percent, 2012). However, the female-to-male youth unemployment ratio in Paraguay exceeds the LAC average (1.62 compared to 1.47). Informality⁶¹ is a common concern in Latin American countries. On average, each country in Latin America produces about 40 percent of its GDP and employs 70 percent of its labor force informally.⁶² In Paraguay, 67.9 percent of all women work in the informal sector compared to 55 percent of all men. Moreover, the percentage of women working in the informal sector increases in rural areas (90.2 percent of all women compared to 76.7 percent of all men).⁶³ While the informal sector generates jobs, informal workers typically lack social protection such as worker benefits and health insurance. Additionally, informal workers perform their duties under irregular and casual contracts and are paid lower wages than in the formal sector.⁶⁴ The gender wage gap remained basically the same over the last decade: While women were making 69 percent of their male counterparts in 2000, they are now making 70 percent (2010, data from PLB 2012).

7. **Manifestations of the lack of agency⁶⁵ form some of the key challenges facing women in Paraguay today.** Besides endowments and economic opportunities, agency is the third dimension of gender equality according to the *World Development Report on Gender Equality and Development (2012)*. Agency can be understood as the process through which women and men use their endowments and take advantage of economic opportunities to achieve desired outcomes. Thus, agency is essential to understanding how gender outcomes emerge and why they are equal or unequal. Agency, or a lack thereof, can manifest itself for instance in low levels of female political participation, high prevalence of gender-based violence, or high rates of teenage pregnancy.

8. **Domestic violence continues to be a key problem which Paraguayan women suffer from.** Violence against women has been recognized by the United Nations as a public health problem, a violation of women's rights and a barrier for economic development. Law No. 1600 "Against Domestic Violence" (2000) and the Penal Code are the legal instruments that address this issue. The Penal Code was reformed in 2007 and now includes psychological violence beyond other forms of violence. According to PAHO 2012, intimate partner violence against women is widespread in the LAC region. According to the *Encuesta Nacional de Demografía y Salud Reproductiva (ENDSSR, 2008)*, 8 percent of women in Paraguay reported physical or sexual violence by their partner within the last 12 months, while 20.4 percent of women reported that they have experienced physical or sexual violence by their partner at some point in their lives. The same survey results indicate that there is a large gap between women who reside in urban areas compared to those who reside in rural areas. Indeed, four out of every ten women who live in urban areas experienced verbal violence (40.5 percent), compared to 28.7 percent of women in rural areas. The same is true when comparing physical violence; 20.2 percent of urban

⁶¹ Definition 1, SEDLAC: Informal=salaried workers in small firms, non-professional self-employed and zero-income workers

⁶² *Informality In Latin America And The Caribbean, 2009* Norman V. Loayza, Luis Servén and Naotaka Sugawara

⁶³ SEDLAC database

⁶⁴ *Women in the Informal Sector: a Global Picture, the Global Movement* by Martha Alter Chen.

⁶⁵ Agency is defined as an individual's (or group's) ability to make effective choices and to transform those choices into desired outcomes.

women compared to 14.1 percent of rural women. In term of sexual violence there is a smaller difference when comparing the areas of residence (5.4 percent of women in urban areas and 4.5 percent of women in rural areas). Another interesting finding is related to whether and/or where women look for help after experiencing any type of violence: 44.8 percent of the victims turn to family or friends after experiencing a violent episode, but the percentage of women who sought institutional help was much lower (12.9 percent⁶⁶). According to ENDSSR 2008, women in Paraguay cited shame, fear of retaliation, not knowing where to go, and not believing that anyone would help as the main reasons for not seeking help. Furthermore, among all countries in LAC with comparable data availability, Paraguay comes third in regards to women's agreement that wife-beating is justified for at least one reason (22.9 percent, only after Ecuador and Haiti).

9. **Paraguay has implemented several measures to confront domestic violence.** The Ministry of Women, through the Service to Women (*Servicio de Atención a la Mujer - SEDAMUR*) provides comprehensive information and advice to women victims of domestic violence; the government has amended the legal definitions of domestic violence and human trafficking in order to be more inclusive; the first shelter for victims of domestic violence has been created (in 2010); four Women Regional Centers have been established to provide comprehensive services for victims of gender-based violence around the country (located in Ciudad del Este, Filadelfia, Curuguaty and Pedro Juan Caballero); and finally, six specialized police stations have been established to receive complaints about violence against women, children and adolescents, among others.

10. **The adolescent fertility rate has decreased over time.** From 86.1 births per 1,000 women aged 15-19 years old in 2000 to 66.9 in 2012. This rate is quite similar to the average rate in the LAC region (68 births per 1,000 women aged 15-19years old) for 2012. However, it is notable that, while adolescent fertility has decreased over time, the contribution of adolescent fertility to total fertility increased (10.5 percent in 1987-90 to 12.8 percent 2005-08) according to data from ENDSSR 2008.⁶⁷ Also, the reduction in fertility per specific age group is smallest amongst teenagers if compared to other age groups and smaller if compared to the total fertility rate. ENDSSR 2008 also showed that teenage pregnancy is not evenly distributed amongst different ethnic and socio-economic groups, thus indicating that the phenomenon is correlated with social exclusion and lack of (economic) opportunities. According to the survey, the socioeconomic status and the level of education of young women are inversely proportional to the probability of experiencing at least one pregnancy: 5 out of 10 women aged 15-19 years old with zero or up to five completed years of education reported having had a pregnancy or more (52.2 percent), while among women with 12 and more years of completed education, only two out of ten reported at least one pregnancy (21.5 percent). Notably though, the proportion of pregnant women aged 15-19 years old is higher in rural areas than in urban areas.

11. **Women in Paraguay remain under-represented at all levels of government.** In 2012, women occupied 17.5 percent of total parliamentary seats while the average for the LAC region for that same year was 24.8 percent. It has to be noted though that this is a significant increase from the low level (2.5 percent) in 2000. Similarly, although the percentage of women mayors has increased from 2.7 percent in 1998 to 7.5 percent in 2011, the percentage continues to be below the average of the LAC region that was 10.2 percent in 2011. It is notable though that

⁶⁶ This is the lowest share among LAC countries for which there are comparable data available.

⁶⁷ Centro Paraguayo de Estudios de Población (CEPEP). Encuesta Nacional de Demografía y Salud Reproductiva 2008 (ENDSR 2008). Informe Final.

women's representation amongst city councilors reaches 21.9 percent in 2011. ⁶⁸

Table A4.1: Key gender indicators comparing Paraguay and LAC

	Paraguay	LCN
Endowments		
Education		
Ratio of female to male primary enrollment (percent)	96.12 (2011)	96.86 (2011)
Ratio of female to male secondary enrollment (percent)	105.18 (2011)	107.10 (2011)
Ratio of female to male tertiary enrollment (percent)	130.75 (2011)	126.78 (2011)
Persistence to grade 5, female (percent of cohort)	86.17 (2011)	85.8 (2010)
Persistence to grade 5, male (percent of cohort)	81.61 (2010)	81.4 (2010)
Literacy rate, adult female (percent of female ages 15 and above)	92.93 (2010)	90.93 (2011)
Literacy rate, adult male (percent of male ages 15 and above)	94.81 (2010)	92.22 (2011)
Literacy rate, youth female (percent of female ages 15-24)	98.73 (2010)	97.33 (2011)
Literacy rate, youth male (percent of males ages 15-24)	98.50 (2010)	96.78 (2011)
Health		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	99 (2010)	80 (2010)
Births attended by skilled health staff (percent of total)	81.9 (2008)	90.12 (2010)
Pregnant women receiving prenatal care (percent)	96.3 (2008)	96.17 (2009)
Contraceptive prevalence (percent of women ages 15-49)	79.4 (2008)	....
Economic Opportunities		
Labor participation rate, female (percent of female population)	53.79 (2012)	51.17 (2011)
Labor participation rate, male (percent of male population)	74.69 (2012)	78.65 (2011)
Ratio of female to male labor force participation rate (percent) (national estimate)	72.02 (2012)	65.48 (2011)
Ratio of female to male youth unemployment rate (percent ages 15-24) (modeled ILO estimate)	169.90 (2012)	142.06 (2012)
Unemployment, female (percent of female labor force) (national estimate)	6.09 (2012)	8.45 (2011)
Unemployment, male (percent of male labor force) (national estimate)	3.90 (2012)	5.53 (2011)
Unemployment, youth female (percent of female labor force ages 15-24) (national estimate)	14.60 (2012)	18.19 (2011)
Unemployment, youth male (percent of male labor force ages 15-24) (national estimate)	9.0 (2012)	12.36 (2011)
Agency		
Adolescent fertility rate (births per 1,000 women ages 15-19)	66.96 (2012)	68.02 (2012)
Proportion of seats held by women in national parliaments (percent)	17.5 (2013)	24.81 (2013)

Source: World Bank Genderstats

⁶⁸ ECLAC Gender Observatory

WBG Portfolio

12. **The objective of the portfolio review carried out in preparation of the CPS was to provide the country team with an assessment of how the WBG is doing in terms of gender mainstreaming.** Based on this assessment, the country team will develop strategies to strengthen the gender focus into project design, implementation, monitoring and evaluation. The Bank addresses gender issues in its current portfolio in Paraguay through analysis, respective actions and by monitoring progress in a sex-disaggregated way. Overall, 80 percent of the lending portfolio is gender-informed⁶⁹ and 60 percent of the same are gender-informed in all three dimensions.⁷⁰ Some concrete examples of how the portfolio is addressing gender issues in the different sectors are briefly described below.

13. The **Sustainable Agriculture & Rural Development Project (PRODERS)** builds on a gender analysis of the role that women play as agricultural producers in the project context. The project is building capacity of local women and promotes the establishment of women's associations, ensuring that women play a role in the day-to-day functioning of their sub-projects through meaningful representation on the communities committees. Particularly, the capacity to generate income will be strengthened among indigenous women by supporting handicraft activities in indigenous communities supported by the project. The project is monitoring the share of beneficiaries by sex - latest available data showed that 39 percent of members of the associations supported by the project are women. While the majority of associations supported by the project are mixed, 49 associations supported are women-only groups.

14. The Project for the **Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest** of Eastern Paraguay includes a gender analysis on the role that female small farmers and female headed households play in natural resource management. Furthermore, this project builds on PRODERS' strategy to build capacity of local women, promote the establishment of women's associations, and encourage their participation in project decision-making. The project will monitor the number of subprojects to be executed by women as well as the overall beneficiaries in a sex-disaggregated way in the project's annual plans to ensure gender-sensitive implementation.

15. The **Road Maintenance Project** builds on an analysis of the situation of women in the department regarding different aspects (e.g. unemployment, economic assets, types of discrimination, etc.) and their role in farmers' families (e.g. land cultivation). The Road maintenance project includes a pilot for the creation of "Microenterprises for Road Maintenance", where an affirmative action approach ensured a 29 percent of staff hired for the pilot were female - to ensure women benefit equally from employment opportunities created, at the same time challenging traditionally gendered segregation within the labor market. At the moment, the project implementation unit is expanding this pilot-approach to a broader set of the roads under maintenance, creating in total 200 posts and working within the Ministry of Public Works and Communications to scale-up this experience. Finally, a planned impact evaluation will capture disaggregated data by gender that provides information on access to services (health,

⁶⁹ Using the methodology used by PRMGE

⁷⁰ There is one project in the portfolio that is not gender-informed. This translates into 20 percent of projects not being gender informed. At the same time, due to the technical nature of the project and its components, it seems reasonable that it is not a gender informed project (the Energy Sector strengthening Project). If the project cannot be gender-informed by definition of its technical nature, it should not be flagged as not complying with the gender requirements.

education, water, power, etc.), transportation patterns, levels of education, and economic activities, among others. Similar projects (particularly an Impact Evaluation (IE) in 2006 for a similar project in Peru) have shown the following gender-related impacts: (i) School attendance of girls between 6 and 11 years old increased (by 5 percent from 2004 to 2006); (ii) Non-remunerated activities performed by women have been reduced (by 12 percent from 2004 to 2006); (iii) Women living in the areas of intervention have reported that thanks to road improvements the time they spend getting food and kerosene has reduced; (iv) Women also reported an increase in political participation at the local level; and, (v) Reductions in travel time to school and health centers have been translated into more free time for women to participate in economical and associative activities. Furthermore, a recently completed IE 2014 (for Peru as well) is showing that school attendance for girls between 12 and 18 years old increased (by 19 percent from 2006) and visits to the health center by women increased (by 57 percent from 2006).

16. In terms of analytical work, the **Equity Assessment for Paraguay**, has a strong gender focus, not only providing sex-disaggregated analysis in general, but specifically by dedicated in-depth analysis on women's labor market outcomes and teenage pregnancy in the country.

Annex 6. Consultations with Stakeholders

1. **The WBG in partnership with the GoP organized in-country consultations in preparation of the Country Partnership Strategy.** Sectorial meetings with the following groups were organized: (i) international donor community that included the embassies and diplomatic missions, international cooperation organizations and bilateral and multilateral organizations; (ii) opinion leaders; (iii) private sector which included representatives of business, production and financial sector associations; and (iv) civil society that included organizations working on issues of poverty, citizen participation, transparency, education and anti-corruption.

Consultation with the Donor Community

2. **The Consultation with the donor community showed a high level of consensus on development priorities and challenges faced by Paraguay.** The representatives of the international community pointed out that Paraguay has changed and that the economic growth experienced in the last decade has led to the country's progress in various sectors. It was stated that this new scenario requires a change to the traditional model of bilateral and multilateral cooperation. Representatives of international organizations agreed that the government's demands to their organizations are also currently focused on the transfer of knowledge, and not only on the transfer of funds.

3. **Despite the positive changes in the macro economy and the private sector, the perception from several donors is that the public sector continues to face the enormous challenge of substantially improving the quality of delivery of public services.** In this sense, the effective and efficient execution of cooperation projects is one of the significant shared objectives. The public sector remains weak, especially in the quality of its human resources and internal management systems, with excessive bureaucracy in the internal processes. Donors agreed that further efforts are needed in order to strengthen the project implementation units. Common areas where two or more agencies could work together were identified, such as procurement.

4. Donor coordination and harmonization of programs of cooperation is another major challenge, and there was general consensus that the government needs to define a work plan with the international community to avoid duplication of projects or overlapping of work in strategic sectors (e.g. energy, and water and sanitation). The knowledge exchange agenda should also have a high degree of coordination. A key recommendation is that the cooperation activities and operations should support long-term programs that transcend presidential terms, such as the research towards the National Education Plan and the National Health Plan, and not focus only on solving short-term problems. Participants in the meeting agreed on the need to further strengthen the role of civil society in cooperation programs to ensure project monitoring and proper accountability.

5. Development partners noted that an important change that must be observed and taken into account in their strategies is the increasing urbanization rate that the country is experiencing and the challenges linked to that this change, with focus on infrastructure.. In addition, cooperation should help to strengthen the links between the central government and local

governments. There is an opportunity to achieve this goal by promoting dialogue platforms on development issues, involving the central government and local governments. They also noted that there are emerging issues that are not being considered in terms of public policy. For example, the potential of extractive industries and in particular the possibility of finding oil in the Chaco, that could drastically change the country's GDP. The country is not ready to respond to the externalities linked to this potential development and it must be supported to develop novel, innovative initiatives and to generate the necessary structures and instruments to take advantage of this potential scenario.

Consultation with Opinion Leaders

6. Opinion Leaders emphasized that there are urgent public sector reforms that have to be implemented, such as improving tax collection capacity, improving the quality of public spending, and improving mechanisms for accountability and citizen participation and public transparency mechanisms. It was recognized that although a "wave of public transparency" is being experienced in Paraguay (which leads to insight into the performance of public expenditure) and that -like never before- country data is available to the public, data are neither readily accessible nor easy to read. Participants were of the opinion that the WBG could play a role in supporting the development of friendly platforms to facilitate access to public information. There was also consensus that the rationalization of public expenditure should be one of the priorities for the country in the short and medium terms. For instance, incentive and merits schemes and open competitive processes for selecting public officials should be created. The WBG could facilitate knowledge exchange channels to provide alternatives for this kind of initiative.

7. Opinion Leaders also indicated that they believe that tax evasion is very high in Paraguay (approx. 40 percent of potential revenue) and that tax collection agencies should be strengthened through the development and implementation of an information crosscheck system, for example. It was stated that the country must strengthen its regulatory capacity, especially relevant to the issue of PPPs, *vis-à-vis* the investment boom that the country is facing. It was also noted that it is very important that the WBG continues to work to strengthen the infrastructure development in Paraguay, which has been identified as a chronic deficit that must be mitigated. The issues related to housing and sanitation infrastructure were highlighted as two of the most important urban challenges taking into account that Paraguay could have 15 major cities in the next 10 years. On financing for the private sector, the support provided to traditional sectors such as agribusiness was assessed, but it was also recommended to support sectors that - while not yet consolidated- have vast potential, such as, sewage treatment plants, reforestation ventures, new technologies development to diversify the productive matrix and increase productivity (e.g. irrigation systems). It was noted that the WBG could play a crucial role in supporting the Government to enhance public expenditure implementation and management; and that could also contribute to the development of tax evasion prevention and anti-corruption programs and initiatives. The WBG is seen as an organization that can share experiences from other countries in these areas.

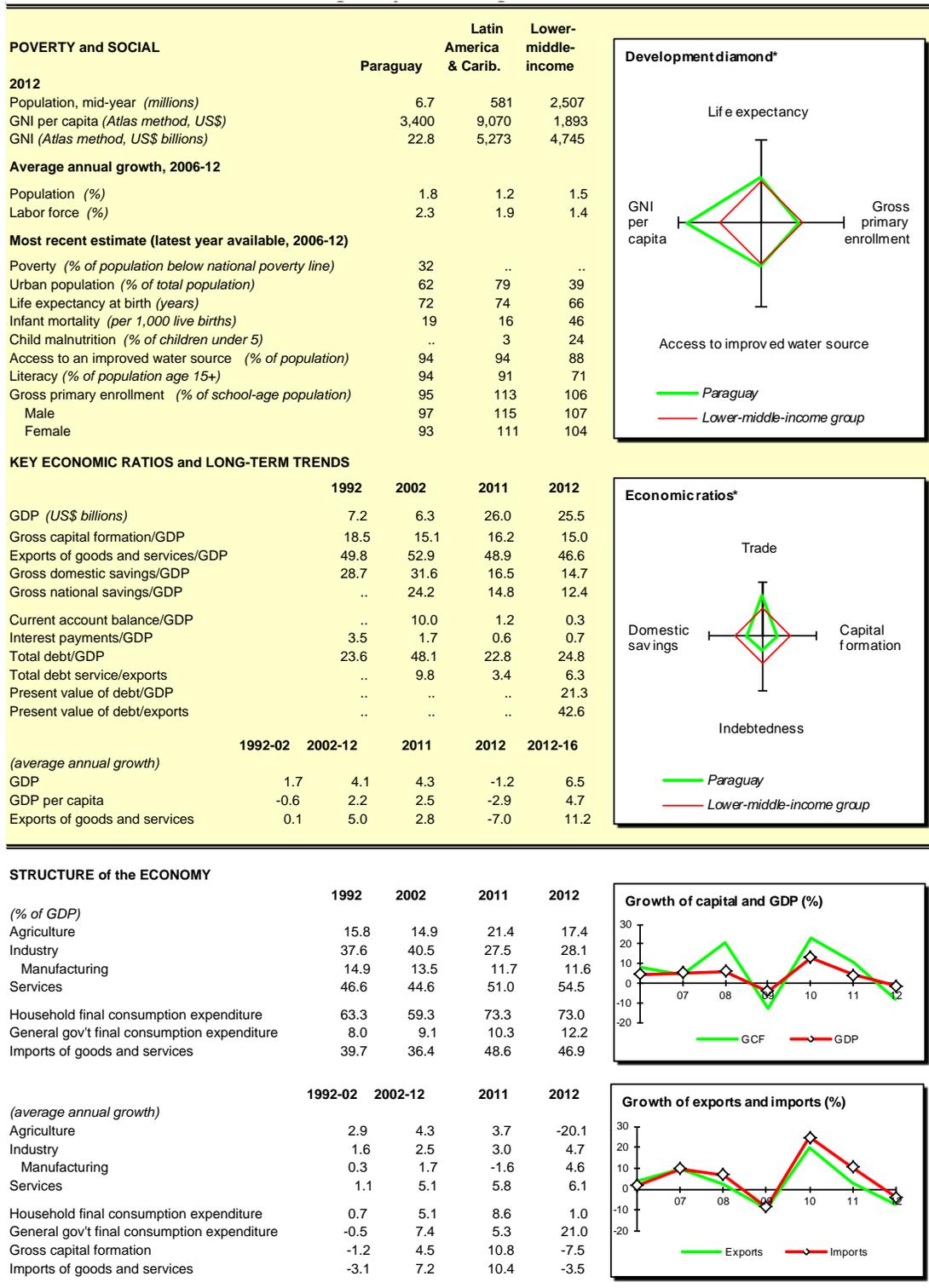
Consultation with the private sector

8. The private sector expressed a consensus that while Paraguay has changed, there are still gaps in key sectors that should be addressed, and in this sense the biggest problem is still related to infrastructure development. The country has geographic advantages which are being well used by the private sector. However, the competitiveness of the country should be strengthened to maintain sustainable performance over the long term. The private sector representatives agreed that the country's main problem is not funding but management capacity. Focusing on rules and standards which determine the working environment of the public sector (and which go beyond their legal formulation) was identified as crucial.

Consultation with Civil Society

9. Civil Society organizations indicated that there is a major weakness in terms of instruments and official channels to monitor government institutions, and that isolated bottom-up control initiatives have been developed but few coordinated actions exist at the national level. It was stated that the WBG could provide support to the Open Government initiatives, with special focus on Public Private Partnership projects that will require the development and implementation of stringent control and monitoring instruments. Another priority identified was the need to strengthen the civil servant training programs to enhance the quality of public policies management. Lack of coordination between line ministries and agencies was also highlighted as one of the main challenges. A reform in the education sector, with a focus on higher education, was also identified as a priority. Finally, it was recommended to generate opportunities for civil society organizations to have a more active role in the monitoring and evaluation of programs financed by the WBG and that as part of this process the WBG could also have an active role in strengthening these CSO's with knowledge and resources to improve their monitoring and evaluation capabilities.

Annex 7. Paraguay at a Glance

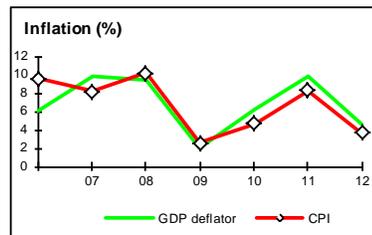


Note: This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

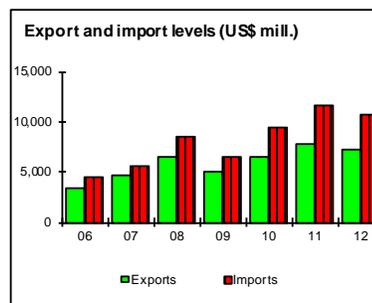
PRICES and GOVERNMENT FINANCE

	1992	2002	2011	2012
Domestic prices				
(% change)				
Consumer prices	15.2	10.5	8.3	3.7
Implicit GDP deflator	14.1	14.9	9.8	4.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	12.0	14.0	16.8	17.9
Current budget balance	1.9	0.9	4.0	2.5
Overall surplus/deficit	-0.3	-2.6	0.7	-1.7



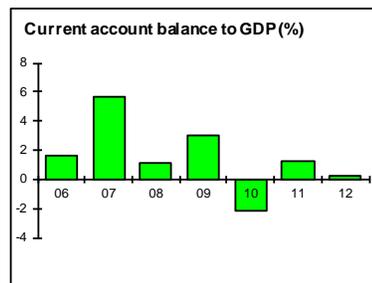
TRADE

	1992	2002	2011	2012
(US\$ millions)				
Total exports (fob)	657	2,331	7,775	7,284
Soy products	137	341	2,294	1,582
Cotton	..	1,378	2,267	2,232
Manufactures	226	439	2,326	2,505
Total imports (cif)	1,237	1,510	11,549	10,756
Food	170	188	806	813
Fuel and energy	145	239	1,507	1,694
Capital goods	404	425	4,413	3,682
Export price index (2000=100)	..	..	..	..
Import price index (2000=100)	..	..	..	..
Terms of trade (2000=100)	..	..	..	..



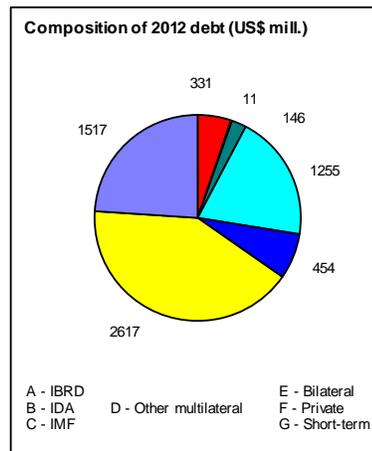
BALANCE of PAYMENTS

	1992	2002	2011	2012
(US\$ millions)				
Exports of goods and services	..	3,432	13,386	12,681
Imports of goods and services	..	2,330	12,640	11,985
Resource balance	..	1,102	747	697
Net income	..	-598	-1,171	-1,401
Net current transfers	..	126	740	773
Current account balance	..	630	315	69
Financing items (net)	..	-714	469	-93
Changes in net reserves	..	84	-784	25
Memo:				
Reserves including gold (US\$ millions)	573	641	4,983	4,995
Conversion rate (DEC, local/US\$)	1,500.3	5,716.3	4,183.1	4,407.8



EXTERNAL DEBT and RESOURCE FLOWS

	1992	2002	2011	2012
(US\$ millions)				
Total debt outstanding and disbursed	1,688	3,041	5,918	6,331
IBRD	213	216	245	331
IDA	39	25	12	11
Total debt service	633	343	459	796
IBRD	62	26	41	34
IDA	1	2	2	1
Composition of net resource flows				
Official grants	45	19	82	69
Official creditors	-89	-15	-47	26
Private creditors	-168	105	260	466
Foreign direct investment (net inflows)	118	10	134	363
Portfolio equity (net inflows)	0	0	0	0
World Bank program				
Commitments	52	9	100	100
Disbursements	10	14	23	117
Principal repayments	43	17	37	30
Net flows	-33	-3	-14	86
Interest payments	21	11	5	5
Net transfers	-54	-14	-19	81



Note: This table was produced from the Development Economics LDB database.

3/15/14

Annex 8. Operations Portfolio: IBRD loans, pipeline and non-lending operations

CAS Annex B8 - Paraguay
Operations Portfolio (IBRD/IDA and Grants)

Closed Projects 52

IBRD/IDA *	
Total Disbursed (Active)	106.80
of w hich has been repaid	6.80
Total Disbursed (Closed)	332.00
of w hich has been repaid	342.40
Total Disbursed (Active + Closed)	438.70
of w hich has been repaid	349.20
Total Undisbursed (Active)	265.20
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	265.20

<u>Active Projects</u>		<u>Last PSR</u>		<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements^{af}</u>			
Project ID	Project Name	Supervision Rating	Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm	Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P114971	PY Energy Sector Strength	MS	2011	100				82.1	-17.9		
P094335	PY GEF Biodiversity Cons	U	2010			4.5		3.8			
P088799	PY PRODERS - Sust. Agri	MU	2008	137.5				109.4	9.4	1.7	
P082026	PY Road Maintenance	MU	2007	74				24.3	24.3	24.3	
P095235	PY Water & Sanit. Sector	IMU	2009	64				49.4	45.9		
Overall Result				375.5		4.5		269	61	26	

Projects and grants

Name	FY	Amount (in US\$ million)	Project Number	Instrument type
GPSA Paraguay: Social Accountability on Conditional Cash Transfer Programs – grant	2015	0.6	P150876	IPF
PY DPL-DDO	2015	100	P151007	DPL
PY Rural Connectivity	2015	100	P147278	IPF

IPF: Investment Project Financing

DPL: Development Policy Lending

AAA

Project Name	FY	Prod Line	Project Number
Strengthening Tax Admin & SOE Corp. Gov.	2015	TA	P148234
PY Pension Work	2015	TA	TEMPCODE
PA PY FPD Programmatic Approach	2016	PA	P147386
PY PPP	2016	PA	TEMPCODE
Agriculture Risk Management	2016	PA	P145224
PY Extractives	2015	PA	TEMPCODE
PY EDUCATION	2015	TA	TEMPCODE
PY Equity and Poverty/Gender Support	2015	PA	TEMPCODE
PY SOCIAL PROTECTION TA	2015	TA	TEMPCODE
PY New – Financial sector stability work	2016	TA	TEMPCODE

TA: Technical Assistance

PA: Programmatic Approach

Annex 9. Trust funds

Trust Fund #	Trust Fund Name	Net Grant Amount (in US\$ thousands)	Program Source	Grant Closing Date	Team Leader	Donor Name	Fund Usage	Executed by
TF014916	Strengthening Education Accountability and Information Systems in Paraguay	100.00	TFSCB	12/31/2014	Rafael E. De Hoyos Navarro	MULTIPLE DONORS		Bank
TF017091	Paraguay #A036 Financial Inclusion Strategy	323.84	FIRST	12/31/2014	Jane C. Hwang	MULTIPLE DONORS		Bank
TF017241	Paraguay CPFL	140.00	FINC	11/30/2014	Douglas Pearce	MULTIPLE DONORS		Bank
TF017321	Capacity building in Paraguay on tools for distributional analysis	30.00	PSIA	4/30/2015	Maria Ana Lugo	MULTIPLE DONORS		Bank
TF096758	Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest of Eastern Paraguay Project	4,500.00	GEFIA	4/10/2016	Ruth Tiffer-Sotomayor	MULTIPLE DONORS	Technical Assistance & Advisory Services	Recipient
TF096981	Strengthening Paraguay National Audit Office	23.00	SFLAC	12/31/2014	Alejandro Roger Solanot	TFI - Spain - Ministry of Economy a Competitiveness	Technical Assistance & Advisory Services	Bank
Total		5,567.90						

Annex 10. Survey on Well-being via Instant and Frequent Tracking (SWIFT)

Paraguay Water & Sanitation SWIFT Survey Experience

1. The WBG's twin goals—eliminating extreme poverty and boosting shared prosperity—have intensified interest in measuring the level and evolution of poverty rates and income levels in populations targeted by projects and programs. Operations that cover the poorer segments of the population are a necessary, though not sufficient, prerequisite for faster progress towards the elimination of extreme poverty and the sustained increase in the average level of welfare of the bottom 40% of a country's population.

2. Thus, there is a need for quick, practical, low cost, and reliable tools for estimating poverty rates and income levels among WBG project beneficiaries. Traditionally, official poverty rates have been measured at the national level, or in some cases -for urban and rural areas of developing countries- via nationally representative surveys that collect information on household and individual socioeconomic characteristics and detailed information on income and/or consumption expenditures for a sample of households. The sheer size of the questionnaire and volume of information required for reliable measurement of household welfare (i.e. income or consumption) makes these types of surveys impractical and prohibitively costly for measurement at project level.

3. In addition, a large obstacle in monitoring these goals is that household expenditure and income data are not frequently collected. According to World Development Indicators (as of May 2013), some 40 percent of developing countries had zero or only one poverty estimate between 2001 and 2010. And the situation is even worse when it comes to the monitoring of investment projects and lending programs. Since the impact of many investment projects and lending programs is geographically limited, poverty estimates at the national level, or even for urban and rural areas, are not directly useful for monitoring project impacts on extreme poverty and shared prosperity.

4. To address this problem the WBG Poverty Global Practice (GPVDR) developed the a new welfare monitoring tool, SWIFT (Survey on Well-being via Instant and Frequent Tracking) to fill the data gaps in the monitoring of national statistics and projects by calculating poverty rates and income levels in a more simply, cheaply, and quickly manner. SWIFT achieves this by combining the latest in Information and Communication Technology (ICT) with the latest statistical methodology.

Conceptual Framework

5. SWIFT uses a projection method to estimate poverty and distributional statistics. It does not collect direct income or consumption data; instead, it collects poverty correlates, such as household size, ownership of assets or employment conditions, and then converts them to poverty statistics using statistical models. Collection of poverty correlates is much easier and can be accomplished much more quickly than collection of income or consumption data. Second, SWIFT uses Computer-Assisted Personal Interview (CAPI) software to create a questionnaire and allow full accessibility from tablets and/or smart phones.

6. Interviewers ask questions regarding poverty correlates using the tablets or smart phones and the data are uploaded via the Internet to a data cloud whenever interviewers reach any location where Internet connections are available. Data analysts then download the data and convert them into poverty and distributional statistics.

SWIFT for Paraguay Water & Sanitation Modernization Project

7. As part of the preparation of the Paraguay CPS, the Bank team worked to monitor the contribution of four major projects in the country on reduction of extreme poverty and boosting shared prosperity. As part of this process, the team has decided to use SWIFT to monitor a water and sanitation program's poverty impact as well as immediate sector-specific outcomes (e.g. increase in access to clean water).

8. In the context of Paraguay project monitoring, the SWIFT survey will produce a poverty rate and a mean income of the bottom 40 percent in the beginning of the CPS process in areas where the water and sanitation project has been implemented. These numbers will become a benchmark. The same survey will be carried out during the preparation of the CPS progress report to see evolution in these key indicators.

9. A surveying company was selected to carry out the field work. Before the beginning of the fieldwork, a training session was carried out, in a four-day event, for the ten enumerators and two supervisors. Representatives from the government's health agency (SENASA) also attended the first day. Enumerators and supervisors gained a strong understanding of the questionnaire content as well as CAPI, tablet, and 3G technology. In addition, they provided valuable local contextual knowledge to improve the content of the questionnaire where appropriate. The surveying company then proceeded to the field to conduct approximately 800 interviews in rural communities in western and eastern Paraguay, both indigenous and non-indigenous.

10. A major obstacle encountered during the survey fieldwork was heavy rain and resulting poor road conditions that prevented the team to access to some of the selected communities. However, enumerators ultimately reached all but three communities, which will be visited at the end of June. Another obstacle was the lack of connectivity for tablets. Often tablets lacked 3G, Wi-Fi, and GPS capacities in the rural communities, particularly the indigenous areas. This meant the upload of completed surveys was not literally real-time, nor were the revisions from the supervisors. Nonetheless, resulting survey data has thus far been high quality.

SWIFT Model for other projects in the Bank's portfolio in Paraguay

11. SWIFT model will be used also to monitor other project's poverty impact as well as immediate sector-specific outcomes, when required. While the team will use the National Household data for the Energy Sector Strengthening project because it has a nation-wide impact; the team will use other project-linked surveys for the Roads Maintenance Project and the Sustainable Agriculture and Rural Development Project (PRODERS).

Annex 11. Map

IBRD 33464R

