

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY

**CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH
EMERGENCIES**

(PR-O0006)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Juan José Durante (IFD/CMF), Project Team Leader; Fernando De Olloqui (IFD/CMF), Alternate Project Team Leader; Hongrui Zhang, Guillermo Collich, Joaquín Domínguez, Eduardo Sierra, Annabella Gaggero, Cristina Villalba, Claudia Márquez, and Ana Lucía Lozano Miranda (IFD/CMF); Tsuneki Hori and Juan de Dios Mattos (CSD/RND); Francisco Ochoa (SCL/SPH); Mario González (SPD/SDV); Maricarmen Esquivel (CSD/CCS); Anne-Marie Urban (SCL/GDI); Ruth Natalia Aquino Aguirre (CSC/CPR); Carolina Verissimo da Silva (LEG/SGO); Jorge Luis González, Jorge Seigneur, and Fernando Glasman (VPC/FMP); and Alessandro Sidore (VPS/ESG).

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ABBREVIATIONS

ARL	Automatic redirection list
BCP	Banco Central del Paraguay [Central Bank of Paraguay]
CCF	Contingency Credit Facility for Natural Disaster Emergencies
CNE	Centro Nacional de Enlace [National Liaison Center]
DMH	Dirección de Meteorología e Hidrología [Meteorology and Hydrology Division]
FONARESS	Fondo Nacional de Recursos Solidarios para la Salud [National Solidarity Health Fund]
FONE	Fondo Nacional de Emergencia [National Emergency Fund]
IDRMP	Integrated Disaster Risk Management Plan
IHR	International Health Regulations
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MSPBS	Ministerio de Salud Pública y Bienestar Social [Ministry of Public Health and Social Welfare]
NPV	Net present value
OVE	Office of Evaluation and Oversight
PNIMS	Plan Nacional de Implementación del Marco de Sendai [National Sendai Framework Implementation Plan]
PRNMED	Plan de Respuesta Nacional Multiamenaza ante Emergencias y Desastres [National Multihazard Emergency and Disaster Response Plan]
SEN	Secretaría de Emergencia Nacional [National Emergency Secretariat]
WHO	World Health Organization

PROJECT SUMMARY
PARAGUAY
CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES
(PR-O0006)

Financial Terms and Conditions ^(a)					
Borrower: Republic of Paraguay			Flexible Financing Facility^(b)		
Executing agency: The borrower, through its Ministry of Finance			Amortization period:	25 years ^(c)	
			Grace period:	5.5 years ^(c)	
			Original weighted average life:	15.25 years ^(c)	
Source	Amount (US\$)	%	Disbursement period:	5 years ^{(d) (e)}	
IDB (OC)	Modality I	150,000,000	60	Interest rate:	LIBOR-based
	Modality II	100,000,000	40	Inspection and supervision fee:	^(f)
				Drawdown fee:	^(g)
	Total available	250,000,000	100	Approval currency:	United States dollar
Project at a Glance					
<p>Project objective: The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies. The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances.</p> <p>Special contractual condition of general eligibility to request disbursements: The approval and entry into force of the program Operating Regulations, under the terms previously agreed upon with the Bank (paragraph 3.5).</p> <p>Special contractual conditions precedent to each disbursement: (a) Disbursements under Modality I (Natural disasters): (i) that the Bank has verified the occurrence of an eligible event as defined in the program Operating Regulations; and (ii) that the Integrated Disaster Risk Management Plan, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction; and (b) Disbursements under Modality II (Public health events): (i) the Bank has verified the existence of a declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations; (ii) that the borrower has submitted evidence that it is up to date with its reporting against International Health Regulations (IHR) compliance to the World Health Organization (WHO); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed-upon complementary risk retention financing measures and conditions. In addition to the aforementioned contractual conditions precedent to each disbursement, the borrower must have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s), and indicating whether these will come from the Bank's regular lending program with Paraguay, from undisbursed balances from the automatic redirection list (ARL), or from a combination of these two sources. In the case of ARL loans, the request should identify the loans in question and the respective amount to be used (paragraphs 3.6 and 3.7).</p> <p>Exceptions to Bank policies: None.</p>					
Strategic Alignment					
Challenges:^(h)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes:⁽ⁱ⁾	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC <input type="checkbox"/>

^(a) Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (document GN-2999-4), approved by the Board of Executive Directors through Resolution DE-40/20 of 12 May 2020.

^(b) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(c) Amortization periods, weighted average life, and grace periods are counted from the date of each disbursement.

^(d) The disbursement period or coverage period (equivalent terms) is renewable for up to five additional years, at the Bank's discretion, following a request by the borrower.

^(e) Loan disbursements will be contingent upon the Bank's having sufficient resources available from the ARL or the Bank's regular lending program for Paraguay, as applicable, at the time of the disbursement request (paragraph 2.5).

^(f) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

^(g) The fee is not charged if the loan is not used. The Bank will charge a one-time fee of 50 basis points only on the date of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. The fee does not apply to amounts disbursed from loans included in the ARL.

^(h) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

⁽ⁱ⁾ GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. The country's vulnerability to natural disasters and climate change

- 1.1 Due to climatic conditions and the influence of the El Niño – Southern Oscillation phenomenon, Paraguay is highly exposed to climate-related threats.[1]¹ Roughly 43% of the country's GDP is produced in risk areas, and about 46% of its inhabitants live in areas exposed to natural hazards,[2] including floods, forest fires, frost, drought, and severe storms. This high exposure, compounded by an inadequate urban planning process and internal migration,[3] and the production sectors' dependency on climate variations,[1] exacerbate the risks of being severely impacted by these events. The International Disaster Database has recorded eight severe floods, seven major storms, six droughts, and two forest fires in Paraguay over the past 20 years.
- 1.2 The events with the greatest impact on the population have been riverside and urban floods,[4] with those that occurred in 2014 being some of the most severe. Heavy and prolonged rainfall caused extensive flooding in Asunción and the departments of Ñeembucú, Presidente Hayes, Alto Paraguay, Misiones, and Alto Paraná, impacting over 230,000 people (46,000 families).[5] The cost of mobilizing and providing relief was estimated at US\$1,000 per family affected.[6] More recently, in 2019, several of the country's cities, including Asunción, were flooded when the Paraguay River rose to its highest level in half a century, affecting over 300,000 people.
- 1.3 Forest fires are another burgeoning problem in Paraguay, with capacity to impact human lives, the environment, and public infrastructures,[4] particularly in a context of global warming. In 2007, there were over 5,000 fires in the departments of San Pedro, Canindeyú, and Concepción, which destroyed 1 million hectares, with losses estimated at US\$30 million and 25,000 families directly affected.[7] In 2019, a series of forest fires raged through several countries in the region, devastating large areas of the Amazon rainforest in Brazil and Bolivia, as well as the tropical forests in Paraguay. It is estimated that over 300,000 hectares were destroyed and thousands of people affected across the country.
- 1.4 **Climate change.** Climate change is a particularly significant phenomenon in Paraguay. The country recognizes that the climatic anomalies produced by global warming are likely to affect production sectors, the availability of water resources, and public health.[3] Projections indicate that, if emissions continue to rise throughout the twenty-first century (Representative Concentration Pathway (RCP) scenario 8.5), annual temperatures will rise by 4°C by the end of the century, particularly in the country's northeastern regions along the Paraguay River basin. As these effects of climate change gather strength, forest fires and floods are likely to become more frequent and intense, with consequently greater economic losses. It is estimated that future extreme events could cost the country 0.4% of GDP every year.[8] To respond to these risks, the government approved a national climate change adaptation strategy in 2015,[9] and its respective national plan in the following year.[10]

¹ See [Bibliography \(optional link 6\)](#).

- 1.5 **Gender and natural disasters.** Disasters tend to have a disproportionate impact on the most vulnerable populations,[11] who have fewer means to deal with these events, especially in developing countries.[12] In Paraguay, differences in income levels and employment opportunities make women more vulnerable.² Accordingly, it is essential to adopt disaster risk mitigation measures that are gender- and vulnerability-targeted, to mitigate the potential impact on the most vulnerable groups, including women.

2. The country's vulnerability to public health events

- 1.6 Paraguay is also exposed to acute public health events,[13] mainly of biological origin. These are characterized by shifting pandemic or epidemic outbreaks that can have immediate adverse consequences for human health, requiring an expeditious response. The most common public health events are usually associated with infectious diseases and can trigger health emergencies that have catastrophic effects on people, health systems, and the economy at large. During the last decade, Paraguay has suffered four public health events that resulted in health emergencies, including the current COVID-19 pandemic. The other events were caused by the dengue epidemic and the spread of A(H1N1) influenza.³
- 1.7 Among the public health emergencies reported in the country,[14] the most common infectious disease is dengue fever. In 2019, when the largest epidemic in the last two decades occurred, this virus produced 27,500 laboratory-confirmed cases and nearly 177,000 reported cases; and it left 53 people dead.⁴ Although estimates of the economic cost of a dengue epidemic vary widely, a recent study put the cost of caring for a patient in Paraguay at US\$131 per day in 2007, considering medical supplies, together with laboratory fees and health workers' wages.[15] Paraguay is also subject to the risk of pandemic influenzas. In the case of the COVID-19 pandemic, the country had reported 58,259 confirmed cases and 1,278 deaths as of 25 October 2020.[16] There is also a link between natural disasters and public health events.[17] For example, in 2016 the country recorded an increase in cases of dengue fever following floods that left nearly 100,000 Asunción residents homeless.[18]

3. Financial vulnerability to natural disasters and public health events

- 1.8 Over the past 15 years, Paraguay has had one of the fastest growing economies in Latin America and the Caribbean, expanding by an average of 4% per year. This sustained growth has been driven by sound macroeconomic policies that have helped to keep the fiscal deficit and public debt in check.[19] Despite this progress, Paraguay's economy is vulnerable to adverse external shocks, including climate events; and, in 2019, primary production was damaged by both drought and heavy

² The 2017 Permanent Household Survey found that 37% of women do not have income of their own, compared with 19.6% of men. See [Gender Atlas](#).

³ Ministry of Public Health and Social Welfare ([MSPBS Decree No. 3456](#), [Law No. 6502/2020](#), [Law No. 6108/2018](#) and [MSPBS Decree No. 1948](#)).

⁴ MSPBS.

rainfall and flooding across much of the country, which sapped the momentum of national productive activity.⁵

- 1.9 The resulting economic slowdown elicited a sharp increase in public investment as a countercyclical measure, which, combined with only moderate growth in tax revenues, caused the central government's fiscal deficit to widen to 2.8% of GDP,⁶ thus breaching the 1.5% limit established by the Fiscal Responsibility Law. As in the rest of the region, Paraguay's economic prospects have deteriorated owing to the expected impact of the COVID-19 pandemic. The economy is expected to contract sharply and fiscal space will remain exiguous. Real GDP is forecast to shrink by 3.5% in 2020, with the fiscal deficit widening to 7% of GDP.[20]
- 1.10 In this context of fiscal constraint, a severe natural disaster occurring in large cities such as Asunción, or a nationwide epidemic outbreak, represent a major contingent fiscal liability. The resulting large-scale financing needs for emergency response would complicate the government's efforts to maintain fiscal sustainability. According to a Bank study, it is estimated that a 100-year flood affecting the central and southern areas of the country would generate losses equivalent to 9.1% of GDP.[21] Moreover, future pandemics could also generate significant contingent fiscal liabilities. For example, the additional public expenditures needed to respond to the COVID-19 pandemic are expected to be around 4.5% of GDP (US\$1.6 billion).[22] These natural disaster and public health risks underscore the need to continue building fiscal resilience.

4. Natural disaster risk management in Paraguay

- 1.11 Significant steps toward creating a regulatory and institutional framework for disaster risk management in Paraguay were taken in 2005 with the creation of the National Emergency Secretariat (SEN), through Law No. 2615/05.⁷ The SEN is the lead agency in this domain and is tasked with coordinating actions of prevention, mitigation, response, rehabilitation, and reconstruction.
- 1.12 In 2018, Paraguay updated its [National Disaster Risk Management and Reduction Policy](#) in response to renewed global national challenges, such as coping with climate change and fulfilling the country's commitment to adopt the Sendai Framework for Disaster Risk Reduction 2015-2030.[23] This new policy includes strategic pillars and crosscutting themes, which highlight the issues of gender and persons with disabilities. In the same year, the government also approved the National Sendai Framework Implementation Plan (PNIMS) 2018-2022,[4] which aims to target government actions on strengthening risk management, including financial planning for disaster response.⁸
- 1.13 The diagnostic assessment of comprehensive disaster risk management is documented in the Comprehensive Natural Disaster Risk Management Plan (IDRMP) (paragraph 2.7). The IDRMP includes a matrix that identifies activities

⁵ The Central Bank of Paraguay estimates that GDP grew by just 0.2% in 2019 and that the agricultural sector contracted by 6.2%. See [Perspectivas del PIB 2020](#).

⁶ The fiscal deficit was 1.3% in 2018.

⁷ This law was regulated in 2013 by Decree 11632/13.

⁸ The PNIMS establishes as Priority 3A the allocation of financial resources at all levels of public administration as necessary to manage these risks in the relevant sectors.

aligned with the PNIMS that will enable the country to make improvements in its five strategic pillars (Annex III of the [program Operating Regulations](#)) (paragraphs 1.14-1.18).⁹ These activities will be monitored through indicators established and updated annually. The following paragraphs summarize the diagnostic assessment of the strategic pillars of Paraguay's disaster risk management:

- 1.14 **Governance and development of the governing framework.** In order to consolidate the progress made in disaster risk management (paragraphs 1.11 and 1.12), the SEN is committed to implementing the PNIMS. One of the priorities of this plan is to reach agreement with the departmental governments on incorporating risk management in their institutional structures. Thus far, 14 departmental disaster risk management secretariats have been set up. Another priority goal is to include disaster risk management in sector-level plans. To this end, dialogue mechanisms have been set up with sector stakeholders to address issues such as urban land use planning and inclusive disaster risk management, with a focus on vulnerable populations, including women and persons with disabilities.
- 1.15 **Identification and awareness of the risk.** In addition to the SEN, the other key player in disaster risk management is the Meteorology and Hydrology Division (DMH), which is tasked with monitoring the development of hydrometeorological phenomena. In recent years, the SEN and the DMH have both made significant progress. In 2017, an Information and Early Warning Center was set up to monitor the occurrence of severe threats and send out warning bulletins to the population. Recently, with technical assistance from the DMH, the SEN prepared a disaster risk atlas for Paraguay [1], which systematizes the main threats in national territory. To continue moving forward in this area, the country is developing a more integrated information technology platform that will have capacity to evaluate the disaster risk of each sector and territory.
- 1.16 **Disaster risk reduction.** One of the key tools in this strategic pillar consists of land use management plans, since they make it possible to plan urban growth, land use, and the location of public and private investments, based on risk prevention and mitigation. In 2018 the Technical Secretariat for Economic and Social Development Planning (STP) produced a guide to assist municipios in preparing their urban and land use management plans.[24] Although the country recognizes the importance of this strategic pillar, investments targeting risk reduction are few and far between. A notable example is the project to expand the Coastal Defense of the City of Pilar, involving a publicly financed investment of US\$83.2 million, which aims to provide a solution to the floods that affect the population of that city.[25] To continue strengthening the actions of this strategic pillar, the intention is to incorporate risk reduction criteria into public investments in priority sectors such as health, education, and road infrastructure, within the PNIMS 2018-2022 framework.
- 1.17 **Disaster management.** Paraguay has also made significant progress in terms of preparedness and response. In collaboration with the European Commission, the

⁹ Activities for 2021 include the confirmation of three departmental secretariats for disaster risk management, as well as technical and logistical training for local actors to improve emergency response, in accordance with the SEN training schedule.

SEN implemented over 40 local projects between 2007 and 2017 (representing a total investment of €14 million) aimed at strengthening the capacity of vulnerable communities to respond to floods and droughts. Another major step forward is the Project for the Improvement of the National Early Warning System for Hydrometeorological Events. This US\$10 million Bank-financed project ([4646/OC-PR](#)), is expected to reduce the impact of floods, droughts, and storms on exposed populations. Lastly, in order to strengthen the operational readiness of local actors in emergency situations, the SEN has developed a training schedule on emergency operation and logistics, to be implemented in 2020.

- 1.18 **Financial risk management.** A major step forward on this issue was the creation of the National Emergency Fund (FONE) in 2005, for the purpose of financing preparedness and response measures. Despite the existence of this risk retention mechanism (paragraph 2.10), the financial management of the risks in question needs further strengthening, through the development of a comprehensive strategy to enable the country to optimize the use of risk retention and transfer instruments. In this connection, the country has requested support from the Bank through a contingent loan that will enable it to rapidly deploy liquid financial resources to deal with natural disaster emergencies. The current proposal to provide ex ante available coverage under Modality I of US\$150 million for natural disaster risks is a priority for the country.

5. Public health risk management in Paraguay

- 1.19 The most recent assessment of compliance with the International Health Regulations (IHR) found that Paraguay has a medium-low level of preparedness and capacity to detect, assess, notify, and respond to public health risks and events.¹⁰ In response, the Ministry of Public Health and Social Welfare (MSPBS), with support from the Pan American Health Organization (PAHO), updated its National Multihazard Emergency and Disaster Response Plan (PRNMED).[26] The objective of this plan is to increase the country's capacity to detect an outbreak in a timely manner and to implement a containment and response strategy. In addition, in the current context of addressing the COVID-19 pandemic, Paraguay has brought forward investments to upgrade its preparedness and response capacities in the health sector.[22]
- 1.20 **Epidemiological surveillance system.** The surveillance system in Paraguay is organized through a territorial network at the local, regional, and national levels, linked to the National Health Surveillance Directorate, which serves as a National Liaison Center (CNE). The network consists of 19 regional epidemiology units that obtain information from 1,259 surveillance points, such as hospitals, primary care services, and medical specialty centers. In addition, the CNE will notify international health organizations and their regional peers of the event in question, where necessary.

¹⁰ The IHR, which dates from 2005, is an agreement by the 196 members of the WHO to work together to prevent and respond to public health risks. The IHR [annual report](#) assesses 13 dimensions of country capacity and response to public health events. In the case of the COVID-19 pandemic, the WHO estimated that Paraguay has level-2 preparedness and response status (with 1 being the lowest and 5 the highest). The State Party Annual Report ([SPAR](#)) platform reports country-specific capacities for each dimension of preparedness and response.

- 1.21 **Laboratory capacity.** Surveillance is also supported by laboratory analysis, since this makes it possible to investigate an event, confirm a clinical suspicion, and identify the causal agent. Paraguay has a national network of laboratories in the country's 18 health regions, all connected to the Central Public Health Laboratory.¹¹ The WHO rates Paraguay's laboratory capacity at 53%, compared with an average of 78% for the Americas as a whole. In the context of the current pandemic, the MSPBS has accredited private laboratories to undertake sample analysis, thus expanding the country's diagnostic capacity. Major network challenges include strengthening the regional laboratories and integrating information systems.
- 1.22 **Health service provision.** Paraguay's public health service network has insufficient care capacity, which can hinder a rapid and effective response to national public health emergencies. Although the country has the stated aim of achieving universal primary healthcare coverage, currently about 60% of the population does not have access to health prevention and promotion services. Primary health care plays a central role as a gateway and organizer of health services, in addition to supporting health surveillance. Paraguay currently has 1,282 family health units providing primary care, and it is estimated that 2,000 units would be needed to cover the entire population. The public network of services is completed with 90 health centers (second level of complexity) and 78 hospitals with widely varying structural and staffing conditions. In terms of hospital capacity, the country has 130 hospital beds and just 10 intensive care beds per 100,000 population, both among the lowest ratios in the region.¹²

6. Risk financing and transfer programs for natural disaster and public health emergencies

- 1.23 Natural disasters and public health events can generate lasting economic and social costs. The Bank has been providing support for the countries to make financial management of disaster risks more effective. In the period 2007-2008, the Bank developed an integrated financial approach to disaster risk management to help countries improve their financial planning (document GN-2354-7). This approach aims to support borrowing countries in the design and implementation of natural disaster risk transfer and financing programs.
- 1.24 Within this strategic framework, in 2009 the Bank created the Contingent Credit Facility (CCF) for Natural Disaster Emergencies (document GN-2502-2). The Facility's aim is to provide borrowing member countries with significant liquid resources immediately following a natural disaster. Having thus far approved 12 loans from the Facility for a total of over US\$2 billion, in recent years the Bank has made significant progress in making the region more resilient to disasters. In 2020, in response to the challenge of the COVID-19 pandemic, the scope of the Facility was expanded to include public health risks (document GN-2999-4).
- 1.25 Public health risks are similar to disaster risks in several key respects. First, they are unpredictable, of low probability of occurrence, and uncorrelated with

¹¹ This laboratory is of high complexity and is equipped for biological containment with a biosafety level 3 out of a maximum of 4.

¹² According to the [Organisation for Economic Co-operation and Development \(OECD\)](#), the average in the region is 210 beds per 100,000 inhabitants.

economic factors. Second, they tend to have a major impact on the most vulnerable populations. Lastly, both types of risk give rise to contingent fiscal liabilities. Accordingly, the expansion of the CCF will give countries a financial instrument for managing these risks, and the Bank will continue to promote the design and implementation of risk transfer and financing programs.

- 1.26 Risk transfer and financing programs recognize the existence of budgetary and financial constraints, which mean that no single instrument can efficiently cover all levels or layers of risk on its own.[27] Accordingly, when designing risk transfer and financing programs, reserve funds should be used to cover the risks associated with high-recurrence, smaller-scale events. In contrast, for large-scale events of lower probability of occurrence, the use of long-term contingent debt and risk transfer instruments, such as insurance and/or catastrophe bonds, is recommended.[28]
- 1.27 **Potential benefits.** The benefits of focusing on risk transfer and financing programs for the emergency phase have been shown to outweigh its potential costs. Risk transfer and financing programs enable countries to obtain financial coverage that benefits the general population, regardless of whether the risks actually materialize, and this type of financing is more efficient in terms of both the direct costs and the savings that it generates. This is achieved by easing the liquidity constraint on governments that results from the combination of increased expenditures, reduced revenues,[29] and incremental access restrictions and borrowing costs.
- 1.28 In other words, the availability of ex ante financial coverage for the emergency stage of natural disasters or major public health events partially reduces the risk of worst-case scenarios for the event's impact on the public accounts and the vulnerable population by fast-tracking resources to meet the costs of emergency response. This has been verified in studies undertaken by the Bank [30] and other multilateral organizations, such as the International Monetary Fund (IMF).[31] These confirm that the existence of financial coverage to provide liquidity following severe events ensures greater stability in long-term economic growth than when such coverage is absent. This is because it makes resources rapidly available for attending to the population affected by the emergency, and it also removes from the public accounts the need to fund extraordinary expenditures that were not programmed in the corresponding budgets.

7. The operation in the Bank's strategy in the sector and with the country

- 1.29 **Bank actions and support in the natural disaster sector.** The Bank has been taking concrete steps to strengthen comprehensive disaster risk management in borrowing member countries, in line with its Disaster Risk Management Policy (document GN-2354-5). In particular, the Bank approved a technical cooperation to develop a disaster risk profile for Argentina, Bolivia, and Paraguay ([ATN/MD-14209-RG](#)), which financed probabilistic studies to quantify economic losses caused by floods, droughts, and forest fires. In addition, the Bank approved the technical cooperation Priority Actions for Upgrading the National Early Warning System ([ATN/JF-15630-PR](#)), the results of which were used as key inputs for the conceptual design of the Project for the Improvement of the National Early Warning System for Hydrometeorological Events in National Territory ([4646/OC-PR](#)). The lessons from these interventions that were taken into account in the design of this

operation include the following: (i) the need to strengthen coordination among the national public entities that make up the national disaster risk management system; and (ii) the importance of using multiple means of communication to make sure early warnings reach more communities.¹³

- 1.30 **Bank actions and support in the public health sector.** The Bank has been supporting the MSPBS in expanding primary healthcare coverage and reorganizing services in line with the Integrated and Comprehensive Health Delivery Networks modality. The Early Childhood Development Program ([2667/OC-PR](#)) is currently in the final phase of implementation and is supporting the creation of early hospitalization services to treat developmental disorders in children, among other activities. In addition, execution of the Program to Strengthen Integrated and Comprehensive Health Services Networks Based on Primary Health Care ([4872/OC-PR](#)) is expected to begin soon, with technical support from the Bank through [ATN/OC-17607-PR](#). In this case the emphasis will be on expansion of the networks model, the digital transformation of health services, and support for the national policy on health service quality. In 2020, the Bank approved the Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Paraguay ([5028/OC-PR](#), [5029/KI-PR](#)), which is supporting policy measures to ensure the availability and timely execution of public resources to address the health crisis caused by COVID-19. A key lesson in the health sector that was built into the design of this operation is the need for robust coordination and execution arrangements that facilitate participation by the various sector stakeholders, such as the MSPBS (paragraph 3.4).
- 1.31 **Good practices and lessons learned in the CCF framework.** The Bank has been supporting borrowing countries in the design and implementation of financial strategies for disaster risk management. In this connection, it has approved 12 loans from the CCF, with three disbursements totaling US\$256 million¹⁴ ([3670/OC-EC](#), [4331/OC-DR](#), and [4853/OC-BH](#)). The design of the present operation has incorporated the lessons learned from each of these approved loans and has made the relevant changes, as follows: (i) the development of parametric coverage under Modality I for forest fires, using quality public data ([optional link 5](#)); (ii) the refinement of methodologies to calculate loan activation triggers; (iii) strengthening of the coordination and execution mechanism between the executing agency, the SEN, and the MSPBS; and (iv) the establishment of operating rules to ensure an effective and efficient supervision and execution process for these operations. With the CCF expanded to include public health risks, the Bank also has gained experience from the preparation of three CCF loans with COVID-19 coverage (in the Dominican Republic, Ecuador, and Guyana). While the proposed operation is the first to incorporate future public health risks, considerations specific to these risks were reflected in the loan documents. These include the importance of clarifying interagency coordination for public health emergencies (paragraph 3.3) and specifying the country's legal

¹³ See the IDRMP indicator matrix (Annex III to the [program Operating Regulations](#)), emergency preparedness pillar.

¹⁴ The total value of active contingent loans is currently US\$1.911 billion, of which the total amount disbursed is US\$241 million (August 2020).

framework and procedures for declaring a national public health emergency (as described in Annex II to the [program Operating Regulations](#)).

- 1.32 The relevance and effectiveness of the instrument have been verified and supported by recent experiences and documented in the report “Country Program Evaluation: Ecuador 2012-2017,” produced by the Office of Evaluation and Oversight (OVE),[32] and in the OVE-validated project completion report of the operation to respond to the emergency caused by the Manabí earthquake in 2016 ([3670/OC-EC](#)). The main lessons learned that were incorporated into this project include the following: (i) the contracting of an independent audit of reasonable assurance mitigates the risk of the loan proceeds being used in a way that contravenes the Bank’s eligibility criteria; and (ii) cross-sector coordination weaknesses require actions to strengthen interagency coordination mechanisms during execution of the operation.
- 1.33 **Strategic alignment of the operation.** The project is consistent with the Second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the crosscutting theme of climate change, as part of the climate change adaptation strategy, since it increases the ex ante Modality I financial coverage available to the country, in the event of a severe or catastrophic natural disaster. This operation’s Modality I resources would be fully allocated to support the country’s financial framework for climate change adaptation. Accordingly, 60% of the proceeds of the operation (US\$150 million) correspond to financing for climate change adaptation, in accordance with the [joint methodology of the multilateral development banks](#) for tracking climate financing. These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals by the end of 2020. The project also aligns with the development challenge of social inclusion and equality since it benefits a larger number of people, particularly those who are vulnerable, by increasing ex ante financial coverage to cope with natural disaster and public health emergencies.
- 1.34 The operation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12) by directly contributing to the indicator of beneficiaries of enhanced disaster and climate change resilience (Contributions to Development Results). This is because it increases the number of people that gain enhanced resilience to natural disasters, epidemics, and pandemics by benefiting from the ex ante financial coverage provided by the loan. The operation is also consistent with the Bank’s Disaster Risk Management Policy (document GN-2354-5); the Climate Change Sector Framework Document (document GN-2835-8) by helping to improve the financial management of climate and disaster risks in the country; and the Health and Nutrition Sector Framework Document (document GN-2735-7), by increasing funding to the public health system for the management of future pandemic and epidemic outbreaks.
- 1.35 The operation is also aligned with the IDB Group Country Strategy with Paraguay 2019-2023 (document GN-2958), in particular with the strategic objective of boosting the mobilization of public and private resources for development, by enhancing the efficiency of public expenditure through an increase in stable and efficient contingent financing for disaster emergencies. The operation is also aligned with crosscutting issues “related to vulnerable populations, environmental sustainability, urban development,” the latter in the context of strengthening natural

disaster risk management and climate change adaptation. Lastly, the operation is included in the Update of the Annex III of the 2020 Operational Program Report (document GN-2991-3).

- 1.36 **Gender perspective.** In addition, the operation contributes to the crosscutting theme of gender equity and diversity, since gender will be mainstreamed in the country's disaster risk management, through activities included in the IDRMP. Inasmuch as disasters have a disproportionate impact on women and other vulnerable groups, such as persons with disabilities (paragraph 1.5), work in the first year will focus on mainstreaming gender in three sector-level disaster risk management plans within the PNIMS 2018-2022 framework (paragraph 1.38).¹⁵

B. Objectives, components, and cost

- 1.37 The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies. The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances.
- 1.38 The operation provides additionality by helping to enhance the country's comprehensive disaster risk management through improvements in the five strategic pillars of the IDRMP (paragraphs 2.7 and 2.8). The plan's activities are aligned with the country's priorities as set out in the PNIMS 2018-2022, which were agreed upon between the government and the Bank. In view of the issues described in paragraph 1.5, the gender equity approach will be fostered, particularly in the governance and development pillar of the guiding framework. In 2020-2021, three sector plans for disaster risk reduction will be updated, incorporating gender issues.¹⁶
- 1.39 **Sole component.** The proposed operation consists of a sole US\$250 million component that will structure stable, efficient, and rapidly accessible ex ante financial coverage to provide timely funding for the extraordinary expenses that are likely to occur during severe natural disaster and public health emergencies.
- 1.40 **Subcomponent 1.1. Coverage under Modality I.** The proposed operation includes a US\$150 million subcomponent under CCF Modality I to provide timely funding for the extraordinary public expenditures that are likely to occur during severe or catastrophic natural disaster emergencies (paragraph 2.3).
- 1.41 **Subcomponent 1.2. Coverage under Modality II.** The proposed operation includes a US\$100 million subcomponent under CCF Modality II to provide timely funding for the extraordinary public expenditures that are likely to occur during public health emergencies (paragraph 2.4).

¹⁵ See IDRMP indicator matrix (Annex III to the [program Operating Regulations](#)).

¹⁶ The scheduled update of these plans, to incorporate gender considerations, is the result of several discussion events organized by the SEN and the competent ministries in 2019, including the following: (i) a roundtable on preventing sexual violence in an emergency context; (ii) a roundtable on the urban land use management plan; and (iii) a roundtable on the social protection system.

1.42 To assess the country's financial needs for dealing with emergencies caused by severe or catastrophic natural disasters or public health events, the Bank analyzed the exposure and vulnerability to such events, and their historical impact, while also incorporating the effects of climate change.¹⁷ Based on this analysis, the loan amount was set at US\$250 million, which is within the limits established for CCF operations (document GN-2999-4, paragraphs 4.4 to 4.7). The financial terms and conditions applicable to these resources are as indicated in document GN-2999-4 and are included in this proposal's project summary.

1.43 **Beneficiaries.** The potential beneficiaries of the project are the entire population of Paraguay, in particular the affected populations that receive emergency assistance under the proposed coverage.

C. Key results indicators

1.44 In keeping with the project's general objective (paragraph 1.37), the expected impact is to mitigate the repercussions of a natural disaster or severe public health event on Paraguay's public finances. This expected contribution will be demonstrated by monitoring the following indicators: (i) ex ante financial coverage relative to the maximum likely expenditure during catastrophic natural disaster emergencies covered by the project; and (ii) ex ante financial coverage relative to the maximum likely expenditure during national public health emergencies covered by the project.

1.45 In line with the operation's specific objective (paragraph 1.37), the expected outcome is an improvement in the financial management of natural disaster and public health risks by increasing stable and efficient contingent financing to cover the extraordinary public expenditures needed to assist the population affected by emergencies caused by natural disasters or public health events.

1.46 To verify improvements in the country's financial risk management, the following indicators will be monitored: (i) the amount of ex ante financial coverage available to the country for natural disaster or public health emergencies; (ii) the beneficiaries of the ex ante financial coverage available for natural disaster emergencies; (iii) the beneficiaries of the ex ante financial coverage available for public health emergencies; (iv) the spread between the financial cost of the Bank loan and the cost of Paraguay's commercial long-term external sovereign debt; (v) the percentage of financial savings following the occurrence of an eligible event: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in net present value (NPV) terms; and (vi) the speed at which funds are accessed following the occurrence of an eligible event: number of days between the eligibility verification request and the availability of the funds.

1.47 **Economic analysis.** The [economic analysis of the project](#) uses a cost-effectiveness analysis methodology to evaluate a scenario in which the full financial coverage provided by the US\$250 million contingent loan would be used following the occurrence of a catastrophic natural disaster and public health event

¹⁷ Evidence of Paraguay's exposure and vulnerability to floods, forest fires, epidemics, and pandemics, as well as to the effects of climate change, are documented in sections I.A.1 and I.A.2.

during the coverage period.¹⁸ The NPV of the financing cost of the Bank loan was compared with the cost of bond issuance, assuming the following: (i) interest on the Bank loan is set at the London Interbank Offered Rate (LIBOR); and (ii) the issuance of 10-year bonds, based on the country's current risk premium in the international sovereign debt market. Both NPVs were calculated using a 12% discount rate. The results show that the cost of the contingent loan issued by the Bank is 54.6% of the cost of issuing debt. It is, therefore, a much more efficient alternative, not only in terms of financial cost but also in terms of the speed with which the funds become available.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The operation will consist of an investment loan from the Bank, to be issued under the CCF (document GN-2999-4), for up to US\$250 million, of which US\$150 million under Modality I and US\$100 million under Modality II. The borrower, acting through the Ministry of Finance, will serve as executing agency. All disbursements will be made from the Bank's Ordinary Capital resources. The funds will come either from the regular loan program or from available undisbursed balances of investment loans already approved and identified in the automatic redirection list (ARL),¹⁹ or from a combination of the two.
- 2.2 Contingent loans made under the CCF contain specific financial terms and conditions (as described in the Project Summary) to adequately support the country at the critical time of an emergency caused by severe events, when public finances are impaired. The specific terms and conditions include the following: (i) the amortization periods, weighted average life, and grace periods are counted from the date of each disbursement of the loan; (ii) the Bank will charge a one-time 50 basis point disbursement fee (reviewed periodically) at the date of each disbursement, applicable only to the amount disbursed from the Bank's regular lending program with Paraguay (i.e. not funded from the ARL); and (iii) the resource availability period (disbursement period) is five years, which can be renewed for up to a further five years, at the Bank's discretion and following a request by the borrower. In the event of renewal, the repayment terms, weighted average lives, and grace periods will be calculated as at the effective date of renewal.
- 2.3 **Modality I eligible events.** The loan will provide coverage under CCF Modality I for rapidly evolving events of severe impact and low probability of occurrence. In particular, eligible events will include floods and forest fires, according to the

¹⁸ Two other scenarios were evaluated, and the results obtained indicate that the contingent loan would still be the most efficient option for the country. See Economic Analysis ([optional link 1](#)).

¹⁹ The ARL includes the Bank's investment loans with the country that are in force and have balances available for disbursement. In these cases, the remaining balances can be automatically redirected following an event (Annex I of GN-2999-4, paragraph 4.12). The ARL was agreed upon between the borrower and the Bank, based on the following criteria: (i) the government's priorities in the context of a potential emergency; and (ii) the status of project execution and performance. In consultation with the borrower, the ARL will be periodically updated to include new loans. If an event is declared eligible by the Bank and the resources disbursed come wholly or partially from ARL balances, the Bank will update the project management systems to reflect the corresponding changes in the selected loans.

parameters of intensity and affected population established contractually between the country and the Bank and defined in the Terms and Conditions for Modality I Coverage (Annex I to the [program Operating Regulations](#)). This annex elaborates on specific issues related to the operation of the parametric triggers to determine eligibility for disbursements, as well as the methodology used to calculate the maximum amount of coverage, according to the intensity and percentage of the country's total population that is affected by each type of eligible event.

- 2.4 **Modality II eligible events.** The loan will provide CCF Modality II coverage for pandemics and epidemics that result in a declaration of national public health emergency by the competent national authority.²⁰ Specific issues related to the legal framework, scope, and procedure for declaring national public health emergencies are discussed in Annex II to the [program Operating Regulations](#).
- 2.5 Loan disbursements will be contingent upon the availability, at the time of a disbursement request, of sufficient resources from the ARL or from resources allocated to the Bank's regular lending program with Paraguay, as applicable. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.
- 2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following limits: (i) the available undisbursed balance of coverage available under the applicable Modality; and (ii) the limit for each disbursement method set forth in the program Operating Regulations. In the case of Modality I, the limit shall also be subject to the maximum amount resulting from the application of the Coverage Model to the declared eligible event.
- 2.7 **Integrated Disaster Risk Management Plan (IDRMP).** As an eligibility requirement, the CCF provides that all of the Bank's borrowing member countries may receive financing through natural disaster coverage, provided they have a IDRMP to the Bank's satisfaction. The IDRMP seeks to promote the effective development of a national comprehensive disaster risk management policy. To that end, the project team performed a diagnostic assessment of disaster risk management in Paraguay and agreed with the government on general targets for 2020-2025 and annual IDRMP indicators based on the 2018-2022 PNIMS. The IDRMP, as agreed upon between the government and the Bank, is documented in Annex III to the [program Operating Regulations](#). Accordingly, Paraguay complies with the aforementioned eligibility requirement.
- 2.8 In order to maintain the loan's natural disaster coverage, the country must ensure that the IDRMP continues be implemented to the Bank's satisfaction, by making progress toward fulfillment of the targets established therein. To monitor such progress, annual progress indicators are defined for each of the strategic pillars of

²⁰ The loan may not be used for the current COVID-19 pandemic outbreak because the latter does not qualify as an eligible event under the scope of CCF Modality II (document GN-2999-4, paragraph 3.16). Nonetheless, future pandemics or epidemics may be eligible, including those caused by this new SARS-CoV-2 coronavirus.

the plan.²¹ The progress monitoring exercises will be carried out annually. For the first of these, annual indicators were agreed upon and are specified in Table 1 of Annex III to the [program Operating Regulations](#). Satisfactory execution of the plan will be determined by verifying significant progress made by the country in all of the agreed-upon progress indicators. For subsequent annual verification periods, new progress indicators will be defined, in coordination with the government, as appropriate.

- 2.9 **International Health Regulations (IHR).** The CCF states that, to receive funding through public health coverage, countries must be up to date with their reporting to the WHO against IHR compliance.²² As noted in paragraph 1.19, Paraguay satisfies this requirement for accessing public health coverage under the CCF. During the contingent loan coverage period, the Bank will monitor the country's annual compliance with reporting to the WHO on its capacity and response to public health events under the IHR.
- 2.10 **Complementary risk retention mechanisms.** Paraguay has two mechanisms to cover disaster risks and public contingencies in the health sector.²³ The first of these is the National Emergency Fund (FONE), created by Law No. 2615/2005 and operated by the SEN to finance actions for the preparation, response, and rehabilitation of communities affected by emergencies caused by natural disasters or public health events. On average, the SEN has an estimated US\$10 million available each year for emergency response.²⁴ The second mechanism is the National Solidarity Health Fund (FONARESS), created in 2011 by Law No. 4392/2011 and managed by the MSPBS. This fund's purpose is to finance health sector contingencies and enable families living in poverty to access highly complex health treatments. FONARESS is publicly financed,²⁵ with an estimated average of US\$20 million available each year. To promote the retention and transfer of disaster and public health risks in Paraguay, the Bank will provide technical assistance to the Ministry of Finance during the loan period²⁶ to foster the development of a comprehensive financial risk management strategy.

²¹ These include indicators associated with gender issues in disaster risk management.

²² The report on compliance with the IHR recommendations is updated annually through the State Party Annual Reporting Platform ([SPAR](#)), which scores the 13 dimensions of preparedness and response to public health events. The instrument monitors 24 indicators that seek to measure the countries' state of progress in each of these capacities. The annual update of this report is mandatory for all 196 member countries and must be submitted to the WHO by October each year. For further information, see [Guidance Document for the State Party Self-Assessment Annual Reporting Tool](#).

²³ The national government created the Emergency Health Fund in 2020 through Law No. 6524/2020. The fund is managed by the MSPBS and has about US\$490 million available exclusively to finance activities in response to the current COVID-19 health emergency.

²⁴ FONE funding depends on the specific tax allocations that are made available. Article 21 (c) of Law No. 5538/15 provides that 10% of the total revenue collected from the excise tax on tobacco and cigarettes, shall be allocated to the FONE.

²⁵ Article 14 of Law No. 4392/2011.

²⁶ The technical assistance would be financed with resources from the technical cooperation Promoting Innovation in the Financial Management of Natural Disaster and Climate Change Risks ([ATN/AC-17034-RG](#)).

B. Environmental and social risks

- 2.11 In accordance with the provisions of Directive B.13 of the Environment and Safeguards Compliance Policy (GN-2208-20, OP-703), this operation does not require classification. As any resources disbursed under this loan may only be used to finance extraordinary public expenditures incurred during an emergency, and because the Ministry of Finance, as executing agency, guarantees compliance with the country's environmental and social legislation in the use of the funds, no negative environmental or social impacts are anticipated. Moreover, the loan contract includes a list of the types of expenses that cannot be financed with the loan proceeds (negative list). Examples of such expenses are those associated with the permanent infrastructure reconstruction.

C. Other risks and key issues

- 2.12 **Internal process risk.** Although a wide range of expenditure types are eligible for funding from the proceeds of this operation, there is a medium-high risk that insufficient information on the expenses incurred and shortcomings in the required documentation could make it impossible to verify eligible expenses. As a result, expenses could be rejected because they do not meet the eligibility criteria, thereby delaying the disbursement of funds to respond to the emergency. To mitigate this risk, the Bank will require use of the loan proceeds to be verified by an independent firm of auditors acceptable to the Bank (paragraph 3.11).
- 2.13 **Organizational structure risk.** There is a medium-high risk that, owing to delays in the relevant interagency communications and coordination, resources disbursed for an eligible event will not be used in time to comply with the CCF rule that all disbursed resources must be executed within the stipulated period (paragraph 3.10), thus making the emergency response less effective. Moreover, this risk is related to the potential for poor government performance during the response, which could damage the Bank's reputation inasmuch as it is involved in the response to natural disaster and public health emergencies. As mitigation measures, the Bank will: (i) provide technical support to the Ministry of Finance, including training workshops to strengthen its capacity to execute the loan, as part of the project supervision and implementation process; and (ii) promote institutional arrangements and coordination between the Ministry of Finance and the institutions tasked with responding to natural disaster and public health emergencies. Among these arrangements, the Bank will monitor the implementation of a coordination and execution mechanism between the Ministry of Finance, the SEN, the MSPBS, and other relevant institutions, in the event that loan disbursements are made (paragraph 3.4). These efforts, backed by the government's determination to strengthen its capacity to prepare for and respond to natural disaster emergencies (paragraphs 1.11 and 1.12 public health emergencies (paragraph 1.19), will help mitigate the risks identified and contribute to program sustainability.
- 2.14 **Sustainability.** The ex ante financial coverage provided by this operation, together with the country's determination to upgrade its comprehensive disaster and public health risk management through the PNIMS 2018-2022 and the PRNMED, will strengthen the government's capacity to manage these risks. It will also make it possible to finance the extraordinary public expenditures needed to provide timely response to future emergencies caused by natural disasters or

public health events (paragraphs 2.3 and 2.4. This will mitigate the potential impact, both on the population and on the public finances and economic activity. In addition, activities aimed at improving the country's health sector preparedness and response capacities with respect to the COVID-19 pandemic will also contribute to program sustainability.[33]

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Paraguay. The executing agency will be the borrower, acting through the Ministry of Finance. The latter will receive disbursements of the contingent loan. Under coordination by the Ministry of Finance, the proceeds of the contingent loan will be drawn down by the public sector institutions responsible for budget execution during natural disaster or public health emergencies. The executing agency will be tasked with: (i) generally coordinating the project; (ii) processing and handling disbursement requests with the Bank; (iii) coordinating follow-up of the monitoring, evaluation, and justification requirements for drawing down the loan resources; and (iv) making sure the project's objectives and terms and conditions are fulfilled.
- 3.2 **Interagency coordination for natural disaster emergencies.** The Ministry of Finance, acting through the SEN, will coordinate with other institutions responsible for responding to disaster emergencies. As the lead agency for disaster risk management in Paraguay, the SEN is responsible for coordinating and steering response actions and for the rehabilitation and reconstruction of public institutions, whether departmental or municipal. At the operational level, the SEN has a Response Directorate that includes a Field Operations Department and a Damage Assessment and Needs Analysis Department. When a severe disaster occurs, the SEN's Emergency Operations Center will be activated, convening agencies specialized in immediate response and basic recovery actions in the event of an emergency situation, including the Ministry of Finance and other relevant actors such as the National Armed Forces, the Meteorology and Hydrology Division, the Ministry of the Interior, the Ministry of Public Health and Social Welfare, the Ministry of Public Works and Communications, the Paraguayan Red Cross, and others.
- 3.3 **Interagency coordination for public health emergencies.** When an eligible public health emergency occurs, the Ministry of Finance will coordinate with the MSPBS, which oversees the National Healthcare System. As such it has responsibility for implementing the health measures needed to protect public health in the event of epidemics or pandemics and also for coordinating the response actions of other public agencies related to the sector.[34] At the operational level, the Ministry of Finance, through the Emergency Operations Center of the MSPBS, will coordinate with: (i) institutions that form part of the National Healthcare System such as the Social Security Institute, the Military and Police Health Service, and the "Clínicas" Hospital; (ii) relevant national government institutions such as the National Armed Forces, the National Police, the Ministry of Information and Communication Technologies, the Ministry of Social Development, the SEN, and others; and (iii) departmental and municipal governments.

- 3.4 **Coordination mechanism for drawing on the loan proceeds.** To ensure timely execution of loan proceeds channeled to emergencies, a coordination and execution mechanism, headed by the Ministry of Finance, will be set up to facilitate the flow of funds to the public sector agencies tasked with executing the resources. Specifically, these are the SEN and its Emergency Operations Center in the case of natural disasters, and the MSPBS and its Emergency Operations Center for public health events. This mechanism is described in detail in the program Operating Regulations, and the Bank will monitor its implementation by the Ministry of Finance immediately following a contingent loan disbursement. The mechanism should consider the following processes, at a minimum: (i) planning and identification of expenditures; (ii) technical review of prioritized expenditures; (iii) monitoring and execution; (iv) fiduciary arrangements; and (v) verification of eligibility and reporting on the use of resources.
- 3.5 **Special contractual condition of general eligibility to request disbursements.** A special contractual condition of general eligibility to request disbursements will be the approval and entry into force of the [program Operating Regulations](#), under the terms previously agreed upon with the Bank. This regulation contains all operational provisions relating to the supervision and administration of the loan, as well as disbursement requests and the use of resources. The [program Operating Regulations](#) will include: (i) the reference framework, including the interagency coordination mechanism; (ii) the operational provisions; (iii) the terms and conditions of coverage under each modality; (iv) the IDRMP; (v) the ARL; (vi) templates for requesting advances of funds and reimbursement; (vii) an example of an indicative list of potential eligible expenses for future pandemics; and (viii) the list of excluded expenses (negative list).
- 3.6 **Special contractual conditions precedent to each disbursement.** The special contractual conditions precedent to each disbursement are as follows: (a) Disbursements under Modality I (Natural disasters): (i) that the Bank has verified the occurrence of an eligible event as defined in the [program Operating Regulations](#); and (ii) that the Integrated Disaster Risk Management Plan (IDRMP), previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraph 2.7); and (b) Disbursements under Modality II (Public health events): (i) the Bank has verified the existence of a declaration of a national public health emergency due to an eligible public health event as defined in the [program Operating Regulations](#); (ii) that the borrower has submitted evidence that it is up to date with its reporting against International Health Regulations (IHR) compliance to the World Health Organization (WHO); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed-upon complementary risk retention financing measures and conditions.
- 3.7 **In addition to the aforementioned contractual conditions precedent to each disbursement, the borrower must have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s) and indicating whether**

these will come from the Bank's regular lending program with Paraguay, from undisbursed balances from the automatic redirection list (ARL), or from a combination of these two sources. In the case of ARL loans, the request should identify the loans in question and the respective amount to be used.

These contractual conditions were established as standard conditions for the execution of contingent loans in the CCF policy document (document GN-2999-4).

- 3.8 Each disbursement under this loan will be made under the financial terms and conditions set forth in the Project Summary, irrespective of whether the funds come in whole or in part from the regular lending program, or from loans included in the ARL, or from a combination of both sources.
- 3.9 **Eligible expenses.** The loan proceeds may be used to finance extraordinary public expenditures that occur during emergencies resulting from eligible events and which satisfy the following requirements, according to document GN-2999-4 (paragraph 4.20(c)): "(i) are not explicitly excluded in the related Facility Contingent Loan Contract (a 'negative list'); (ii) are legal under the borrowing country laws; (iii) are directly or indirectly related to the natural disaster or public health emergency for which the financing has been provided; (iv) have verifiable documented and clearly registered procurement and payments; and (v) have been adequately dimensioned and priced." Examples of types of expenditures that might be eligible are (i) emergency hygiene kits; (ii) vaccines and medications; (iii) foodstuffs for affected populations; (iv) temporary shelters; and (v) temporary rehabilitation of infrastructure and reconnection of basic services.
- 3.10 The Bank will recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower as from the day on which the eligible event began and up to 180 calendar days immediately thereafter. Upon formal request from the borrower, the Bank, at its sole discretion, could extend this period for an additional 90 days (document GN-2999-4, paragraph 4.20(f)). In all aspects of procurement and contracting, this operation will be governed by the rules set forth in the CCF policy document (document GN-2999-4). The borrower will use its national legislation on goods procurement and the contracting of works or services, as applicable to extraordinary fiscal expenditures in natural disaster situations (Annex III).
- 3.11 **Reasonable assurance audits.** The Bank will require independent verification of expenditures financed by the loan, in order to assess compliance with the eligibility criteria specified in the Loan Contract and in the program Operating Regulations. This independent reasonable assurance verification will be performed by a firm of auditors acceptable to the Bank. The Ministry of Finance will be responsible for hiring the auditors and will initially assume the costs (document GN-2999-4, paragraph 4.20(b)), which are, nonetheless, eligible to be financed from the loan proceeds.
- 3.12 **Justification of the use of resources.** The borrower, acting through the Ministry of Finance, will produce a Consolidated Report on the Appropriate Use of Resources to justify the use of the funds disbursed. This report will be submitted to the Bank within 365 calendar days from the date of the occurrence of the eligible event for which the Bank has disbursed the resources in question. It will also be accompanied by the final report of the reasonable assurance audit, which the borrower will have commissioned for the concurrent expenditure review. Once the

Consolidated Report on Adequate Use of Resources has been submitted, the Bank will determine the total amount of expenses that are eligible for financing. If there are unjustified or ineligible expenses, the Bank may require the borrower to repay the unjustified amount.

- 3.13 If necessary, as noted in document GN-2999-4, within a period not exceeding two years after each disbursement, the Bank, at its sole discretion and without cost to the borrower, may conduct subsequent audits to verify the appropriateness of the expenses declared as eligible, the findings of which may support an eventual request for reimbursement of amounts that have been deemed ineligible for financing.

B. Summary of arrangements for monitoring results

- 3.14 During the natural disaster coverage period of the contingent loan, the Bank will periodically monitor progress in implementing the IDRMP and will make annual evaluations thereof (see [monitoring and evaluation plan](#)) If, as a result of these assessments, the Bank finds that on the basis of the indicators established for this purpose, the IDRMP is not progressing satisfactorily, the borrower will be notified of the specific actions that must be taken within a maximum period of 90 calendar days from the day of the issuance of the notification in order to maintain eligibility for natural disaster coverage. Once this timeframe passes, if the Bank should find that the recommended remedial actions were not completely and properly taken, it may, upon formal notification to the borrower, suspend the borrower's eligibility corresponding to natural disaster coverage to receive disbursements of the contingent loan until the shortcomings have been properly remediated. Notwithstanding the foregoing, as set forth in document GN-2999-4 (paragraph 4.25), once natural disaster coverage has been activated, it would remain active for the duration of the period established in the contract, unless a formal notification of coverage suspension is delivered by the Bank to the borrower.
- 3.15 **Monitoring and evaluation.** As indicated in the [monitoring and evaluation plan](#), the loan is evaluated following the occurrence of an eligible event that results in a disbursement. The evaluation methodologies consist of a reflexive approach and an ex post cost-effectiveness analysis. In the former, the evaluation would focus on the efficiency of the loan over the entire period of coverage provided and on whether the speed with which the country accessed the loan resources is adequate. In the second, the evaluation would compare the NPV cost of the funds disbursed against the cost of other sources of financing, thus making it possible to estimate the financial savings ratio for the country. In addition, a qualitative evaluation has been included to analyze the contribution made by the IDRMP to enhancing the country's disaster risk management.

Development Effectiveness Matrix		
Summary		PR-O0006
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Climate Change	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of enhanced disaster and climate change resilience (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2958	Strategic objective of boosting the mobilization of public and private resources for development as well as cross-cutting areas of vulnerable populations, environmental sustainability and urban development.
Country Program Results Matrix	GN-2991-3	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		2.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/AC-17034-RG will provide technical assistance to the Ministry of Finance during the loan coverage period

The project is a Contingent Loan for Natural Disasters and Public Health Emergencies in the Republic of Paraguay. The general objective of the project is to help mitigate the impact that a natural disaster or a public health event of severe or catastrophic magnitude could have on public finances. The specific objective is to improve the financial risk management of natural disasters and public health risks by increasing stable, cost-efficient and rapid access to contingent financing to cover extraordinary public expenditures directed to the care of the population affected by emergencies caused by natural disasters and public health events.

The documentation is well structured, with a good diagnosis of the country's vulnerability to natural disasters and climate change, as well as to acute public health events. The negative effects that these events have on the country, their population, the economy, and the fiscal resources of the country are properly documented. The proposed intervention is clearly linked to the identified problems and factors. The results matrix reflects the general objective and specificity of the program and captures a good vertical logic. The product, outcome, and impact indicators have baseline values and targets, and sources of information.

The project includes an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in line with DEM guidelines and the characteristics of contingent loans for natural disasters and public health emergencies. The economic analysis shows that the operation is efficient with a Net Present Value of the loan granted by the Bank that is 54.6% of the cost of the next likely alternative, which makes it a more cost-efficient option. The monitoring and evaluation plan proposes a reflexive evaluation, which will be complemented with an ex post cost-effectiveness analysis.

The three risks identified in the risk matrix seem reasonable, one is classified as Low and two as Medium-High. The medium-high level risks include mitigating actions, responsible parties, and dates or triggers.

RESULTS MATRIX

Project objective:	<p>The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures in support of the population affected by natural disaster and public health emergencies.</p> <p>The general objective is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances.</p>
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General Development Objective

Indicators	Unit of measure	Baseline	Expected year of achievement	Target	Means of verification	Comments
General development objective: To buffer the impact of a natural disaster or severe public health event on Paraguay's public finances.						
Indicator 1: Ex ante financial coverage relative to the maximum likely expenditure ¹ during catastrophic natural disaster emergencies covered by the project.	%	1.1 ²	5	14.8 ³	Ministry of Finance	The indicator measures Paraguay's ex ante financial coverage as a percentage of the likely maximum expenditure generated by an emergency response to catastrophic natural disasters. See the monitoring and evaluation plan and its annexes.
Indicator 2: Ex ante financial coverage relative to the maximum likely expenditure ⁴ during national public health emergencies covered by the project.	%	1.9 ²	5	17.6 ⁵	Ministry of Finance	The indicator measures Paraguay's ex ante financial coverage as a percentage of the likely maximum expenditure generated by nationwide public health emergencies. See the monitoring and evaluation plan and its annexes.

¹ Calculation based on the occurrence of a catastrophic natural disaster once in every 100 years, according to estimates reported in the [Disaster Risk Profile for Paraguay](#) prepared by the Bank.

² Paraguay has an average of US\$10 million available each year through the National Emergency Fund (FONE) to finance emergency response to natural or public health disasters.

³ This target value assumes that no severe or catastrophic event occurs during the contingent loan coverage period but is adjusted for inflation and exchange rate variations.

⁴ Based on [IMF estimates of](#) exceptional public expenditures in the health sector to respond to the COVID-19 pandemic.

⁵ This target value assumes that no public health event occurs during the loan coverage period, but is adjusted for inflation and exchange rate variations.

Specific Development Objectives

Indicators	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Specific development objective: To improve the financial management of natural disaster and public health risks, by increasing stable and efficient contingent financing to cover extraordinary public expenditures in support of the population affected by natural disaster and public health emergencies.										
Indicator 1. Availability and stability: Increase in the country's ex ante financial coverage for exceptional expenses during emergencies caused by natural disasters or public health events.										
Amount of ex ante financial coverage available to the country for emergency response to natural disaster or health emergencies.	US\$ million	10 ⁶	260	260	260	260	260	260	Ministry of Finance	This indicator quantifies Paraguay's total ex ante financial coverage for financing extraordinary public expenditures associated with emergency response following natural or public health disasters. The amount includes coverage from this loan as well as other ex ante financing (e.g. contingent credit lines with other multilateral agencies and insurance). See the monitoring and evaluation plan and its annexes.
Indicators 2 and 3: Vulnerable people who become more resilient to natural disasters, epidemics, and pandemics as a result of the ex ante financial coverage provided by the contingent loan										
Beneficiaries of the ex ante financial coverage available for natural disaster emergencies. ⁷	Thousands of people	19	307	307	307	307	307	307	Ministry of Finance	This indicator measures the maximum number of people who could benefit from the country's ex ante financial coverage for natural disaster emergencies. See the monitoring and evaluation plan and its annexes.

⁶ This amount does not include resources allocated to the Emergency Health Fund (Law No. 6524/2020) since this is a temporary fund created specifically for the COVID-19 pandemic. Nor does it include resources available from the National Health Solidarity Resource Fund (FONARESS), since this fund's main objective is not to finance needs arising from health emergencies.

⁷ This estimate assumes average financial coverage per person of US\$520, which is equivalent to the country's average monthly per capita income, plus available ex ante financial coverage of US\$160 million (US\$10 million from FONE and US\$150 million from coverage under Modality I).

Specific Development Objectives

Indicators	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Beneficiaries of the ex ante financial coverage available for public health emergencies ⁸	Thousands of people	14	154	154	154	154	154	154	Ministry of Finance	The maximum number of people who could benefit the ex ante financial coverage available to the country for public health emergencies. See the monitoring and evaluation plan and its annexes.
Indicators 4 and 5. Financial cost: Contingent financial coverage is cost-efficient.										
Spread between financial cost of the Bank loan and the cost of Paraguay's long-term commercial sovereign foreign debt.	Basis points	228 ⁹	Cost Diff.	Cost Diff.	Cost Diff.	Cost Diff.	Cost Diff.	At least 100	IDB Finance Department (FIN) Refinitiv Eikon Ministry of Finance	This indicator compares the financial cost of the Bank loan with the cost of Paraguay's commercial long-term foreign debt. See the monitoring and evaluation plan and its annexes.

⁸ This estimate assumes average financial coverage of US\$713 per person, which is equal to the inflation-adjusted [total cost of caring for one dengue fever patient](#) (covering medical supplies, laboratory fees, and health personnel wages) in Paraguay for an average stay of four days, plus available ex ante financial coverage of US\$110 million (US\$10 million from FONE and US\$100 million from coverage under Modality II).

⁹ See the project's economic analysis ([optional link 1](#)).

Specific Development Objectives

Indicators	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Financial savings ratio following the occurrence of an eligible event: cost of funds disbursed by the Bank relative to the cost of issuing sovereign debt, expressed in net present value (NPV) terms.	%	41.3 ¹⁰	20	20	20	20	20	20	IDB Finance Department (FIN) Refinitiv Eikon Ministry of Finance	This indicator will measure the country's percentage financial savings when the proceeds of the Bank loan proceeds are disbursed, following the occurrence of an eligible event. It is calculated using a cost-effectiveness analysis methodology. See the monitoring and evaluation plan and its annexes.
Indicator 6. Speed of access: Contingent financial coverage is efficient in terms of the speed with which the country can access loan funds to cover potential emergency expenses.										
Speed of access to funds following the occurrence of an eligible event: number of days between the request for eligibility verification and the availability of funds.	Days	90 ¹¹	30	30	30	30	30	30	IDB Finance Department (FIN) Ministry of Finance	The indicator will measure the number of days elapsing between the date on which the country submits an eligibility verification request and the date on which the Bank notifies that the loan funds are available to the country. See the monitoring and evaluation plan and its annexes.

¹⁰ The NPV of the financing cost of the Bank loan compared with that of bond issuance using a cost-effectiveness analysis methodology. See the project's economic analysis ([optional link 1](#)).

¹¹ The figure represents the average time it takes to authorize and arrange a sovereign bond issue on the international market for a country that performs this type of operation intermittently. The baseline is subject to revision based on future issues.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Paraguay
Number: PR-O0006
Name: Contingent Loan for Natural Disaster and Public Health Emergencies
Executing agency: The borrower, through the Ministry of Finance
Fiduciary team: Fernando Glasman, Jorge Luis González, and Jorge Seigneur (VPC/FMP)

I. EXECUTIVE SUMMARY

- 1.1 The operation will be financed through the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4),¹ to provide total financial coverage of US\$250 million.
- 1.2 The borrower will be the Republic of Paraguay, and the executing agency will be the borrower, acting through the Ministry of Finance. The project will be executed pursuant to the provisions of document GN-2999-4, which includes exceptions to the fiduciary policies for Facility loans.
- 1.3 The program's fiduciary agreements consider: (i) the fiduciary context of the country; (ii) the supervision of loans executed by the Ministry of Finance; (iii) the institutional capacity assessment (ICAS) of the executing agency performed in May 2019; and (iv) inputs from the teams and entities involved in executing the project.
- 1.4 Given the contingent nature of the operation, disbursements are expected to be made once the conditions specified for this purpose in the loan contract are met.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Paraguay's national financial management systems are at a medium level of development and need to be supplemented to implement Bank-financed projects. Specific financial reports are produced through auxiliary accounting systems. Financial control tools, such as the integrated financial management system (SIAP), the integrated accounting system (SICO) and other subsystems, allow executing agencies to transfer payments to suppliers via the Central Bank of Paraguay (BCP) under acceptable conditions. External oversight is currently performed by independent audit firms.
- 2.2 The National Public Procurement System has made great progress in terms of efficiency and transparency in recent years, following the creation of the National Public Procurement Directorate (DNCP). This has made it possible to implement a transactional procurement platform with electronic procedures such as the online reverse auction (SBE), a supplier system, and the Statistical Information System (SIE). Operations with the Bank use the Public Procurement Information System (SICP), together with the online reverse auction (SBE) and invitations to tender (LCO) national subsystems for the amounts and categories specified in the

¹ Or its updates. This reference applies to the entire program document.

Agreement for the use of said subsystems, of 17 June 2014. Article 33 of Law 2051/03 on Public Procurement also establishes exceptions to ordinary bidding procedures, including the exceptions set out in subparagraph (b) for disasters caused by natural phenomena that endanger or alter the social order, the economy, public services, health, safety or environment of any area or region of the country; and in subparagraph (d) arising from situations that constitute a fortuitous or *force majeure* event, in which it is impossible to obtain goods or services, or to execute works through the bidding procedure with the speed needed to deal with the emergency in question, in which case the amounts or categories shall be limited to what is strictly necessary to deal with them.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The executing agency will be the borrower, acting through the Ministry of Finance. This ministry is the central government body responsible for the administration of the public sector budget process, application and administration of the legal provisions regarding fiscal taxes, collection, and inspection; management of the public treasury, public credit and government accounting; formulation and management of the public sector's domestic and external debt policy and the government's fiscal policy; and handling of the government's relations with both national and international financial organizations. The Ministry of Finance has three vice-ministries: (i) Economy; (ii) Taxation; and (iii) Financial Administration.
- 3.2 The Ministry of Finance will manage the allocation and specific budget items for this program, and make payments through the special account. It will be responsible for preparing and reporting financial information on the program, managing disbursements with the Bank, and submitting audited and unaudited financial reports as required. The Ministry of Finance is considered to have qualities that are both necessary and sufficient to ensure an effective and transparent financial execution of the resources of this operation, for which no fiduciary risks were identified.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The fiduciary agreements and requirements for procurement specify the provisions applicable to execution of all of the project's procurement processes.
- 4.2 **Procurement execution.** In accordance with document GN-2999-4, CCF loans are exempt from the application of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), as periodically amended. Instead, for CCF loans, the borrower will apply its own rules and regulations governing the procurement of goods and services for natural disaster and public health emergencies, as dictated by the locally applicable government regulations.
- 4.3 **Procurement supervision.** Not applicable. Procurement processes will be reviewed by the competent national bodies.

V. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

- 5.1 **Disbursement limit per eligible event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following: (i) the

available undisbursed balance of coverage under the applicable Modality; and (ii) the limit for each disbursement method specified in the program Operating Regulations. In the case of Modality I, the limit will also be subject to the maximum amount resulting from the application of Coverage Model to the declared eligible event.

- 5.2 **Disbursement methods.** The borrower, acting through the executing agency, may request disbursements of funds by the following methods, subject to the applicable operating rules.
- a. **Advances of funds** to finance future eligible expenses up to a limit specified in the program Operating Regulations. For advances of funds, the borrower must set up an exclusive special account at the Central Bank of Paraguay (BCP).
 - b. **Refunds of eligible expenses** covered by the borrower from its own resources since the occurrence of the eligible event for up to 100% of the total approved coverage.
 - c. **Direct payments** made by the Bank to third parties on behalf of and at the request of the borrower and for amounts agreed upon between the borrower and the Bank.
- 5.3 **Justification of advances of funds.** If several partial advances are made, before the borrower can request a new advance, it must justify to the Bank the corresponding percentage as defined by the latter in the Financial Management Guidelines for IDB-Financed Projects (OP-273-12).
- 5.4 **Eligibility of expenditures.** The loan proceeds may be used to finance extraordinary public expenditures that arise during emergencies resulting from eligible events and which meet the following requirements according to document GN-2999-4: "(i) are not explicitly excluded in the related Facility Contingent Loan Contract (a 'negative list'); (ii) are legal under the borrowing country laws; (iii) are directly or indirectly related to the natural disaster or public health emergency for which the financing has been provided; (iv) have verifiable documented and clearly registered acquisitions and payments; and (vi) have been adequately dimensioned and priced."
- 5.5 The Bank will recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower as from the day on which the eligible event began and up to 180 calendar days. Upon formal request from the borrower, the Bank, at its sole discretion, could extend this period for an additional 90 days (document GN-2999-4, paragraph 4.20(f)). In all aspects of procurement and contracting, this transaction will be governed by the rules set forth in the CCF policy (document GN-2999-4). The borrower will use its national legislation on goods procurement and the contracting of works or services, as applicable to extraordinary fiscal expenditures in natural disaster situations.
- 5.6 **Exchange rate.** For accounting purposes, the exchange rate to be used will be the rate in effect on the day on which the borrower, the executing agency, or any other individual or legal person to which spending authority has been delegated makes the respective payment or transfer, in accordance with Article 4.10(b)(ii) of the General Rules.

- 5.7 **Documentation, registration, and filing of expenses.** To be declared eligible, payments must be made, recorded, and documented in accordance with national legislation. As a reference, the supporting documentation should include the following: (i) a purchase or requisition order for the good or service in question; (ii) proof of delivery and receipt, or equivalent proof of delivery or provision of goods or services, evidencing receipt and acceptance of delivery of the good or service in question by the competent authority of the purchasing entity; (iii) invoice or detailed settlement of the supplier's expenses; and (iv) irrevocable payment order made by the purchasing entity's competent authority.
- 5.8 **Reasonable assurance audits.** The Bank will require independent verification of expenses financed by the loan, in order to assess compliance with the eligibility criteria set forth in the Loan Contract and in the program Operating Regulations. This verification will be obtained through a reasonable assurance audit performed by a firm of auditors acceptable to the Bank. The Ministry of Finance will contract the audit firm and initially cover the costs (document GN-2999-4), which are, nonetheless, eligible to be financed from the loan proceeds.
- 5.9 **Justification of the use of resources.** The borrower, acting through the Ministry of Finance, will produce a Consolidated Report on the Appropriate Use of Resources to justify the use of the funds disbursed. This report will be submitted to the Bank within 365 calendar days from the date of the occurrence of the eligible event for which the Bank has disbursed the resources in question. It will also be accompanied by the final report of the reasonable assurance audit, which the borrower will have commissioned for the concurrent expenditure review. Once the Consolidated Report on Adequate Use of Resources has been submitted, the Bank will determine the total amount of expenses that are eligible for financing. If there are unjustified or ineligible expenses, the Bank may require the borrower to repay the unjustified amount.
- 5.10 If necessary, as noted in document GN-2999-4, within a period not exceeding two years after each disbursement, the Bank, at its sole discretion and without cost to the borrower, may conduct subsequent audits to verify the appropriateness of the expenses declared as eligible, the findings of which may support an eventual request for reimbursement of amounts that have been deemed ineligible for financing.
- 5.11 **Financial supervision of the project.** Financial supervision will be conducted through visits, working meetings, and reviews of assurance reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-___/20

Paraguay. Loan PR-O0006 to the Republic of Paraguay. Contingent Loan
for Natural Disaster and Public Health Emergencies

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Paraguay, as borrower, for the purpose of granting it a contingent loan for natural disaster and public health emergencies. Such contingent loan will be for the amount of up to US\$250,000,000 from the resources of the Bank's Ordinary Capital, subject to the availability of resources from the regular lending program with the Republic of Paraguay or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2020)