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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP FRAMEWORK**

**FOR  
THE REPUBLIC OF PARAGUAY  
FOR THE PERIOD FY19-FY23**

**DECEMBER 2018**

**Southern Cone Country Management Unit  
Latin America and Caribbean Region**

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

**The Multilateral Investment Guarantee Agency**

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**CURRENCY EQUIVALENTS**

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PYG 1.00 = US\$ 0.00016789

US\$ 1.00 = PYG 5,956.29

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## ABBREVIATIONS AND ACRONYMS

AML	Anti-Money Laundering
ANDE	National Electricity Agency ( <i>Administración Nacional de Electricidad</i> )
ANS	Adjusted Net Savings
ASA	Advisory Services and Analytics
ATI	Access to Information
BCP	Central Bank of Paraguay ( <i>Banco Central de Paraguay</i> )
CAF	Development Bank of Latin America ( <i>Corporación Andina de Fomento</i> )
CEQ	Commitment to Equity
CFT	Counter Terrorism Financing
CIT	Corporate Income Tax
CLR	Completion and Learning Review
CPF	Country Partnership Framework
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CSO	Civil Society Organization
CWPC	Change in Wealth Per-Capita
DAPSAN	Department of Drinking water and Sanitation ( <i>Dirección de Agua Potable y Saneamiento</i> )
DB	Doing Business
DDO	Draw Down Option
DGEEC	National Statistics Agency ( <i>Dirección General de Estadística, Encuestas y Censo</i> )
DNCP	National Directorship of Public Procurement ( <i>Dirección Nacional de Compras Públicas</i> )
DPF	Development Policy Financing
EIB	European Investment Bank
ERSSAN	National Environmental Sanitation Authority ( <i>Ente Regulador de Servicios Sanitarios</i> )
ESS	Environmental and Social Standards
ESSAP	Water and Sanitation Public Utility ( <i>Empresa de Servicios Sanitarios del Paraguay</i> )
EU	European Union
EUR	Euro
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FOCEM	MERCOSUR's Structural Convergence Fund ( <i>Fondo para la Convergencia Estructural del MERCOSUR</i> )
FRL	Fiscal Responsibility Law
FY	Fiscal Year
GAFILAT	Financial Action Task Force of Latin America ( <i>Grupo de Acción Financiera de Latinoamérica</i> )
GDP	Gross Domestic Product

GEF	Global Environment Facility
GFDRR	Global Facility for Disaster Reduction and Recovery
GIF	Global Infrastructure Facility
GoP	Government of Paraguay
GPSA	Global Partnership for Social Accountability
HCI	Human Capital Index
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
ICT	Information and Communications Technology
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMAGRO	Agrobusiness Corporate Tax ( <i>Impuesto a la Renta de las Actividades Agropecuarias</i> )
IMF	International Monetary Fund
INDI	Paraguayan Institute of Indigenous People ( <i>Instituto Paraguayo del Indígena</i> )
INFONA	National Forest Institute ( <i>Instituto Forestal Nacional</i> )
IPF	Investment Project Financing
IPS	Social Security Institute ( <i>Instituto de Previsión Social</i> )
IRAGRO	Tax on Agriculture Income ( <i>Impuesto a la Renta de las Actividades Agropecuarias</i> )
LAC	Latin America and Caribbean Region
LC7	World Bank Country Management Unit Southern Cone
M&E	Monitoring and Evaluation
MAG	Ministry of Agriculture and Livestock ( <i>Ministerio de Agricultura y Ganadería</i> )
MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance ( <i>Ministerio de Hacienda</i> )
MOPC	Ministry of Public Works and Communication ( <i>Ministerio de Obras Publicas y Comunicaciones</i> )
MSD	Ministry of Social Development ( <i>Ministerio de Desarrollo Social</i> )
MSMEs	Micro, Small and Medium Enterprises
MWh	Megawatt hour
NDC	Nationally Determined Contributions
NDP	National Development Plan
OBI	Open Budget Index
ODRA	Open Data Readiness Assessment
OECD	Organization of Economic Cooperation and Development
PAAP	Paraguay Analytical and Advisory Program
PdG 2023	Government Program ( <i>Plan de Gobierno 2023</i> )
PDNA	Post-Disaster Needs Assessment
PER	Public Expenditure Review
PIT	Personal Income Tax
PLR	Performance and Learning Review

PMSAS	Water and Sanitation Sector Modernization Project ( <i>Proyecto Modernización del Sector de Agua y Saneamiento</i> )
PNTE 2030	2030 National Plan for the Transformation of Education ( <i>Plan Nacional para la Transformación de la Educación</i> )
PPP	Public-Private Partnership
PRODERS	Sustainable Rural Development Project ( <i>Proyecto de Desarrollo Rural Sostenible</i> )
RAS	Reimbursable Advisory Service
SCD	Systematic Country Diagnostic
SEAM	Secretary of Environment ( <i>Secretaría del Ambiente</i> )
SENASA	Government's Sanitation Agency ( <i>Servicio Nacional de Saneamiento Ambiental</i> )
SEPRELAD	Secretary for the Prevention of Money or Goods Laundering ( <i>Secretaria de Prevención de Lavado de Dinero o Bienes</i> )
SGIDE	Integral Management System of Electricity Distribution ( <i>Sistema de Gestión Integral de Distribución Eléctrica</i> )
SMEs	Small and Medium Enterprises
SNA	System of National Accounts
SOE	State-Owned Enterprise
STP	Secretary of Technical Planning for Economic and Social Development ( <i>Secretaría Técnica de Planificación de Desarrollo Económico y Social</i> )
TA	Technical Assistance
UNFCCC	United Nations Framework Convention on Climate Change
US\$	United States Dollar
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WBG	World Bank Group
WDI	World Development Indicators
WEF	World Economic Forum

**REPUBLIC OF PARAGUAY  
COUNTRY PARTNERSHIP FRAMEWORK FY19-23**

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**REPUBLIC OF PARAGUAY**  
**COUNTRY PARTNERSHIP FRAMEWORK FY19-23**

**I. INTRODUCTION AND SUMMARY**

1. ***This document lays out the rationale for, and principal elements of, the World Bank Group (WBG) Country Partnership Framework (CPF) for Paraguay for FY19 to FY23.*** The proposed CPF is aligned with the core priorities of the new Paraguayan Administration<sup>1</sup> within the framework of its *Plan de Gobierno 2018-2023, “Paraguay de la Gente”* (PdG 2023). It is also rooted in the findings and recommendations of the recent WBG Systematic Country Diagnostic (SCD) for Paraguay, which contains an analysis of key constraints to inclusive and sustainable growth and poverty reduction and suggests ways to address them.<sup>2</sup> The SCD’s in-depth analysis of Paraguay’s underlying challenges is expected to anchor the dialogue and engagement throughout the CPF implementation period. This CPF is planned to cover five years (FY19-FY23) to ensure alignment with Paraguay’s electoral and planning cycles.

2. ***The central finding of the SCD is that Paraguay’s economic model of heavy reliance on its abundant natural resources and favorable demographics will need to shift in the medium-term, both to maintain the economy’s strong growth trajectory and to further reduce poverty and promote shared prosperity.*** The SCD shows that Paraguay’s growth rate of over 4.5 percent per year in the 2004-2017 period – remarkable for the Latin America and Caribbean Region (LAC) – and the accompanying strong reduction in poverty, can be attributed to a stable and reliable macro-economic policy environment and openness to private sector initiative. However, growth has relied on the conversion of forested land to commercial agricultural production and on reaping a sizeable demographic dividend. In the medium-term, limitations of these factors in continuing to drive growth and living standard improvements will become increasingly apparent given the rapid depletion of the country’s forest resources and the increasing impact on its agriculture sector of climate change-related weather phenomena. The contribution to growth of the demographic dividend will also start declining, especially if adequate employment opportunities are scarce and the human capital of young people is not improved. Finally, building on several important recent improvements, the pace of institutional change would need to accelerate to improve governance and transparency and reduce the extremely high concentration of economic assets and incomes. Increasing formality, raising the quality of public services and fostering business development in non-traditional areas are core to Paraguay’s institutional development agenda.

3. ***The SCD identifies four priority areas to make the development path of Paraguay more inclusive and sustainable.*** These include: advancing the rule of law and strengthening public institutions, improving natural wealth management (including realizing Paraguay’s potential as a major exporter of clean hydro energy and as a global carbon sink), strengthening public services, and investing in human capital. The country has already made important advances in some of these areas, laying the groundwork for further reform in the current presidential period. Faster and deeper progress can be made if the country advances simultaneously in all four priority areas, as complementarities among them are strong, and the cumulative impact could be transformative. However, advances in individual priority areas would also have significant impacts. For example, improved human development outcomes would have important implications for employment and, hence, poverty reduction. Similarly, strengthening the rule of law, making institutions

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<sup>1</sup> The new Administration assumed office for a 5-year term in August 2018.

<sup>2</sup> World Bank. 2018. *Paraguay-Systematic Country Diagnostic (English)*. Washington, D.C.: World Bank Group.  
<http://documents.worldbank.org/curated/en/827731530819395899/Paraguay-Systematic-Country-Diagnostic>



more accountable, and improving the business environment will contribute significantly toward breaking the self-reinforcing cycle of concentration, informality, and inefficient provision of public services.

4. ***The new Paraguayan Government has articulated two pivotal areas within its broader development plan where it intends to make its strongest impact: governance/anti-corruption and human capital — both of which coincide with priorities identified by the SCD.*** The new Government took office in August 2018. In the area of governance and accountability, the current Administration aims at increasing transparency regarding public policies, fighting corruption and fostering greater accountability vis a vis citizens. This would also signal the country's commitment to reform to the international business community and international ratings agencies — thereby improving potential for lowering foreign financing costs and attracting more, and more diversified, investments. With respect to human capital, the Government's goal is to significantly strengthen the abilities and capacity of Paraguay's next generation and prepare them for productive employment. The 2018 Human Capital Index (HCI)<sup>3</sup> shows that Paraguay lags behind countries in the region and with similar per capita GDP, particularly due to the low learning results of the education system. The Government is also strongly committed to increasing the efficiency and impact of budgetary resources devoted to human development, given concern that the outcomes in these sectors are not commensurate with the resources being devoted to them.

5. ***Taking into account SCD findings, Government priorities and stakeholder inputs, the CPF is built around three focus areas addressing governance, sustainability of the development model and human capital development.*** The first area — promoting accountable institutions and an improved business climate—concentrates on creating greater transparency, efficiency and accountability with regard to procurement, customs, banking, business regulation (including the legal framework for Public-Private Partnerships (PPPs)) and government-wide implementation of open data laws. The second area — reducing volatility, natural capital management and integration into sustainable value chains — focuses on improving resilience to macroeconomic volatility to variations in the commodity sector's output and exports, and better management of water, energy and forest resources and support to agricultural producers to adopt sustainable practices via integration into local and global value chains. The third area — building human capital — will focus on increasing the impact of health care and social assistance programs and laying the foundation for a new education model.

6. ***Application of the SCD recommendations and GoP priorities leads to significant shifts from previous WBG engagement in the country.*** First, the WBG support to governance and institutional reforms now takes center stage in the program, expanding significantly the depth and breadth of our engagement in several key but also sensitive areas such as customs, procurement and Anti-Money Laundering (AML) reforms. Second, the focus on building human capital in its different dimensions (including new financing operations) is largely unprecedented for the WBG program. Third, the strategy also includes a shift toward environmental governance and actively supporting the country in achieving its Nationally Determined Contributions (NDCs) climate change commitments. Fourth, the new financing program for FY19-FY20 does not include the core infrastructure sectors in which the previous strategies had focused on: water and sanitation, energy and transport. Instead, the strategy for these sectors aims at conducting public expenditure reviews and in-depth analytical work to support important government reforms that would render physical investment more sustainable and increase public service impact.

7. ***WBG corporate priorities are embedded in the CPF.***

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<sup>3</sup> The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.

- On *climate change*, an explicit CPF target is to help Paraguay achieve its NDCs under the Paris Agreement, especially supporting adaptation to climate change. While Paraguay has only a very limited contribution to global greenhouse gas emissions (less than 0.1 percent), it has shown high levels of vulnerability to extreme climate shocks, adversely impacting key sectors of the Paraguayan economy such as agriculture and hydropower generation. Floods are also increasingly a major issue in Asuncion and other parts of the country.
- Paraguay has made good progress on *gender equality*, achieving near-parity in education and reducing teen pregnancies. Nevertheless, a few areas stand out as needing continued attention, including reducing the high maternal mortality rates, closing the earning gap between men and women; and increasing the representation of women in political life. The CPF will support Paraguay in increasing rural women's incomes through ensuring their inclusion in agricultural development efforts including national and regional value chains. The CPF also places special emphasis on maternal health as a component of WBG support to the sector. A detailed country gender assessment is planned in FY20, which will help identify further actions post PLR (FY21-23).
- The Maximizing Finance for Development (MFD) approach is critical for Paraguay to bridge the large investment gap in infrastructure, which cannot be financed solely through public resources. Attracting private investment in infrastructure and mobilizing Foreign Direct Investment (FDI) into the productive sectors is key, and the WBG program will help bolster private sector confidence in the Paraguayan economy by supporting government efforts to create a friendly business environment (including streamlined regulations, strengthened public institutions and the rule of law). This in turn will be crucial for (re)building investor confidence and overcoming the shortcomings of Paraguay's first foray into PPPs. The International Finance Corporation (IFC) will support private sector growth by doubling its portfolio in the FY19-FY23 period and expanding its activities from agribusiness and finance into PPPs in infrastructure, manufacturing and Information and Communications Technology (ICT). The Multilateral Investment Guarantee Agency (MIGA) will be supporting the Government to reduce risk perceptions in FDI projects and PPPs, by providing political risk insurance. Government's turn-key projects (*Ley 5074*) could also be supported by MIGA by covering non-honoring of financial obligations.

8. ***The Bank, IFC and MIGA expect to work closely in a complementary fashion in a number of areas.*** On PPPs, the Bank will take the lead in supporting the development of an appropriate policy and institutional framework followed by IFC (and potentially MIGA) support for development of specific infrastructure transactions. Support for improvements to broader business regulations will also continue to be undertaken jointly, with IFC taking the lead on supporting the Government's modernization effort on business entry, credit guarantees and insolvency and the Bank supporting implementation via Development Policy Financing. Joint work is also envisaged in the area of enhancing sustainable agribusiness by supporting organizations of smallholder producers and productive partnerships with purchasers, so they can endure and generate economic benefits. In several value chains, the Bank and IFC will make joint efforts to foster inclusive and sustainable agribusiness: while the Bank will focus on the supply side comprising smallholder producers and on the enabling environment by strengthening critical institutions, IFC will provide anchor firms with assistance in designing and putting into operation supplier development programs. By doing so, the WBG will contribute to creating conditions for long lasting supplier linkages by smallholder producers, thus creating economic opportunities for the rural poor. Moreover, the Bank and IFC will both support strengthening of Paraguay's financial sector, albeit from different angles. The Bank will focus on sector transparency while the IFC will continue to lend to local banks in order to catalyze credit to Small and Medium Enterprises (SMEs) in both urban and rural areas.

9. ***The financing and analytical program has been spelled out for the CPF period before the PLR.*** To build flexibility for lending and analytical instruments to the actual realities and demand on the ground, the CPF lending and reimbursable ASA (Reimbursable Advisory Service (RAS)) programs have been specified in detail for FY19-20, with additional activities to be identified at mid-term. At this stage, the IBRD planned financing program comprises about US\$400 million out of an overall available envelope of US\$700 million for FY19-23. A proposed anchor instrument is a Development Policy Financing (DPF) (P169505) that, if successful, could provide the basis for lending in key areas such as water, energy and environmental management as well as supporting PPP transactions in transport infrastructure. The Progress and Learning Review (PLR) to be undertaken at mid-term will lay out the work program details for the second half of the CPF.

10. ***An important instrument in the implementation of the CPF will be a strong RAS program.*** RASs have become a vehicle for rationalizing ASA demand and available resources. Today, Paraguay already has a strategic RAS program and a number of key interventions have been agreed with the Government as part of the CPF preparation discussions. New engagements are expected in customs and health reform, public procurement and social protection system effectiveness. Experience to date with the RAS program has been positive as a mechanism to channel WBG strategic support to areas of highest value-added for the Government.

11. ***The CPF program is ambitious and subject to substantial risks.*** Central reforms committed by the new Paraguayan administration in areas such as customs, taxes, health or education, will likely encounter political headwinds. Also, the achievement of the CPF objectives will levy significant demands on Paraguay's institutional capacity for implementation and sustainability which has proven a bottleneck in the past. Finally, while the fiduciary environment in Paraguay has improved notably, challenges remain and efforts to strengthen key areas continue.

## II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

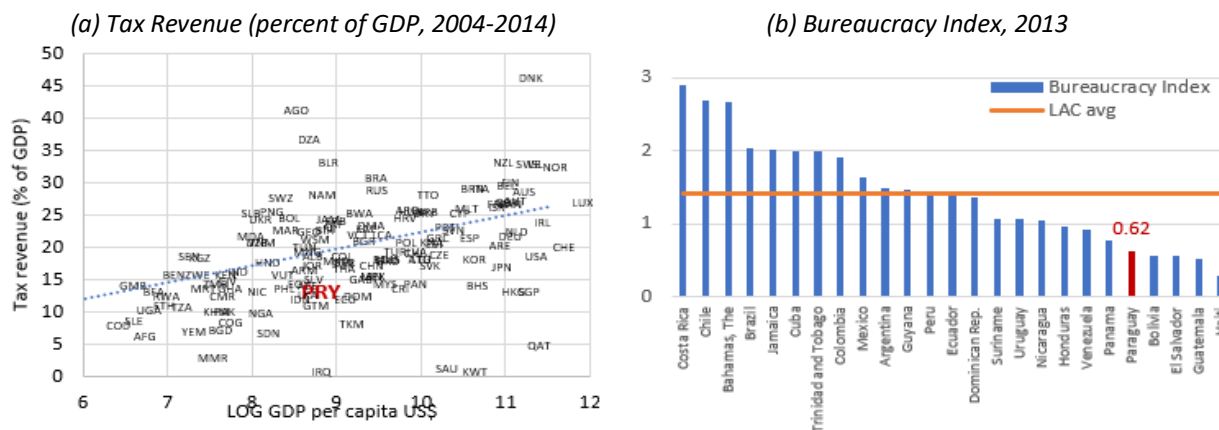
### A. Political Context and Governance

12. ***Paraguay's institutional legacy continues to shape some aspects of the contemporary state and, in turn, development outcomes.*** Three historical features stand out: a relatively low tax revenue base; a large State-Owned Enterprises (SOEs) sector; and relatively low levels of efficiency and effectiveness in the state bureaucracy (Figure 1). The low tax base has translated into a small state apparatus: the share of revenues and expenditures as percentage of Gross Domestic Product (GDP) is well below the Organization of Economic Cooperation and Development (OECD) average and that of regional peers. The country has also relied on large, monopolistic SOEs for provision of basic services and electricity. Electricity is – through the large hydropower dams – a major source of fiscal revenue and exports. There remain quality and access gaps to basic infrastructure and social services, especially for the bottom 40 percent of the population.

13. ***During the past Administration, important institutional reforms have commenced.*** Significant steps have been made in institutional development, notably in moving to a more accountable government, including the launching of an ambitious package of reforms in fiscal transparency, open contracting, Access to Information (ATI) and open data. Substantial progress has also been achieved in the institutional transformation of government agencies responsible for macroeconomic management. The fiscal and monetary policy frameworks, for example, are protected from political interference and

have provided the basis for strong economic growth and poverty reduction over the past decade. Yet, challenges remain. For example, despite progress, corruption remains to be perceived as a top constraint for business and development.<sup>4</sup>

**Figure 1. Tax Revenues are Low in Paraguay, as is the Efficiency of Bureaucracy**



Source: World Bank's World Development Indicators.

Source: Chuaire and Scartascini, 2013.

14. **The Paraguayan Government has outlined an ambitious institutional reform agenda.** The new President leads an aspirational platform for the reform of the State. The new Administration can build on important gains such as strong fiscal macro stability, progress towards formalization and economic diversification, increasing international credibility, mobilizing private investment and important transparency and accountability reforms. A stated goal by the Administration is to strengthen Paraguay's relatively young democratic institutions. The new Administration seeks to establish long-term public policies designed to transform and democratize public institutions beyond its five-year mandate. The aim is to build broad consensus for a step-wise reform process that will garner strong legitimacy. The country's ranking by Transparency International Index improved by 15 places between 2014 (150 out of 174) and 2017 (135 out of 180). However, Paraguay still lags even for LAC standards, and deep-rooted reforms built through consensus and civil society political participation are needed to make a significant qualitative leap forward. An ongoing initiative at the Parliament seeks to eliminate privileges and immunities for representatives as well as a new bill on conflict of interest and ethics is also being discussed. The Administration is seeking to make strides in accountability in sensitive areas such as customs, procurement and AML. These reforms will also necessitate, though, a strengthened and more vibrant civil society and media to effectively make use of the newly-developed public transparency.

<sup>4</sup> Paraguay ranks 123<sup>rd</sup> out of 176 countries on the 2016 Corruption Perception Index.

## B. Recent Economic Developments and Outlook

15. ***Paraguay has shown solid economic growth, strong poverty reduction and macroeconomic stability in recent years – a change of the development model, however, could increase sustainability and inclusiveness in the future.*** Economic growth has been above the regional average. Macroeconomic stability has been achieved; inflation is under control and public debt is low. Poverty reduction has been substantial, and several social indicators have shown significant improvements. Apart from solid macroeconomic policy, growth has been based on extensive leveraging of the country's natural wealth, particularly land and hydroelectric potential. Demographic change in Paraguay has led to a sizable expansion of the working-age population, adding to economic output. If the current model is adjusted, the sustainability of these achievements could be increased substantially, since two of the main sources of growth in the past decade (use of natural capital and the demographic bonus) will slowly reduce their contribution to growth. To meet the population's expectations, Paraguay needs higher growth rates, but, even more importantly, this growth should become inclusive and sustainable in the medium and long term.

16. ***After decades of sluggish growth, Paraguay has been growing at 4.5 percent per year on average, in the 2004-2017 period.***<sup>5</sup> The country's growth rate was notably faster than the average for the LAC region (Figure 2). Growth was driven largely by agriculture and, to a lesser extent, hydroelectric generation—exploiting the country's comparative advantage in abundant natural resources — and by an expanding services sector. Both crops and livestock were among the top five contributors to growth in 2004-2016, along with commerce, government services, and manufacturing. Due in large part to the strong performance of the agricultural exporting sector, Paraguay stands out in the region for the positive contribution of net trade to growth: exports alone contributed 2.9 percentage points of GDP growth across 2004-2016. However, neither export-oriented agriculture nor commodity exports are labor-intensive. In fact, most private sector employment in Paraguay is informal self-employment with small capital inputs.

17. ***High average GDP growth masks significant volatility over the period.*** During the 2004-2016 period, Paraguay had greater growth volatility than the average in Latin America, though it became less pronounced since 2014. During this period, the correlation between Paraguay's overall GDP growth and the growth of its agricultural sector is estimated at 0.97 percent, while its industrial sector and service sector showed less correlation with overall growth. The agricultural sector is vulnerable to changes in international commodity prices and weather conditions, thus greatly influencing volatility in overall GDP growth. This affects fiscal accounts and public service provision. Unpredictable fiscal revenue collection contributes to budget under-execution, which typically harms investment and social spending, thereby decreasing the Government's margin to tackle poverty and reduce inequality.

18. ***The contribution of the capital stock to growth has been low.*** Paraguay has a low domestic savings rate with low private and public investment, and the country has a limited ability to attract FDI. Gross capital formation averaged 16 percent of GDP between 2004-2016, the lowest among regional comparators. The capital stock contributed the least to GDP growth in the 2004-2016 period, while growth

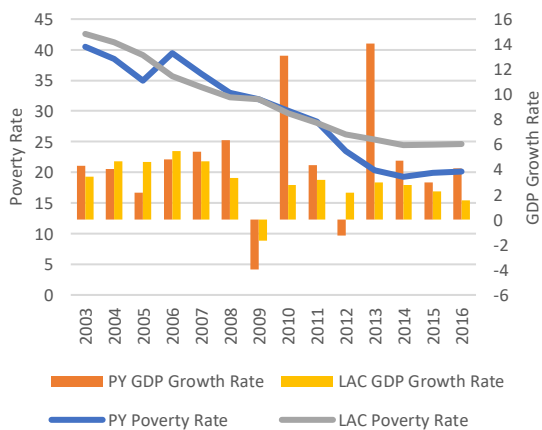
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<sup>5</sup> In May 2018, the Central Bank of Paraguay (BCP), in charge of the System of National Accounts (SNA) statistics in the country, announced the change of the SNA's base year from 1994 to 2014, carried out in accordance with the SNA2008 methodology. The SNA rebasing to 2014 led to changes in the level, structure, and dynamics of the GDP, and, accordingly, to changes in the analytical economic ratios. Because of better coverage, the nominal GDP level for the new base year of 2014 was evaluated at 30.4% higher than the previous data.

in total factor productivity and labor were the first and second most important factors of production. With a current account surplus during the period, Paraguay also has not been able to channel external savings to finance investment. FDI net inflows to Paraguay are consistently low, over 2004-2016 averaging 1.5 percent of GDP. Increasing direct private investment will require meaningful reforms to strengthen the rule of law, provide reliable institutions and predictable laws that reassure investors, coupled with a well-grounded investment promotion strategy. In an effort to promote business formalization by streamlining laws and processes and reducing costs for doing business three major bills (business entry, exit, and use of mobile assets as credit collateral) will be introduced to Parliament. As today, Paraguay ranks 113 out of 190 economies in World Bank Group's Doing Business 2019.

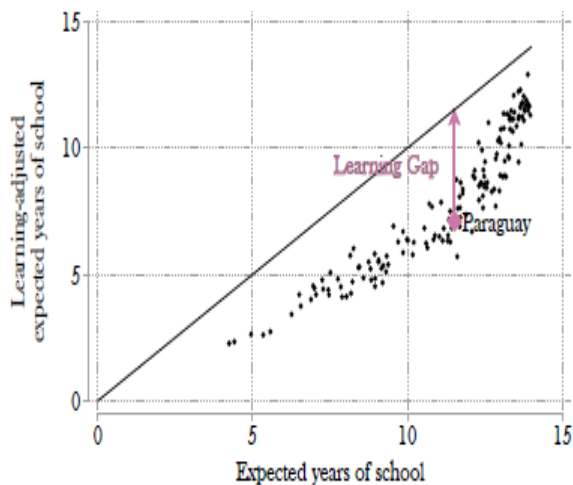
19. **Growth in Paraguay depends heavily on natural resource endowments, but the country has been depleting its natural wealth and faces the challenge of dealing with more frequent and harmful climatic events.** The abundance of natural capital - fertile land, forest, water resources, and hydroelectric potential - gives Paraguay important comparative advantages in the agriculture, livestock and energy sectors. However, economic growth comes at an environmental cost. Logging and clearing of land for charcoal/biomass, crops and cattle ranching have resulted in extensive forest degradation and deforestation. The expansion of soybean cultivation and pasture expansion pose multiple challenges to protect the forest biome. Paraguay ranks among the top 11 countries on total deforestation (2000-2013) and it is one of the highest in relative terms with respect to total forest cover. At the macro level, Paraguay is depleting its stock of natural wealth. The Adjusted Net Savings (ANS) indicator, which incorporates natural resources, subsoil asset depletion and net forest depletion, as well as pollution damage, indicates per-capita wealth has fallen in recent decades.<sup>6</sup> Natural capital depletion has been driven entirely by deforestation in Paraguay. At the same time, increases in the frequency and intensity of climate events, such as floods and droughts, are becoming a major source of economic vulnerability: over the past 20 years (1995-2015), production losses generated by extreme climatic events amounted to an average loss of US\$237 million per year (about 5 percent of the agricultural GDP or 1 percent of GDP).<sup>7</sup>

**Figure 2. Poverty Reduction and GDP Growth, 2003-2016**



Source: Poverty and Equity Database, World Bank and WDI.

**Figure 3. Learning Gap in Paraguay, 2017**



Source: World Bank, Human Capital Project.

<sup>6</sup> Change in Wealth Per-Capita (CWPC) is calculated as gross savings, less the consumption of fixed capital, plus current public expenditure on education, less natural capital depletion, less a population adjustment factor. The first two components come from National Accounts. Natural Capital Depletion includes net forest depletion, energy depletion, and mineral depletion. The population adjustment factor is equal to wealth per capita multiplied by the population growth rate.

<sup>7</sup> World Bank, 2014. Growth Volatility in Paraguay: Sources, Effects and Options.

20. **Paraguay has a relatively low stock of human capital.** The World Bank's HCI 2018 shows results for Paraguay that are lower than the average for the LAC region and income group. Given the current prospects for healthy growth and learning, a child born in Paraguay today will only be about half as productive at the age of 18 than it could have been with full health and learning performance. Most striking is the inequity and low quality of learning: while children in Paraguay can today expect to complete 11.5 years of school by age 18, when adjusted for the actual learning impact (which reflects the quality of education), these years of schooling are translated into 7.1 years—implying a learning gap of 4.4 years, the fourth largest in the region (Figure 3). Paraguay ranks 90 out of 157 countries in the world in terms of human capital development according to HCI 2018. Educational attainment should be matched by improvements in learning outcomes (comparative test scores place Paraguay at levels similar to those of lower-middle income countries). Lack of an adequately educated workforce was the third most-cited problematic factor for doing business in the country in the WB Enterprise Survey 2017. Despite increasing public expenditure health outcomes in the broader population have improved at a slower rate than other countries in the region, as manifested for example by life expectancy outcomes.

21. **Economic growth has been supported by prudent macroeconomic policies.** Paraguay averaged a fiscal surplus of 0.2 percent of GDP in the 2004-2017 period. A rise in public expenditure and stagnation of revenues have led to fiscal deficits since 2012, but these deficits remain moderate and public debt remains low. In 2015, the country began implementing the Fiscal Responsibility Law (FRL), which limits the central government deficit to 1.5 percent of GDP and the growth of primary current expenditure to 4 percent of GDP. The Central Bank of Paraguay (BCP) has adopted an inflation-targeting regime. Inflation has fallen significantly below regional comparators since 2012, also in line with the OECD average. Paraguay's flexible exchange rate arrangement has helped to absorb recent external shocks. Foreign reserves remain at prudent levels. The financial sector is sound, with well-capitalized banks with high profitability and low non-performing loans, though it is small, bank-centric and highly exposed to a volatile agricultural sector, with agribusiness and livestock representing 35 percent of banks' total loan portfolio.

22. **Economic growth in 2018-2023 is projected to continue around 4 percent, and macroeconomic policies are expected to remain prudent** (See Table 1 for an overview of key economic indicators). Private consumption is likely to increase to a rate closer to the overall GDP growth (and to exceed it in 2018). Fixed investment is projected to grow above 5 percent. With stronger domestic demand and given the economic downturn of its main trading partners, in particular Argentina, higher import growth is expected to make the contribution of net exports negative and keep the current account in deficit. The authorities are expected to maintain prudent macroeconomic policies, anchored in the inflation targeting and the FRL. Inflation is projected to remain close to the target of 4 percent. The FRL continues to protect prudence of fiscal policy, while a gradual increase of tax revenues and the National Account rebasing creates some additional fiscal space in nominal terms with the unchanged deficit ceiling of 1.5 percent GDP. Renegotiation of the *Itaipu* binational hydropower dam's treaty with Brazil may generate additional fiscal revenue from 2023 onwards. Although Paraguay has built strong macroeconomic buffers—low sovereign debt and high international reserves—supported by prudent policies, crises and volatility in the neighboring markets may increase the country's vulnerability and risks to the outlook. Moreover, concentration of exports in a few agricultural products continues to make growth vulnerable to fluctuations in commodity markets and to weather related shocks.

**Table 1. Key Economic Indicators for Paraguay, 2014-23**

	2014	2015	2016	2017	2018f	2019f	2020f	2021f	2022f	2023f
Real GDP, percent change	4.9	3.1	4.3	4.8	4.0	3.9	4.0	4.0	4.0	4.0
Consumer Inflation, percent change	4.2	3.1	3.9	4.5	4.0	4.0	4.0	4.0	4.0	4.0
<b>Savings and Investments</b>										
Gross domestic savings	19.7	18.2	19.9	17.3	16.6	16.8	16.8	16.8	16.8	16.8
Gross fixed capital formation	19.8	19.1	18.8	18.1	18.5	18.8	19.0	19.1	19.2	19.2
<b>Fiscal accounts</b>										
Consolidated Public Sector, percent of GDP										
Revenue	17.5	18.7	19.1	19.8	20.1	20.1	20.1	20.2	20.2	20.2
Tax revenue	9.7	10.0	10.1	10.7	10.8	10.8	10.9	11.1	11.3	11.3
Nontax revenue	7.7	8.7	8.9	9.2	9.3	9.3	9.2	9.1	8.9	8.9
Expenditure	18.0	20.5	19.5	20.3	20.8	21.0	21.0	21.1	21.1	21.1
Capital expenditure	2.3	3.1	3.4	3.8	3.4	3.4	3.3	3.4	3.5	3.5
Overall Balance	-0.6	-1.8	-0.4	-0.5	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9
Primary Balance	0.1	-1.0	0.5	0.4	0.3	0.1	0.2	0.2	0.2	0.2
Debt	15.1	18.1	18.9	19.4	20.4	20.7	21.1	21.2	21.2	21.3
<b>External Sector</b>										
Current Account, percent of GDP	-0.1	-0.8	1.2	-0.8	-1.9	-2.1	-2.3	-2.3	-2.4	-2.4
Trade Balance	2.5	1.6	3.8	1.4	-0.2	-0.7	-1.1	-1.1	-1.2	-1.1
Services Balance	-0.6	-0.7	-0.6	-0.7	-0.1	-0.3	-0.3	-0.4	-0.4	-0.5
Income Balance	-2.1	-1.8	-2.0	-1.5	-1.6	-1.1	-0.8	-0.8	-0.8	-0.8
Foreign Direct Investment	0.8	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9
International Reserves, months of future imports	7.2	6.8	7.4	7.8	7.3	7.4	7.5	7.5	7.5	7.5

Source: Paraguay authorities, IMF, WB.

### C. Poverty and Shared Prosperity

23. ***The strong economic growth experienced since the 2000s has been accompanied by significant — albeit not uniform — poverty reduction and shared prosperity.*** Overall, poverty reduction mirrors macroeconomic trends, with poverty rising in the late 1990s and falling since 2002. Between 2003 and 2017, total poverty fell by 25 percentage points and extreme poverty by 8 percentage points, reaching 26.4 and 4.4 percent, respectively. At the same time, the income of individuals at the bottom 40 percent of the population grew at an annualized rate of 4.3 percent (compared to 2.5 percent average growth). However, progress was not uniform. Between 2013-2016, poverty rates stagnated and shared prosperity turned slightly negative (-0.5 percent), though both resumed a positive trajectory in 2017. Labor income growth was the main contributor to poverty reduction until 2013, and its subsequent slowdown is behind the stagnation observed between 2013 and 2016.



24. ***Households dependent on family farming are at the highest risk of being poor and face multiple constraints to productivity growth.*** Rural poverty decreased strongly between 2003 and 2016 (from 58 to 36 percent) — and those able to lift themselves out of poverty largely did so by diversifying their income sources through off-farm wage employment. However, most people in rural areas still rely on family agriculture (76 percent in 2017). Productivity from the main crops cultivated in family farms has stagnated (and in some cases even deteriorated). Cotton production, which used to be the key cash crop among family farms, has fallen by more than 90 percent in the last 10-15 years, leaving many family farms without a suitable substitute. Currently, about 40 percent of rural properties remain untitled or have incomplete/flawed titles, a situation that disproportionately affects indigenous communities. Furthermore, the rural poor report a high incidence of suffering negative price and climatic shocks which, together with limited risk-coping strategies, can lead them in stress situation to sell assets and reduce food consumption.

25. ***Paraguay has made important progress in service delivery outcomes, raising attendance rates in school and reducing malnutrition, but important gaps remain.*** Net enrollment rates in middle education increased from 36.8 percent to 52.2 percent between 2003-2016. The gap in access to tap water between the richest and poorest quintiles narrowed considerably, and basic sanitation coverage has expanded from 71.9 percent in 2000 to 91.3 percent in 2015. This effort, together with increased household incomes, higher maternal education, and healthcare and family planning, contributed to lower childhood chronic malnutrition. But critical inequities exist between socio-economic groups and geographic areas. The difference in enrollment rates at the start of middle education between the top and bottom income quintile was 35 percentage points in 2016. Today, nearly half of Paraguay's population lacks access to safe drinking water.<sup>8</sup> Almost half of all children born in rural areas do not have access to flush toilets inside their home, while almost all children born in urban areas do. Social protection policies need to focus more on human capital generation, assigning more resources to children, instead of preserving the current structure which is skewed toward 'old age and survivors'. Less than 5 percent of the poorest quintile of the population has any health insurance, and 23 percent are at risk of catastrophic out of pocket expenditure (i.e. a financial shock that would require 25 percent of their income). With a growing youth population, expected to add 65,000 new workers every year until 2030, and a formalization of the labor force that has mainly benefited urban areas and the middle classes, improving social outcomes and bridging existing gaps will be critical for sustained social progress in Paraguay. Improved human capital outcomes and a dynamic labor market will be essential to continue promoting income growth of the poorer in society and lifting people out of poverty.

26. ***Indigenous peoples in Paraguay are the most socially excluded group in the country, and language barriers are prevalent.*** Paraguayan indigenous people — comprising about 2 percent of the population — live on a third of the average national per capita household income. The official poverty rate for the indigenous population is more than double the national poverty rate, and extreme poverty is nearly six times higher than the national rate (67 percent and 33 percent, respectively). The living conditions of indigenous people are much worse than those of the average Paraguayan, with limited access to basic services and education. Indigenous peoples also suffer disproportionately from land tenure insecurity.

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<sup>8</sup> "Sustainable Development Goals' Target 6.1. WHO/UNICEF. Progress on drinking water, sanitation, and hygiene: 2017 update and SDG baselines, 2017.

#### **Box 1. Gender Equity in Paraguay**

***Paraguay has made good progress towards reducing gender inequality in many areas — but significant gaps persist.*** Increasing gender equality is critical for development through channels such as increased productivity, improved outcomes for the next generation, and a more representative decision-making process. Paraguay has achieved near-parity in education access and learning outcomes. The reduction in teenage pregnancy has been substantial: between 2003 and 2015, the adolescent fertility rate fell from 75 to 57 births per 1,000 women aged 15 to 19 years. In the labor market, women face marginally higher unemployment and informality rates than men, and Paraguay has one of the highest female labor force participation rates in LAC (though still significantly lower than male rates). Yet, when employed, women are subject to significant wage discrimination

Significant challenges remain. Maternal mortality stands at double the LAC average at 132 deaths per 100,000 live births in 2015. Even if education outcomes are similar for boys and girls, one in five school-age girls cite family reasons for not attending school. According to the 2016 Time-Use Survey, 51.1 percent of females reported housekeeping and child care as their reason for being outside the labor force and education. Finally, despite vigorous efforts to promote gender equality, women are still poorly represented in the political sphere: women hold only 17 percent of parliamentary seats in Paraguay versus the Latin American average of about 28 percent.

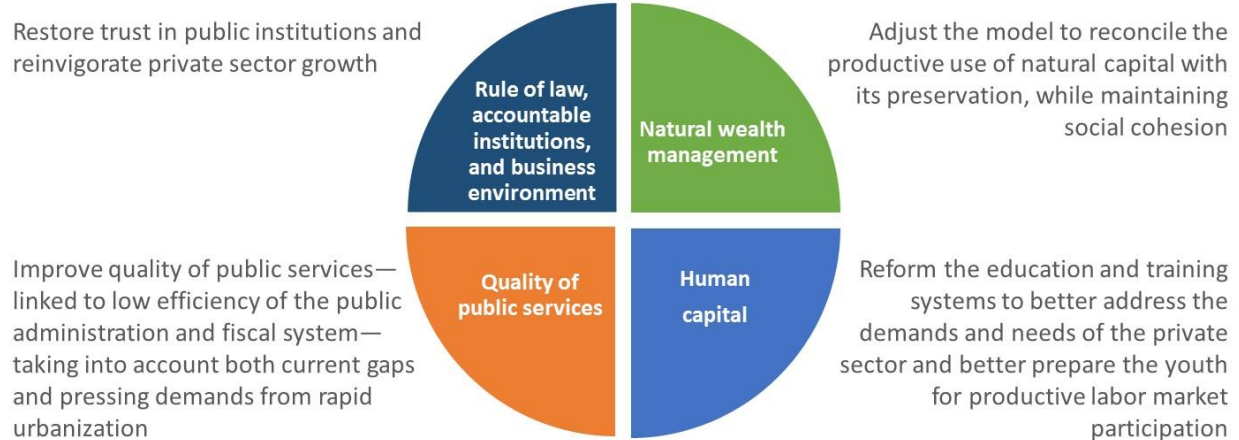
Source: World Bank.

#### **D. The Development Agenda**

27. ***To achieve sustainability in the medium term, Paraguay’s development model will require structural adjustments.*** First, the depletion of natural resources at its current rate—largely driven by deforestation—is unsustainable in the medium- to long-run, and the growth model is highly sensitive to climate variability. Second, the demographic dividend will start to fade: its contribution to growth and poverty reduction is already lower today than previously, and the resulting gains are affected by the low quality of human capital. The growing youth population combined with rapid urbanization will require a dynamic economy and more efficient public policies. Lastly, institutional changes have commenced, but will need to accelerate to reduce the high degree of concentration of economic goods and income, increase formality, reduce volatility, and improve the quality of key public functions including the fiscal system, business regulations and the quality of infrastructure and social services.

28. ***The SCD emphasizes the need for structural changes to the current development model and identifies four main policy priority areas for reducing poverty and boosting shared prosperity in a sustainable manner.*** These priority areas which need to be strengthened—rule of law and accountable institutions, natural wealth management, quality of public services, and human capital—are summarized in Figure 4 below. Each priority area is discussed in more detail in the following paragraphs, as they form the underlying rationale for the CPF pillars and for the specific interventions envisaged in FY19-FY23.

**Figure 4. The Four Policy Priority Areas for Paraguay**



*Priority #1: Rule of law, accountable institutions, and business environment*

29. **Promoting trust in public institutions by making them more transparent and accountable, reducing corruption and continuing to modernize the business environment is core to the development challenge.** These reforms have been prioritized by the Government and not only have the potential to support business performance and productivity, and thus job creation, but also social cohesion. The enactment of a legal framework to boost public sector transparency in 2014 is an important reform, which the new Administration plans to translate into actions designed to promote greater accountability and citizen engagement. Tackling customs reform and continuing to take further steps to improve the business climate so that private sector firms can invest and create jobs is critical. It will call for further strengthening of governance, including anticorruption measures, securing property rights, predictability in the justice system, solid contract enforcement, and fair competition. Currently, competition policy is lacking and SOEs dominate several key sectors of the economy.<sup>9</sup>

*Priority #2: Natural wealth management*

30. **Paraguay is rich in natural endowments which, combined with high quality inputs and comparatively low costs, have given the country a comparative advantage in agriculture and energy sectors.** Over the past two decades, Paraguayan agriculture has experienced a major transformation that has been the backbone of the economic performance in the country, providing 20 percent of the GDP in 2016 and generating over two thirds of national exports. The abundant water resources support two large hydropower plants (the *Itaipu* and *Yacyreta* binational dams) that generate most of the country's electricity.

31. **Reconciling the productive use of natural capital with its preservation will increase the sustainability of Paraguay's development model.** The success of the agriculture sector has come at a high cost on natural resources. These trends may jeopardize the long-term sustainability of the current agriculture model and may represent a social, environmental and economic liability. In addition, this

<sup>9</sup> World Economic Forum. 2017. Global Competitiveness Report 2017-2018.

model is also challenged with the increase in frequency and intensity of climate events that are becoming a major source of economic vulnerability. Paraguay will need to define a new rural development model that will reconcile the growth and diversification of the agriculture sector with environmental and social sustainability.

*Priority #3: Quality of public services*

32. ***The provision of equitable, high quality services can bring further poverty reduction and increase firm productivity.*** According to the WEF Executive Opinion Survey 2017, inadequate infrastructure and inefficient government bureaucracy are the third and fourth most problematic factors behind poor competitiveness in Paraguay. Limited access to services, especially in rural and remote areas, is a key factor for remaining social exclusion and gaps in opportunities. Regulatory and institutional challenges limit the effectiveness and efficiency of SOEs. Moreover, the contribution of the fiscal system to inequality reduction in Paraguay is currently negligible — at less than 0.01 change in the Gini coefficient, the fourth lowest in the region<sup>10</sup>. Improving the quality of public services will require an efficient public administration and fiscal incentive system. Entry points which the new Administration is considering, include: (i) filling critical infrastructure gaps in transport, electricity, and water and sanitation, including through the adoption of MFD principles and leveraging private sector participation through PPPs; (ii) improving the efficiency and distributional impact of fiscal policy, both on the revenue side and the expenditure side; (iii) developing an integrated social information system for smart identification of the poor and vulnerable; (iv) strengthening public administration via better coordination, reduced fragmentation and duplication of public functions, and further professionalization of the civil service; and (v) improving SOE performance by applying the *Arandu* Corporate Governance Code<sup>11</sup>, strengthening performance contracts, and separating regulatory and service-provision roles.

*Priority #4: Human capital*

33. ***A high priority area will be the reform of the education and training system to better prepare young people for productive labor market participation.*** There is a need for special focus on education and skills. The education and training systems will need to keep up with demand from labor markets and produce high-quality and equitable educational outcomes. According to the 2017-2018 WEF Global Competitiveness Index, an inadequately-educated labor force is the second most cited challenge for firms operating in Paraguay, and employers report significant gaps in the skills required for higher productivity jobs. Despite large increases in education spending over the last decade, learning outcomes have not improved, and in some cases, they have even deteriorated. The new Administration has made education and training a priority area for action and has declared a ‘national emergency’. Elements of the reform would likely include the strengthening of financing-allocation mechanisms in public education so that resources follow students’ demands and needs; aligning teacher incentives to improve student outcomes; and increasing the alignment of academic curricula and training services with current and future market demands.

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<sup>10</sup> Giménez, Lea, María Ana Lugo, Sandra Martínez, Humberto Colman, Juan Jose Galeano, and Gabriela Farfán. 2017. *Paraguay: Análisis del sistema fiscal y su impacto en la pobreza y la equidad*. CEQ WP74.

<sup>11</sup> The *Código Arandu* (which in Guaraní means "wise and intelligent") was approved by Presidential Decree # 6381/2016, with the objective of improving the management of public enterprises through the implementation of good corporate governance practices.

## E. Government Program and the Role of Other External Partners

34. ***SCD findings are consistent with the Government’s strategic program.*** The Government program is outlined in two development strategy documents – the long-term National Development Plan (NDP) 2030 and the PdG 2023, “*Paraguay de la Gente*”. The NDP’s overarching goals include a focus on eliminating extreme poverty and achieving higher-than-average growth in the incomes of the bottom 40 percent. As such, the WBG’s twin goals are well aligned with the NDP and the PdG, which is anchored in a medium-term economic framework and supports sustainable fiscal policies, enhanced tax revenue efforts, improved efficiency in social protection policies, and widened financial inclusion.

35. ***The new Administration emphasizes an important shift in two transformational areas: anti-corruption and democratization of the state as well as wide-reaching reforms to boost human capital accumulation.*** The first months in office have been dominated by the new Administration’s determination to tackle corruption, including by nominating respected professionals in key government positions. Similarly, the difficult and sensitive discussion of the justice system has moved to center stage in the public discourse. The Administration is also promoting a dialogue with political parties and social movements to establish priorities for institutional reforms. The reform of the electoral code and possible modifications to the National Constitution and the judicial system would be the priorities in the medium term. Similarly, Paraguay’s new Administration has labelled the state of human development in the country as a ‘top priority’. Gainful employment is seen as the strongest and most equitable social policy to be pursued.

36. ***Paraguay’s external partners are expected to play a significant and coordinated role in supporting the development path lying ahead.*** Multilateral development partners include the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF), the European Union (EU), the European Investment Bank (EIB) and MERCOSUR through its Structural Convergence Fund (FOCEM). Of these, CAF, FOCEM, EIB and IDB are focused principally on infrastructure development, particularly, transport, water and energy. IDB, the largest financial partner, also plays an important part in supporting the financial sector, ICT development (bridging the digital divide is a cross-cutting priority of the Government’s PdG) and has been playing a key role in strengthening public administration. The EU has been focused on electoral justice, education and social protection; and is currently preparing a program for private sector development. Major bilateral donors include Korea, Japan, the United States Agency for International Development (USAID) and Taiwan, China. Together with the Government, the WBG is seeking to leverage its financial and analytical resources in close cooperation with the support from other partners. For example, CAF, FOCEM and the EIB have approached the Bank to explore parallel financing opportunities. Also, the European Union has confirmed a EUR1.2 million contribution to the WB-led implementation of Doing Business (DB) reforms.

### III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

37. ***By design, the CPF takes on new and higher-risk activities that are central to Paraguay’s development agenda while also scaling up interventions that proved successful in previous WBG engagements.*** An overall financing envelope of about US\$1,000 million is envisaged for FY19-FY23, comprising IFC investments and various IBRD instruments. The agreed program for the first years of this CPF includes supporting the Government to design priority reforms through RASs, in key – albeit sensitive – areas such as health, education, and social protection. A central goal of the new program will be to promote women’s participation in the economy, which can have a transformative impact in eradicating extreme poverty and increasing shared prosperity. Attention has also been paid to improving women’s

health and improving their access to social assistance. Closing gender gaps is a key feature of pillars 2 and 3 of the proposed CPF.

#### **A. Lessons Learned from the Last CPS FY14-FY18**

38. ***The development outcome of the previous Country Partnership Strategy (CPS) (FY15-18) is rated as Moderately Satisfactory.*** While new lending had remained substantially unchanged from the previous strategy cycle (FY09-FY13), WBG advisory services expanded considerably, covering a wide range of critical development issues. *Inter alia*, these support the various results areas which had been outlined in the CPS, including for poverty/equity analysis, reduction of macroeconomic volatility through fiscal policies and savings mechanisms, improvements in the business climate, reduction of volatility in agricultural prices, financial inclusion, and fostering open data and transparency. The Completion and Learning Review (CLR) found that several ASA activities yielded tangible outcomes as they informed policy and structural reforms. For instance, an ASA on agricultural pricing supported greater transparency and predictability in grain prices and the establishment of the *Bolsa Agricola*. The DB advisory work provided valuable inputs for reducing administrative red tape. Several lending activities also had solid outcomes, contributing to improvements in pro-poor provision of basic services in energy, water and sanitation. Areas that fell short of the anticipated outcomes included broader fiscal reform, including tax progressivity, and PPP implementation. These issues continue to be part of the national agenda and the Government-WBG dialogue.

39. ***Four lessons from the implementation of the previous CPS have a direct impact on the preparation of the CPF.*** These include:

- ASA can be as effective as lending in achieving transformations, but selectivity and ownership are imperative. RASs, in particular, have proven to be a useful tool for prioritizing Government demand for WB advisory services. RASs can also be an effective vehicle to advance policy definition and implementation while a financing operation is in preparation (given lengthy effectiveness times). Programmatic ASA, given its flexibility, is also valuable in helping to cope with changes during the implementation process of lending operations;
- Institutional capacity and governance constraints may determine the success of financing and non-financing operations alike. Building strong sector governance, strengthening institutions and technical capacity inside the executing agency is a key added-value element in each WB investment project;
- Keeping projects simple and clearly anchored to a single institution is key to overcoming technical capacity constraints. Simplicity in project design is an important contributor to timely implementation and realization of outcomes, *inter alia* by minimizing bureaucratic complications and bottlenecks;
- The CPF results framework should carefully choose interim indicators to ensure that results are measurable mid-term at PLR stage. This helps account for Paraguay's delays in project effectiveness and implementation.

40. ***A positive lesson from the previous CPS also relates to the impact of a more high-profile role of the WBG in fostering debates on Paraguay's development.*** The Paraguay country office has sponsored over the past years #AsktheEconomist public debates which are well attended and shared on social media, and mobilize local think-tanks, academia and civil society to exchange views on technical development questions. Similarly, Paraguay's Policy Notes were also the basis for a large number of sector-focused working sessions with the elected Administration before taking office formally which laid the ground for this CPF.

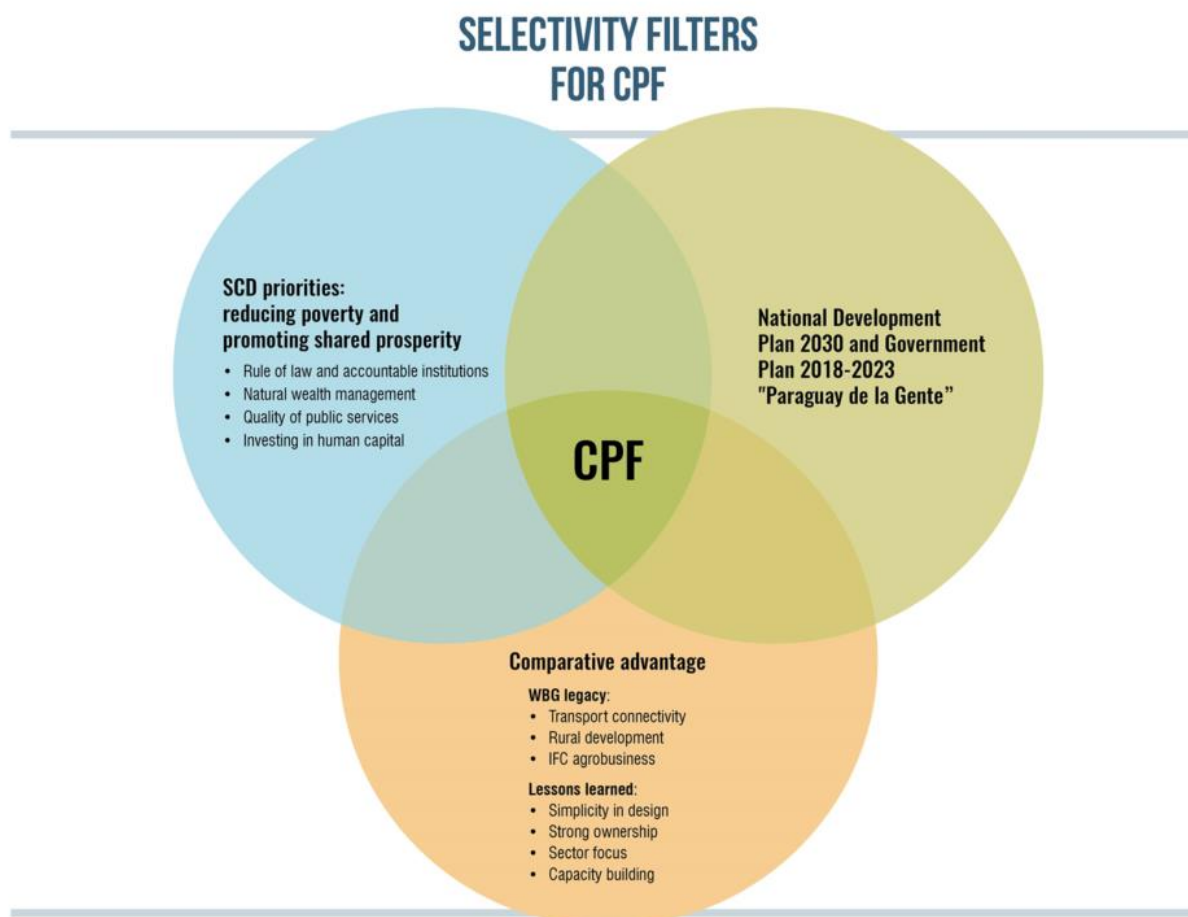
## **B. Consultations on the CPF**

41. ***The objectives and priorities of the CPF were discussed in-country with a variety of stakeholders.*** Held together with consultations on the preparation of the SCD, three half-day workshops focused on Paraguay's institutional challenges and the political economy of development. One workshop focused specifically on remaining gender-equity gaps. Participants in the workshops included representatives of civil society, think-tanks, the private sector and the Government. The most recurrent themes in these workshops concerned the weakness of Paraguayan public institutions, the rule of law, corruption, and informality. These themes were also raised prominently by consultations with locally based ambassadors and development organizations. Several high-level events occurred under the auspices of the International Commission for Growth, Equity, and Development and the WBG sponsored *#AsktheEconomist* debate series. The necessity to adjust Paraguay's development model to harness its natural capital in a sustainable way were the subject of separate consultations with local experts and the private sector, including a field trip to meet representatives of agri-business, *maquila*, banking, and commerce in the departments of *Itapua*, *Alto Parana* and *San Pedro*.

## **C. Proposed WBG Country Partnership Framework**

42. ***The overarching goal of the CPF is to support further progress on the twin goals by focusing WBG instruments on the priorities identified in the new Government's plans, the SCD and WBG comparative advantage.*** The CPF prioritizes the areas which have been identified as the biggest constraints to Paraguay's development in the SCD, where demand for WBG support is high (i.e., strong GoP ownership) and where the WBG has the resources and comparative advantage to add value. In turn, assessment of the WBG's comparative advantage is derived from previous experience in Paraguay or similar contexts, lessons learned from implementation of earlier country strategies and complementarity with other development partners. Activities that meet all three criteria constitute the core activities of the CPF program. The CPF is designed from the outset for an engagement of five years, FY19-23, with the proviso that flexibility will be built in during program implementation, in response to changing global and local circumstances. At this stage, interventions have been identified mainly for the first half of CPF implementation (FY19-20) with additional activities to be designed at mid-term, through the PLR.

Figure 5. Selectivity Filters for CPF



43. **GoP priorities and the SCD recommendations are closely aligned.** Both Government plans and the SCD emphasize continued attention to consolidating recent gains in fiscal stability, equity and inclusion and putting in place reforms that maintain growth momentum. Emphasis has been put on supporting this through building stronger, more transparent and more inclusive public institutions and fighting corruption, increasing private sector investment and putting significant attention on human capital development, especially among the poorest. The volatile economic environment calls for policy reforms and institutional changes that will make the economy more resilient to shocks as well as promote sustainable management of the natural wealth, on which Paraguay's growth depends. Within the relatively broad menu of interventions that could be undertaken within these priority areas, decisions concerning the specific activities to be included in the CPF program were further filtered through the following criteria: (i) strong country ownership and effective demand from the GoP; (ii) significant potential for contributing to improved governance, transparency and accountability irrespective of sector, which is in line with the SCD finding that governance remains a binding constraint to Paraguay's development; and (iii) continuity with successful past experience of WBG work in Paraguay. Moreover, care was taken to minimize duplication and enhance complementarity with the programs of external partners.



44. ***Taking into account SCD findings, government priorities and stakeholder inputs, the CPF is built around three focus areas addressing governance, sustainability of the development model and investing on human capital development.*** The first area — *promoting accountable institutions and an improved business climate* — concentrates on creating greater transparency, accountability and efficiency of public procurement, customs, banking, business regulation and government-wide implementation of open data laws. The second area — *reducing volatility, natural capital management and integration into sustainable value chains* — focuses on improving resilience to macro-economic volatility, better management of water, energy and forest resources and support to agricultural producers to adopt sustainable practices via integration into local and global value chains. The third area — *building human capital* — focuses on rationalizing health care and social assistance programs and laying the foundation for a new education model.

45. ***The CPF leads to significant shifts from previous WBG engagement in Paraguay.*** First, WBG support to governance and sector reform takes center stage, significantly expanding the depth and breadth of our engagement in several crucial, but sensitive, areas such as customs, taxation, public procurement, public investment management, and anti-corruption, including AML. Second, the focus on building human capital in its different dimensions, education, health and social protection (including new lending operations), is unprecedented for the WBG in Paraguay. Third, the CPF includes a shift toward environmental governance and actively supporting the country in achieving its NDC climate commitments. Fourth, the financing program for the first two years of the strategy does not include the core infrastructure sectors which had been a mainstay of the previous strategy, and included substantial investment operations in water and sanitation, energy and transport. While the CPF FY19-23 program remains engaged in these sectors, the focus will now shift to improving their governance frameworks in the first instance, possibly leading to lending in the FY21-23 period to build on efficiency gains.

#### ***Focus Area One: Promoting Accountable Institutions and Improving the Business Climate***

46. ***Improving the accountability of the public sector, the quality of public services and the business climate can yield strong dividends for economic development and shared prosperity.*** Paraguay's public perception of democratic institutions<sup>12</sup> and corruption suggests that there is limited trust in government among the broader population. The local and foreign business community perceives corruption as well as weak and opaque public institutions as key constraints to investment.<sup>13</sup> Anticorruption measures, transparent and efficient public institutions, an even-handed judiciary, and fair market conditions would contribute to the creation of a more favorable business climate for mobilizing private sector-led investment and job creation. Against this background, the CPF program will focus on a set of interlinked objectives that have strong support from the Government, could produce tangible results in the medium-term, and have the potential to make a significant impact on confidence in government institutions, while also improving the attractiveness of Paraguay's investment climate.

**Objective 1: Fight fraud and corruption in key areas.** *Indicators are linked to (i) time and cost to import (as measures of custom efficiency); (ii) savings through consolidated procurement purchases; and (iii) capacity to prevent and detect AML/Counter-Terrorism Finance.*

<sup>12</sup> Latinobarómetro 2017. Barely 55% of the population says democracy is preferable to other types of government.

<sup>13</sup> WB Enterprise Surveys 2018.

47. ***A key objective within Focus Area 1 is to support the Government in its determined effort to transform Paraguay's customs in line with international standards.*** The WBG support the Government to strengthen Paraguay's customs system with a view to increasing transparency and management efficiency, reducing corruption and raising a steady flow of revenue for the Treasury. The Bank will work in close coordination with the International Monetary Fund (IMF), to design and support the implementation of an institutional strengthening plan and establish a customs structure that maximizes customs compliance for both revenue collection, ensures adequate external border protection, and improves trade facilitation (a significant competitiveness gain for a landlocked country). This collaboration will take place through ASA as well as a Development Policy Financing (DPF) to promote activities such as the redesign of customs structure and processes, improved border management, the introduction of risk management systems for customs control, and the use of technology for non-invasive merchandise control and tracking.

48. ***The CPF will continue to support the full implementation of the New Procurement Framework (NPF).*** This initiative started with WBG support under the previous strategy cycle. Important gains in public expenditure savings have been identified through consolidated purchases from various Ministries that if implemented could amount to 2.1 percent of the consolidated procurement value. Paraguay's new Government is making quality of expenditure a centerpiece of its fiscal strategy recognizing that efficiency and effectiveness in the use of public resources are fundamental to gaining legitimacy for any future fiscal reform. In this context, strengthening procurement and increasing the efficiency of public purchases through consolidation and other means is a crucial action item for the Ministry of Finance (MoF). Bank support for this effort would be provided through ASA and a DPF.

49. ***Activities under this objective will also support Paraguay's compliance with international commitments by further strengthening financial system transparency, including AML and Counter Terrorism Financing (CFT) within the banking system.*** Following several key legislative changes, Paraguay is no longer on the Financial Action Task Force (FATF) list of AML/CFT deficient countries and is working to reduce the use of Paraguay's financial system to launder illicit proceeds. However, there are still major gaps in effectiveness and risk management due *inter alia* to differing interpretations of the laws, high incidence of corruption and weak inter-agency coordination.<sup>14</sup> Paraguay will undergo an evaluation by the Financial Action Task Force of Latin America (GAFILAT) in 2020, which will determine the state of compliance of its legal commitments.

**Objective 2: Strengthen the supply and demand side for transparency and accountability.** *Indicators are linked to (i) effective implementation of the Access to Information (ATI) law across all government agencies; and (ii) improved citizen participation in the budget process.*

50. ***The activities under this objective aim to increase the transparency of public institutions, rendering public service performance more accountable.*** Paraguay has embarked on a series of initiatives to increase transparency (*Ley de Transparencia y Acceso a la Información 2014*), whose implementation is still partial. In this context, the CPF program includes both lending (DPF) and ASA interventions aimed at supporting full implementation in areas that are central to public sector performance. A key emphasis will be an effort to build greater public confidence in Government through: (i) increasing ATI implementation across ministries and public agencies including the subnational level, (ii) improving national statistics and analytical capacity and (iii) supporting implementation of the Open Government

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<sup>14</sup> Financial Action Task Force – <http://www.fatf-gafi.org>

Initiative by establishing social accountability mechanisms aimed at engaging Civil Society Organizations (CSOs) in monitoring and evaluating public programs (e.g., *Tekoporã* social assistance and Asuncion flood response) and the public budget preparation process.<sup>15</sup> Also, the CPF will continue supporting improvements in the governance and transparency of the Social Security Institute (*Instituto de Previsión Social* – IPS) which manages both pension and health insurance contributions/funds but has dated accounting standards and limited citizen oversight. The Bank is currently helping to improve IPS governance standards and management systems through a RAS. The Bank will also continue to provide ASA to the Statistics Office, to strengthen alignment with international standards on data production, use, and dissemination.

**Objective 3: Improve governance in the water and electricity sectors.** *Indicators are linked to (i) reduction in the percentage of non-revenue water for ESSAP; and (ii) reducing ANDE's total electricity losses.*

51. ***The CPF program aims at improving the sector governance frameworks and efficiency of operations of the electricity, and water and sanitation SOEs.*** As highlighted in the SCD and the Policy Notes, an important component of the Government effort to demonstrate public sector accountability lies in substantial improvements in the provision of public services, particularly water & sanitation and electricity. These two sectors are central to household welfare (especially for the poorest groups), business operations and economic diversification. Both sectors are characterized by weak institutional arrangements, diffuse mandates and limited capacity for inter-institutional coordination which impact adversely on operators and contribute to high costs and poor service quality. During the first phase of the CPF (FY19-FY20), WB activities will support key policy and institutional reforms (through ASA and DPFs) in the two sectors. These actions could be complemented at a later stage with targeted infrastructure lending aimed at improving quality of service and expanding coverage to reach disadvantaged segments of the population.

52. ***A Public Expenditure Review (PER) and support for regulatory changes are planned in the water and sanitation sector.*** The CPF work program will start out with a PER and policy dialogue on how to strengthen each of the four main institutional actors in the sector – ESSAP (Water and Sanitation public utility company), National Environmental Sanitation Authority (ERSSAN) (regulator), the Department of Drinking Water and Sanitation (DAPSAN) in the Ministry of Public Works and Communication (MOPC) (policy-making), and, finally, the Government's Sanitation Agency (SENASA) (rural services) – as well as improved coordination between them. With respect to ESSAP, the main thrust of CPF interventions is directed to improving efficiency and transparency using performance-based contracting including establishment of service units (*Unidades de Servicio*) and quantified targets for service expansion, quality standards and cost recovery. In parallel, support would be provided to the regulatory entity, ERSSAN, to establish transparent procedures for setting tariffs and support adoption of a new tariff regime that is consistent with the ESSAP performance contract.

53. ***The CPF will continue to support the strengthening of Paraguay's electricity sector starting with improved governance and performance of the National Electricity Agency (ANDE).*** The Bank's support under the Energy Sector Strengthening Project (P114971) recent project has helped to increase the quantity and quality of electricity services, including improving coverage in the poorest regions of the country. However, important institutional reforms remain to be tackled. The Bank will support a

<sup>15</sup> World Economic Forum. 2017. Global Competitiveness Report 2017-2018.

Transparency International. 2017. People and Corruption: Latin America and the Caribbean. Global Corruption Barometer. Transparency International Secretariat: Berlin, Germany.

comprehensive institutional assessment of the electricity sector, covering legal, regulatory, organizational and operational aspects and provide ASA to help ANDE adopt improved procedures related to budgetary, quality insurance and auditing standards (in line with the *Arandu* SOE Corporate Governance Code). Subject to progress on the reform agenda, the Bank could, at a later stage in the CPF implementation, undertake new lending to support ANDE's modernization in priority areas, helping to implement technological tools for communications and control, and improving distribution management systems so as to reduce electricity losses, identified as one of its main challenges.

**Objective 4: Create an investor friendly business climate.** Indicators include (i) reduction in the time to start a business; (ii) improvement of insolvency cost recovery; (iii) volume of loans registered in the collateral registry system; and (iv) one PPP contract signed and under implementation.

54. **The CPF program will support specific interventions to improve the business climate and competitiveness.** These include (i) improving regulations, reducing red tape and promoting sector regulation in areas where there is none; (ii) increasing access to finance for SMEs; and (iii) supporting the Government to incorporate lessons learned from the first phase of PPPs. Improving the business climate has been an area of focus for WBG engagement with Paraguay in the FY14-18 period through the provision of advisory services to modernize business regulations in line with international good practices and the World Bank Doing Business indicators. Future ASA is planned as WBG collaboration supported financially by the EU to implement the enacted legislation package aiming at simplifying procedures for business entry, insolvency procedures, and creating a framework for secured transactions.

55. **The scope of DB-related reforms will be widened under this CPF.** As part of the overall effort to encourage business formalization, the WBG will support Paraguay in enabling increased access to finance for SMEs by establishing a modern collateral registry system covering movable assets (secured transactions). IFC will seek to increase the supply of lending available to a broader range of borrowers by investing in Paraguayan banks with potential for expanding lending to SMEs. A recent US\$75 million loan to a domestic Paraguayan bank (*Banco Continental P 28777*) is a model that IFC will seek to replicate with other institutions. IFC's investment in Paraguayan banks can also be accompanied with advisory services in credit risk management and digital banking transformation. More broadly, increasing internet access and moving the digital economy agenda forward are critical elements to foster a more supportive innovation and entrepreneurship ecosystem, and are consistent with the Government's priorities. IFC could provide specialized ASA in the areas of improving internet connectivity, especially broadband access, as Paraguay embarks on the digital economy.

56. **Paraguay aims to build a positive track record in PPP projects.** The new Administration is committed to learning from the PPP experience in the 2014-2018 period. This CPF, in a joint WB-IFC effort, will seek to facilitate the mobilization of private financing in support of transport infrastructure. The Government has committed to fixing the PPP ecosystem and selecting only one PPP project to take to market successfully. Conditional on PPP governance progress, potential support from the Global Infrastructure Facility (GIF) might be forthcoming. IFC aims at making support available for project structuring and financing. MIGA could also contribute to this element of the CPF by providing guarantees to improve the confidence of international investors in the second phase of Paraguay's PPP program.

**Focus Area Two: Reducing Volatility, Strengthening Natural Capital Management and the Rural Economy**

57. **The CPF aims at supporting Paraguay in creating instruments to smooth volatility, strengthen natural capital management, and foster sustainable agricultural practices, especially for family farmers.** Growth volatility in Paraguay has been high in the last decade, predominantly reflecting the important share of agriculture in the GDP (21 percent). This volatility is transmitted into fiscal accounts, and unpredictable revenue collection has been one of the causes of budget under-execution, which typically harms investment and social spending. Smoothing this volatility through fiscal mechanisms would contribute to smooth resources across the economic cycle and to protect productive spending when times are less good. Paraguay's current agriculture model, predicated on unregulated exploitation of its rich natural endowments, has been economically successful but has come with significant negative externalities and has not materialized its contribution in terms of socioeconomic added value and job creation. In addition, dependence on a few agricultural exports to a limited number of international buyers has meant that price shocks, added to climatic unpredictability, further affect revenues. Moreover, climate change is making Paraguay more prone to rain-related hazards such as floods and droughts. In this context, the CPF seeks to help Paraguay to improve its management of natural capital and render it more sustainable, increase the country's resilience to shocks at both national and household levels, as well as continue to invest in supporting rural producers to sustainably increase, diversify and market their products in domestic and regional markets.

**Objective 5: Improve resilience to macroeconomic volatility.** Indicators include (i) establishment of a stabilization fund; and (ii) increase of revenues from direct taxes.

58. **CPF activities will support the development of instruments to manage Paraguay's macroeconomic volatility.** The main emphasis of WB involvement under this objective is to (i) reduce the impact of macroeconomic volatility on public revenues and expenditures, including that related to variation in the output and exports of the commodity sector, (ii) improve tools for countercyclical fiscal/macroeconomic policy, and (iii) strengthen management of fiscal risks from contingent liabilities to preserve long-term fiscal sustainability. Through ASA and a DPF, the CPF will support the establishment of a stabilization fund ahead of the 2023 *Itaipu* Treaty renegotiation to help smooth public revenues and spending and protect public finances from external shocks.

59. **CPF activities will also build on existing Bank engagement on fiscal reform efforts.** This will include support for the country's fiscal responsibility framework and efforts to raise revenues through policy reforms, such as measures aimed at increasing revenue and strengthening progressivity, through for example, broadening the Personal Income Tax (PIT) and Corporate Income Tax (CIT) base and raising top rates; and tackling Value Added Tax (VAT) exemptions and reduced rates.

**Objective 6: Strengthen environmental governance for NDC implementation and natural capital preservation.** Indicators include (i) private land recognized for environmental services; (ii) vulnerable families in the *Bañados* of Asuncion mapped and consulted in the development of the Disaster Risk Management Strategy; and (iii) number of ha managed by ranchers under sustainable management practices.

60. **Paraguay's agriculture model has come at a high cost on natural ecosystems.** This generates long term vulnerability that puts at risk the overall sustainability of the economic model in Paraguay.

Examples from neighboring countries, like Uruguay and Brazil, show that a transition towards a more sustainable model can reduce negative externalities while also improving productivity, competitiveness and access to higher-value markets. The current land tax system does not promote an efficient use of land and the protection of high-value ecosystems. Institutions responsible for environmental governance lack credibility as they have not been able to monitor and enforce existing environmental regulations.

61. ***The CPF aims to improve the environmental governance in Paraguay and stimulating new areas of business by strengthening the environmental public institutions.*** Paraguay's NDC submitted to the United Nations Framework Convention on Climate Change (UNFCCC), highlights the need to transition to an economic model that does not come at the expense of natural capital, mostly water and forest resources that are both central to mitigation and adaptation agenda. The CPF will support initiatives to strengthen the institutions in charge of regulating, monitoring and enforcing Paraguay's environmental laws (Ministry of the Environment and Sustainable Development and the National Forest Institute-INFONA), specifically to establish a transparent environmental monitoring system for agriculture activities which increases public accountability of violators, building on the current system of Environmental Certificates (established under Law 3001/06). A package of instruments including a DPF, ASA and GEF/IBRD lending could be the vehicle for far-reaching institutional capacity building that could eventually open Paraguay to private investment and job generation in green businesses.

62. ***The CPF will contribute to two main pillars under the NDC submitted by Paraguay, namely, preparedness for extreme weather events and sustainable land management.*** Through ongoing WB-executed ASA to the Municipality of Asunción, the CPF will continue supporting the city to enhance its preparedness to extreme weather events (mostly floods). By fully incorporating citizens voices, especially from the most marginalized populations, the Municipality will develop a viable plan for a disaster risk management and climate change adaptation strategy in a densely populated area. Finally, the CPF will provide support to two initiatives which would contribute to expanding land areas under sustainable management practices: first, the IFC will assist ranchers to adopt sustainable practices and second, the Bank will continue to support the binational entity, *Itaipu*, to define a strategy to expand the forest land areas in the watershed area of the dam.

**Objective 7: Unlocking the productivity of the rural economy.** Indicators include (i) increase in sales volume of rural agricultural communities; (ii) roads in good and fair condition as a share of total classified roads; and (iii) volume of outstanding micro- and SME loans.

63. ***Paraguay presents two highly differentiated and unconnected types of agriculture, large-scale soy and beef production and the small family production.*** Both sectors, however, lag in productivity growth. Commercial agriculture lags in terms of competitiveness and integration into value chains. Improved international competitiveness of the beef sector could have important macro-fiscal impacts including increased tax revenues and reduced volatility through: (i) enhanced product differentiation in the meat sector; (ii) risk reduction as a result of diversification of export markets; and (iii) increased earnings for Paraguayan producers commensurate with higher exports to premium markets. On the other hand, family agriculture has not benefitted from the technological advances of commercial agriculture and faces multiple constraints, including limited access to markets, finance, technology, and land. Limited access to physical and financial capital is exacerbated by low human capital endowments (addressed in Focus Area 3), further limiting the capacity of small, family farmers to adopt new technologies. Inadequacies in the road network (quantity and quality), especially rural roads, adversely impact market access and agricultural competitiveness. Interventions under this CPF objective will help to alleviate some

of these constraints using a multi-dimensional approach to help raise incomes of participating farmers and socio-economic gains.

64. ***The CPF will continue to support rural development initiatives aimed at enhancing market access for small and medium producers and indigenous communities and strengthening resilience to climate or other risks.*** Drawing on the WBG’s international experience and knowledge as well as lessons learned from past experience in Paraguay (including the ongoing Sustainable Rural Development Project -PRODERS- P088799) which is expected to close in December 2019), the CPF will, through new Investment Project Financing (IPF) and ASA, support the Government in its focus on integrating farm communities in inclusive value chains. The planned IPF operation will develop linkages between organized medium and large producers’ cooperatives and buyers (*Alianzas Productivas* model) through matching grants, TA, commercial credits and other assets, with a special attention paid to reaching women farmers and rural youth. The planned IPF will also facilitate access to insurance for family farmers (to help cushion climatic, disease or other shocks). IFC will seek to support well-established agribusiness players (*cooperativas*) which could directly impact the livelihoods of thousands of smallholder and medium-sized farmers through integration in their value chains. Potential support includes financing of working capital needs, and vertical integration and agro-processing activities, seeking to support value addition of primary products. IFC’s advisory efforts are expected to support the beef industry move towards higher intensification and productivity, while also enhancing its international competitiveness (through the implementation of improved Environmental and Social Standards (ESS) and appropriate animal traceability methods which will reduce the impact of ranching operations in Chaco on deforestation and climate change).

**Table 2. *Alianzas Productivas* as a MFD tool for IBRD/IFC collaboration**

IBRD	IFC	Private sector
<i>Lending for the provision of matching grants to organized smallholder producers, who carry out investments that help them meet the requirements of selected purchasers such as anchor firms, in terms of product quantity and quality.</i>	<i>Advisory services to client firms for designing and piloting Supplier Development Programs, that will establish long-lasting partnerships with organized smallholders and secure continuous supply.</i>	<i>Smallholder farmers finance part of the costs of the investments that are part of the productive alliances plans.  Purchasers such as anchor firms finance the establishment and operation of Supplier Development Programs, including the provision of TA and/or inputs.</i>

65. ***The CPF will tackle Paraguay’s transport infrastructure gap and undertake in-depth analysis of the overall financing situation of the sector.*** Through the PY Transport Connectivity (P147278), approved on July 2016, the CPF will contribute to foster Paraguay’s regional integration by improving its road network mainly in support of the export-oriented economic sectors. A PER is also in elaboration for the transport sector, which will identify policy recommendations for improving performance in allocation of budget resources and the efficiency of expenditures. As indicated under Focus Area One above, the CPF is also expected to support the Government in mobilizing private financing into road sector through the PPP program.

### **Focus Area Three: Building Human Capital**

66. **Confronting poverty and inequality effectively is closely linked to improving the quality of human capital and ensuring adequate protection for the most vulnerable groups in the Paraguayan society.** Human capital is a core determinant of economic development and the WBG is committed to supporting the Administration's efforts in this area through a range of public policies. While this Focus Area concentrates on core health, education and social protection programs, accumulation and effective use of human capital requires improvements in many other sectors, such as urban/housing, access to financial services, infrastructure, and communications among others. Advances in those sectors are critical both to ensuring ample access to core policies, as well as to ensuring that this accumulated human capital, (which is an asset with *potential* productivity impact) makes an actual contribution to the development process.

67. **The 2018 WB Human Capital Index shows that Paraguay lags regional and comparator peer countries, particularly with regards to education.** The index shows that the stock of human capital that newborn children should have by the time they enter the labor force, given the current health and education conditions is about 53 percent of its potential, which implies a large negative impact on productivity and future growth. The HCI points at education quality as the main culprit for Paraguay's low ranking (90 out of 157 countries), as learning outcomes of children in school rank 107<sup>th</sup> in the world.

68. **Paraguay's relatively young demographic structure, means that healthy, well-educated youth could provide a significant boost to economic growth and household welfare.** Paraguay fails to transform the potential from its demographic bonus into actual socio-economic performance. The recent PER conducted for the social sectors shows that increasing levels of public expenditure in education and health in the last 15 years bear no correlation with performance outcomes in both sectors. This suggests that much more needs to be done to address inefficiencies, including structural changes to reform programs and resource allocation formulas that may exacerbate, rather than ameliorate, inequality in the population. Paraguay has made considerable progress with respect to the protection of the most vulnerable population groups, principally through development of cost-efficient social protection programs (especially the conditional cash transfer program, *Tekoporã*, and the senior citizens' program, *Adultos Mayores*). However, there are still gaps in coverage of the poorest within these programs, and the co-existence of multiple, less efficiently targeted programs that may divert financial and administrative resources available.

**Objective 8: Reform the public health system to improve the conditions of the poor and vulnerable population.** Indicators include (i) percentage of children that have received polio and pentavalent immunization at the appropriate age; and (ii) percentage of family care centers strengthened in their capability to provide family health care services (including maternal care) in four selected departments.

69. **The CPF will support Paraguay to improve both efficiency and equity in the health sector.** The overall low quality of health services has persisted despite significant increases in budgetary allocations for the sectors. The Government is developing a long-term National Health Plan (2018-2030) which seeks to reduce maternal, infant mortality and morbidity rates as well as tackle the emerging chronic health issues through a greater focus on primary health care services. The Plan also outlines a medium-term reform strategy towards a single integrated health system while simultaneously improving the allocation of resources to increase equity across regions. Under this CPF, the WBG will engage with a RAS and investment lending to support the development of a health program focused on improving efficiency and



quality, especially focusing on (i) interventions to reduce maternal, infant mortality and morbidity rates; (ii) development of a strategic plan which would consolidate the multiple health insurance schemes and (iii) provision of incentives for lower-cost preventive services. For its part, IFC will seek opportunities to assist Paraguayan health providers' expansion plans, with the aim of expanding scale and reducing costs for patients.

**Objective 9: Improve learning and education access for all.** *Indicator: number of years of learning-adjusted for years of school- a child can expect to have by her 18<sup>th</sup> birthday.*

70. ***The WBG will support the formulation of a comprehensive education reform aimed at improving learning quality.*** Paraguay witnesses the largest disparities between poor and rich students for reading and math learning performance in the region. Improving the education system is widely acknowledged as the truly transformative element for Paraguay's development and poverty elimination. The Government is keen to develop a new social compact in education to restructure the system and transform the way in which education is delivered to promote inclusive, equitable and quality education in all departments. The Government has requested the Bank to provide support through a RAS to design and implement a nationwide consultative effort involving civil society, the private sector and key education stakeholders (teachers, administrators, students and parents) to help set sectoral priorities and a plan of action that enjoys wide public backing. During the CPF period, the Bank will continue to work closely with the Government to coordinate the national consultation process and help draw together inputs on key education topics to support the development of Government's long-term education strategy, the 2030 National Plan for the Transformation of Education (PNTE 2030) and an associated five-year roadmap (Roadmap 2018-2023). In turn, these documents will serve as the foundation for an overhaul of the education sector aimed at improving efficiency and learning outcomes in education through more equitable distribution of available physical, financial and human resources, improved curricula and a revitalized pedagogical process aimed at ensuring that students acquire the aptitudes and skills demanded by a modernizing economy. Several multi- and bilateral donors, especially the EU, are active in supporting education in Paraguay.

**Objective 10: Strengthen the social safety net for the most vulnerable households.** *Indicator: percentage of households in the bottom quintile that receive cash social assistance.*

71. ***The CPF will support the Government's strategy to build an integrated Social Protection System and strengthen internal capacity to facilitate a well-targeted expansion of effective cash transfer programs.*** The Government seeks to eliminate the current fragmentation of the social protection programs and build an integrated social protection system. Such rationalization could also include the phasing out social assistance programs that have little impact on poverty reduction. CPF support for social assistance rationalization under the newly created Ministry for Social Development will be provided through a RAS, which would aim to strengthen the supervision and monitoring of *Tekoporã* (the most effective social assistance program) and increase its coverage. Simultaneously, the RAS will assist the Government in designing graduation strategies (*Tenonderã*) for *Tekoporã* beneficiaries. *Tekoporã* is a program supporting households in extreme poverty, most of which are headed by women, therefore efforts to expand the program will automatically increase the number of women-led households in safety nets.

72. ***WBG's corporate priorities are integral to the CPF and are embedded in the three Focus Areas.*** For example, efforts under Focus Area 2 to protect forests, improve land use and better manage climate-

led disaster risks are all critical to addressing climate change. Similarly, activities under Focus Areas 1 will help put in place an appropriate legal, regulatory and institutional framework to support private sector participation in infrastructure in full alignment with the MFD approach. Finally, based on current analysis of gender issues (identified through the SCD poverty analysis) Focus Areas 2 and 3 will support Paraguay in increasing women's incomes through ensuring their access to credit and agricultural development efforts (Objective 7), as well as part of the targeting of human capital development (Objective 8 and 10) with a view to reduce gender inequality. In particular, the CPF places a special emphasis on maternal health as a component of Bank support to the health sector (Objective 8). However, to effectively deepen public understanding on gender issues in Paraguay and the drivers behind gender gaps, the WBG plans to conduct a separate Gender Assessment ASA for the country in FY20.

#### **D. Implementing the FY19-23 CPF**

73. ***The CPF covers a period of five years, FY19-23, with the financing and analytical program spelled out for the FY19-20 period.*** With the next presidential and legislative elections scheduled for the beginning of 2023, this timeframe aligns the CPF with Paraguay's political cycle. To enable the WBG and the Government to calibrate lending and analytical work to the actual realities on the ground, the CPF lending and reimbursable ASA programs have been specified for the first two years of the CPF period, with additional activities to be identified at mid-term depending on progress on key regulatory, institutional or other measures necessary to support further investment. A proposed anchor instrument is a DPF that, if successful, could provide the basis for lending in key areas such as water, energy and GEF-IBRD environmental lending as well as PPP transactions and finance mobilization in infrastructure. The PLR, to be undertaken at mid-term, will lay out the details for the second half of the CPF period.

74. ***While Paraguay's portfolio performance has improved since 2014, the CPF will put special emphasis on oversight of the day-to-day operations to anticipate and solve bottlenecks.*** Until FY17 Paraguay's disbursement rate stood below 20 percent per year, which is well below the region's average. In FY17-FY18 disbursements increased at above 30 percent. There has been considerable improvement in the rate of project execution during the CPS FY14-FY18, due in part to (i) the impact of a mature existing portfolio, (ii) increased WBG project monitoring and supervision; but also, (iii) the more prominent role played by the Ministry of Finance in resolving bottlenecks encountered by line agencies tasked with project execution. Implementation will continue to be monitored closely under the CPF via application of some of the lessons identified in the CLR. In this regard, a key lesson to be applied concerns assigning overall responsibility for a project to a single agency, thereby avoiding the coordination difficulties that have led to large delays in the past. Given Paraguay typical long effectiveness delays (14 months on average from WB Board approval to effectiveness and 44 months between Concept Note and first disbursement), early identification of lending operations is pivotal, as is full government commitment and bipartisan support in Parliament. For IBRD, IPFs are still considered a valuable instrument in Paraguay as they help to maintain accountability and fiduciary oversight as well as social and environmental standards. They also help implementing agencies to build capacity in procurement and disbursement.

75. ***The overall WBG financial support available for Paraguay over the FY19-FY23 period is about US\$1,000 million.*** This includes an indicative IBRD program of about US\$700 million and expected IFC financing for the private sector of up to US\$320 million (assuming appropriate market conditions). Actual IBRD lending volumes over the CPF period will depend on country demand and overall portfolio performance, as well as global economic and financial developments, IBRD's financial capacity, and demand from other Bank borrowers. Today, the active IBRD portfolio consists of three IBRD loans for a total of US\$401.5 million of which US\$136 million remains undisbursed as of 30 November, 2018. Two

projects (PRODERS Sustainable Agriculture & Rural Development -P088799- and the Water and Sanitation Modernization project – P095235) are expected to close by the end of 2019. The only other remaining active project, Transport Connectivity (US\$100 million), became effective in early 2018 and is expected to continue through 2024. IBRD lending operations in FY19-20 will include a cross-cutting DPF (possibly structured as a draw down option (DDO)) as well as two investment projects in rural development and health respectively, which will reach an estimated of US\$425 million.

76. ***A central instrument for CPF implementation will be a strategic RAS program.*** Paraguay already has a solid RAS program in execution amounting to US\$4 million and a further expansion in strategic areas has been agreed with the Government as part of the CPF preparation. In the period 2016-2018, six RASs were signed, thereby signaling the transition to increased ownership by GoP and more efficient resource management by WBG. New engagements are expected in broad-ranging custom reform and AML, public procurement efficiency, PPP, universal health coverage; and social protection. Experience to date with the RAS program has been positive as a mechanism to focus WBG’s analytical and strategic policy support in areas of highest value and strong demand for the Government. It is important to note that similar lessons learned from investment projects also apply to RASs: (i) RASs work better if managed by one beneficiary institution, (ii) implementation delays can also occur and require proactive management; and (iii) regular onsite support to clients is necessary.

#### IV. MANAGING RISKS TO THE CPF PROGRAM

77. ***The overall risk to achieving the CPF objectives is assessed as Substantial with potential risks that could have significant impact on implementation.*** These include the following: (i) political and governance; (ii) institutional capacity for implementation and sustainability; (iii) sector strategies and policies; (iv) low fiduciary standards and (v) weak environmental and safeguards standards. Risks will be monitored throughout the implementation of the CPF, and mitigation measures will be put in place to reduce their impact. In addition, the PLR due in FY21 will be a valuable tool to adjust the assistance framework and assess risk status.

**Table 3. Risks to the CPF Program**

Risk Categories	Rating (H, S, M, or L)
1. Political and Governance	S
2. Macroeconomic	M
3. Sector Strategies and Policies	S
4. Technical design of Project or Program	M
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environment and Social	S
8. Stakeholders	M
9. Other	N/A
<b>Overall</b>	S

78. ***Several of the objectives supported by the CPF will likely encounter strong political headwinds.*** The new Administration has set itself an ambitious plan for far-reaching reforms, which will need strong

bipartisan support in Congress and across civil society. There is, however, currently a growing consensus on the need for the reforms supported through this CPF if Paraguay is to continue on a rapid growth path. However, bottlenecks could develop once detailed reform plans are developed in sensitive areas. Political divisions in Congress could also threaten those reforms that require legislative changes. In addition, the approval of DPF(s) could face the challenge of building political consensus between Congress and the Government on reform and financing priorities. While these risks are largely beyond the influence of the WBG, efforts will be made to reduce their intensity by engaging in broad consultation on key reform initiatives to explain the rationales for, as well as build support for, specific proposals. RASs are likely to prove useful in managing risks, as they can help lay the groundwork for reforms by testing feasibility and commitment, while also helping the Government to develop and implement effective communications strategies around the rationales and benefits of proposed new policies and programs.

79. ***Limited institutional capacity has been a significant barrier to the implementation of the WBG program in the past, particularly when multiple institutions share responsibility for project implementation.*** Despite the long relationship of the WBG with Paraguay, frequent staff turnover and limited capacity to coordinate across different government agencies has often led to implementation delays. The problem is exacerbated when coordination is required with subnational entities where capacity is weaker. To minimize this risk, the WBG will maintain the current levels of implementation support, TA, and training of project staff. This risk will also be mitigated by integrating institutional strengthening components into new lending operations. Finally, as mentioned above, project design will ensure (to the extent feasible) that a single agency maintains overall responsibility for management.

80. ***Achievement of CPF objectives could also be adversely affected by inadequacies in sector strategies.*** Discrepancies between the legal and policy framework, the supporting ecosystem, communications and the sector leadership may reduce reform effectiveness. Sector policies in key sectors such as education, health and social protection are still being developed and could be affected by the multiplicity of vested interests engaged. The Government has expressed its strong commitment to reforming the policy and strategy frameworks as appropriate in each of the CPF focus areas and has requested the WBG to help in these comprehensive efforts through advisory services and the planned DPF. The CPF approach of maintaining considerable flexibility with respect to WBG support for the second half of the CPF period will help mitigate some of these sectoral and policy risks by allowing time to assess progress before moving forward with lending or further knowledge support.

81. ***The fiduciary environment in Paraguay has improved notably over the last few years, but challenges remain.*** While procurement procedures remain a challenge, the Government has demonstrated commitment to improve the procurement framework and diligently reacting to integrity concerns when raised by the Bank. In addition, the WBG will support the Government in further mitigating this risk by providing training on procurement, financial management and disbursement procedures. In addition, the WBG will continue close coordination with the MoF, holding biannual portfolio reviews and ad hoc progress meetings on specific projects.

82. ***Environmental and social risks are rated substantial due to gaps in the relevant legal frameworks and/or weak enforcement.*** As outlined in the SCD, rule of law is a pervasive challenge for Paraguay's development. Thus, while there exists a robust law on indigenous peoples that needs to be enforced, there is also still an urgent need to develop a law for land acquisition that allows indigenous peoples to make their rights effective. Enforcement of legal provisions that do exist is still inadequate, in part due to weak institutional capacity. Engagement and meaningful consultation with stakeholders,

particularly with affected communities, and responsive project-based grievance mechanisms have been limited to date. In this context, environmental and social risks tend to materialize in investment projects and raise some concerns at the community level, leading to important implementation delays and cost overruns. With the new Environmental and Social Framework, the Bank will seek to further support Paraguay's efforts to develop appropriate capacity and tools for the early assessment and management of potential environmental and social risks. As part of this effort, the Bank will expand national and sectoral level ASA for specific projects as well as engage with other development partners on environmental and social policy issues to enhance co-operation and harmonization of Bank requirements, including modernizing the new local environmental and social framework. It must be noted, however, that it is expected that the new WB Environmental & Social standards may contribute to longer preparation times for investment projects, which however could also result in savings in time and costs during the implementation phase.

**Annex I: CPF Results Monitoring Matrix**

CPF Objective Indicators	Intermediate indicator	WBG Program
<b>FOCUS AREA ONE: PROMOTING ACCOUNTABLE INSTITUTIONS AND IMPROVING THE BUSINESS CLIMATE</b>		
<p>Paraguay’s institutional legacy, short democratic record and high public perceptions of corruption lie behind limited trust in Government. The business community perceives informality, corruption and weak rule of law as key constraints to investment and business operations. Anticorruption measures, transparent and efficient public institutions, an even-handed judiciary, and fair market conditions could contribute to creating a more favourable business environment for private sector led investment and job-creation (the most effective mechanism for poverty reduction).</p> <p>The CPF work program will focus on a selective set of interlinked objectives that have strong support from the Government. These objectives could be achieved in the short and medium-term and have the potential to make a significant impact on citizens’ confidence in public institutions, while also improving the attractiveness of Paraguay’s business climate. Focus Area 1 encompasses four main objectives as described below.</p>		
<b>CPF Objective 1: Fight fraud and corruption in key areas</b>		
<p><b>Intervention Logic:</b></p> <p>A main goal of this CPF is to support the Government in its effort to transform Paraguay’s customs to meet international standards. The WBG will support the Government to strengthen Paraguay’s customs system with a view to increasing transparency and management efficiency, reducing evasion/corruption; and raising a steady revenue for the Treasury. The Bank will work in close coordination with the IMF, to design and support implementation of a plan for institutional strengthening and development of a customs structure that maximizes customs compliance for revenue collection, reduces smuggling and money laundering, and facilitates trade (a significant competitiveness gain for a landlocked country). In connection with the modernization of customs, the CPF also supports compliance with international commitments for information and exchange and reducing money laundering by further strengthening financial system transparency. Activities under this objective will also support full implementation of Paraguay’s new Procurement Framework which was developed with Bank assistance.</p>		
<p><b>Indicator 1.1:</b> Time and cost to import (border compliance plus documentary compliance) has decreased <b>Baseline (2018):</b> 82 hours, US\$620 per shipment <b>Target (2022):</b> 58 hours, US\$500 per shipment ----- <b>Indicator 1.2:</b> Savings have been increased through consolidated procurement purchases <b>Baseline (2018):</b> 0% <b>Target (2022):</b> 2.1% of total amount procured</p>	<p><b>Intermediate indicator 1.1</b> Time to import (border compliance plus documentary compliance) has decreased to 70 hours and US\$580 by 2020 ----- <b>Intermediate indicator 1.2:</b> To develop and implement a program for strategic</p>	<p><b>Ongoing:</b> <b>ASA</b> Investment Climate in Paraguay (P161575)  <b>Planned:</b> <b>Lending (IBRD)</b> DPF (P169505)</p>

<p>-----</p> <p><b>Indicator 1.3:</b> Strengthening of SEPRELAD Institutional framework to comply with FATF recommendations <b>Baseline</b> (2018): N/A <b>Target</b> (2022): Enacted legislation to detect financial operations suspect of money laundering and terrorist financing.</p>	<p>procurement driven by spend and complexity data. <b>Baseline:</b> No strategy in place. <b>Target:</b> 3-4 categories of high spend and low complexity.</p> <p>-----</p> <p><b>Intermediate indicator 1.3.</b> Framework agreement for exchange of financial information with customs and BCP in operation (2019)</p> <p>GAFILAT self-evaluation completed (2019)</p>	<p><b>ASA</b> Customs Efficiency and Anti Money Laundering (AML) Public Procurement Effectiveness Improve Investment Climate in Paraguay (P170024) – EU support</p>
<p><b>CPF Objective 2: Strengthen the supply and demand side for transparency and accountability</b></p>		
<p><b>Intervention Logic:</b></p> <p>Paraguay has embarked on a series of initiatives to increase transparency (<i>Ley de Transparencia y Acceso a la Información</i> 2014), whose legal implementation is incomplete. In this context, the CPF program includes both lending (DPF) and ASA interventions aimed at supporting full implementation in areas that are central to public sector performance. A key emphasis in this regard will be an effort to build greater public confidence in public institutions through increasing implementation of the Public Access to Information Law across all Government ministries and agencies, improving national statistics and analytical capacity and supporting implementation of the Open Government Initiative by establishing social accountability mechanisms aimed at engaging CSOs in monitoring and evaluating public programs.</p>		
<p><b>Indicator 2.1:</b> Access to Public Information Law is effectively implemented across Government agencies (including municipalities) <b>Baseline</b> (2018): 75 % of Government Agencies <b>Target</b> (2022): 95 % of Government Agencies</p> <p>-----</p> <p><b>Indicator 2.2:</b> Citizen participation in the budget process has improved (measured through Public participation indicator of the Open Budget Index) – a bi-annual indicator - <b>Baseline</b> (2017): OBI 11/100 <b>Target</b> (2023): OBI 26/100</p>	<p><b>Intermediate indicator 2.1:</b> Rules are defined and implemented to promote the autonomy, political differentiation, and legitimacy of the API. (2021)</p> <p>-----</p> <p><b>Intermediate Indicator 2.2:</b> OBI 2019: 14 OBI 2021: 20</p>	<p><b>Planned:</b> <b>Lending (IBRD)</b> DPF (P169505)</p> <p><b>ASA</b> Supporting Efficient, Transparent and Accountable Institutions (P169242)</p>

**CPF Objective 3: Improve governance in the water and energy sectors**

**Intervention Logic:**

As highlighted in the SCD, an important component of the Government effort to demonstrate public sector accountability lies in substantial improvements in the provision of public services, particularly water & sanitation and electricity. These two sectors are central to household welfare (especially of the poorest groups), business operations and economic diversification and have had a long-standing engagement with the Bank, including two ongoing investment operations which are closing soon. Both sectors are characterized by weak institutional arrangements, diffuse mandates and weak capacity for inter-institutional coordination which impact adversely on operators and contribute to high costs and poor service quality. During the first phase of the CPF (FY2019-20), activities will support key policy and institutional reforms (through ASA TA and potentially the DPF) in the two sectors. These actions could be complemented at a later stage with targeted infrastructure lending aimed at improving overall system functioning and selectively expanding coverage to reach disadvantaged segments of the population.

**Indicator 3.1:**

Reduction in the percentage of total non-revenue water for ESSAP

**Baseline (2018):** 40%

**Target (2022):** 35%

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**Indicator 3.2:**

Reduction in the percentage of total Electricity losses (MWh) across the country

**Baseline (2018):** 24%

**Target (2022):** 18%

**Intermediate Indicator 3.1:**

New ESSAP's concession contract approved, including the setting of Service Units, goals for expansion and quality services and a new tariff regime

**Baseline (2018):** -

**Target (2020):** Performance-based contract signed

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**Intermediate indicator 3.2:**

ANDE has adopted procedures (budgetary, quality insurance and auditing standards) in line with SOE Corporate Governance Code

**Baseline (2018):** no

**Target (2020):** yes

**Ongoing:**

**Lending**

Water & Sanitation Sector Modernization (P095235)

Energy Sector Strengthening Project (P114971)

**Planned:**

**Lending (IBRD)**

DPF (P169505)

**ASA**

Water & Sanitation Public Expenditure Review (PER) (P169997)

Argentina, Paraguay and Uruguay Energy Sector Strengthening Programmatic Approach (P166823)



**CPF Objective 4: Create an investor friendly business climate**

**Intervention Logic:**

Improving the business climate has been a strong area of focus for WBG engagement with Paraguay in the FY14-18 period through the provision of advisory services to modernize business-related regulations in line with international good practice (Doing Business). As part of the overall effort to encourage business formalization, the WBG will support Paraguay in enabling increased access to finance for SMEs by establishing a modern collateral registry system covering movable assets (secured transactions). IFC will seek to increase the supply of lending available to a broader range of borrowers accompanied by advisory services to banks in credit risk management and digital banking transformation. More broadly, increasing internet access and moving the digital economy agenda forward are critical elements to foster a more supportive innovation and entrepreneurship ecosystem, and are consistent with the Government’s priorities. Paraguay seeks to renew attempts to bridge the infrastructure gap through PPP. This CPF, in a joint WB-IFC effort, will seek to facilitate the mobilization of private financing in support of Government’s PPP program on infrastructure for the transport sector.

<p><b>Indicator 4.1:</b> Reduction in time to start a business <b>Baseline (2018):</b> 35 days <b>Target (2022):</b> 24 days</p> <p>-----</p> <p><b>Indicator 4.2:</b> Insolvency cost recovery has improved <b>Baseline (2018):</b> 21.5 cents on the dollar <b>Target (2022):</b> 28.0 cents on the dollar</p> <p>-----</p> <p><b>Indicator 4.3:</b> Volume of loans registered in the collateral registry system <b>Baseline (2018):</b> 0 <b>Target (2022):</b> Loans registered at the new collateral registry reach an aggregate total &gt;US\$100 million</p> <p>-----</p> <p><b>Indicator 4.4:</b> One PPP in implementation (works commenced) by 2022 <b>Baseline (2018):</b> 0 <b>Target (2022):</b> 1</p>	<p><b>Intermediate indicator 4.1:</b> Time to start a business has been reduced to 30 days by 2020</p> <p>-----</p> <p><b>Intermediate indicator 4.2:</b> Insolvency cost recovery has reached 24 cents on the dollar by 2020</p> <p>-----</p> <p><b>Intermediate indicator 4.3:</b> Collateral registry system established by 2020</p> <p>-----</p> <p><b>Intermediate indicator 4.4:</b> PPP project awarded by 2020</p>	<p><b>Ongoing:</b> <b>ASA</b> Investment Climate in Paraguay (P161575)</p> <p><b>Planned:</b> <b>Lending (IBRD)</b> DPF (P169505)</p> <p><b>ASA</b> Improve Investment Climate in Paraguay (P170024) – EU support</p> <p>PPP Reform/GIF</p>
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**FOCUS AREA TWO: REDUCING VOLATILITY, STRENGTHENING NATURAL CAPITAL MANAGEMENT AND THE RURAL ECONOMY**

Growth volatility in Paraguay has been high in the last decade, predominantly reflecting the important share of agriculture in GDP. This volatility is transmitted into fiscal accounts. Unpredictable fiscal revenue collection has been one of the causes of budget under-execution, which typically harms investment and social spending. Smoothing this volatility through fiscal mechanisms would contribute to smooth resources across the economic cycle and to protect productive spending when times are less good. Paraguay's current agriculture model, predicated on unregulated exploitation of its rich natural endowments, has been economically successful but has come with significant externalities and has not materialized its contribution in terms of socioeconomic added value and job creation. In addition, dependence on a few agricultural exports to a limited number of international buyers has meant that price shocks, added to climatic unpredictability may affect revenues and create significant fiscal volatility. Moreover, climate change is making Paraguay more prone to rain-related hazards such as floods and droughts. In this context, the CPF seeks to help Paraguay to improve its management of natural capital and render it more sustainable, increase the country's resilience to shocks at both national and household levels, as well as continue to invest in supporting rural producers to sustainably increase and diversify and market their products in domestic and regional markets.

**CPF Objective 5: Improve resilience to macroeconomic volatility**

**Intervention Logic:**

The main emphases of CPF involvement in this objective are to (i) reduce the impact of macroeconomic volatility on public revenues and expenditures, including that related to variation in the output and exports of the commodity sector, (ii) improve tools for countercyclical fiscal/macroeconomic policy, and (iii) strengthen management of fiscal risks from contingent liabilities to preserve long-term fiscal sustainability. The CPF will support establishment of a stabilization fund ahead of the *Itaipu* 2023 treaty renegotiation – which is expected to provide a windfall in revenues for the Government – to help smooth public revenues and spending and protect public finances from external shocks. CPF activities will also build on past Bank engagement in Paraguay's fiscal reform efforts to support the country's fiscal responsibility framework and ongoing efforts to raise revenues through policy reforms, such as measures aimed at increasing revenue and strengthening progressivity, through for example, broadening the PIT and CIT tax base and raising top rates, and tackling VAT exemptions and reduced rates. Under the FY19-23 CPF, both DPF lending and ASA (including RASs) are envisaged to support the Government in implementing tax reforms.

**Indicator 5.1:**

Stabilization fund established

**Baseline** (2018): No stabilization fund

**Target** (2022): Stabilization fund or alternative fiscal instrument is established

**Indicator 5.2:**

Increase of revenues from direct taxes in real terms by 40 percent by 2022

**Baseline** (2017): 100 (base year index of real value of direct tax revenues)

**Target** (2022): 140 (index of real value of direct tax revenues)

**Intermediate indicator 5.1:**

Draft law and regulation by 2020

**Intermediate indicator 5.2:**

Increase of revenues from direct taxes in real terms by 15 percent by 2020

**Baseline** (2017): 100

**Target** (2020): 115

**Ongoing:**

**ASA**

Programmatic Fiscal Equity and Efficiency (P156331)

PY Fiscal Stabilization and Growth Commission (P165339)

**Planned:**

**Lending (IBRD)**

DPF (P169505)

**ASA**

Paraguay Fiscal ASA (P169501)

**CPF Objective 6: Strengthen environmental governance for NDC implementation and natural capital preservation**

<p><b>Intervention Logic:</b></p> <p>Paraguay's agriculture model has placed a heavy burden on natural ecosystems, with the large conversion of natural ecosystems, in particular, forests. This generates long-term vulnerability that puts at risk the overall sustainability of the economic model in Paraguay. Examples from neighboring countries, like Uruguay and Brazil show that a transition towards a more sustainable model can reduce externalities while also improving productivity and competitiveness and opening up access to higher-value markets. The current land tax system does not promote a more intensive use of land. Institutions responsible for environmental governance lack credibility as they have not been able to monitor and enforce environmental regulations. The CPF aims to improve the environmental governance in Paraguay by strengthening the public institutions responsible for environmental stewardship for preservation and economic activity. The CPF will support initiatives to strengthen the institutions in charge of regulating, monitoring and enforcing Paraguay's environmental laws specifically to establish a transparent environmental monitoring system for agriculture activities which increases public accountability of violators, building on the current system of Environmental Certificates (established under Law 3001/06). The CPF will contribute to two main pillars under the NDC submitted by Paraguay, i.e. preparedness for extreme weather events and sustainable land management. The CPF will also continue supporting the city of Asuncion to enhance its disaster preparedness (mostly floods) by fully incorporating citizen voice, especially of the most marginalized, in the development of the disaster risk management and climate change adaptation strategy. Finally, the CPF will provide support to two initiatives which would contribute to expanding land areas under sustainable management practices: first, the IFC will assist ranchers to adopt sustainable practices and second, Bank support to the binational <i>Itaipu</i> Authority will support definition of a strategy to expand the forest land areas in the watershed area of the dam.</p>		
<p><b>Indicator 6.1:</b> Private lands for which Environmental Services Certificates have been traded in the national market <b>Baseline</b> (2018): 19,916 Ha <b>Target</b> (2020): 100,000 Ha</p> <hr/> <p><b>Indicator 6.2:</b> Vulnerable families in the <i>Bañados</i> of Asuncion mapped and consulted in the process of the Disaster Risk Management Strategy, through participatory mechanisms including ICT-based tools <b>Baseline</b> (2018): 0 <b>Target</b> (2022): 7,000</p> <hr/> <p><b>Indicator 6.3:</b> The number of Ha in El Chaco managed sustainably by ranchers <b>Baseline</b> (2018): 0 <b>Target</b> (2022): 600,000 Ha</p>	<p><b>Indicator 6.1:</b> The procedures for the declaration of forest deficit to be offset through Certificates for Environmental Services and the procedures for endorsement by Ministry of Finance are simplified <b>Baseline</b> (2018): no <b>Target</b> (2020): yes</p> <hr/> <p><b>Indicator 6.2:</b> The strategic plan for disaster risk – flooding - management has been adopted <b>Baseline</b> (2018): no <b>Target</b> (2020): yes</p> <hr/> <p><b>Intermediate indicator 6.3:</b> 300,000 Ha in El Chaco follow sustainable management by 2020</p>	<p><b>Ongoing</b> <b>ASA</b> Asuncion Citizen Engagement and Flood Risk Management (P150876)</p> <p><i>Itaipu</i>: Strategic Support for the Development of the Atlantic Corridor in Paraguay (P161498)</p> <p>Environmental Cost-Benefit Analysis and Best Practices for forest restoration (P162897)</p> <p>Conservation Action Plan for the San Rafael protected area and its buffer area (P162896)</p> <p><b>Planned:</b> <b>Lending (IBRD)</b> DPF (P169505)</p> <p>Environmental Management (GEF) and Lending support</p>

**CPF Objective 7: Unlocking the productivity of the rural economy**

**Intervention Logic:**

Paraguay presents two highly differentiated and unconnected types of agriculture, the large soy and beef producers and small family producers. Both sectors, however, lag in productivity growth. Commercial agriculture is lagging behind in terms of competitiveness and integration into value chains. Improved international competitiveness of the beef sector could have important macro-fiscal impacts including increased tax revenues and reduced volatility through: enhanced product differentiation in the meat sector; risk reduction through diversification of export markets; and increased earnings for Paraguayan producers commensurate with higher exports to premium markets. On the other hand, family agriculture has not benefitted from the technological advances of commercial agriculture and faces multiple constraints, including limited access to markets, finance, technology, and land. Restrictions to physical and financial capital are also combined with low human capital (Focus area 3), further limiting the capacity of family farms to adopt new technologies. Inadequacies in the road network (quantity and quality), especially rural roads, adversely impact the market access and agricultural competitiveness. Interventions under this CPF objective will help to alleviate some of these constraints using a multi-dimensional approach to help raise incomes of participating farmers, with special attention to inclusion of women and indigenous farmers. The CPF will continue to support rural development initiatives aimed at enhancing market access for small and medium producers and indigenous communities and strengthening resilience to climate or other risks. The CPF will also, support the Government in its focus on integrating farm communities in inclusive value chains, and facilitate access to insurance for family farmers. A country gender analysis will be undertaken in FY20, which together with the rural project in preparation (*Alianzas Productivas*) will be able to feed into the PLR the appropriate gender disaggregated targets for indicator 7.1.

<p><b>Indicator 7.1:</b> Increase by 15% in sale volume of small farmers – disaggregated indigenous and women farmers-- through partnerships (integration into value chains) <b>Baseline</b> (2018): 100 (index) <b>Target</b> (2022): 115 (index)</p> <hr/> <p><b>Indicator 7.2:</b> Paved roads in good or fair condition as a share of total classified roads <b>Baseline</b> (2018): 84% <b>Target</b> (2022): 90%</p> <hr/> <p><b>Indicator 7.3:</b> Volume of outstanding micro- and SME-loans in agribusiness across the country <b>Baseline</b> (2018): US\$2.9 billion <b>Target</b> (2022): US\$4 billion</p>	<p><b>Intermediate Indicator 7.1:</b> Active participation in partnerships by women farmers and Indigenous communities <b>Baseline</b> (2018): N/A <b>Target</b> (2020): 30% women, 10% indigenous communities</p> <hr/> <p><b>Intermediate Indicator 7.2:</b> MOPC has adopted a Road Asset Planning and Management system to support the budget planning for roads <b>Baseline</b> (2018): no <b>Target</b> (2020): yes</p> <hr/> <p><b>Intermediate Indicator 7.3:</b> Volume of outstanding micro- and SME-loans in agribusiness across the country <b>Baseline</b> (2018): US\$2.9 billion <b>Target</b> (2020): US\$3.4 billion</p>	<p><b>Ongoing:</b> <b>Lending (IBRD)</b> PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</p> <p>Transport Connectivity (P147278)</p> <p><b>Planned:</b> <b>Lending (IBRD)</b> Project for Climate and Economic Resilience of Small Farmers- <i>Alianzas Productivas</i> (P168153)</p> <p>IFC Lending</p> <p><b>ASA</b> Transport Sector Public Expenditure Review (PER) (P169044)</p>
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**FOCUS AREA THREE: BUILDING HUMAN CAPITAL**

Confronting poverty and inequality in Paraguay effectively is closely linked to improving the quality of human capital and ensuring adequate protection for the most vulnerable groups within society. Human capital is a core determinant of economic development and the World Bank is committed to support Paraguay’s effort to strengthen it. While this area will focus on core health, education and social protection policies, accumulation and effective use of human capital requires effective policies in many other sectors, such as urban and housing, access to financial services, infrastructure, communications or others. Advances in those sectors are critical both to ensure ample access to core policies, as well as to ensure that this accumulated human capital (which is an asset with potential productivity impact) makes an actual contribution to the development process. Paraguay’s relatively young demographic structure, means that healthy, well-educated youth could provide a significant boost to economic growth and household welfare. Yet, Paraguay fails to transform the potential from its demographic bonus into socio-economic performance. For the last 15 years both the education and health sectors demonstrate poor outcomes in relation to increasing public and private expenditures and, in absolute terms, achieve results that are more on par with lower middle-income countries than countries at Paraguay’s income level. While budget allocations for, and the reach of, social services have improved significantly in recent years, quality has not caught up. This suggests that much more needs to be done to address inefficiencies, including structural changes to reform programs and resource allocation formulas that may exacerbate, rather than ameliorate, inequality in the population.

<b>CPF Objective 8: Reform the public health system to improve conditions for poor and vulnerable population</b>		
<b>Intervention Logic:</b> The overall low quality of health services has persisted despite significant increases in budgetary allocations for the sector. The Government is developing a long-term National Health Plan (2018-2030) which seeks to reduce maternal, infant mortality and morbidity rates as well as tackle the emerging chronic health issues through a greater focus on primary health care services. The Plan also outlines a medium-term reform strategy towards a single integrated health system while simultaneously improving the allocation of resources to increase equity across regions. Under this CPF, the WBG will engage with advisory support (new RAS) and investment lending to support the development of a program focused on improving efficiency and quality in the health sector, especially focusing on (i) interventions to reduce maternal, infant mortality and morbidity rates; and (ii) development of a strategic plan which would consolidate the multiple health insurance schemes and provide incentives for lower-cost preventive services. For its part, IFC will seek opportunities to assist Paraguayan health providers' expansion plans, with the aim of expanding scale and reducing costs for patients.		
<b>Indicator 8.1:</b> Percentage of children between 18-23 months that have received polio and pentavalent immunization <b>Baseline (2018):</b> 87.3% <b>Target (2022):</b> 93%  <hr/> <b>Indicator 8.2:</b> Percentage of Family Care Centers (FCC) that were strengthened in their capability to provide family health care services including maternal care in four selected departments <b>Baseline (2018):</b> 0 <b>Target (2022):</b> 80%	<b>Intermediate indicator 8.1:</b> 90% of children have received polio and pentavalent immunization by 2020  <hr/> <b>Intermediate indicator 8.2:</b> 40% of FCC have been strengthened by 2020	<b>Ongoing:</b> <b>ASA:</b> Public Expenditure Review on Human Development and Fiscal Management (P164146)  <b>Planned:</b> <b>Lending (IBRD)</b> Project Paraguay Public Health Sector Strengthening (P167996)  <b>ASA:</b> Strengthening Health Sector in Paraguay (P168802)
<b>CPF Objective 9: Reform the education system to improve access and quality for all</b>		
<b>Intervention Logic:</b> The WBG will support the Government in the formulation of a comprehensive education reform aimed at improving learning quality, access and retention. As in health, despite significantly higher spending on education in recent years, learning outcomes remain substantially lower for poor children – Paraguay witnesses the largest disparities between poor and rich students for reading and math learning results in the entire continent. The Government is committed to developing a new social compact to restructure the system and promote inclusive, equitable and good quality education in all regions of the country. The WBG has been supporting Government to design and implement a nationwide consultative effort involving civil society, the private sector and key education stakeholders (teachers, administrators, students and parents) to help set sectoral priorities and a plan of action that enjoys wide public backing. During the CPF period, the Bank will continue to work closely with the Government to coordinate the national consultation process and help draw together inputs on key education topics to support the development of a long-term education strategy, the 2030 National Plan for the Transformation of Education (“PNTE 2030”) and an associated		

<p>five-year roadmap (Roadmap 2018-2023). In turn, these documents will serve as the foundation for an overhaul of the education sector aimed at improving efficiency and learning outcomes in education through more equitable distribution of available physical, financial and human resources, improved curricula and a revitalized pedagogical process aimed at ensuring that students acquire the aptitudes and skills demanded by a modernizing economy.</p>		
<p><b>Indicator 9.1:</b> Number of years of learning- adjusted for years of school a child can expect to have by her 18<sup>th</sup> birthday (measured by the Human Capital Index) <b>Baseline</b> (2018): 7.1 <b>Target</b> (2022): 7.6</p>	<p><b>Intermediate indicator 9.1:</b> Adoption of the Strategy 2030 for the Transformation of the Education Sector (2020)</p>	<p><b>Ongoing</b> <b>ASA</b> Public Expenditure Review on Human Development and Fiscal Management (P164146)</p> <p>Formative use of National Standardized Assessments to improve student learning outcomes (P165937)</p> <p>Technical support for the preparation of a National Plan for the Transformation of the Education sector 2030 and Roadmap 2018-2023 (P165936)</p>
<p><b>CPF Objective 10: Strengthen the social safety net for the most vulnerable households</b></p>		
<p><b>Intervention Logic:</b></p> <p>Paraguay's social protection system is inefficient due to a multiplicity of small, overlapping and sometimes duplicative programs. The CPF will support Government to eliminate the current fragmentation of the social protection programs and build an integrated social protection system. Such rationalization could also include the phasing out of social assistance programs that have little impact on poverty reduction. The CPF will support social assistance rationalization (targeting of beneficiaries, entry and graduation strategies) and the strengthening of the newly created Ministry for Social Development (MDS). The country gender diagnostic to be undertaken in FY20 will provide more granularity to 10.1 indicator below.</p>		
<p><b>Indicator 10.1:</b> % of households in bottom quintile that receive cash social assistance (measured as income per capita excluding SA transfers) -disaggregated by gender. Approximately 49% of the <i>Tekoporã</i> recipients are women according to 2016 EPH <b>Baseline</b> (2018): 42% <b>Target</b> (2022): 60%</p>	<p><b>Intermediate indicator 10.1:</b> 46% of households in the bottom quintile receive cash social assistance by 2020 - disaggregated by gender -</p> <p><b>Intermediate Indicator 10.2.:</b> Harmonization of the targeting tools employed to target means tested programs (Three targeting tools applied in 2018: <i>Ficha Social STP, Ficha</i></p>	<p><b>Ongoing:</b> <b>ASA</b> Public Expenditure Review on Human Development and Fiscal Management (P164146)</p> <p><i>Tekoporã</i> Beneficiaries Empowered to Ensure Social Accountability Project (P150876)</p>

	<p><i>Tekoporã SAS, Ficha Social Adultos Mayores)</i></p> <p><b>Baseline</b> (2018): No harmonization among 3 targeting tools applied</p> <p><b>Target</b> (2020): Full harmonization among the tools</p>	<p>Poverty and Equity PA (P151094) Paraguay Jobs Diagnostic and Let's Work (P156402)</p> <p><b>Planned ASA</b> Investing in Social Development Efficiency</p>
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### Monitoring and Evaluation (M&E) of the CPF Results Framework

Indicator name	Description and data source
<p><b>Indicator 1.1:</b> Time and cost to import (border compliance plus documentary compliance) has decreased <b>Baseline</b> (2018): 82 hours and US\$620 <b>Target</b> (2022): 58 hours and US\$500</p> <p><b>Intermediate indicator 1.1:</b> Time to import (border compliance plus documentary compliance) has decreased to 70 hours by 2020. Cost to import (border compliance plus documentary compliance) has decreased to US\$580 by 2020</p>	<p>Source: World Bank Doing Business</p>
<p><b>Indicator 1.2:</b> Savings have been increased through consolidated procurement purchases <b>Baseline</b> (2018): 0 <b>Target</b> (2022): 2.1% of total amount procured</p> <p><b>Intermediate indicator 1.2:</b> To develop and implement a program for strategic procurement driven by spend and complexity data <b>Baseline:</b> No strategy in place <b>Target:</b> 3-4 categories of high spend and low complexity by 2020</p>	<p>The indicator takes into account potential savings through consolidated procurements for all high value, low complexity items (cost comparisons against baseline). According to the dataset from <i>Dirección Nacional de Compras Públicas</i> (DNCP) for 2012-2016, the total amount procured during that period was 65.6 trillion Guaranis. For the last year for which data is available, 2016, the total amount procured was 12.7 trillion Guaranis. The intermediate indicator allows measurement of whether the program for strategic procurement has been developed and implemented. Once this policy is implemented, it will be possible to look at progress toward CPF indicator 3.1. WB public procurement model runs at the level of detail of unit prices paid for products. Consequently, savings would be measured at this level.</p> <p>The definition of high value and low complexity items follows an exercise already undertaken by WB in Paraguay to develop the supply positioning matrix. This is a well-known tool and a critical input for procurement strategy and policy-making, which contains a detailed list of exactly the items that are categorized as high value and low complexity, including some descriptive statistics about these markets.</p>



Indicator name	Description and data source
<p><b>Indicator 1.3:</b> Strengthening of SEPRELAD Institutional framework to comply with FARF recommendations <b>Baseline (2018):</b> N/A <b>Target (2022):</b> Enacted legislation to detect financial operations suspect of money laundering and terrorist financing</p> <p><b>Intermediate indicator 1.3:</b> Framework agreement for exchange of financial information with customs, MoF and BCP in operation (2019) <b>Baseline (2018):</b> N/A <b>Target:</b> Operational framework agreement in place</p>	<p>Paraguay has committed to be submitted to the GAFILAT to measure its work toward developing and implementing a comprehensive global strategy to combat money laundering and terrorist financing as set out in the FATF Recommendations. Paraguay will present a self-evaluation in 2019, which will serve as the intermediate indicator of the objective. The actual evaluation will take place in 2020.</p>
<p><b>Indicator 2.1:</b> Access to Public Information Law is effectively implemented Government agencies (including municipalities) <b>Baseline (2018):</b> [75] % of Government Agencies <b>Target (2024):</b> [95] % of Government Agencies</p> <p><b>Intermediate indicator 2.1:</b> Rules are defined and implemented to promote the autonomy, political differentiation, and legitimacy of the API.</p>	<p>Data source: Baseline is based on an assessment carried out by the WB in 2018 of the implementation of the <i>Ley de Transparencia y Acceso a la Información (2014)</i> using the Odra methodology. This assessment will be updated to gauge progress on the target.</p>
<p><b>Indicator 2.2:</b> Citizen participation in the budget process has improved <b>Baseline (2018):</b> 11/100 <b>Target (2022):</b> 262100</p> <p><b>Intermediate Indicator 2.2:</b> OBI 2019: 14 OBI 2021: 20</p>	<p>Open Budget Survey data (0-100 score). Baseline data indicate Paraguay provides few institutionalized opportunities for the public to engage in the budget process. This work will support government-led initiatives to improve public participation, including social audits, citizen budget and other social accountability tools. Baseline: Open Budget Index by International Budget Partnership – Paraguay 2017 Report: Public Available at: <a href="https://www.internationalbudget.org/wp-content/uploads/paraguay-open-budget-survey-2017-summary-english.pdf">https://www.internationalbudget.org/wp-content/uploads/paraguay-open-budget-survey-2017-summary-english.pdf</a> OBI is measured every two years. Current Global Average: 12.</p>
<p><b>Indicator 3.1:</b> Reduction in the percentage of total non-revenue water for ESSAP <b>Baseline (2018):</b> 40% <b>Target (2022):</b> 35%</p> <p><b>Intermediate Indicator 3.1:</b></p>	<p>The indicator chosen measured the increased efficiency of the water systems through the savings in non-revenue water for ESSAP.</p> <p>Source: ESSAP reports</p>

Indicator name	Description and data source
<p>New ESSAP's concession contract approved, setting Service Units, goals for expansion and quality services and a new tariff regime.</p> <p><b>Baseline</b> (2018): -</p> <p><b>Target</b> (2020): Performance-based contract signed</p>	
<p><b>Indicator 3.2:</b> Reduction in the percentage of total Electricity losses (MWh) across the country</p> <p><b>Baseline</b> (2018): 24%</p> <p><b>Target</b> (2022): 18%</p> <p><b>Intermediate indicator 3.2:</b> ANDE has adopted procedures (budgetary, quality insurance and auditing standards) in line with SOE Corporate Governance Code</p> <p><b>Baseline</b> (2018): no</p> <p><b>Target</b> (2020): yes</p>	<p>Electricity losses are generally measured in terms of Electric Energy (MWh) lost from the electricity generated. The percentage could be calculated as the sum of electricity lost in the transmission system and the distribution system (both from technical and non-technical reasons, divided by the total amount of electricity generated.</p> <p>Source: ANDE reports</p>
<p><b>Indicator 4.1:</b> Reduction in time to start a business</p> <p><b>Baseline</b> (2018): 35 days</p> <p><b>Target</b> (2022): 24 days</p> <p><b>Intermediate indicator 4.1:</b> Time to start a business has been reduced to 30 days by 2020</p>	<p>Time required to start a business is the number of calendar days needed to complete the procedures to legally operate a business. If a procedure can be speeded up at additional cost, the fastest procedure, independent of cost, is chosen.</p> <p>Source: Doing business 2023 (published Oct. 2022)</p>
<p><b>Indicator 4.2:</b> Insolvency cost recovery has improved</p> <p><b>Baseline</b> (2018): 21.5 cents on the dollar</p> <p><b>Target</b> (2022): 28.0 cents on the dollar</p> <p><b>Intermediate indicator 4.2:</b> Insolvency cost recovery has reached 24 cents on the dollar by 2020</p>	<p>The recovery rate is recorded as cents on the dollar recovered by secured creditors through judicial reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings).</p> <p>Source: Doing business 2023 (published Oct. 2022)</p>
<p><b>Indicator 4.3:</b> A modern collateral registry system covering movable and immovable assets has been established and is being used</p> <p><b>Baseline</b> (2018): 0</p>	<p>Once the collateral registry in Paraguay is operational the amount of credit based on guarantee from moveable collateral will be tracked – in a modern technological, online registry, such that reporting will be automated. WB ASA will support the set-up and roll out of the registry.</p>

Indicator name	Description and data source
<p><b>Target (2022):</b> Loans registered at the new collateral registry reach an aggregate total &gt;US\$100 million</p> <p><b>Intermediate indicator 4.3:</b> Collateral registry system established by 2020</p>	<p>Source: Measured from the statistics from new collateral registry (BCP)</p>
<p><b>Indicator 4.4:</b> One PPP in implementation (works commenced) by 2022</p> <p><b>Baseline (2018):</b> 0 <b>Target (2022):</b> 1</p> <p><b>Intermediate indicator 4.4:</b> PPP project reaching financial closure by 2020</p>	<p>Financial closure measured as financing sponsors (banks) signing the PPP contract. This target is evidence of the Government's ability to improve the legal, regulatory and institutional framework which was responsible for the failed phase 1 of PPPs (two awarded projects that have not reached financial closure). The Administration has committed to building a robust PPP environment and focusing on promoting one successful project and bring it to closure. Note that at the time of writing the Rte 2&amp;7 project is still pending to reach financial closure. (as referred in the CLR).</p>
<p><b>Indicator 5.1:</b> Stabilization fund established</p> <p><b>Baseline (2018):</b> No stabilization fund <b>Target (2022):</b> Stabilization fund or alternative fiscal instrument is established</p> <p><b>Intermediate indicator 5.1:</b> Draft law and regulation by 2020</p>	<p>The CPF objective is to have the law enacted for the set-up of the stabilization fund. Government is planning to make the fund operational in 2023 after the renegotiation of <i>Itaipu Treaty</i> releases a windfall in revenue for the country. The plan is to make progress between now and 2023 to set up the fund and render it operational only with the financial flows from <i>Itaipu 2023</i> (as opposed to lending).</p>
<p><b>Indicator 5.2:</b> Increase of revenues from direct taxes in real terms by 40 percent by 2022</p> <p><b>Baseline (2017):</b> 100 (base year index of real value of direct tax revenues) <b>Target (2022):</b> 140 (index of real value of direct tax revenues)</p> <p><b>Intermediate indicator 5.2:</b> Increase of revenues from direct taxes in real terms by 15 percent by 2020</p> <p><b>Baseline (2017):</b> 100 <b>Target (2020):</b> 115 (index of real value of direct tax revenues)</p>	<p>Direct taxes (<i>Impuestos sobre el ingreso, las utilidades y las ganancias de capital</i>) collected by the Central Administration, including PIT, general CIT (IRACIS), and the agri-sector CIT (IRAGRO). Baseline for 2017: 5,047.1 billion guaranies (<i>en miles de millones de guaraníes</i>).</p>

Indicator name	Description and data source
<p><b>Indicator 6.1:</b> Private lands for which Environmental Services Certificates have been traded in the national market <b>Baseline (2018):</b> 19,916 Ha <b>Target (2020):</b> 100,000 Ha</p> <p><b>Intermediate Indicator 6.1:</b> The Certificates for Environmental Services are delivered in full compliance with the prescription established under Law 3001/06 <b>Baseline (2018):</b> no <b>Target (2020):</b> yes</p>	<p>Source: Ministry of Environment and Sustainable Development monitoring system</p>
<p><b>Indicator 6.2:</b> Vulnerable families in the <i>Bañados</i> of Asuncion mapped and consulted in the process of the Disaster Risk Management Strategy, through participatory mechanisms including ICT-based tools (household database) <b>Baseline:</b> 0 <b>Target:</b> 7000</p> <p><b>Intermediate Indicator 6.2:</b> The strategic plan for disaster risk – flooding - management has been adopted <b>Baseline (2018):</b> no <b>Target (2020):</b> yes</p>	<p>The first component of the Asuncion Citizen Engagement and Flood Risk Management (P150876) includes mapping and surveying about 7,000 vulnerable families living in the food-risk zone of the <i>Bañados</i> of Asunción. In total, the Direction of Statistics and Census of Paraguay (DGEEC) estimates that in 2017, 26,000 families and 150,000 people live in the <i>Bañados</i> Area of the Municipality of Asunción. The flooded riverside areas of the <i>Bañados</i> are 18km in length and 0.5km to 2km of width, representing an area of approximately 2,000 hectares (SERPAJ, 2013).</p> <p>Source: DGEEC - Censo Nacional de Población y Viviendas</p>
<p><b>Indicator 6.3:</b> The number of Ha in El Chaco managed sustainably by ranchers <b>Baseline (2018):</b> 0 <b>Target (2022):</b> 600,000 Ha</p> <p><b>Intermediate indicator 6.3:</b> 300,000 Ha in El Chaco follow sustainable management by 2020</p>	<p>The number of hectares under sustainable management will be the result of the sum of farms participating in the IFC advisory project which have improved their productivity.</p> <p>Source: GIS mapping of hectares under sustainable management, included in the environmental licenses issued by the Ministry of Environment and Sustainable Development</p>
<p><b>Indicator 7.1:</b> Increase by 15% in sale volume of small farmers – disaggregated indigenous and women farmers-- through partnerships (integration into value chains) <b>Baseline (2018):</b> 100 (index)</p>	<p>Project for Climate and Economic Resilience of Small Farmers- <i>Alianzas Productivas</i> (P168153) project results tracking. Indicator will be specifically defined when project preparation is completed.</p>

Indicator name	Description and data source
<p><b>Target (2022):</b> 115 (index)</p> <p><b>Intermediate Indicator 7.1:</b> Active participation in partnerships by women farmers and Indigenous communities in the NEW <i>Alianzas Productivas</i> project</p> <p><b>Baseline (2018):</b> 0% women, 0% indigenous communities</p> <p><b>Target (2020):</b> 30% women, 10% indigenous communities</p>	<p>A country gender analysis will be undertaken in FY20, which together with the rural project in preparation (<i>Alianzas Productivas</i>) will be able to feed into the PLR the appropriate gender disaggregated targets for indicator 7.1. The baseline is 0 because it covers only beneficiaries under the new project.</p>
<p><b>Indicator 7.2:</b> Roads in good or fair condition as a share of total classified roads</p> <p><b>Baseline (2018):</b> 84%</p> <p><b>Target (2022):</b> 90%</p> <p><b>Intermediate Indicator 7.2:</b> MOPC has adopted a Road Asset Planning and Management system to support the budget planning for roads</p> <p>Baseline (2018): no</p> <p>Target (2020): yes</p>	<p>“Classified” roads are roads which are part of Paraguay’s official network. The surface conditions for the paved roads (out of all the total classified roads) are measured via the International Roughness Index (IRI) and classification under “Good” and “Fair” is a function of the value of the IRI.</p> <p>Numerator: % of roads in good and fair condition according the MOPC survey</p> <p>Denominator: % of total classified roads</p> <p>Data source: Survey of MOPC</p> <p>The Transport Connectivity project (P147278) and the PER will contribute to the dialogue with the Government in the first two years of this CPF.</p>
<p><b>Indicator 7.3:</b> Volume of outstanding micro- and SME-loans in the agribusiness sector</p> <p><b>Baseline (2018):</b> US\$2.9 billion</p> <p><b>Target (2022):</b> US\$4 billion</p> <p><b>Intermediate Indicator 7.3:</b> Volume of outstanding micro- and SME-loans</p> <p><b>Baseline (2018):</b> US\$2.9 billion</p> <p><b>Target (2020):</b> US\$3.4 billion</p>	<p>Source: IFC portfolio tracking of lending operations to financial multipliers (banks) for agricultural SMEs and MSMEs across the country.</p>
<p><b>Indicator 8.1:</b> Percentage of children between 18-23 months that have received polio and pentavalent immunization</p> <p><b>Baseline (2018):</b> 87.3%</p> <p><b>Target (2022):</b> 93%</p> <p><b>Intermediate indicator 8.1:</b> 90% of children have received polio and pentavalent immunization by 2020</p>	<p><b>Numerator:</b> Number of children between ages 12-23 months who received the polio and pentavalent immunization before completing 12 months according to the national norm.</p> <p><b>Denominator:</b> Number of all children between ages 12-23 months</p> <p><b>Data source:</b> Ministry of Health</p>

Indicator name	Description and data source
<p><b>Indicator 8.2:</b> Percentage of Family Care Centers that were strengthened in their capability to provide family health care services in four selected departments  <b>Baseline (2018):</b> 0  <b>Target (2022):</b> 80%</p> <p><b>Intermediate indicator 8.2:</b>  40% of FCC have been strengthened by 2020</p>	<p><b>Numerator:</b> Number of Family Care Centers that are functioning and are adequately equipped in terms of infrastructure, equipment and human resources to deliver maternal and child services according to national norms in four selected Departments. The selected Departments are Central, Paraguari, Cordillera and Bajo Chaco  <b>Denominator:</b> Total number of Family Care Centers in the four selected Department  The selected Departments are Central, Paraguari, Cordillera and Bajo Chaco</p> <p>Data source: Ministry of Health</p>
<p><b>Indicator 9.1:</b>  Increase in the number of years of learning adjusted years of school a child can expect to have by her 18<sup>th</sup> birthday (measured by the Human Capital Index)  <b>Baseline (2018):</b> 7.1  <b>Target (2022):</b> 7.6</p>	<p>The WB Human Capital Index launched in October 2018 will set the baseline and the methodology for measuring Paraguay's progress on the education indicator. Successive HCI releases will serve to monitor progress.</p>
<p><b>Indicator 10.1:</b>  % of households in bottom quintile that receive cash social assistance (measured as income per capita excluding SA transfers) -disaggregated by gender. Approximately 49% of the <i>Tekoporã</i> beneficiaries are women according to 2016 EPH.  <b>Baseline (2018):</b> 42%  <b>Target (2022):</b> 60%</p>	<p><i>Tekoporã</i> is a program supporting households in extreme poverty), many of them are headed by women therefore efforts to expand the program will automatically increase the number of women in safety nets.</p> <p><i>Data source: Registro de Beneficiarios de Tekoporã</i> housed at Ministry of Social Development</p>

**Annex II: Completion and Learning Report**

**Document of the World Bank**

**International Bank for Reconstruction and Development**

**Completion and Learning Review of the Country Partnership Framework for Paraguay for the period  
FY15-FY18**

**Date of Country Partnership Strategy: November 7, 2014 (Report No. 82487-PY)**

**Date of Performance and Learning Review: February 27, 2017 (Report No. 113123-PY)**

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## ACRONYMS FOR THE CPS COMPLETION AND LEARNING REVIEW

ASA	Advisory Services and Analytics
ANDE	<i>Administración Nacional de Electricidad</i>
ATI	Access to Information
BCP	Central Bank of Paraguay ( <i>Banco Central de Paraguay</i> )
CLR	Completion and Learning Review
CMU	Country Management Unit
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CREMA	Rehabilitation and Maintenance Contract ( <i>Contrato de Recuperación y Mantenimiento</i> )
DPF - DDO	Development Policy Loan – Deferred Drawdown Option
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFDRR	Global Facility for Disaster Reduction and Recovery
GPSA	Global Partnership for Social Accountability
GoP	Government of Paraguay
ICR	Implementation Completion and Results Report
IEG	Independent Evaluation Group
IFC	International Finance Corporation
INDI	Paraguayan Institute of Indigenous People ( <i>Instituto Paraguayo del Indígena</i> )
IPS	Social Welfare Institute ( <i>Instituto de Previsión Social</i> )
IRAGRO	Tax on Agriculture Income
KwH	Kilo Watt per hour
LAC	Latin America and the Caribbean
MAG	Ministry of Agriculture and Livestock ( <i>Ministerio de Agricultura y Ganadería</i> )
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance ( <i>Ministerio de Hacienda</i> )
MOPC	Ministry of Public Works and Commerce ( <i>Ministerio de Obras Públicas y Comercio</i> )
MSME	Micro, Small and Medium Enterprises
MW	Mega watt
NDP	National Development Plan
ODRA	Open Data Readiness Assessment
PAAP	Paraguay Analytical and Advisory Program
PDNA	Post-Disaster Needs Assessment
PER	Public Expenditure Review
PLR	Performance and Learning Review
PMSAS	Water and Sanitation Sector Modernization Project ( <i>Proyecto Modernización del Sector de Agua y Saneamiento</i> )



PRODERS	Sustainable Rural Development Project ( <i>Proyecto de Desarrollo Rural Sostenible</i> )
SEAM	Secretary of Environment ( <i>Secretaría del Medioambiente</i> )
SENASA	Government's Health Agency ( <i>Servicio Nacional de Saneamiento Ambiental</i> )
SGIDE	Integral Management System of Electricity Distribution ( <i>Sistema de Gestión Integral de Distribución Eléctrica</i> )
SMEs	Small and Medium Enterprises
TTL	Task Team Leader
US\$	United States Dollars
WBG	World Bank Group
WSS	Water and Sanitation Services

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## I. INTRODUCTION

- 1. The Completion and Learning Review (CLR) evaluates the performance of the Paraguay Country Partnership Strategy (CPS) for the FY15-FY18 period.** The assessment provides an evaluation of the relevance and achievement of the CPS development objectives; the performance of the World Bank Group (WBG); and the alignment with the corporate Twin Goals. The CLR also highlights lessons learned from the implementation of the CPS to inform the design and preparation of the forthcoming Country Partnership Framework (CPF). The evaluation is based on the CPS and its Results Framework as revised in the Performance and Learning Review (PLR) of February 27, 2017.
- 2. The CPS was designed to support Paraguay in implementing its National Development Plan (NDP 2030), which placed top priority on eradicating extreme poverty.** However, in response to a slowdown in the economic and social progress, emphasis was later shifted to supporting the Government of Paraguay (GoP) to maintain fiscal stability and manage public expenditures with attention to preserving the gains in poverty reduction. The Development Policy Loan (DPF) with a Deferred Drawdown Option (DDO) (P151007), approved in 2015, was this CPS' main tool. Accordingly, the PLR adjusted the CPS objectives and the results framework to align with the new GoP priorities and limited demand for WB financing. The PLR introduced the initiatives of the Growth and Development Commission, the Stabilization Fund and the preparation of a Public Expenditure Review (PER) for the social sectors (Education, Health and Social Protection).
- 3. The CLR rates the overall progress towards the achievement of CPS outcomes as Moderately Satisfactory.** The CPS carried over an important legacy portfolio (US\$301.5m) of mature investment projects in infrastructure dating back to previous strategy cycles. As a result, the CPS results framework was shaped around the legacy targets to a considerable extent. The CPS incorporated three pillars that are all rated Moderately Satisfactory: (i) Strengthening Resilience to Risks and Volatility; (ii) Boosting Pro-poor Delivery of Public Goods and Services; and (iii) Agricultural Productivity and Market Integration. Out of the eight objectives of the CPS, one has been rated as achieved, three have been mostly achieved and four have been partially achieved.
- 4. Overall WBG performance in designing and implementing the CPS is rated as Good.** The CPS objectives were well aligned with GoP priorities as laid out in the NDP 2030 and responsive to the client's needs, including during the PLR. Although IPF and DPF under-delivered, the GoP gained ownership of the WBG ASA program with a growing RAS program of US\$5m and IFC showed robust investments, totaling US\$574m (out of which about US\$78m in mobilization). The WBG responded with agility to client needs and to the changing environment and carried out a proactive and close oversight of the portfolio, which allowed

to reduce the problem projects from 75 to 25 percent and reaching a disbursement ratio in line with the regional average.

5. **Going forward, the WBG should continue engaging in key sectors early in the CPF cycle and focus on strengthening implementation of the portfolio by addressing institutional capacity.** Technical capacity constraints, a high number of implementing agencies and complex institutional and governance arrangements tend to affect adversely the performance of operations in the Paraguay portfolio and caused delays. In the case of the ASA portfolio, selectivity and ownership have proven to be essential to generate a rich exchange and engagement and to advance reforms in key areas.

## II. PROGRESS TOWARDS CPF DEVELOPMENT OUTCOMES

### CPS Development Outcome

6. **The CPS Development Outcome is rated Moderately Satisfactory, justified with all Pillars rated as Moderately Satisfactory.** The CPS sets eight objectives measured by seventeen indicators. In the case of Pillar I, one objective was evaluated as *achieved*<sup>16</sup>, one as *mostly achieved* and one as *partially achieved*. Pillar II was assessed through nine outcomes, with two objectives assessed as *mostly achieved* and one as *partially achieved*. Finally, Pillar 3 showed satisfactory outcomes with two objectives weighted as *achieved* and *mostly achieved*. Under Pillar I - Resilience to Risks and Volatility —the CPS program made strides in enhancing agricultural risk management and in improving forest management in selected areas. All CPS objectives were achieved or mostly achieved under Pillar II – Boosting Pro-Poor Delivery of Public Goods and Service. The CPS was particularly successful in strengthening the institutional foundation for social accountability and transparency and supporting improved and better access to quality public services both in the water and sanitation and in the energy sectors. Although the WBG made substantial efforts, the program was only partially effective in contributing to increase revenues and progressivity of fiscal management. Under Pillar III - Agricultural productivity and market integration-, improvement of agricultural productivity and enhancing socio-economic conditions for small-holder farmers in targeted areas has reached its desired objectives and even surpassed some. The technical assistance support of the WBG to the increase of PPP program did not translate into projects in operation given that some issues with the legal framework prevented the award (Airport) and the financial closure (Ruta 2&7) of the two tendered projects.

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<sup>16</sup> The scale for the ratings is determined by the IBRD/IFC/MIGA Guidelines Catalogue Number OPS5.01-GUID.106, issued on March 8, 2018. According to the guidelines, there is a five rating scale: a) achieved, when the program fully achieved the Objective during the CPF period (e.g. all the quantitative targets were met); b) mostly achieved if the program made good progress towards achieving the Objective during the CPF period (e.g. more than half of the quantitative targets were met and the program is on track to meet the remainder of the targets); partially Achieved if the program made only limited progress toward achieving the Objective during the CPF period (e.g. less than half of the quantitative targets were met); not Achieved when the program made little progress toward achieving the Objective during the CPF period (e.g. few if any of the quantitative targets were met); and not Verified if there is insufficient evidence to assess the achievement of the Objective

7. **The World Bank has been, during the CPS period, a core development partner of the Paraguayan Government.** Even if the lending portfolio remained substantially unchanged from the previous strategy cycle, the World Bank advisory services expanded considerably, covering topics ranging from financial inclusion to agricultural risk, from macroeconomic volatility to education, from SOE reform to poverty/equity analysis and public expenditure reviews in the social sectors. Some of the analytical work has resulted in tangible outcomes, such as the *Bolsa Agrícola* which will help provide more transparent and predictable prices for Paraguayan grains. Also, the Doing Business advisory work on promoting formalization of the economy - by reducing hurdles to company registration, simplifying insolvency mechanisms and improving access to credit for SMEs through secured lending- has resulted in a bill that is currently at discussion in Congress. Also, the analytical work on financial inclusion was followed by the implementation of a national strategy by the Government leading to a 350 percent increase since 2011 in the number of adults with accounts. The substantive analytical work on fiscal policy and equity has provided basis for the current dialogue on fiscal reform and tax progressivity. The extensive body of ASA under this CPF has laid the foundations for dialogue on improved public policy and program development in the 2018-2023 period. In the last two years of the CPF, the demand for WBG advisory services remained high and led to an important engagement through RASs on strategic areas for Paraguay, such as governance, transparency, management of the environment and education.

**Table 1: CPS Results Framework FY15-18**

Country Development Goals	CPS Outcomes	CPS Outcome Rating	Overall Pillar Rating
<b>Pillar I: Resilience to Risks and Volatility</b>			
Objective 1: Enhance agricultural risk management	1. Agricultural insurance penetration rate increased 15 % by 2018 <b>Partially Achieved</b>	<b>Partially Achieved</b>	<b>Moderately Satisfactory</b>
Objective 2: Improve financial inclusion	2. 50 % of adults with savings accounts by 2018 <b>Mostly Achieved</b>	<b>Partially Achieved</b>	
	3. Outstanding micro and SME portfolio to reach US\$3.4 billion by 2018 <b>Not Achieved</b>		
Objective 3: Improve forest management in selected areas	4. Improved forest management and conservation practices introduced on an area equivalent to 18 % of the current Alto Paraná Atlantic Forest area by 2018 <b>Achieved</b>	<b>Achieved</b>	
<b>Pillar II: Boosting Pro-Poor Delivery of Public Goods and Service</b>			
Objective 4: Increase Revenues and Progressivity of Fiscal Management	5. Corporate tax on agriculture income increased (Gs. billion) <b>Partially Achieved</b>	<b>Partially Achieved</b>	<b>Moderately Satisfactory</b>
	6. Progressivity of the tax system and public expenditures, measured as the difference in the Gini coefficient before and after fiscal interventions (taxes, subsidies and transfers). <b>Not achieved</b>		
Objective 5: Improve and better access to quality public services in select sectors	7. People provided with improved sanitation environment in urban areas <b>Mostly Achieved</b>	<b>Mostly Achieved</b>	
	8. Indigenous people provided with access to improved sanitation facilities, 50 % of beneficiaries are women <b>Achieved &amp; Surpassed</b>		
	9. Increase in energy supply through the transmission network from 3,008,000 MWh (2015) to 5,800,000 MWh (2018) <b>Mostly Achieved</b>		
	10. Percentage of people reporting satisfaction with quality of roads (San Pedro, Caazapá and Caaguazú road segments) <b>Achieved &amp; Surpassed</b>		
Objective 6: Improve institutional foundation for social accountability and transparency	11. Open Information Law fully implemented by least 20 % of Government agencies by 2018 <b>Partially Achieved</b>	<b>Mostly Achieved</b>	
	12. At least 10 new education sector information tools and 15 datasets available for internal management and public access by 2018 <b>Achieved</b>		
	13. At least two social accountability mechanisms under the Open Government initiative (e.g. social auditing of the <i>Tekoporã</i> program) successfully implemented by independent CSOs by 2018 <b>Achieved</b>		
<b>Pillar III: Agricultural productivity and market integration</b>			
Objective 7: Improve agricultural productivity and enhanced socio-economic conditions for small-holder farmers in targeted areas:	14. 30,000 poor households, out of 180,000 of the rural poor, including small-scale farmers and indigenous people, in Eastern Paraguay report increase in real agriculture incomes by 2018 40 percent of the beneficiaries to be female <b>Partially Achieved</b>	<b>Mostly Achieved</b>	<b>Moderately Satisfactory</b>
	15. 130 additional indigenous communities' (representing more than 50 percent of Indigenous Peoples in Paraguay) have prepared and are implementing socio-economic development plans by 2018 <b>Achieved &amp; Surpassed</b>		
	16. Maize yield increases 12% among project beneficiaries <b>Achieved</b>		
Objective 8: Increase private investments in logistics projects	17. At least two public private partnership transactions in transport/logistics by 2018 <b>Partially Achieved</b>	<b>Partially Achieved</b>	

## Pillar I: Resilience to risks and volatility

**This pillar is rated Moderately Satisfactory.** Pillar I focused on building resilience to risks and volatility that would mitigate costs associated with price and climate shocks.

### Objective 1: Enhance agricultural risk management [Partially Achieved]

8. **Objective 1 has been partially achieved.** The WBG supported sector policy in the agriculture risk management agenda by supporting the design of a strategy to reduce risks over the medium-term and increase resilience over the long-term, whose action plan has been adopted by the Ministry of Agriculture and Livestock (MAG). This is key in the country as agriculture is an important source of growth in Paraguay and the country is amongst the ten most exposed to “Agricultural Productivity Loss Risks”<sup>17</sup>. With the Bank’s technical assistance (Strengthening Paraguay’s Agriculture Risk Management System (P145224)), the Government has put in place two important sector initiatives, namely the development of the first agriculture commodity exchange and an emergency agriculture insurance coverage for 26,150 family farmers. The commodity exchange should over time increase predictability and stability in the pricing of commodities. The first insurance for small producers is an important achievement in a country where natural disasters occur regularly and every year farmers make claims to the Emergency Relief Fund. The indicator chosen in the CPS (“agricultural insurance penetration rate”) shows only partially this progress given the high volatility in weather and the fact that it considers volume instead of quantity of producers. Between 2013 and 2017, the indicator has shown only a 5 percent increase, far from the 15 percent target of the CPS (from 0.39 percent to 0.41 percent), indicating that agriculture insurance for family farmers is still lagging behind given the limited interest from the financial institutions to cover this segment of the sector.
9. **Through the Crop Risks Preparedness ASA (P163737), the WBG contributes to strengthening the capacity of the MAG to manage weather risks of selected crops by improving the reliability of crop loss estimates.** An institutional analysis of the MAG was carried out and some recommendations related to staffing and budget are currently being implemented. To improve the assessment of crop losses, the team developed a Decision Support System based on agrometeorological information to improve the estimate of drought impact conditions over crops productivity of six specific crops and has offered a training on Post-Disaster Needs Assessment (PDNA), useful to implement an assessment on agricultural losses, damages and needs in the aftermath of a disaster.

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<sup>17</sup> <https://www.cgdev.org/page/mapping-impacts-climate-change>

10. **IFC is working on improving sustainable use of natural resources in Paraguay, in particular in animal traceability and in increasing productivity.** On a country level, the objective is to develop ranching principles in line with global best management principles to reduce environmental and social risk and promote greater traceability and transparency in the cattle supply chain, which could potentially lead to access to higher value markets and export diversification. IFC Advisory launched in March 2017 a four year \$2.5m project with the goal to establish the framework of partial environmental traceability in cattle supply from El Chaco. In absence of an effective legal framework and enforcing institutions, the project focuses on promoting a voluntary compliance system backed by a critical number of cattle ranchers and meat packers.

## **Objective 2: Improve financial inclusion [Partially Achieved]**

11. **Objective 2 has been partially achieved.** The GoP prepared a National Financial Inclusion Strategy with support from the WBG to reduce poverty and promote shared prosperity by providing poor and financially vulnerable families access to affordable and secure savings, payment and insurance services. The Government has moved forward with several actions identified in the Paraguay Finance and Markets Programmatic Approach (P147386). The 2017 Global Findex report revealed that 49 percent of adults in Paraguay have an account, up from 22 percent in 2011. While gender gap in Paraguay (5 percent) is below the developing country average of 9 percentage points, the income gap for financial inclusion is still high (18 percentage points between the richest and the poorest households). Moreover, 29 percent of adults in Paraguay have a mobile money account, making it one of the rare non-African countries with high mobile money penetration. The Ministry of Justice, with the support of the Central Bank and MoF, has engaged in a SMEs formalization promotion effort which will increase access to finance through using mobile assets as collateral (secured transactions). The bill is currently at Parliament with pending approval. The Enhancing Fiscal Management, Social Protection and Financial Inclusion DPF-DDO (P151007) supported the financial inclusion agenda of the Government. This included the strengthening of the legal framework for the provision of financial services and the establishment of simplified processes to open and manage savings accounts.
12. **IFC focused on enhancing access to financial services by engaging with financial intermediaries with a broad distribution network to reach MSMEs and the more disadvantaged rural areas of the country.** Nevertheless, asset quality deterioration experienced by Paraguay's financial sector during the reporting period limited the impact of IFC's efforts and, finally, the volume of outstanding micro- and SME-loans decreased from US\$3.2bn to US\$ 2.9bn. The baseline for this indicator was estimated with higher expectations in line with the growth of the period 2010-13. Yet, depreciation of local currency (approx. 26% in the period 2013-2018) and adverse terms of trade beginning in the last quarter of 2015 (lower commodity prices, adverse climate events and commercial activity with key trading partners Argentina and Brazil) negatively affected Paraguay's financial



sector. For this reason, IFC decided to take a cautious approach by reducing its lending activity with existing clients in the period 2015-2017 falling short of the CPS target of US\$3.4bn for 2018

### **Objective 3: Improve forest management in selected areas [Achieved]**

- 13. In line with the NDP objective of reducing to zero the deforestation rate by 2030, the WB has contributed to improved forest management and conservation through the implementation of the Conservation and Biodiversity and Sustainable Land Management GEF operation (closed in 2016; rated Satisfactory; TF-96758; ICR #3922).** The portion of the Alto Parana Atlantic Forest under conservation currently stands at 18.2 percent, surpassing the CPS target, and corresponding to 233,353 hectares that include private forest reserves, public areas and indigenous communal land. WBG support in this sector was essential for the institutional strengthening of the Secretary of Environment (SEAM), the MAG and the Paraguayan Institute of Indigenous People (INDI) at the national and local level. As a follow-on project the first RAS signed in Paraguay, Strategic Support for the Development of the Atlantic Forest Corridor in Paraguay (P161498), is supporting the design of a strategy for forest protection and reforestation.

### **Pillar II: Boosting Pro-Poor Delivery of Public Goods and Services**

- 14. This pillar is rated as Moderately Satisfactory.** Pillar II focused on the pro-poor delivery of quality services, raising revenue collection, making both taxing and spending more equitable, and improving the accountability and transparency of public spending for the poor.

### **Objective 4: Increase revenues and progressivity of fiscal management [Partially Achieved]**

- 15. Through a combination of a DPF-DDO and ASA the WBG supported the GoP in improving the equity and efficiency of fiscal policy and strengthening macroeconomic resilience.** Paraguay's fiscal system remains among the least effective in reducing income inequality in the region and trapped in low equilibrium of low taxation-low quality of public services. During the reporting period the GoP set out to accomplish the targets of fiscal equity by promoting the formalization of taxation (avoiding tax evasion and reducing tax exemptions) in order to widen the tax base as opposed to raising direct taxes. MoF, with the technical assistance of the WB, has put in place a modelling system to assess the incidence of existing and prospective fiscal policies to ensure the incorporation of incidence analyses as part of the budget discussion. The WB's technical assistance contributed to support macroeconomic resilience by improving the framework for managing fiscal risks, including improvements to macro-projections models, potential changes to fiscal rules or setting up more effective fiscal institutions to develop tools and analysis for improved risk management. The DPF-DDO (P151007) helped increase compliance with the Fiscal Responsibility Law. Five indicators of the public finance management component of the DPF-DDO reached their targets. VAT revenue collection from the financial sector increased from 3.9 percent to 11.4 percent; the tax revenue leakages decreased thanks to

the establishment of a risk-based mechanism for processing VAT and ISC credit claims refunds compliance; transparency and accountability of public financial management systems increased by having available and updated information on budget execution and civil service salaries. Yet, the CPS outcome indicator for the Tax on Agriculture Income (IRAGRO) did not fully meet the targets, partly due to the lower price of soy and to the slow start in administration when switching from the Tax on Agricultural Activities (IMAGRO).

**16. Despite the increased coverage and targeting of social protection programs like *Tekoporã* and *Adultos Mayores*, the CPS outcome indicator measuring progressivity of the tax system and public expenditures was not recorded given lack of data.** While the outcome indicator could not be computed, complementary evidence suggests that progress made to date is not likely to be enough to achieve the target. On the expenditure side, social protection is credited for avoiding an increase in poverty in the period 2014-2018 given the slowdown in labor incomes. Despite *Tekoporã* and *Adultos Mayores* expansion, only a third of the poor and very poor receive conditional cash transfers, whose amount is also relatively small. The WBG provided technical assistance to refine the targeting mechanisms for the selection of beneficiaries of the programs, but the impact of the instrument was limited, because it was not adopted across all relevant ministries. Additionally, the country still faces important challenges in the consolidation and rationalization of expenditure in multiple social protection programs. On the revenue side, the progressivity of taxes is extremely low relative to other countries, and no major changes were achieved after 2014.

#### **Objective 5: Improved and better access to quality public services in selected sectors [Mostly Achieved]**

**15. Access and quality of public services were improved in the water and sanitation sector, mostly achieving the CPS outcome.** The Water and Sanitation Sector Modernization Project (P095235), approved under the previous CPS, has gained momentum since 2014. The project has contributed to the rehabilitation of 57 km of water distribution networks and 8.4 km of sanitation networks in Greater Asuncion. The outcome of providing 300,000 people with improved sanitation environment in urban areas has been mostly achieved (270,000 at the time of CLR writing). The project has contributed to improving rural water and sanitation infrastructure, benefiting already 6190 indigenous people, half of which were women, and achieving and surpassing the CPS target. In addition, the project has also supported the decentralization of the National Environmental Sanitation Services (SENASA), as well as the development of an action plan to support the Water and Sanitation Units of the municipalities in Chaco to ensure long-term technical, institutional and financial support to all indigenous communities.

**16. Road infrastructure was also strengthened in target areas, particularly benefiting rural population.** The target under the CPS for this outcome was achieved, as 77 percent of people included in the poll reported satisfaction with the quality of roads, surpassing the 75 percent

target of the indicator. Support for this goal, has been given by the Road Maintenance Project (P082026), which expanded rural connectivity and contributed to building GoP's capacity to define investment priorities and develop efficient work programs aligned with existing budgets. Institutional improvements have also been supported by legal actions in five key areas: passage of transit and road safety law; adoption of law to amend the classification of road system; creation of a planning department in MOPC; increase in toll rates to cover costs of the system; and creation of a department for transparency and public participation. The Project resulted in an improvement of about 141 km of unpaved roads in the three targeted departments and contributed to the introduction of performance-based contracts, with three contracts implemented for a total of 624 km. Further, work under the Global Road Safety Facility has contributed to strengthen management capacity development, critical to address road safety, which is a serious public health issue in Paraguay with the highest fatality rate in LAC (16 for every 1,000 persons). As a follow-up operation, the Rural Connectivity Project (P147278), which only became effective in January 2018, will support the implementation of the recommendations of resiliency measures for the Rehabilitation and Maintenance Contracts (CREMA) in a joint collaboration with the Global Facility for Disaster Reduction and Recovery (GFDRR).

17. **The Energy Sector Strengthening Project (P114971) has supported the modernization of the National Administration for Electricity (*Administración Nacional de Electricidad – ANDE*), Paraguay's public electricity company, the distribution system and the increase in the efficiency of the transmission network.** As a result, the energy supply through the transmission network has increased by 65 percent, from 3,000,008 Kwh to 4,949,000 Kwh, mostly achieving the CSP outcome target (5800000 MWh). This has benefited 2.5 m people in the Asuncion Metropolitan Area, of whom approximately 15 percent are below the national poverty line. The project was successful to modernize ANDE's communication system (*Sistema de Gestión Integral de Distribución Eléctrica (SGIDE)*), which improved the quality of the access by reducing service outages and repair times.

**Objective 6: Improve institutional foundation for social accountability and transparency [Mostly Achieved]**

18. **Critical progress has been achieved under the CPS objective of improving Paraguay's institutional foundation for social accountability and transparency.** Under the Programmatic Advisory Services for Strengthening Transparency Systems to Improve Accountability in Paraguay's Public Administration (P161686), the WB has conducted a rigorous diagnostic of current strengths and weakness for effectively implementing the Citizen's Free Access to Public Information and Government Transparency (Ley 5189/2014) in Paraguay. Supported by the World Bank's South-South Knowledge Exchange Trust Fund, the Ministry of Justice of Paraguay participated in an experience exchange program with other countries from the region to strengthen the implementation process of the Law, which builds upon prior WB's Access to Information Law (ATI) experience through policy dialogue, capacity building and technical assistance on national ATI legislation to several countries over

the last 10 years. Currently, 14 percent of Government agencies have implemented the law, mostly achieving the CPS target of 20 percent. The Bank has also conducted an Open Data Readiness Assessment (ODRA) to support the GoP in identifying a sound action plan to implement an Open Data initiative. Under the Open Government initiative, two social accountability mechanisms have been successfully implemented. Finally, the target for 10 new education sector information tools and 15 datasets available for internal management and public access by 2018 has been fully achieved.

### **Pillar III: Agricultural Productivity and Market Integration**

The pillar is rated Moderately Satisfactory.

#### **Objective 7: Improve agricultural productivity and enhanced social-economic conditionals for small-holder farmers in targeted areas [Mostly Achieved]**

19. **The WBG contributed to notable improvements in the agricultural productivity mainly through the Sustainable Agriculture & Rural Development Project (PRODERS) (P088799), which is the main Government tool to fight rural poverty.** The project has reached overall 240,000 beneficiaries, corresponding to 48,251 households with agricultural services, particularly technical assistance. While the implementation of PRODERS has presented challenges and the project has been a problem project for most of its lifetime, PRODERS has gained momentum in the last two years of the CPS thanks to improved management on GoP and flexibility and close supervision of the WB teams. Monitoring and evaluation of the program has been difficult during the first years. However, a random sample of 1,029 households benefited by the strategy for farmers and comprising beneficiaries from 2011 to 2016 has taken place recently, concluding that that 24,875 poor household in Eastern Paraguay, compared to the target of 30,000 household, report an increase in real agriculture incomes by 2018.<sup>18</sup> At the local level, the Project has also built significant capacity and commitment in more than 600 rural communities to plan and execute local development interventions. As a result, 180 additional indigenous communities have prepared and are implementing socio-economic development plans by 2018, largely surpassing the target of 130 communities. Regarding crop productivity, the indicator for maize yield among project beneficiaries has also been met.
  
20. **IFC's support in the agribusiness sector consisted of two credit lines for an amount of approximately US\$175m aimed at increasing access to working capital finance for farmers and services, with a focus on second tier farmers in the more remote areas of the country where the availability of similar finance and services is very limited.** In addition, IFC

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<sup>18</sup> It is worth noting that indigenous peoples and individual households benefited by the social intervention “*Familia x Familia*” were not covered by the sample (these groups will be subject to an external evaluation). Therefore, the calculation likely underestimates the value of households that have improved income., as the sample used to report increase in real income accounts only for around 400 families For calculation purposes, only income increase of over 30% were considered

committed close to US\$150m in trade finance guarantees during this period. Most of these guarantees were used in the agribusiness sector.

### **Objective 8: Increase private investments in logistics projects [Partially Achieved]**

21. **Paraguay made important strides to mobilize private sector financing to bridge its infrastructure gap.** A PPP law was passed, and several projects were structured and tendered. In October 2016, the first PPP project (*Ruta 2&7*) was awarded to an international consortium, yet the project has not reached financial closure to date. By expanding the road between Paraguay's major economic hubs - Asunción in the West and Ciudad del Este on the border to Brazil - the project would facilitate regional integration and improve Paraguay's competitiveness. A second PPP project (the modernization of the Asuncion Airport) failed because of weaknesses in the regulatory framework laying out the tender procedures.

### **III. WBG PERFORMANCE**

22. **Overall, WBG Performance during the FY15-FY18 CPS is rated Good.** The WBG's performance during the reporting period is assessed along two dimensions: (i) design and relevance of the CPS; and (ii) implementation of the CPS program.

#### **Design and relevance**

23. **The results framework and the focus areas of the CPS were in line with the Government's priorities and allowed the Bank to contribute to the country's development goals through an appropriate mix of instruments of lending and ASA.** The Government focused on three pillars for the period FY15-FY18: i) Fighting poverty, ii) Regional integration and bringing Paraguay to the world; and iii) Government transparency. The Bank has provided technical assistance to the poverty measurement units and supported the reduction of rural poverty through PRODERS. In terms of regional integration, Paraguay made substantive public investments in the improvement of its road network mainly in support to its export-led sectors. The Bank supported investments in the transport sector and provided technical assistance to the newly set-up PPP program. Also, it has been involved into the elaboration and further implementation of the 2014 Transparency Law. The objectives and the pillars of the CPS were highly relevant to country needs and fully aligned with the Government's NDP. The CPS remained relevant throughout the period and supported with flexibility the NDP. The lending instruments included a DPF-DDO, which served as an umbrella for other interventions, one traditional IPF and a wide array of knowledge services, including a substantial number of RASs, which supplemented the overall lending program.
24. **In terms of design, the Results Framework was well designed though a bit complex and ambitious for the size of the Paraguayan portfolio and its pace of implementation.** It

comprised three pillars, eight objectives and seventeen outcomes, some of them gender-disaggregated. Indicators were well chosen at covering all IBRD and IFC areas of intervention and, despite being many, most of them were accomplished. Results measurement at entry could have been improved, some of the indicators being not sufficiently specific and difficult to track. For some indicators, the wording of the objectives and the correction of baselines and targets was at the PLR stage. In other cases, as in the case of PRODERS, the Bank closely monitored the results and worked together with the Government's team in the analysis of the results of the survey.

25. **Analytical work leveraged the policy dialogue with Government and fostered a deepening of country engagement.** Examples of analytical work, which promoted public policy dialogue between the GoP and civil society, include: Tax Reform, Banking Law, Poverty, Equity Assessment, Volatility Study, the Growth, Equity and Development Commission; Stabilization Fund; Transparency; Job creation; and Public Services and Territorial Development. While the planned technical assistance joint fund with the Government, the Paraguay Analytical and Advisory Program (PAAP), was proven unfeasible because of legal constraints, the development of an important portfolio of RASs was a major achievement and success of the CPS.
26. **Since 2016, there was a change in the ASA delivery model, which generated a planned provision of fee-based knowledge and advisory services.** The change aimed at ensuring that GoP can get effective technical assistance support in a timely manner for strategic areas clearly prioritized as transformational for Paraguay's development; such as governance and natural capital management. The strategic move to RASs helped GoP prioritize multiple ASA demands (as funding for the RASs had to be secured) and gain ownership of the product and strengthen the collaborative relationship with the Bank. In the period 2016-2018, six RASs were signed, generating a portfolio which currently accounts for 32% of the active RAS portfolio in the LAC region.<sup>19</sup> Experience with the RAS portfolio shows that the client is engaged in seeking a follow-on policy action or moving towards policy recommendations via a new RAS.
27. **Overall, even though the risks identified in the CPS remained relevant and substantial throughout the period, the Bank was able to mitigate them.** Regarding the political risk, the Bank worked to mitigate governance shortcomings by scheduling early briefings for incoming officials and working with permanent staff of relevant ministries as possible to provide program continuity. Moreover, to mitigate the institutional capacity and implementation risk,

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<sup>19</sup> The current portfolio includes five RASs; a) with the BCP on Financial Accounting Norms, b) with Itaipú to develop a conservation strategy for the Atlantic Forest Corridor, c) with the Instituto de Prevision Social (IPS) on governance and financial management, d) to support the preparation of the national plan for the education sector and e) to support the use of standardized assessments in education. The latter two are the first work on Education in Paraguay in many years and are expected to provide key inputs for the next administration's ambitious education reform.

which had been properly identified in the CPS, the Bank continued to proactively address them through increased joint supervision with the Government, which included in-depth financial management and procurement assessment and enhanced capacity building.

#### IV. Program Implementation

28. **The enhanced dialogue in several sectors, the growing ASA portfolio, and the growing IFC portfolio offset the fact that the overall WBG financial support was more limited than projected at the onset of the CPS.** The limited demand for IBRD lending, combined with a complex institutional environment, resulted in the delivery of US\$200m in new lending, compared to an indicative program of US\$600-700m. A second development policy lending intended to support reforms in fiscal policies and the national financial inclusion strategy failed to materialize as demand shifted. However, IBRD managed to stay close to the CPS targets by providing a strategic body of technical assistance that has recently turned into a strong RAS portfolio in key areas for Paraguay's public policy and reform and by focusing on ramping up operational support to the existing portfolio.
29. **The current IBRD active portfolio consists of four projects for US\$401.5m in priority infrastructure sectors for GoP to deliver basic services (Table 2).** Two operations for US\$100m each were approved during the CPS period. Three projects closed during the CPS period: GEF Conservation of Biodiversity (P094335), rated (S); Road Maintenance (P082026 Report No: ICR 111209), rated (MS); and a DPF-DDO Enhancing Fiscal Management, Social Protection and Financial Inclusion (P151007), rated (S) at closing. With an average age of 83 months, three out of four current projects are due to close during CY2018. The Bank also manages a portfolio of eight trust funds totaling US\$2.5m, including the Social Audit of the *Tekoporã* Program and the Let's Work Program.
30. **IFC committed portfolio (own account) reaches approximately US\$148m as of June 30, 2018, benefiting nine client companies and banks.** IFC focuses on agribusiness and financial inclusion, mostly through financial intermediaries, and on Environmental & Social standards through an advisory project to improve sustainability and profitability of the agribusiness sector. Over the CPS period, IFC committed approximately US\$574m, including US\$78m in mobilization, across nine projects in the agribusiness, financial markets and energy sectors. These investments have benefited nearly 36,000 farmers linked to the client company as suppliers, buyers, contractors or farming employees, and have directly employed nearly 690 persons during this period.
31. **The quality of the portfolio has significantly improved during the CPS period thanks to proactive actions and close cooperation between the Bank and the client.** Problem projects have decreased from 67 percent in FY15 to 20 percent in FY18, even though the portfolio has

been fully at risk during the entire CPS period<sup>20</sup>. Paraguay’s portfolio has experienced significant challenges during its implementation mainly due to complex design involving more than one executing agency, safeguards and fiduciary issues, limited implementation capacity and high staff turnover. The Bank has worked proactively to redress major bottlenecks in some mature projects and mitigate fiduciary risks during the CPS period, achieving a 100 percent proactivity rating in FY18. Moreover, the challenge of sustaining the pace of disbursements, identified in the CPS, was overcome, with an average disbursement ratio of 25 per cent in FY18, in line with regional average.

32. **To improve implementation and strengthen the management capacity of project implementation units, the Bank project supervision has been intensive, doubling the regular supervision ratio for an IPF project in a similar income-level countries.** This has contributed to improve project performance. From the five IPFs in the CPS portfolio, all projects but one has been restructured and extended at least once (one project has been restructured four times with three extensions and two projects restructured three times, one of them with three extensions also).
33. **One remaining challenge, though outside of Bank’s control, relates to the lengthy process of ratification of multilateral loans by Congress, which averages 14 months from board approval to effectiveness.** Paraguay has also one of the longest delay from project concept to first disbursement with an average of 44 months. Despite close communication with the client and intense efforts to reduce this lag, these delays impact the timely delivery of project outcomes and causes disbursement lags. For instance, the Paraguay Transport Connectivity (P147278) was approved by the Board in July 2016 and became effective in January 2018. To address this issue, the Bank has been working in a task force with other donors. It is also expected that the new Administration will take this as a priority.

Table 2: Paraguay Portfolio Data – FY15-FY18

Data as of	FY15	FY16	FY17	FY18
<b>PORTFOLIO AND DISBURSEMENTS</b>				
Active Projects #	5	3	4	4
Net Commitments Amt US\$m	380	302	402	402
Total Disbursements US\$m	166	143	204	251
Total Undisbursed Balance US\$m	214	158	198	150
Disbursements in FY US\$m	59	39	60	47
Disbursement Ratio for IPF only percent	21.6	19.7	38.1	23.9
<b>PORTFOLIO RISKINESS</b>				

<sup>20</sup> This is due to the existence of a country flag for Paraguay, which affects all projects.



Actual Problem Project #	4	2	2	1
Problem Project percent	80.0	66.7	50.0	25.0
Potential Problem Project #	1	1	2	3
Projects At Risk #	5	3	4	4
Projects At Risk percent	100.0	100.0	100.0	100.0
Commitments At Risk US\$m	380	302	402	402
Commitments at Risk percent	100.0	100.0	100.0	100.0
Proactivity percent	66.7	75.0	50.0	100

Source: Reports, World Bank. Data as of July 2018

## V. CPS ALIGNMENT WITH CORPORATE GOALS

### Evolution of Poverty Reduction and Shared Prosperity

34. **The WBG program is well aligned with the twin Corporate Goals of eradicating extreme poverty and increasing shared prosperity.** All CPS pillars, and the underlying strategic objectives, address the Twin Goals by focusing on agricultural productivity, market integration and financial inclusion, which boost shared prosperity, and increased resilience to risks and volatility and improved pro-poor delivery of public goods and services, which reduces poverty. The CPS is also aligned with Government’s NDP, which are 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, in line of site with the WBG twin goals. Most projects in the portfolio produced results that have the potential to contribute to poverty reduction and shared prosperity. In particular, the support of actions to strengthen community organization, self-governance, financial inclusion and access to markets and value chain of PRODERS beneficiaries have led to improvements in the socio-economic conditions of the small farmers and indigenous communities of the project area.
35. **The World Bank Group has gender-informed its country engagement for Paraguay.** Given the maturity of the existing lending portfolio, WBG operations, with the exception of Paraguay Transport Connectivity, did not benefit from the inclusion of gender aspects at the design stage but this was addressed during implementation. Currently, three out of four projects are gender informed, including gender disaggregated results indicators. PRODERS has contributed to build capacity of local women and has promoted 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. Moreover, the already closed Project of Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest (P094335) includes a gender analysis on the role that female small farmers and female headed households play in natural resource management.

36. **Citizen engagement is widely present in the Paraguay CPS, one of its objectives being to improve institutional foundation for social accountability and transparency.** The Grant of the Social Audit of the *Tekoporã* Program (P150876, GPSA Grant TF18137) promotes social audit through citizen empowerment for better monitoring of the quality of public services delivery. The main objective of the grant is to give voice to the beneficiaries of *Tekoporã* to improve the effectiveness of the program and accountability. The Global Partnership for Social Accountability (GPSA) Social Audit Project launched the Citizen Scorecard for the *Tekoporã* Program involving the Education and Health Ministries. Moreover, PMSAS has contributed to the development of a comprehensive, web-based platform for claim redress and a physical, financial, environmental and social public monitoring tool.
37. **While the mainstreaming of climate change considerations is not fully present in this CPS because three out of four operations belong to a previous CPS, several projects and TA do have adaptation and mitigation benefits.** Co-benefits represent 7 percent of the total amount delivered in FY17 (Transport Connectivity Project). While the screening went back to FY11 but was not able to capture co-benefits contributions in other operations in the portfolio as they have not been prepared specifically under this new requirement. However, on the adaptation side, the Strengthening Paraguay's Agriculture Risk Management System TA (P145224) has tried to reduce risks in the agriculture sector and the Crop Risks Preparedness ASA has addressed weather risks. Also, the Forests Landscape Management (P156288), has identified analytical and monitoring approaches in support of forest landscape planning, management, monitoring and also identified adaptation and mitigation measures to be applied in context of scaling up planted forests for energy, timber and non-timber objectives.

## VI. Country context

38. **Paraguay's rapid growth in recent years is the result of exploiting its fertile land, its water resources and hydroelectric energy, enabled by sound macroeconomic management.** Paraguay grew at 4 percent per year on average during 2014-2017<sup>21</sup>, slower than the 4.7 percent on average in the 2004-2017 period, but faster than most of its regional comparators. The country's growth was largely driven by agriculture and, to a lesser extent, hydroelectric generation, exploiting the country's traditional comparative advantage in natural capital. Due in large part to the strong performance of the agricultural export (soy and beef), Paraguay stands out in the region for the positive contribution of net trade to growth. The contribution of capital stock to growth has been low, given low public investment and the country's limited ability to attract foreign direct investment to help overcome a low domestic saving rate. Economic growth was supported by prudent macroeconomic policies. Paraguay averaged a fiscal deficit of 1.1 percent of GDP in the period from 2014 to 2017, and public debt is below

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<sup>21</sup> This average includes an estimate for 2017

25 percent of GDP. Inflation has remained under control, and the flexible exchange rate arrangement helped the country to absorb external shocks.

39. **Growth was not accompanied by significant social gains during 2013-2016 - when poverty rates stagnated, and shared prosperity turned slightly negative - though progress resumed into a positive trajectory in 2017.** Since 2003, total and extreme poverty have fallen by 25 and 8 percentage points (or 49 and 65 percent), respectively. The income of the bottom 40 percent grew at an annualized rate of 4 percent; and the size of the middle class almost doubled. Progress, however, has not been uniform. Following a decade of significant gains, poverty rates stagnated and shared prosperity turned slightly negative between 2013-2016. The stagnation in poverty has been the result of falling labor income compensated by increases in non-labor income. In particular, public transfers have played an increasingly important role in protecting households from falling into poverty. In 2016, extreme poverty would have been 24 percent higher if the income of the two main social assistance programs was not considered. However, private consumption growth resumed in 2017. Household income -driven by the strong recovery of labor income– increased by 7.6 percent among the bottom 40 percent. As a result, between 2016 and 2017 the poverty rate fell by 2.5 percentage points (from 28.9 to 26.4) and the extreme poverty rate fell by 1.3 percentage points (from 5.7 to 4.4 percent) - reaching historic lows. The fall was observed in both rural and urban areas.
40. **While Paraguay has been characterized by high economic growth, strong poverty reduction and macroeconomic stability in the last 15 years, there are important weaknesses in the current composition of growth and risks to its sustainability.** Paraguay’s natural capital, land and water, are not being exploited sustainably and are not a source of equitable growth. The demographic dividend effect is already fading, with a diminishing contribution to growth compared to the previous decade. Years of underinvestment in human capital and infrastructure limit opportunities for faster growth and better inclusion. Despite perceptions that corruption in public institutions is still high and continue to permeate public affairs, the GoP has lately implement wide-reaching reforms for boosting transparency and combating evasion, which evidence a high degree of commitment to fight corruption. Macro stability, one of the main achievements of the GoP in the past years, is still exposed to external shocks and could be jeopardized unless further anchoring is done to protect the country from volatility.

## VII. KEY LESSONS LEARNED

41. **Simplicity in project design can contribute significantly to reduce bottlenecks and delays during implementation.** In the reporting period, all projects benefitted from a variety of approaches, such as strengthening capacity in the implementation unit, WB readiness to provide closer and more frequent supervision as well as day-to-day operational support from the CMU, and reduced rotation of TTLs. Looking forward, projects should define clearly their geographical focus and reduce the number of

implementers and counterparts involved in order to increase client ownership. Moreover, interventions should be simple and realistic and well defined during project preparation. Experience in Paraguay has shown that using a general sector framework (i.e. PMSAS) without pre-identified clear outcomes and activities can lead to substantial delays and budget overrun. The preparation stage should be long enough to create a sound project with regards to social and environmental safeguards, financial management and procurement. Finally, strong commitment by the Paraguayan authorities with effective communication, plus flexibility and close supervision by the WB clearly contributed to removing bottlenecks, increasing disbursements and moving towards project completion. MoF involvement in the PRODERS and PMSAS made a difference from 2016 onwards, showing important progress in project execution.

42. **Building sector governance, strengthening the institutions and technical capacity inside the executing agency is a key added-value for every investment project.** Implementation challenges in Paraguay are related, in part, to limited professionalization of bureaucracies in line ministries. Thus, it is important to include a technical assistance segment to strengthen institutional capacity in the implementing units or Ministries ahead of implementation and to use operations manuals more strategically in order to outline roles, responsibilities and processes. It is essential that WBG teams continue to closely supervise operations and work together with counterparts in financial management and procurement. Also, task teams, working closely with fiduciary colleagues and lawyers, should ensure that the WBG Anticorruption Guidelines are broadly shared and understood, from the design to launch and through implementation. Specific sections of these Guidelines can also be included in the Operations Manual and related materials since implementation units tend to refer to these documents more frequently than legal or financing agreements.
43. **Having a realistic CPS results framework, which considers Paraguay's institutional delays in declaration of effectiveness and implementation timeline of projects, is key for the success of the strategy and accomplishment of objectives.** The CPS should not include outcomes for projects which are yet in the pipeline; though, the results of these operations could be included as intermediate indicators. Moreover, it would be recommended to further increase selectivity in the matrix indicators to build outcomes that can be measured at certain milestones during the CPS period and not only after completion and to take advantage of the PLR stage to adjust the results framework.
44. **Selectivity and ownership are essential for the ASA Program, including RASs.** In the first two years of the CPS, there was a constellation of advisory products which responded to Government punctual needs and many did not lead to any specific outcome or dialogue. The evolution towards strategic interventions in ASA areas where public policy could be transformational for Paraguay has led to a rationalization of the technical assistance and a richer exchange and engagement with the leading institutions. However, it is important to note that lessons applicable to the lending portfolio may apply equally to the RASs. Limited institutional capacity may lead to unforeseen delays, weak decision-making capacity and the need for increased on-site client support by the WBG teams. RASs should be designed with a strong client understanding and limited to one institution and onsite support to clients has proven to be a common request across RAS's requesters.
45. **RASs have proven a useful tool for demand prioritization and as a bridge to allow an incoming Government to advance reforms at a time of portfolio renewal.** Given that the average time in Paraguay between project approval by WB directory and effectiveness is 14 months, a new GoP taking office and aiming at introducing policy changes will suffer from long delays until implementation,

which could frustrate important reform efforts. RASs could therefore help political agendas get an early start and can support technical analysis, institutional capacity building, or legal framework improvements while project preparation runs in a parallel track.

46. **The use of Programmatic Approaches for ASAs, given its flexibility, has proven to be an effective tool to cope with changes in lending projects.** Both under the Agriculture Risk and under the Poverty and Equity PAs, the teams have been able to respond to changes in the environment and client's needs, while maintaining the main pillars over which the program was designed. In particular, different parts of the agriculture risk management agenda required different ASA instruments, but also required a multiyear flexible framework to work with and distinct ASA products with no required strategy unifying them would have been more difficult to manage from the Bank's side and for the client. With regards to the Poverty and Equity programmatic assistance, this tool allowed to have a program within a three-year period, increasing the products delivered under the same umbrella.

## VIII. ANNEXES

### Annex 1: Paraguay CPS CLR Results Framework FY15-18

Country Development Goals	Country Outcome Indicators	CPS Milestones	WBG Activities Contributing to Outcomes																				
<b>Pillar I: Resilience to Risks and Volatility</b>																							
<b>Rating: Moderately Satisfactory</b>																							
Objective 1. Enhanced agricultural risk management	<p>1. Agricultural insurance penetration rate increased 15 percent by 2018 (2013 Baseline: 0.39 percent)</p> <table border="1"> <thead> <tr> <th>Baseline (2013)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>0.39 percent</td> <td>1.14 percent</td> <td>0.45 percent</td> <td>0.41 percent</td> </tr> </tbody> </table> <p>Source: Central Bank of Paraguay. Baseline has been changed in the PLR from 0.39 percent to 0.96 percent. However, there was a mistake in the calculations. The CLR goes back to the original baseline using agricultural insurance premiums and agricultural GDP as reported in the CBP.</p>	Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)	0.39 percent	1.14 percent	0.45 percent	0.41 percent	<i>Partially achieved</i>	<p><b>Financial services:</b> Ongoing:</p> <ul style="list-style-type: none"> <li>• PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</li> </ul> <p><b>Knowledge services:</b> Delivered:</p> <ul style="list-style-type: none"> <li>• Paraguay Agriculture Sector-Wide Risk Assessment (P149948; FY15), (P145224; FY16)</li> <li>• Agriculture Risk Policy Dialogue (P159719; FY16)</li> <li>• Development of the Agriculture Insurance (P159718; FY16)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• Agriculture Commodity Exchange Development. (P154806)</li> <li>• Agriculture Risk Management Programmatic Approach (P145224).</li> </ul>												
Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)																				
0.39 percent	1.14 percent	0.45 percent	0.41 percent																				
Objective 2. Improved financial inclusion	<p>2. 50 percent of adults with savings accounts by 2018</p> <table border="1"> <thead> <tr> <th>Baseline (2013)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>29 percent (total)</td> <td>-</td> <td>50 percent (total)</td> <td>49 percent (total)</td> </tr> <tr> <td>30 percent (women)</td> <td>-</td> <td>50 percent (women)</td> <td>46 percent (women)</td> </tr> </tbody> </table> <p>The 2017 Findex Report, published in April 2018, showed that 49 percent of adults in Paraguay have an account, up from 22 percent in 2011 (2014 data is not available for Paraguay). In terms of gender disaggregation, while 51 percent of men in Paraguay have an account, 46 percent of women access it, leaving a gender gap of 5 percentage points. However, this is below the developing country average of 9 percentage points. In addition, 29 percent of adults in Paraguay have a mobile money account, making it one of the rare non-African countries with high mobile money penetration. The Bank supported the preparation of a National Inclusion Strategy, which has been completed</p> <p>3. Outstanding micro and SME portfolio to reach US\$3.4b by 2018 (2014 baseline: US\$2.9b)</p> <table border="1"> <thead> <tr> <th>Baseline (2013)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>US\$ 3.2b</td> <td>US\$ 2.9b</td> <td>US\$ 3.4b</td> <td>US\$ 2.9b</td> </tr> </tbody> </table>	Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)	29 percent (total)	-	50 percent (total)	49 percent (total)	30 percent (women)	-	50 percent (women)	46 percent (women)	Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)	US\$ 3.2b	US\$ 2.9b	US\$ 3.4b	US\$ 2.9b	<p><i>Mostly Achieved</i></p> <p><i>Not Achieved</i></p>	<p><b>Financial services:</b> Ongoing:</p> <ul style="list-style-type: none"> <li>• SME and Agribusiness competitiveness (IFC)</li> <li>• PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</li> <li>• Banco Regional (36572)</li> <li>• Banco Itau Paraguay (37098)</li> <li>• Banco Continental (28777)</li> </ul> <p>Delivered:</p> <ul style="list-style-type: none"> <li>• Global Warehouse Finance Program with Sudameris Bank (35997)</li> </ul> <p>Knowledge services: Delivered</p> <ul style="list-style-type: none"> <li>• FIRST Development of NSFI Strategy (P150452; FY17)</li> <li>• Paraguay Finance and Markets Programmatic Approach (P147386; FY17)</li> </ul> <p>Ongoing</p> <ul style="list-style-type: none"> <li>• DPF-DDO Enhancing Fiscal Management, Social Protection and Financial Inclusion (P151007)</li> <li>• Paraguay Finance and Markets (P161605)</li> <li>• Insolvency and Secured Transactions (P156369)</li> </ul> <p>Proposed</p> <ul style="list-style-type: none"> <li>• RAS on Pensions (with IPS)</li> </ul>
Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)																				
29 percent (total)	-	50 percent (total)	49 percent (total)																				
30 percent (women)	-	50 percent (women)	46 percent (women)																				
Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)																				
US\$ 3.2b	US\$ 2.9b	US\$ 3.4b	US\$ 2.9b																				

	This data originates from the IFC DOTS Department. The micro and SME portfolio sums up to US\$2.9b.																
Objective 3. Improved forest management in selected areas	<p>4. Improved forest management and conservation practices introduced on an area equivalent to 18 percent of the current Alto Paraná Atlantic Forest area by 2018 (Baseline 2013 = 9 percent)</p> <table border="1"> <thead> <tr> <th>Baseline (2012)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>9 percent</td> <td>13.7 percent</td> <td>18 percent</td> <td>18.2 percent</td> </tr> </tbody> </table> <p>By summing up all subprojects, private reserves, and protected areas, on a total of 310,239 ha improved forest management and conservation practices have been introduced since 2012, in an area of a total of 1,702,000 ha of the Alto Paraná Atlantic Forest Area.</p>	Baseline (2012)	PLR (2017)	Target (2018)	Actual (2018)	9 percent	13.7 percent	18 percent	18.2 percent	<b>Achieved &amp; Surpassed</b>	<p>Financial services: Delivered:</p> <ul style="list-style-type: none"> <li>• Conservation of biodiversity and sustainable land management in the Atlantic Forest (GEF) (P094335; FY16)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</li> </ul> <p>Knowledge services: Ongoing</p> <ul style="list-style-type: none"> <li>• Itaipú: Strategic Support for the Development of the Atlantic Forest Corridor in Paraguay RAS (P161498)</li> <li>• Forest Landscape Management (P156288)</li> </ul>						
Baseline (2012)	PLR (2017)	Target (2018)	Actual (2018)														
9 percent	13.7 percent	18 percent	18.2 percent														
<b>Pillar II: Boosting Pro-Poor Delivery of Public Goods and Service</b>																	
<b>Rating: Moderately Satisfactory</b>																	
Objective 4. Increased Revenues and Progressivity of Fiscal Management	<p>5. Corporate tax on agriculture income (Gs. billion)</p> <table border="1"> <thead> <tr> <th>Baseline (2013)</th> <th>Current (2016)</th> <th>Target (2018)</th> </tr> </thead> <tbody> <tr> <td>71.8</td> <td>257.2</td> <td>518.4</td> </tr> </tbody> </table> <p>Source: Central Bank of Paraguay. Due to the move from IMAGRO to IRAGRO tax, and a slow start in administration, and mostly due to a fall in the soy price, it was not possible to achieve the target within the CPS period.</p> <p>6. Progressivity of the tax system and public expenditures, measured as the difference in the Gini coefficient before and after fiscal interventions (taxes, subsidies and transfers)</p> <table border="1"> <thead> <tr> <th>Baseline (2014)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>- 0.009</td> <td>-</td> <td>-0.021</td> <td>-</td> </tr> </tbody> </table> <p>Since the indicator requires an update of the Commitment to Equity (CEQ), updating with 2017 data is not feasible because of the time required to process the data after public release.</p>	Baseline (2013)	Current (2016)	Target (2018)	71.8	257.2	518.4	Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)	- 0.009	-	-0.021	-	<b>Partially achieved</b>	<p>Financial services Ongoing</p> <ul style="list-style-type: none"> <li>• DPF-DDO Enhancing Fiscal Management, Social Protection and Financial Inclusion (P151007)</li> </ul> <p>Knowledge services: Ongoing:</p> <ul style="list-style-type: none"> <li>• <i>Tekoporã</i> Beneficiaries Empowered to Ensure Social Accountability Project (P150876; FY17)</li> <li>• Paraguay Jobs Diagnostic and Let's Work (P156402)</li> <li>• Towards a Jobs Strategy for Paraguay (P153859)</li> <li>• Programmatic Fiscal Equity and Efficiency (P156331)</li> <li>• Poverty and Equity PA (P151094)</li> </ul>
Baseline (2013)	Current (2016)	Target (2018)															
71.8	257.2	518.4															
Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)														
- 0.009	-	-0.021	-														
Objective 5. Improved and better access to quality public services in select sectors	<p>7. People provided with improved sanitation environment in urban areas</p> <table border="1"> <thead> <tr> <th>Baseline (2013)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-</td> <td>300,000</td> <td>270,000</td> </tr> </tbody> </table> <p>In urban areas, a total of 270,000 people has been provided with improved sanitation, which means basic sanitation facilities have been installed. This indicator has not been gender-disaggregated.</p>	Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)	0	-	300,000	270,000	<b>Mostly Achieved</b>	<p>Financial services: Delivered:</p> <ul style="list-style-type: none"> <li>• Road Maintenance (P082026; FY16)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• Water &amp; Sanitation Sector Modernization (P095235)</li> <li>• PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</li> <li>• Energy Sector Strengthening Project (P114971)</li> <li>• Enhancing Fiscal Management, Social Protection and Financial Inclusion (P151007)</li> </ul>						
Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)														
0	-	300,000	270,000														

	<p>8. Indigenous people provided with access to improved sanitation facilities Gender: 50 percent of beneficiaries are women</p> <table border="1" data-bbox="350 306 878 390"> <thead> <tr> <th>Baseline (2013)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-</td> <td>6,000</td> <td>6,190</td> </tr> </tbody> </table> <p>The latest data shows that 6,190 indigenous people have been provided with improved sanitation facilities in their villages. According to SENASA, 50 percent of the beneficiaries are women.</p>	Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)	0	-	6,000	6,190	<p><b>Achieved &amp; Surpassed</b></p>	<ul style="list-style-type: none"> <li>• Transport Connectivity (P147278)</li> </ul> <p>Knowledge services: Delivered:</p> <ul style="list-style-type: none"> <li>• Improved Services and Territorial Development (P156770; FY17)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• Paraguay Energy Sector Study (P161738)</li> <li>• Paraguay Poverty and Equity, Measurement and M&amp;E (P151094)</li> <li>• Paraguay Health Dialogue (P158224)</li> </ul>
Baseline (2013)	PLR (2017)	Target (2018)	Actual (2018)								
0	-	6,000	6,190								
	<p>9. Increase in energy supply through the transmission network 18.</p> <table border="1" data-bbox="350 621 760 730"> <thead> <tr> <th>Baseline (2015)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>3,008,000 MWh</td> <td>5,800,000 MWh</td> <td>5,176,000 MWh</td> </tr> </tbody> </table> <p>Source: Information provided by ANDE to Project team The latest update provided by ANDE shows that the transmission network has increased its energy supply by more than 70 percent since 2015.</p>	Baseline (2015)	Target (2018)	Actual (2018)	3,008,000 MWh	5,800,000 MWh	5,176,000 MWh	<p><b>Mostly Achieved</b></p>			
Baseline (2015)	Target (2018)	Actual (2018)									
3,008,000 MWh	5,800,000 MWh	5,176,000 MWh									
<p>Objective 6. Improved institutional foundation for social accountability and transparency</p>	<p>10. Percentage of people reporting satisfaction with quality of roads (San Pedro, Caazapá and Caaguazú road segments) (sample size: 637 road users)</p> <table border="1" data-bbox="350 1010 878 1220"> <thead> <tr> <th>Baseline (2009)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2016)</th> </tr> </thead> <tbody> <tr> <td>14 percent good; 35 percent fair; 51 percent bad</td> <td>-</td> <td>75 percent reporting "good" or "fair"</td> <td>77 percent good, 17 percent fair, 7 percent bad</td> </tr> </tbody> </table> <p>The last survey on road satisfaction was conducted with the completion of the Road Maintenance Project (2016) Baseline data for the new Transport Project (Transport Connectivity) will be conducted, but since after effectiveness of the Project not yet a repeat survey could be conducted, due to budget constraints, data is lacking.</p>	Baseline (2009)	PLR (2017)	Target (2018)	Actual (2016)	14 percent good; 35 percent fair; 51 percent bad	-	75 percent reporting "good" or "fair"	77 percent good, 17 percent fair, 7 percent bad	<p><b>Achieved &amp; Surpassed</b></p>	
Baseline (2009)	PLR (2017)	Target (2018)	Actual (2016)								
14 percent good; 35 percent fair; 51 percent bad	-	75 percent reporting "good" or "fair"	77 percent good, 17 percent fair, 7 percent bad								
	<p>11. Open Information Law fully implemented by least 20 percent of Government agencies by 2018</p> <table border="1" data-bbox="350 1514 781 1608"> <thead> <tr> <th>Baseline (2014)</th> <th>Target (2018)</th> <th>Actual (2016)</th> </tr> </thead> <tbody> <tr> <td>9 percent</td> <td>20 percent</td> <td>14 percent</td> </tr> </tbody> </table> <p>Source: <a href="http://informacionpublica.paraguay.gov.py/portal">http://informacionpublica.paraguay.gov.py/portal</a></p>	Baseline (2014)	Target (2018)	Actual (2016)	9 percent	20 percent	14 percent	<p><b>Partially achieved</b></p>	<p>Financial services: Ongoing:</p> <ul style="list-style-type: none"> <li>• PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</li> <li>• Energy Sector Strengthening Project (P114971)</li> <li>• Water &amp; Sanitation Sector Modernization (P095235)</li> <li>• Enhancing Fiscal Management, Social Protection and Financial Inclusion (P151007)</li> </ul>		
Baseline (2014)	Target (2018)	Actual (2016)									
9 percent	20 percent	14 percent									
	<p>12. At least 10 new education sector information tools and 15 datasets available for internal management and public access by 2018</p> <table border="1" data-bbox="350 1808 878 1892"> <thead> <tr> <th>Baseline (2014)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2016)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-</td> <td>10</td> <td>10</td> </tr> </tbody> </table>	Baseline (2014)	PLR (2017)	Target (2018)	Actual (2016)	0	-	10	10	<p><b>Achieved</b></p>	<p>Knowledge services: Delivered:</p> <ul style="list-style-type: none"> <li>• Programmatic Governance Engagement (P151990; FY17)</li> <li>• State-Owned Enterprises TA (P155793; FY16)</li> </ul>
Baseline (2014)	PLR (2017)	Target (2018)	Actual (2016)								
0	-	10	10								



		15 datasets	15 datasets		<ul style="list-style-type: none"> <li>• SSKE - Access to Information Law (P155801; FY16), (P155800; FY16)</li> <li>• Challenges of SOE Service Delivery (P156523; FY16)</li> <li>• <i>Tekoporã</i> Beneficiaries Empowered to Ensure Social Accountability Project (P150876; FY17)</li> <li>• School Infrastructure, the Teaching Profession, and Basic School Supplies (P129179; FY14)</li> <li>• Comprehensive Education Management Information System (P133419, FY16)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• Paraguay Transparency and Accountability (P161686)</li> <li>• Banco Central Del Paraguay: Transición to IFRS &amp; IFMIS RAS (P161269)</li> </ul>												
	<p>All the new education sector information tools have been made available. The Bank contributed to the design of the information system through the TA program.</p> <p>13. At least two social accountability mechanisms under the Open Government initiative (e.g. social auditing of the <i>Tekoporã</i> program) successfully implemented by independent CSOs by 2018</p> <table border="1"> <thead> <tr> <th>Baseline (2014)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2016)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-</td> <td>2</td> <td>2</td> </tr> </tbody> </table> <p>Source: World Bank calculation, based on public information</p> <p>Under the Open Government Initiative there have been 2 social accountability mechanisms successfully implemented. These include: collection of information from beneficiaries, developing the institutional arrangements for the flow of information and building a constituency to support the program.</p>	Baseline (2014)	PLR (2017)	Target (2018)	Actual (2016)	0	-	2	2			<b>Achieved</b>					
Baseline (2014)	PLR (2017)	Target (2018)	Actual (2016)														
0	-	2	2														
<b>Pillar III: Agricultural productivity and market integration</b>																	
Objective 7. Improved agricultural productivity and enhanced socio-economic conditions for small-holder farmers in targeted areas	<p>14. 30,000 poor households, out of 180,000 of the rural poor, including small-scale farmers and indigenous people, in Eastern Paraguay report increase in real agriculture incomes by 2018</p> <table border="1"> <thead> <tr> <th>Baseline (2014)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-</td> <td>30,000</td> <td>24,875</td> </tr> <tr> <td></td> <td></td> <td>40 percent female</td> <td>50 percent female</td> </tr> </tbody> </table> <p>Note: Real income is calculated using national price level and nominal incomes are increasing.</p> <p>The report is dated July 2018 and is based on a random sample of 1,029 households benefited by the “<i>estrategia campesina</i>” (confidence interval 95 percent). The universe comprises beneficiaries from 2011 to 2016. Only an income increase over 30 percent was considered. It is worth noting that indigenous peoples and individual households benefited by the social intervention “<i>FamiliaxFamilia</i>” were not covered by the sample (these groups will be subject to an external evaluation). Therefore, the calculation likely underestimates the value of households that have improved income.</p>	Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)	0	-	30,000	24,875			40 percent female	50 percent female			<b>Partially achieved</b>	<p>Financial services:</p> <p>Delivered:</p> <ul style="list-style-type: none"> <li>• Road Maintenance (P082026; FY16)</li> <li>• Global Warehouse Finance Program with Sudameris Bank (35997)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</li> <li>• Transport Connectivity (P147278)</li> <li>• SME and agribusiness competitiveness (IFC)</li> <li>• Micro financing to farming communities (IFC)</li> <li>• Agrotec Ext &amp; III (34095 &amp; 40605)</li> <li>• Agrofertil Ext (37602)</li> </ul> <p>Knowledge services:</p> <p>Delivered:</p> <ul style="list-style-type: none"> <li>• Financial sector inclusion development (P150452; FY17)</li> </ul> <p>Ongoing:</p> <ul style="list-style-type: none"> <li>• Paraguay Food Prices and Poverty (P154760)</li> </ul>
Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)														
0	-	30,000	24,875														
		40 percent female	50 percent female														
	<p>15. 130 additional indigenous communities’ (representing more than 50 percent of Indigenous Peoples in Paraguay) have prepared and are implementing socio-economic development plans by 2018</p>				<b>Achieved &amp; Surpassed</b>												

	<table border="1"> <thead> <tr> <th>Baseline (2014)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>45</td> <td>-</td> <td>130</td> <td>180</td> </tr> </tbody> </table> <p>The target of having an additional 130 indigenous communities that are implementing socio-economic development plans by 2018 was successfully achieved.</p>	Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)	45	-	130	180		
Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)								
45	-	130	180								
	<p>16. Maize yield increases 12 percent among project beneficiaries</p> <table border="1"> <thead> <tr> <th>Baseline (2014)</th> <th>PLR (2017)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>1.7 t/ha</td> <td>-</td> <td>1.9 t/ha</td> <td>2.9 t/ha</td> </tr> </tbody> </table> <p>The report is dated July 2018 and is based on a random sample of 1,029 households benefited by the “<i>estrategia campesina</i>” (confidence interval 95 percent). The universe comprises beneficiaries from 2011 to 2016. If extreme values are removed from the sample (Tukey method) total yield is 2.7 t/ha.</p>	Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)	1.7 t/ha	-	1.9 t/ha	2.9 t/ha	<b>Achieved and Surpassed</b>	
Baseline (2014)	PLR (2017)	Target (2018)	Actual (2018)								
1.7 t/ha	-	1.9 t/ha	2.9 t/ha								
Objective 8. Increased private investments in logistics projects/initiatives	<p>17. At least two public private partnership transactions in transport/logistics by 2018</p> <table border="1"> <thead> <tr> <th>Baseline (2014)</th> <th>Target (2018)</th> <th>Actual (2018)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>2</td> <td>1</td> </tr> </tbody> </table> <p>In this case, the airport project was finally cancelled, therefore only 1 public-private partnership in transport/logistics was achieved.</p>	Baseline (2014)	Target (2018)	Actual (2018)	0	2	1	<b>Partially Achieved</b>	<p>Financial services: Ongoing: • PRODERS Sustainable Agriculture &amp; Rural Development (P088799)</p> <p>Knowledge services: Delivered: • LC7 Farm-to-Market Study (P145360) Ongoing: • Paraguay Institutional Strengthening of PPP (P155856) • Improve Investment Climate in Paraguay (P155012) (P161575)</p>		
Baseline (2014)	Target (2018)	Actual (2018)									
0	2	1									

## Annex 2: Portfolio

Project ID	Project Name	Lead GP/Global Themes	Appr. FY	EA Cat.	Prod. Line	Len. Inst. Type	Closing Date	Net Comm. Amt. -	Undi sb. Bal.	Age (Months)	No. of AF	Project Rating	Project Rating	Overall Risk	At Risk?	Prob. Proj. ?	Months in Prob. Status
P114971	PY Energy Sector Strengthening Project	Energy & Extractives	2011	B	PE	IPF	31-Oct-2018	100.00	11.47	93.5	0	MS	MS	M	Y		0.0
P095235	PY Water & Sanitation Sector Modernization	Water	2009	A	PE	IPF	31-Jan-2019	64.00	8.47	113.0	0	MS	MU	H	Y	Y	13.9
P088799	PY PRODERS Sustainable Agriculture & Rural Development	Agriculture	2008	B	PE	IPF	29-Nov-2019	137.50	22.09	127.5	1	MS	MS	H	Y		0.0
P147278	PY Transport Connectivity	Transport & Digital Development	2017	B	PE	IPF	30-Jun-2024	100.00	99.75	25.7	0	MS	MS	S	Y		0.0

### Annex 3: Planned Non-Lending Activities and Actual Deliverables

P#	CPS Program	Status at the CPS
<b>FY15</b>		
P144540	Paraguay#10259 Strengthening Pensions Supervision	Delivered in FY15
P131567	PY Strengthening Pension System	Delivered in FY15
P147079	PY Knowledge Dissemination and Capacity Building	Delivered in FY15
P123711	PY Land Dialogue	Delivered in FY15
P148234	Strengthening Tax Administration & SOE Corporate Governance	Delivered in FY15
P149659	Paraguay Infrastructure Service Delivery	Delivered in FY15
P146699	PY HD Programmatic Activity	DROPPED
P154759	Monitoring and Evaluation of PRS	DROPPED
P153267	Paraguay Petroleum Policy Dialogue	DROPPED
P154008	Social Protection TA	DROPPED
P153455	PY Institutional Support	DROPPED
P153859	Towards a Jobs Strategy for Paraguay	DROPPED
<b>Other:</b>		
P147386	Subtask of Paraguay Finance and Markets Programmatic Approach	Delivered in FY15
P149948	Paraguay Agriculture Sector-Wide Risk Assessment	Delivered in FY15
<b>FY16</b>		
P145224	Strengthening Paraguay's Agriculture Risk Management System	Delivered in FY16
P155856	PY Institutional strengthening for the implementation of the PPP program	Delivered in FY16
P149744	Implementing a teaching improvement plan and strengthening the education information system in Paraguay	Delivered in FY16
P156168	Support WTO Trade Facilitation Agreement	Delivered in FY16
P155795	Tax Administration	Delivered FY16
<b>Other:</b>		
P155800	SSKE - Access to Information Law	Delivered in FY16
P159719	Agriculture Risk Policy Dialogue	Delivered in FY16
P151764	Paraguay #B016 Fin. Stab. Strength	Delivered in FY16
P159718	Development of the Agriculture Insurance	Delivered in FY16
P156523	Challenges of SOE Service Delivery	Delivered in FY16
<b>P155793</b>		
P158224	Paraguay Health Dialogue	Delivered in FY17
P156288	Forest Landscape Management	Delivered in FY17
P151990	Programmatic Governance Engagement	Delivered in FY17
P156770	Improved Services and Territorial Development	Delivered in FY17
P147386	Paraguay Finance and Markets Programmatic Approach	Delivered in FY17
<b>Other:</b>		
P155012	Improve IC in Paraguay	Delivered in FY17
P150452	FIRST Development of NSFI Strategy	Delivered in FY17
P156369	Insolvency and Secured Transactions	Delivered in FY17
<b>FY18</b>		
P151094	PY Poverty and Equity	Delivered in FY18
P154806	Paraguay #C002 Agriculture Commodities Exchange Development	Delivered in FY18
P161269	PY BCP Technical Assistance to prepare transitioning to IFRS and IFMIS	Delivered in FY18
P161498	Strategic Support for the Development of the Atlantic Forest Corridor in Paraguay	Not yet delivered
P162943	Paraguay IPS RAS	Not yet delivered
P165936	Technical Support for the Preparation of a National Plan for the Transformation of the Education Sector 2030	Not yet delivered
P165937	Formative use of national standardized assessments to improve student learning outcomes	Not yet delivered
<b>Other:</b>		
P154760	PY FOOD PRICES AND POVERTY	Delivered in FY18
P154758	PY Poverty Measurement and M&E	Delivered in FY18
P160569	Fiscal Efficiency and Macro-Fiscal Resilience	Delivered in FY18

## Annex 4: IFC Engagement in Paraguay

Statement of IFC's Committed and Outstanding Portfolio

In US\$ millions

Accounting Date: Q4 FY18

International Finance Corporation  
**Statement of IFC's Committed and Outstanding Portfolio**  
*Amounts in US Dollar Millions*  
 Accounting Date as of: 6/30/2018

Industry	Institution Short Name	Equity Committed	Loans Committed	Trade Finance	Total Comtd	Loans Outstanding	Equity Outstanding	Trade Finance Outstanding	Total Outstanding
MAS	Agrihold Group	0.00	25.00	0.00	25.00	0.00	0.00	0.00	0.00
MAS	Agrofertil SA	0.00	20.00	0.00	20.00	15.00	0.00	0.00	15.00
FIG	BBVA Paraguay	0.00	8.44	0.01	8.46	8.44	0.00	0.01	8.46
FIG	Bancop	0.00	0.50	0.00	0.50	0.50	0.00	0.00	0.50
FIG	Bco Continental	0.00	20.00	7.01	27.01	20.00	0.00	7.01	27.01
FIG	Itau Paraguay	0.00	54.00	0.00	54.00	54.00	0.00	0.00	54.00
MAS	NFD Agro	3.29	0.00	0.00	3.29	0.00	3.29	0.00	3.29
INFRA	President Energy	8.37	0.00	0.00	8.37	0.00	8.19	0.00	8.19
FIG	Vision Banco	0.00	1.67	0.00	1.67	1.67	0.00	0.00	1.67
<b>Total Portfolio</b>		<b>11.65</b>	<b>129.61</b>	<b>7.02</b>	<b>148.28</b>	<b>99.61</b>	<b>11.47</b>	<b>7.02</b>	<b>118.10</b>

### Annex III: Selected Indicators of Bank Portfolio Performance and Management

**CAS Annex B2 - Paraguay**  
**Selected Indicators\* of Bank Portfolio Performance and Management**  
**As of Date 10/18/2018**

Indicator	FY16	FY17	FY18	FY19
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	4.0	5.0	4.0	4.0
Average Implementation Period (years) <sup>b</sup>	5.6	5.5	7.3	7.6
Percent of Problem Projects by Number <sup>a,c</sup>	50.0	40.0	25.0	25.0
Percent of Problem Projects by Amount <sup>a,c</sup>	50.2	47.4	15.9	15.9
Percent of Projects at Risk by Number <sup>a,d</sup>	100.0	100.0	100.0	100.0
Percent of Projects at Risk by Amount <sup>a,d</sup>	100.0	100.0	100.0	100.0
Disbursement Ratio (%) <sup>e</sup>	23.8	38.1	23.9	9.5
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
<hr/>				
Memorandum Item	Since FY80		Last Five FYs	
Proj Eval by IEG by Number		40		2
Proj Eval by IEG by Amt (US\$ millions)		1,071.3		71.5
% of IEG Projects Rated U or HU by Number		35.9		0.0
% of IEG Projects Rated U or HU by Amt		31.9		0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## Annex IV: Operations Portfolio (IBRD and Grants)

### CAS Annex B8 - Paraguay Operations Portfolio (IBRD/IDA and Grants) As of 09/30/2018

Closed Projects 55

#### IBRD/IDA\*

Total Disbursed (Active)	259.72
of which has been repaid(1)	13.07
Total Disbursed (Closed)	1,233.90
of which has been repaid	1,008.80
Total Disbursed (Active + Closed)	1,493.62
of which has been repaid	1,021.87
Total Undisbursed (Active)	136.13
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	136.1294897

#### Active Projects

Project ID	Project Name	<u>Last PSR</u>			<u>Original Amount in US\$ Millions</u>					<u>Difference Between Expected and Actual Disbursements<sup>a</sup> /</u>	
		<u>Supervision Rating</u>		Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P114971	PY Energy Sector Strengthening Project	MS	MS	2011	100.0	0.0		0.0	6.4	6.4	6.4
P088799	PY PRODERS - Sust. Agric. & Rur Dev. Prj	MS	MS	2008	137.5	0.0		0.0	21.5	-78.5	21.5
P147278	PY Transport Connectivity PY Water & Sanit. Sector	MS	MS	2017	100.0	0.0		0.0	99.8	27.4	0.0
P095235	Modernization	MS	MU	2009	64.0	0.0		0.0	8.5	8.5	-2.3
<b>Overall Result</b>					<b>401.5</b>	<b>0.0</b>		<b>0.0</b>	<b>136.1</b>	<b>-36.2</b>	<b>25.6</b>

\* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

## Annex V: Statement of IFC's Committed and Disbursed Portfolio

**Committed and Disbursed Outstanding Investment Portfolio**  
As of 06/30/2018  
(In USD Millions)

Approval Fiscal Year	Institution Short Name - Primary Sector	Committed					Disbursed Outstanding				
		Loan	Equity	Quasi Equity	GT/RM	Participant	Loan	Equity	Quasi Equity	GT/RM	Participant
FY18	Agrihold Group - Chemicals	25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY16	Agrofertil SA - Chemicals	20.00	0.00	0.00	0.00	0.00	15.00	0.00	0.00	0.00	0.00
FY14	Bancop - Finance & Insurance	0.50	0.00	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.00
FY14	BBVA Paraguay - Finance & Insurance	8.41	0.00	0.00	0.00	0.00	8.41	0.00	0.00	0.00	0.00
FY15	Bco Continental - Finance & Insurance	20.00	0.00	0.00	7.02	0.00	20.00	0.00	0.00	7.02	0.00
FY16	Itau Paraguay - Finance & Insurance	54.00	0.00	0.00	0.00	0.00	54.00	0.00	0.00	0.00	0.00
FY17	President Energy - Oil, Gas and Mining	0.00	8.36	0.00	0.00	0.00	0.00	8.17	0.00	0.00	0.00
FY12	NFD Agro -	0.00	3.30	0.00	0.00	0.00	0.00	3.30	0.00	0.00	0.00
FY14	Visio Banco - Finance & Insurance	1.70	0.00	0.00	0.00	0.00	1.70	0.00	0.00	0.00	0.00
<b>Total Portfolio</b>		<b>129.61</b>	<b>11.66</b>	<b>0.00</b>	<b>7.02</b>	<b>0.00</b>	<b>99.61</b>	<b>11.47</b>	<b>0.00</b>	<b>7.02</b>	<b>0.00</b>



