

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PARAGUAY**

**PROGRAM TO STRENGTHEN FISCAL POLICY AND MANAGEMENT IN  
RESPONSE TO THE HEALTH AND ECONOMIC CRISIS CAUSED BY COVID-19  
IN PARAGUAY II**

**(PR-L1179)**

**LOAN PROPOSAL**

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ABBREVIATIONS	
CAF	Development Bank for Latin America
Caja Fiscal	Public Sector Retirement and Pension System
COVID-19	Coronavirus disease 2019
DNCP	Dirección Nacional de Compras Públicas [National Public Procurement Directorate]
ECG	Evaluation Cooperation Group
FOPREP	Fondo de Preinversión de Paraguay [Preinvestment Fund of Paraguay]
IHR	International Health Regulations
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística [National Statistics Institute]
LRF	Ley de Responsabilidad Fiscal [Fiscal Responsibility Law]
MEP	Monitoring and evaluation plan
MSMEs	Micro, small, and medium-sized enterprises
MSPBS	Ministry of Public Health and Social Welfare
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PCR	Project completion report
SENAC	Secretaría Nacional Anticorrupción [National Anticorruption Secretariat]
SIAF	Sistema Integrado de Administración y Finanzas [Integrated Finance and Administration System]
SIFEN	Sistema Integrado de Facturación Electrónica Nacional [National Integrated Electronic Invoicing System]
SIIS	Sistema Integrado de Información Social [Integrated Social Information System]
SOFR	Secured Overnight Financing Rate
TC	Technical cooperation operation
UTGS	Unidad Técnica del Gabinete Social [Technical Unit of the Social Cabinet]
WHO	World Health Organization

## PROJECT SUMMARY

### PARAGUAY

## PROGRAM TO STRENGTHEN FISCAL POLICY AND MANAGEMENT IN RESPONSE TO THE HEALTH AND ECONOMIC CRISIS CAUSED BY COVID-19 IN PARAGUAY II (PR-L1179)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility <sup>(a)</sup>	
Republic of Paraguay			Amortization period:	20 years
Executing agency			Disbursement period:	1 year
Ministry of Finance, through the Debt Policy Division			Grace period:	5.5 years <sup>(b)</sup>
Source:	Amount (US\$)	%	Interest rate:	SOFR-based
IDB (Ordinary Capital):	250 million	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	250 million	100	Weighted average life:	12.75 years
			Currency of approval:	U.S. dollar
Project at a Glance				
<b>Project objective/description:</b> The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in Paraguay in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are to: (i) promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) promote economic and fiscal recovery during the post-pandemic period.				
This operation is the second in a programmatic policy-based series consisting of two contractually independent but technically connected loans.				
<b>Special contractual conditions precedent to the first and sole disbursement of the loan:</b> The first and sole disbursement of the Bank’s loan proceeds will be contingent on fulfillment of the policy reform commitments described in the Policy Matrix (Annex II), as well as fulfillment of the other conditions set forth in the loan contract (see paragraph 3.3).				
<b>Exceptions to Bank policy:</b> None.				
Strategic Alignment				
Challenges: <sup>(d)</sup>	SI <input checked="" type="checkbox"/>		PI <input type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: <sup>(e)</sup>	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

<sup>(a)</sup> 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, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided the original weighted average life of the loan or the last payment date as documented in the loan contract are not exceeded.

<sup>(c)</sup> The credit fee and 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.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 This is the second of two operations in a series of programmatic policy-based loans (PBPs). The series originated in 2020 (5028/OC-PR and 5029/KI-PR for US\$210 million) and was agreed with the Government of Paraguay as support for measures to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19. To that end, measures were designed and implemented to: (i) promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) promote economic and fiscal recovery during the post-pandemic period.
- 1.2 This operation continues to support the reforms begun under the first programmatic loan, which was the first unrestricted operation under the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996). Paraguay's immediate response to the health emergency consisted of a full, well-timed package of measures aligned with international good practices that were charted in the context of the prevailing high uncertainty from March to May 2020. The measures supported under the first programmatic loan included: (i) adoption of an emergency law (Law 6524)<sup>1</sup> and its regulations, channeling resources to address the pandemic, together with measures for transparency in the use of those resources and to streamline public procurement processes; and (ii) creation of a Social Fund to safeguard the income of informal workers, together with a program to support food security and actions to support micro, small, and medium-sized enterprises (MSMEs). It also supported Paraguay's capacity to respond to health emergencies, following international standards; and setting up a strategic interagency team to analyze State reforms in various sectors, with a view to promoting economic and fiscal recovery in the post-pandemic period.
- 1.3 As a result of the isolation measures, border closure and quarantine, and the country's high initial compliance, in the first year of the pandemic, Paraguay had relatively low COVID-19 case and fatality rates. However, rates rose during the southern winter of 2021, with deaths peaking in June of that year. The highest case level was in January 2022, due to high circulation of the Omicron variant, which required the health emergency to be extended until June 2022, although with one-third the number of deaths compared to the June 2021 peak. Thus, since the outset of the pandemic, compared to the average for Latin American and Caribbean countries, Paraguay has had fewer cases per capita (around 1 case per

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<sup>1</sup> Law 6524 "declares a state of emergency in the entire territory of the Republic of Paraguay in light of the pandemic declared by the World Health Organization (WHO) due to COVID-19 or the Coronavirus and establishes administrative, fiscal, and financial measures."

11 inhabitants, compared to 1 in 8 for the region)<sup>2</sup> and a similar number of deaths (around 1 per 400 inhabitants). With respect to vaccination, Paraguay had difficulties early on in accessing vaccine markets, which delayed the start of the vaccination campaign until June 2021. In March 2022, 46% of Paraguay's population was fully vaccinated, compared to 64% on average for Latin America and the Caribbean.<sup>3</sup> Much like in other countries, the recent sharp drop in the number of cases and deaths, after the Omicron variant peaked, points to the possibility that Paraguay is leaving behind the pandemic. This second operation supports the reforms the government has been adopting to strengthen its health capacity, step up social inclusion of the poor and vulnerable, and consolidate a sustainable fiscal and economic recovery.

## 1. Macroeconomic context

- 1.4 After nearly two decades of outpacing the average Latin American and Caribbean growth rate, in early 2020 the Paraguayan economy was rebounding from zero growth in 2019 due to climate shocks, when the COVID-19 pandemic halted the recovery. Early implementation of lockdown measures helped to initially keep the case and death numbers among the lowest in the region and led to an economic downturn that hit women and informal and service sector workers the hardest.<sup>4</sup> Swift, strong government action, which was possible largely thanks to the relatively low pre-pandemic debt level and hence greater fiscal space, helped to contain the health, social, and economic impact of the crisis. In 2020, Paraguay implemented a countercyclical fiscal policy that allowed for strong expansion of emergency social programs that ultimately represented 12% of total social spending. Thus, the emergency package that was implemented, estimated at 5.5% of gross domestic product (GDP),<sup>5</sup> together with lower fiscal revenues, led to an increase in the fiscal deficit of 6.1% of GDP in 2020 and an increase of over 10 points of GDP in the debt (Table 1).<sup>6</sup> Fiscal actions, coordinated with significant monetary stimulus, contributed to economic activity contracting only 0.6% of GDP in 2020, the lowest in the region which saw an average 7.4% drop.<sup>7</sup> Poverty, in turn, affected 26.9% of the population in late 2020, having risen just 3.4 percentage points over 2019 (23.5%),<sup>8</sup> while private estimates suggest that, without the emergency support that figure could have risen to 30.1% of the population.<sup>9</sup>
- 1.5 In 2021, there was greater mobility and opening up of the economy that, on the one hand, was reflected the pandemic having a greater health impact but, on the other, helped GDP expand 4.2% in real terms (preliminary figure), driven by the

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<sup>2</sup> The actual case numbers are probably higher since there has been less testing than in other countries. Paraguay currently performs 34 tests per day per 100,000 population, behind Uruguay (250 per 100,000 population) or Chile (327 per 100,000 population). Data from March 2022, based on the Johns Hopkins Coronavirus Resource Center and the Ministry of Health.

<sup>3</sup> NYT – *Tracking the global coronavirus outbreak*.

<sup>4</sup> [United Nations Development Programme \(UNDP\) \(2020\)](#).

<sup>5</sup> Informe de Finanzas Públicas (2021).

<sup>6</sup> Despite this increase, which brought the public sector debt from 22.9% of GDP in 2019 to 33.6% in 2020, the Bank (2021) reports that an average country in the region went from 58% to 72% of GDP in the same period.

<sup>7</sup> IDB. 2021 Latin America and Caribbean Macroeconomic Report.

<sup>8</sup> INE Paraguay.

<sup>9</sup> [MF. Consultora Paraguay](#).

services, manufacturing, and construction sectors.<sup>10</sup> Regarding fiscal performance, in 2021 the consolidation process began, reducing the deficit from 6.1% of GDP in 2020 to 3.6% of GDP, with a gradual phasing out of pandemic-related emergency social spending (which fell to less than half the 2020 level), partially offset by increased spending for the procurement of health supplies. The year 2022 began with growth expected to be nearly 4% of GDP, but with downward risks from exogenous shocks, such as the new drought episode from the La Niña phenomenon, coupled with the uncertainty created by the military conflict in Europe (which is also worsening inflationary pressures because of its impact on raw materials markets), and these phenomena are likely to impact the fiscal deficit, which was initially projected at 3% of GDP.<sup>11</sup>

**Table 1. Select Economic Indicators**

Indicators	2017	2018	2019	2020	2021
Real GDP growth (% change)	4.8	3.2	-0.4	-0.6	4.2*
Unemployment (% economically active population)	5.2	5.6	5.7	7.2	6.8
Inflation (end of period and in %)	4.5	3.2	2.8	2.2	6.8
Total income (% GDP)	14.2	14.1	14.2	13.5	13.5
Tax revenue (% GDP)	9.9	10.0	10.0	9.4	9.6
Total expenditure (% of GDP)	15.3	15.4	17.0	19.7	17.1
Primary expenditure (% of GDP)	14.7	14.7	16.2	18.6	16.0
Central government fiscal balance (% of GDP)	-1.1	-1.3	-2.8	-6.1	-3.6
Public sector debt (% of GDP)	18.2	19.8	22.9	33.8	33.8

**Sources:** Prepared by the authors based on data from the Ministry of Finance for the central government, the Central Bank of Paraguay (BCP), and the National Statistics Institute (INE).

\*Preliminary figure.

## 2. The pandemic and the health crisis

- 1.6 From the outset, the Government of Paraguay took timely decisions based on the available evidence and implemented the right strategies to deal with the COVID-19 pandemic.<sup>12</sup> First, it focused on implementing measures like mandatory preventive isolation and quarantining of symptomatic cases and close contacts to slow, to the extent possible, the arrival of the virus and community transmission. This bought time for the public health system to build its response capacity by reorganizing services, expanding the number of hospital beds,<sup>13</sup> hiring health care workers, and

<sup>10</sup> Central Bank of Paraguay. Informe de Política Monetaria (December 2021).

<sup>11</sup> The fiscal deficit of 3% of GDP was approved on an exceptional basis in the 2022 General Budget of Paraguay, in line with the fiscal convergence plan to gradually return to the deficit ceiling under the Fiscal Responsibility Law (LRF) of 1.5% of GDP in 2024.

<sup>12</sup> Paraguay was the first country in the region to approve an unrestricted operation under the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), which was the first tranche in this programmatic series. Emergency Law 6524, adopted in March 2020, was that operation's main measure, and it contains many of the international good practices that guided the design of the Bank's proposal. See also the [International Monetary Fund \(IMF\)](#) memo discussing the Government of Paraguay's initial response to the pandemic.

<sup>13</sup> In 2020, 300 new public sector intensive care beds were added, increasing previous capacity by almost 100%. Data from the Ministry of Public Health and Social Welfare of Paraguay.



buying key supplies for combating COVID-19. The public budget for health rose from 2.3% of GDP in 2019 to 3.8% in 2020.<sup>14</sup>

- 1.7 Paraguay also substantially expanded its testing,<sup>15</sup> diagnostic, and case tracking capacity. The first tranche of this operation supported Paraguay's effective health response with measures such as preparing the National Response Plan for the Eventual Emergence of the Coronavirus and establishing an Emergency Operations Center. In the second half of 2020, it began to gradually de-escalate the mitigation measures initially taken, maintaining the social protection and individual health care and allowing the resumption of economic and social activities, including a gradual opening of the borders.<sup>16</sup>
- 1.8 Timely access to sufficient quantities of COVID-19 vaccines was a major challenge for Paraguay in early 2021, given the limited global supply. This likely contributed to hospitalizations and deaths reaching an average high in mid-2021. In this context, and with 100% occupancy of public hospital beds, Paraguay contracted more beds from the private sector with an investment of over US\$60 million and provided subsidies to buy medicines. The national vaccination campaign expanded in the second half of 2021, focusing on priority groups, such as health care workers, older adults, and persons with comorbidities. As indicated in paragraph 1.3, today Paraguay's level of persons who are fully vaccinated is below the regional average, despite vaccines being available throughout the country and efforts to boost rates, particularly among high-risk groups.
- 1.9 The pandemic has been a driver for increased health investment in Paraguay and heightened institutional consolidation of the sector, including strengthening of epidemiological surveillance and health inspection, by updating guides and protocols, boosting the capacity of the public laboratory network, and increasing surveillance in border areas. This operation supports the permanent functioning of the Emergency Operations Center in the Ministry of Public Health and Social Welfare, the establishment of which was supported under the first operation, and the publication of the National Epidemiological Surveillance System's updated national disease surveillance and control guide.
- 1.10 For the future, the health system still faces significant challenges, and the Bank is supporting addressing these. Fragmentation among subsystems (public, private, and social security) creates inefficiencies and inequality; the limited coverage of primary health care (33% of the population) affects health promotion and disease prevention; while the scant use of information systems for timely decision-making affects the efficiency and effectiveness of health care.<sup>17</sup> Capacity to detect and respond to public health events needs to continue to be bolstered through stronger epidemiological surveillance points, better information systems, and increased

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<sup>14</sup> Ministry of Finance, Financial Reporting (SPIR) Portal.

<sup>15</sup> It went from just 35 tests per day in March 2020 to over 6,000 one year later.

<sup>16</sup> [Pan American Health Organization \(2021\)](#).

<sup>17</sup> The Program to Strengthen Comprehensive Integrated Health Services Networks Based on Primary Care ([4872/OC-PR](#) adopted in 2019 for US\$45 million), which is pending approval by the National Congress, will support expanding primary healthcare coverage.

diagnostic capacity, among other things.<sup>18</sup> More information is also needed on the status of indigenous peoples, whose health indicators are well below the rest of the population ([optional link 2](#)).

### **3. Public policy and fiscal management challenges during the pandemic**

- 1.11 In the first stage of the pandemic, Paraguay faced major immediate response challenges, underscoring the need to: (i) generate and redirect fiscal resources to address the crisis, giving priority to health needs and support for the vulnerable population; (ii) ensure transparency in the use of resources channeled to the emergency; and (iii) manage the resources in an agile, efficient manner, including reducing the cost of critical health supplies.<sup>19</sup>
- 1.12 To respond to these challenges, the Government of Paraguay, through Emergency Law 6524, prepared a full, well-timed package of measures, reflected in the first operation in this programmatic series. To generate and redirect resources to address the crisis, among other steps, budget appropriations were reallocated to address the health emergency, a financing envelope was approved for emergency measures and to address the economic effects of the crisis, and a Health Emergency Fund was created for pandemic-related emergency social spending. This special mobilization of public resources required temporarily suspending implementation of the macro fiscal rules.
- 1.13 Emergency funds to allay the effects of the pandemic were provided and executed in parallel with implementing measures to ensure those funds were spent properly. In the legislature, a bicameral committee was created to supervise COVID-19-related spending. The government, in turn, deployed the “Rindiendo Cuentas” public portal for accountability,<sup>20</sup> which reports spending on the health emergency. In addition, a technical team from the National Anticorruption Secretariat (SENAC) and the Office of the Auditor General of the Executive Branch has periodically issued an accountability report presented by State agencies and entities. Moreover, to manage resources in an agile and efficient manner, it was provided that the National Public Procurement Directorate (DNCP) would adopt simplified, expedited measures for emergency-related procurements; and tariffs were reduced for large quantities of health supplies—a measure that remains in place.
- 1.14 For this second operation, measures are planned that will help to gradually roll back the temporary fiscal stimulus provided during the pandemic, in order to consolidate fiscal sustainability, after the deficit and debt expanded in 2020-2021, along with the adoption of accountability measures in the use of public resources, and actions making the increased efficiency and transparency in public procurement sustainable. These include: (i) containing the spending of State

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<sup>18</sup> Technical cooperation operation, Support for the Strengthening of Health Surveillance in Paraguay ([ATN/KP-18680-PR](#) approved in 2021), promotes improving epidemiological surveillance and health inspection capacity (paragraph 1.27).

<sup>19</sup> [Harmonized System Classification Reference for COVID-19 Medical Supplies](#), according to the World Customs Organization.

<sup>20</sup> The [portal](#) includes the contracts, names of the companies awarded contracts, a section for reporting irregularities, and access to the registry of sworn statements from civil servants.

agencies and entities, particularly on consumer goods, following growth in the latter for the procurement of health supplies during the pandemic; (ii) strengthening the macro fiscal institutional framework, by sending to Congress a bill to strengthen the fiscal institutional framework,<sup>21</sup> along with developing macro fiscal models and analyzing fiscal risks and contingent liabilities, which allow for better macro fiscal planning, including the risks stemming from climate change; (iii) SENAC implementing complaint mechanisms related to the use of public resources, including those set out in the Emergency Law; and (iv) implementing the electronic bidding module, to improve the efficiency and transparency in purchasing public services and goods.

#### 4. The pandemic and its effects on household and business income

- 1.15 Both locally and globally, the COVID-19 pandemic had a significant impact on households and families through job loss, reduced income, interruptions in access to services,<sup>22</sup> and higher prices for basic necessities.<sup>23</sup> This entailed a jump in the unemployment rate of over 8% in the first half of 2020—a rate that has fallen but has not returned to pre-pandemic levels,<sup>24</sup> primarily impacting women (59% of the unemployed). This is coupled with the high rate of informality that characterizes labor in the country. In mid-2021 it stood at 65.1% of the total workforce—one of the highest rates in the region, particularly among women and older adults in rural areas, and among construction and domestic workers.<sup>25</sup> In addition, 80% of informal workers earn below the minimum wage.
- 1.16 To cushion the impact of the crisis on the income of the poorest households, the government strengthened permanent social programs, such as the *Tekoporã*<sup>26</sup> conditional cash transfer program, which made two additional payments to nearly 165,000 beneficiaries. The *Pytyvõ* emergency transfer program for informal workers was also implemented, reaching 1.1 million beneficiaries, together with the *Ñangareko* food security program, which reached 260,000 families not covered by another social protection program. Preliminary estimates suggest that *Pytyvõ*, together with the maintenance allowance, older adult, and *Tekoporã* programs,

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<sup>21</sup> The bill on “Strengthening the Fiscal Institutional Framework” which seeks to fine-tune the current Fiscal Responsibility Law, has proposals including the inclusion of a rule limiting the public debt; a period of convergence for the gradual return to the fiscal rules; the creation of a sovereign fund; and strengthening the institutional structure of the Advisory Fiscal Council. The government sent the bill to Congress in December 2020, and it will seek to have it adopted once the state of emergency concludes and the current high international macroeconomic volatility declines, implementing in the meantime both the gradual reduction of the deficit towards the target of the current LRF.

<sup>22</sup> For women, the loss of income was coupled with a higher burden of unremunerated care and increased domestic violence against a backdrop of fewer available services (see [optional link 2](#)).

<sup>23</sup> [World Bank \(2021\)](#).

<sup>24</sup> In the fourth quarter of 2021, the unemployment rate was 6.8%, while in the fourth quarter of 2019 it was 5.7%.

<sup>25</sup> The INE report on informality indicates that: 66.2% of women hold informal jobs; 74.9% of the population over age 65 is in the informal sector; three in five informal workers are in rural areas; and 94.1% of domestic workers are in the informal sector, as are 87.3% of construction workers.

<sup>26</sup> The Ministry of Social Development has implemented this social program since 2005, to protect and promote families living in poverty and vulnerability. Its main objective is to improve quality of life for the participating population, facilitating the exercise of their rights to: food, health, and education, through increased use of basic services and stronger social networks, to break the intergenerational transmission of poverty.

prevented more than 230,000 persons from falling into poverty.<sup>27</sup> The [Gender and Diversity Annex](#) presents information on the coverage of these programs, broken down by gender.

- 1.17 One of the main implementation challenges for *Pytyvõ*, the largest cash transfer program in Paraguay's history, was the absence of a single registry of individuals and households living in poverty or vulnerability, together with updated, interoperable databases. The government had to resort to verifying data manually to confirm the eligibility of potential beneficiaries registered through a system created specifically for that purpose. It was checked against police records, lists of civil servants, and records of beneficiaries of other social programs, among other things, to reduce inclusion errors. An estimated 85% of households benefiting from the emergency programs had not received government assistance before the pandemic.<sup>28</sup> This highlighted the need to move forward with building a social protection system in Paraguay that would make it possible to eliminate duplications and boost the effectiveness of existing programs, primarily aimed at reducing structural poverty, and that has dynamic tools and data to respond quickly and efficiently to external or internal shocks, to reduce transitory poverty.
- 1.18 The government increased investment in public works and low-income housing. In the meantime, focusing on alleviating the liquidity problems that tend to affect MSMEs more acutely given their more limited access to finance, the government reduced value-added tax (VAT) rates on select products and delayed payment of corporate income tax by three months.<sup>29</sup> The creation by the Social Security Institute of Guarantee Funds for MSMEs, the establishment of a fund to address illness, and a fund to cover the temporary dismissal of workers also contributed to that end.<sup>30</sup>
- 1.19 The first operation supported temporary income protection measures for vulnerable households and increasing the liquidity of companies during the health and economic crisis. The second operation supports rolling back special outlays, to prevent temporary spending from becoming permanent—a key lesson from the 2009 international crisis; it also supports the plan for developing the Integrated Social Information System (SIIS), to better target social spending; and the entry into force of a regulatory instrument establishing the social protection system as a priority public policy, approving its strategic framework, and providing for its implementation. In addition, given the pandemic's disproportionate impact on women and other diverse groups,<sup>31</sup> the program includes a set of measures for strengthening public policy on gender and diversity, to make efforts to protect and promote opportunities for women and indigenous peoples sustainable. These measures include promoting the National Care System and monitoring government investment in reducing gender gaps, as part of the results-based budgeting strategy; the first National Survey on the Status of Women, which is a key tool for improving the design of public policy on gender-based violence; and the pilot of the Fourth Indigenous Census, which is a prerequisite for preparing that

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<sup>27</sup> INE, 2020. Principales Resultados de Pobreza Monetaria y Distribución de Ingresos – 2020.

<sup>28</sup> [World Bank \(2022\)](#).

<sup>29</sup> IMF, 2021. Paraguay. Staff Report for the 2020 Article IV Consultation.

<sup>30</sup> [World Bank \(2021\)](#).

<sup>31</sup> [El COVID-19 hace retroceder los avances en el bienestar de las mujeres y las poblaciones diversas](#).

Census. The [Gender and Diversity Annex](#) addresses each of these topics in greater detail. Lastly, the operation calls for preparation of a draft bill creating the special social security regime, aimed at promoting formalization of employment.<sup>32</sup>

## **5. Public finance during post-pandemic recovery**

- 1.20 To maintain the pace of reforms and anticipate measures for consolidating fiscal sustainability and economic recovery in the post-pandemic period, the first project supporting setting up a strategic interagency team (Country Reform Team) to analyze State reforms in various sectors, including public health, education, and social, fiscal, and institutional protection.<sup>33</sup>
- 1.21 This operation supports the sustainability and equity of the Public Sector Retirement and Pension System (Caja Fiscal). That system encompasses all public sector workers, including the civilian program (made up of the public administration, university professors, judicial magistrates, and national teachers) and the non-civilian sectors (military and national police) and is run by the Ministry of Finance's Retirement and Pension Bureau (DGJP). In recent years, there has been an increase in the overall deficit of the Caja Fiscal. According to Ministry of Finance data for 2021,<sup>34</sup> the global deficit reached around US\$150 million (0.4% of GDP) at the close of 2020, of which 90% corresponded to the non-civilian sector. All the foregoing means that the Caja Fiscal's financial situation represents a risk to public finances, since transfers of Treasury resources will continue to rise in the coming years and are estimated to reach around 2% of GDP by 2056, with a present value of flows until 2056 of 27% of 2020 GDP ([optional link 3](#)). This also reflects inequities within the Caja Fiscal, given differences between sectors in terms of requirements for accessing pension benefits, despite all contributors having a contribution rate of 16% of income. To address these challenges, the government will submit a bill to Congress aimed at making the Caja Fiscal more sustainable. It could include adjustments to parameters such as the minimum regular retirement age and the contribution rate for public sector unions, subject to analysis and with an emphasis on equity in benefits.
- 1.22 It also supports the implementation and gradual expansion of the National Integrated Electronic Invoicing System (SIFEN), by making its use mandatory for different groups of taxpayers. In international experience, this reduces compliance costs and promotes business formalization; facilitates tax control; and contributes

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<sup>32</sup> The draft bill includes policy and tax administration measures that reduce the cost of compliance with social security obligations for specific segments, such as MSME workers and independent workers, promoting the labor formalization of workers excluded from the social security system. It includes the creation of a simplified regime that reduces the cost of compliance with labor obligations.

<sup>33</sup> The two measures prioritized by the Country Reform Team, related to presenting to Congress different bills to reform the civil service and redesign public institutions, were originally included as triggers for this second operation in the programmatic series, although in coordination with the counterpart it was decided they would be supported by loan 5480/OC-PR, Program to Support Transformation of the State (paragraph 1.28), since they better contribute to that operation's vertical logic.

<sup>34</sup> Ministry of Finance (2021), Informe de las Finanzas Públicas de la República del Paraguay, Proyecto de Presupuesto General de la Nación 2022. In the period 2016 to 2020, the total Caja Fiscal deficit was US\$965 million.



to the climate change agenda by saving paper and saving the cost for taxpayers to physically send in invoices, and the costs of tax administration auditors.<sup>35</sup>

- 1.23 Lastly, it continues the sustained institutional consolidation of Paraguay's National Public Investment System (SNIP), supporting measures related to implementing the Public Investment Law: the regulations of the Preinvestment Fund (FOPREP), which is one-of-a-kind in the region in setting aside a fraction of the execution of all public investment projects (0.5%) for that fund, aimed at allocating resources to improve the quality of formulation of public investment projects, and preparation of the first proposed Investment Plan of Paraguay, together with a protocol for updating it, that seeks to strategically guide the allocation of public investment resources based on government priorities and infrastructure gaps.

- 1.24 **The Bank's experience in the region and lessons learned.** The IDB Group has supported the region through various types of crises to mitigate their immediate effects and design reforms for the recovery period. Bank support varies depending on the nature of the crisis.<sup>36</sup> In the context of the pandemic, the lessons learned that guide the Bank's work and apply to this programmatic series include: (i) the flexibility and simplification of preparation processes, incorporating international good practices in the emergency response; (ii) the initial attention focused on the response to the crisis caused by the pandemic, providing for reforms to consolidate fiscal sustainability and the economic recovery in the post-pandemic period, including rolling back the temporary income support for households and firms; and (iii) multisector technical support for the design of plans and reforms to promote inclusive growth, based on the best available evidence and in coordination with other international agencies. From the outset of the pandemic, the Bank has approved 18 operations for US\$3.520 billion between emergency operations and unrestricted fiscal management and public policy operations. The present programmatic series was the first to begin unrestricted Bank support to respond to the pandemic, in the context of the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996); and this operation is the third to move on to the second loan in the programmatic series, following operations in Uruguay ([5420/OC-UR](#)) and Jamaica ([5499/OC-JA](#)). The Bank has also provided extensive support to countries in their reform processes to improve tax policy and administration, public expenditure quality, and the strengthening of fiscal sustainability.<sup>37</sup> In addition, the Bank has extensive experience in and knowledge of pension and social security issues in Paraguay and the region ([optional link 4](#)). In the area of health, the Bank has experience in programs and initiatives that

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<sup>35</sup> See Bank publication: Factura electrónica en América Latina.

<sup>36</sup> The first contingent financing instrument for natural disasters was the Contingent Credit Facility for Natural Disaster Emergencies. Examples include the Dominican Republic ([DR-X1003](#) approved in 2009 for US\$100 million), Honduras ([HO-X1016](#) approved in 2011 for US\$100 million), and Ecuador ([EC-X1014](#) approved in 2014 for US\$300 million) (document RE-496-1). In light of the pandemic, the Contingent Credit Facility was adjusted to support the countries in facing health crises, with eight such operations approved for US\$1.987 billion, including operation PR-O0006 for Paraguay, approved in 2020 for US\$250 million.

<sup>37</sup> The most recent policy-based loan programs include the Program to Deepen Fiscal Reform in Colombia ([4552/OC-CO](#) approved in 2018 for US\$600 million), the Program to Support Fiscal Sustainability in Costa Rica ([4819/OC-CR](#) approved in 2019 for US\$350 million), and the Finances for Sustainable Development Program in Paraguay ([4667/OC-PR](#) approved in 2018 for US\$300 million). This present project continues key reforms begun under the latter operation, such as implementation of electronic invoicing and proposing an impact assessment to strengthen evidence on its effectiveness in terms of collections.

prevented and provided better control of various communicable diseases, including malaria, Zika, and other infectious diseases in Latin America and the Caribbean. Lastly, the Bank also has experience in other emergency situations, such as restoring basic service infrastructure in areas hit by earthquakes.<sup>38</sup>

- 1.25 **The Bank's value-added, operational work, and technical support in the country.** This operation would complete the programmatic series, which is a key milestone for achieving its objectives. In this way, it seeks to contribute to fiscal and economic recovery following the immediate emergency response, providing continuity and depth to Paraguay's reform agenda. In addition, policy-based loans (PBLs) to respond to the health emergency are marked by their multisector contribution. Thus, this operation integrated Bank support, in nearly all the policy measures, provided through a range of loans, technical cooperation operations (TCs), and direct work, on fiscal management and policy, transparency and integrity, health, social protection, and pensions. It also establishes future work agendas for implementing the measures and making them sustainable, including in the crosscutting priorities of climate change mitigation and adaptation, and integrating gender and diversity in fiscal management. The paragraphs below detail how this operation fits into the multisector support the Bank has been providing the Government of Paraguay, and this is summarized in the infographic in [optional link 6](#).
- 1.26 In fiscal management and policy, this operation furthers the Public Finance for Sustainable Development policy-based loan ([4667/OC-PR](#) approved in 2018 for US\$300 million) which finished disbursing in 2020; and the Investments in Public Finances for Sustainable Development investment loan ([4671/OC-PR](#) approved in 2018 for US\$25 million),<sup>39</sup> which is in execution and was approved simultaneously with PBL [4667/OC-PR](#) to implement several measures promoted by that operation. The PBL supported improvements to the macro fiscal institutional framework, in areas such as designing a stabilization fund, strengthening the Advisory Fiscal Council, and improving the medium-term fiscal framework. It also supported the passage and regulation of the public investment law; while the investment loan ([4671/OC-PR](#)) is supporting implementation of electronic invoicing and the electronic bidding module for public procurement,<sup>40</sup> measures which this operation continues. Measures related to the fiscal risk and contingent liabilities report and implementation of the public investment law are supported by the regional technical-cooperation operation, Support to Deal with the Economic and Social Effects of COVID-19 through the Strengthening of Fiscal Policy and Management in the Southern Cone ([ATN/OC-18056-RG](#), a TC for research and dissemination for US\$625,000), designed to support the Southern Cone countries in their efforts to strengthen fiscal management and policy to respond to the pandemic.

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<sup>38</sup> In 2016, the Bank supported Ecuador in restoring infrastructure and basic services in earthquake-affected areas through various instruments ([EC-X1014](#) approved in 2014 for US\$300 million; [3751/OC-EC](#) approved in 2016 for US\$19.72 million; [3906/OC-EC](#) approved in 2017 for US\$60 million; and [ATN/JF-15752-EC](#) approved in 2016). Other examples include support for Haiti in 2010 and for El Salvador following the 2001 earthquake.

<sup>39</sup> It was ratified in January 2021, and implementation began in August 2021, with 8% disbursed to date.

<sup>40</sup> The investment loan, Digital Agenda Support Program ([4650/OC-PR](#) approved in 2018 for US\$130 million; it was ratified in May 2019; execution began in December 2019, and 13% has been disbursed to date), also supports specific modules of the public procurement information system being developed by the DNCP.

- 1.27 In the area of health, the technical cooperation operation, Support for Strengthening Health Surveillance in Paraguay ([ATN/KP-18679](#), [ATN/KP-18680-PR](#) an operational support TC for US\$540,000), promotes building the epidemiological surveillance and health inspection capacity, which will benefit from the measures related to the operation of the Emergency Operations Center and updating of the national disease control and surveillance guide. In terms of social protection, the technical cooperation operation, Support for the Establishment of a Social Protection System in Paraguay ([ATN/OC-17404-PR](#) a client support TC for US\$250,000), supports preparation of the Master Plan on the reconversion and architecture of the SIIS. Regarding transparency and integrity, the technical cooperation operation, Strengthening the Integrity Agenda in Paraguay ([ATN/OC-17502-PR](#) an operational support TC for US\$150,000), supported SENAC in improving its website to implement complaint mechanisms, including those set out in the Emergency Law. With respect to diversity, the loan for the Program to Strengthen the National Statistics System of Paraguay ([5224/OC-PR](#) approved in 2021 for US\$43 million)<sup>41</sup> will finance conducting the Indigenous Census. In terms of pensions, the technical cooperation operation, Program to Support the Ministry of Finance in the Institutional Strengthening of the Pension System ([ATN/OC-17375-PR](#) a client support TC for US\$198,000), has been financing actuarial studies that serve as input for the present operation, diagnostic assessments, and institutional and regulatory proposals that helped prepare the bill aimed at making the Caja Fiscal more sustainable. In addition, the loan, Program for the Institutional Strengthening of Ministry of Finance Pension Systems ([4896/OC-PR](#), approved in 2019 for US\$20.6 million, signed in August 2021, and in the process of being ratified by the legislature), seeks to support efficient operational management of the Caja Fiscal. The Bank also contributed technical expertise and international experience to design the measures in the Policy Matrix, including the macro fiscal risk model, the National Care Policy, monitoring gender-focused budget execution, and the draft bill aimed at promoting formalization of employment.
- 1.28 **Complementarity with other Bank operations.** Following approval of the first operation under this program, the Bank completed the programmatic series, Program to Support the Transparency Agenda in Paraguay ([4866/OC-PR](#), approved in 2019 for US\$90 million and [5244/OC-PR](#) approved in 2021 for US\$250 million, both disbursed), which complements the present operation in strengthening SENAC and other transparency measures related to investment and public procurement. Also regarding transparency, the technical cooperation operation, Support for Strengthening of Supreme Audit Institutions ([ATN/AA-18179-RG](#), [ATN/OC-18180-RG](#) client support TC for US\$450,000), is supporting modernization of the Office of the Comptroller General's complaint mechanism. In addition, the Bank launched the programmatic series, Program to Support the Transformation of the State ([5480/OC-PR](#) approved in 2022 for US\$200 million, signed in May 2022, and in the process of being ratified by the legislature), which complements the present operation on issues of public

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<sup>41</sup> It was ratified in December 2021; execution began in March 2022; and 21% has been disbursed to date.



procurement, primarily by promoting a public procurement and supply law.<sup>42</sup> It is expected to further the fiscal management and climate change agenda, including the measures in this operation that are aligned with that agenda, through the technical cooperation operation, Fiscal Policy on Climate Change: Support for Ministries of Finance in Latin America and the Caribbean ([ATN/OC-19028-RG](#) a client support TC for US\$650,000), and to do so on gender and diversity through the technical cooperation operation, Gender and Diversity Mainstreaming in the Fiscal Area ([ATN/OC-18751-RG](#) a research and dissemination TC for US\$200,000).

- 1.29 **Coordination with other donors.** While preparing this operation, the Bank coordinated with the International Monetary Fund (IMF), the World Bank, and the Development Bank of Latin America (CAF), under the leadership of the Ministry of Finance, in order to complement efforts. In 2022, the World Bank plans to approve a PBL for US\$200 million aimed at supporting reforms related to environmental sustainability and climate change mitigation. In turn, in 2022 the CAF is planning a US\$300 million PBL to support strengthening fiscal policy and improving public spending. The IDB coordinated with the IMF and World Bank on the initial design of the programmatic series in 2020, and the current operation continues the fiscal risk management support from both institutions.<sup>43</sup> The CAF, in turn, supports certain measures in the bill on strengthening the fiscal institutional framework;<sup>44</sup> this operation supports that draft bill as a whole; there is also Bank technical assistance for its formulation; it was included as a trigger in the first operation in this programmatic series; and no overlap has been found with the measures supported by the present operation. Regarding other donors, the Bank coordinated with the European Community (EC) in the context of the nonreimbursable support the latter is providing the Ministry of Women to promote the National Care Policy and the social protection system; and it supported preparation of SENAC's website for lodging complaints with the United States Agency for International Development (USAID).
- 1.30 **Pending challenges and gaps.** The depth of many of the policy conditions in this operation reflects the Government of Paraguay's commitment to its reform agenda, particularly given the priority being given to this in the final stretch of the current administration.<sup>45</sup> Thus, after completing the programmatic series, several measures will need to be pursued, to ensure they are continued and deepened (see infographic in [optional link 6](#)). This includes monitoring legislative approval of the bills included in the Policy Matrix and their subsequent implementation. It also

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<sup>42</sup> The two operations tackle improvements in the main dimensions of technical efficiency and effectiveness in allocating spending highlighted in the Bank's flagship report, Development in the Americas (DIA) 2018 [Better Spending for Better Lives](#), namely personnel, public procurement, targeting subsidies and public investment, which underscores the Government of Paraguay's commitment to the agenda to improve expenditure quality.

<sup>43</sup> Technical report on fiscal risk management prepared by the IMF; and a Ministry of Finance resolution instructing the Undersecretariat of State for the Economy, through the Macro-Fiscal Policy Bureau, to coordinate the preparation and annual publication of the Fiscal Risk Report, a measure supported by the World Bank in the PBL planned for this year.

<sup>44</sup> These measures include incorporating characteristics into the fiscal rules that improve their functioning and compliance; strengthen countercyclical fiscal policy instruments; and promoting information and feedback mechanisms on the performance of public finances.

<sup>45</sup> The president's five-year term runs until August 2023, and the general elections will be held in April 2023.

calls for a mitigation and adaptation agenda for the fiscal risks of climate change, particularly based on the work strategy stemming from the fiscal risk and contingent liabilities report. It also presents the opportunity to comprehensively address the contribution that fiscal management and policy make to gender and diversity issues, deepening the Ministry of Finance's involvement in the sector. There are also important work agendas the Bank must continue to support in fiscal management, healthcare support, transparency and integrity, social protection, retirement and pensions, and public investment, among others.

- 1.31 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the development challenge of social inclusion and equality, through measures to ensure essential health services are maintained in order to overcome the health crisis and through support to maintain minimum levels of income and wellbeing among the population most vulnerable to COVID-19. It is also aligned with the following crosscutting themes: (i) Institutional Capacity and Rule of Law, by strengthening fiscal management and policy to tackle the health, economic, and social crisis, by helping to promote transparency and integrity by implementing mechanisms for complaints regarding the use of public resources and implementation of the electronic bidding module for purchasing public goods and services; (ii) Gender Equity and Diversity, by adopting measures to strengthen public policy on gender, for example, by designing and implementing a methodology for monitoring budget execution in gender-focused programs and activities; and diversity, by conducting a pilot test to evaluate procedures for conducting the Indigenous Census; and (iii) Climate Change, including measures that contribute to climate change adaptation and mitigation (paragraphs 1.36 and 1.38). According to the [Joint Report on Multilateral Development Banks' Climate Finance](#), 14.29% of the proceeds from the operation will be invested in climate change adaptation activities, through three measures that enhance the country's institutional capacity to respond to the risk of natural disasters and contribute to the digitalization of services. It will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator on institutions with enhanced digital technology and managerial capacity.
- 1.32 The program is aligned with four of the five strategic targets in the IDB Group's Vision 2025, Reinvent in the Americas: A Decade of Opportunity (document AB-3266), strengthening the Bank's work on gender and diversity, climate change, support for MSMEs, and the digital agenda. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) in the area of strengthening public sector management and tax administration; and it is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), which underscores the importance of institution-strengthening to improve the quality of public expenditure, as well as fiscal equity and social inclusion. It is consistent with the Health Sector Framework Document (document GN-2735-7), in particular by supporting the challenge of financial and fiscal sustainability in health spending. It is also consistent with the Labor Sector Framework (document GN-2741-12), which highlights the need to create inclusive, equitable, and sustainable social security systems. The operation is aligned with the Country Strategy with Paraguay 2019-2023 (document GN-2958), in particular with the strategic areas of public management and institutions, and human capital

and living conditions, and with the strategic objectives of increasing mobilization of public and private resources for development and improving the coverage and quality of social services, respectively. Lastly, the operation is included in the 2022 Operational Program Report (document GN-3087).

## **B. Objectives, components, and cost**

- 1.33 **Objective.** The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in Paraguay in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are to: (i) promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) promote economic and fiscal recovery during the post-pandemic period.
- 1.34 This is the second operation in a PBP series,<sup>46</sup> made up of two contractually independent but technically related loans. For this second operation, the majority of the triggers identified at the outset of the series are strengthened, with a focus on gradually rolling back the temporary stimulus from the first operation and pursuing and deepening measures aimed at post-pandemic fiscal and economic recovery in Paraguay. Component 2 recognizes the Government of Paraguay's commitment to fiscal responsibility following the fiscal expansion to address the pandemic, the effects of which are not over, introducing new measures to the original triggers that bolster that commitment. It also seeks to make the improved health management sustainable and promote timely, transparent execution of public resources, particularly those that are pandemic-related. Component 3 highlights the gradual reduction in special outlays related to the extraordinary social measures stemming from the state of emergency that were introduced in the first operation; it continues the work to strengthen the SIIS, as part of the social protection system, the consolidation of which it also supports; introduces a set of measures that comprehensively reflect the gains Paraguay made in strengthening public policy on gender and diversity, to make efforts to promote and protect opportunities for those segments of the population sustainable; and introduces a measure to promote labor formalization of workers excluded from the social security system, in the context of the post-pandemic recovery. Lastly, Component 4 replaces the original triggers with measures more aligned with that component's objective, linked to economic and fiscal recovery in the post-pandemic period, on the fiscal sustainability of the Caja Fiscal; improves tax collection by implementing electronic invoicing; and strengthens management of public investment. These adjustments do not affect the objectives of the operation or of the programmatic series. The paragraphs below and [optional link 1](#) provide a detailed explanation of the policy matrix and modifications of the original triggers. The program is divided into the following components:

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<sup>46</sup> Policy-Based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), Section II, Definition and Objective of Policy-Based Loans.

- 1.35 **Component 1. Macroeconomic stability.** The objective of this component is to ensure the maintenance of a macroeconomic context consistent with program objectives as set forth in the policy matrix and [sector policy letter](#).
- 1.36 **Component 2. Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19.** This second operation replaces trigger 2.1, since the state of emergency related to the pandemic was extended until June 2022; and introduces conditions 2.2 (ii) and (iii) to comprehensively reflect condition 2.1 and 2.2 (i), the commitment of the Government of Paraguay to fiscal sustainability, following the fiscal expansion to address the pandemic. It also has triggers similar to those originally planned, aimed at strengthening health management and promoting timely, transparent execution of public resources, particularly pandemic-related resources. Disbursement of the loan proceeds will be subject to fulfillment of the following measures: (2.1) there are measures aimed at containing the spending of State agencies and entities, primarily for consumer goods; (2.2) the following measures have been taken to strengthen the macro fiscal institutional framework: (i) submittal to Congress of a bill on strengthening the fiscal institutional framework, aimed at promoting fiscal recovery in the post-pandemic period; (ii) preparation of a macro fiscal risk model that includes drought and flood risks associated with climate change; and (iii) preparation of a fiscal risk and contingent liability report, including risks stemming from climate change and options for managing them; (2.3) the Emergency Operations Center is operating; (2.4) the update to the National Epidemiological Surveillance System's national disease surveillance and control guide has been published; (2.5) SENAC has implemented complaint mechanisms related to the use of public resources, including those set out in the Emergency Law; and (2.6) the electronic bidding module for the procurement of public goods and services by the national government has been implemented, which will speed up bid submission and evaluation times, boost transparency, and obviate in-person tendering.
- 1.37 **Component 3. Strengthening public policy and fiscal management to respond to the economic crisis.** This operation introduces a new condition (3.1) that strengthens the component's objective to roll back the special social spending needed during the pandemic, thereby continuing measures 3.1 and 3.2 from the first operation that supported implementation of those expenditures. It replaces the original trigger on entry into force of the guideline establishing the SIIS, also reflecting the progress made through preparation of the Master Plan on the reconversion and architecture of the SIIS. It also adds a set of measures for strengthening public policy on gender and diversity, comprehensively reflecting the progress Paraguay has made in this area, to provide sustainability to efforts to protect and promote opportunities for these segments of the population. Lastly, it replaces the original trigger related to preparing a document with guidelines for tailoring the tax reform to the post-pandemic period, through a more relevant measure related to recovery in the post-pandemic period, which is a draft bill aimed at improving incentives for formalizing the employment of workers excluded from the social security system. Disbursement of the loan proceeds will be subject to fulfillment of the following measures: (3.1) the special outlays related to the exceptional measures stemming from the state of emergency have been reduced; (3.2) the Master Plan on the reconversion and architecture of the social protection

system's SIIS has been prepared; (3.3) the normative instrument establishing the social protection system as a priority public policy is in force, approving its strategic framework and providing for its implementation; (3.4) the following measures have been taken to strengthen public policy on gender and diversity: (i) approval of the proposed National Care Policy by the Inter-agency Group to Promote Formulation of the National Care Policy (GIPC) of Paraguay, aimed at improving the wellbeing of dependent people and promoting co-responsibility between men and women and between sectors of society; (ii) design and implementation of a methodology that makes it possible to identify and monitor budget execution in gender-focused programs and activities, as part of the results-based budgeting strategy; (iii) conducting the National Survey on the Status of Women to improve the design of public policy on gender violence; and (iv) conducting a pilot test aimed at evaluating the procedures designed for conducting the Indigenous Census and offering recommendations, in the context of the National Population and Housing Census; and (3.5) preparation of a draft bill creating the special social security regime, aimed at promoting the formalization of employment.

- 1.38 **Component 4. Economic and fiscal strengthening for the post-pandemic period.** This component coordinates fiscal sustainability measures, improves collection, and strengthens public investment management, in line with the component's objective of promoting economic and fiscal recovery in the post-pandemic period. Thus, it replaces the component's two original triggers on sending various bills to Congress on civil service reform and redesigning public institutions<sup>47</sup> with a condition that is better aligned with the component's objective, related to addressing one of Paraguay's main fiscal sustainability challenges, namely reforming the Caja Fiscal. It introduces a new measure that includes the expansion of electronic invoicing, thereby helping to boost post-pandemic fiscal receipts and reducing the cost of compliance (which promotes labor formalization); and supporting the climate change agenda by saving paper and lowering the cost for companies of sending invoices. It introduces another measures that reflects the continuation of Bank support for the Government of Paraguay in improving public investment management. Disbursement of the loan proceeds will be subject to fulfillment of the following measures: (4.1) a bill has been sent to Congress aimed at improving the sustainability and equity of the Public Sector Retirement and Pension System (Caja Fiscal); (4.2) provision has been made for the implementation schedule and expanding the mandatory use of SIFEN, with a view to reducing compliance costs, saving on paper and sending items, and facilitating tax control; and (4.3) the following measures related to implementing the Public Investment Law have been provided for: (i) FOPREP regulations on allocating resources for formulating public investment projects; and (ii) preparation of the proposed Investment Plan and the protocol for updating it, to strategically guide the allocation of public investment resources.

### C. Key results indicators

- 1.39 The results matrix identifies the expected outcomes and outputs from implementing the policy measures promoted by the program as a whole and this second programmatic operation. The nature of the program, including the first

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<sup>47</sup> These measures are supported by loan 5480/OC-PR, because they better contribute to that operation's vertical logic.

operation in the programmatic series focused on supporting emergency measures, and a second operation that supports rolling back the temporary stimulus and supports fiscal and economic recovery, have required the results matrix to be revised.<sup>48</sup> The indicators for measuring the general objective are: (i) vaccination coverage in the total population; and (ii) the primary balance of the government as a percentage of GDP. The indicators for measuring the specific objectives are: (i) spending on consumer goods as a percentage of current expenditure; (ii) capacity dimensions of the International Health Regulations are strengthened; (iii) State agencies and entities in the executive branch that use the electronic bidding module; (iv) emergency pandemic-related social spending as a percentage of total social spending; (v) percentage of budget activities aimed at narrowing gender gaps; (vi) percentage of invoicing through SIFEN; and (vii) number of preinvestment studies to which FOPREP resources are allocated.

- 1.40 **Economic evaluation.** Based on the recommendations by the Office of Evaluation Oversight in its 2011 Evaluability Review of Bank Projects<sup>49</sup> and on the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (ECG), which comprises the independent evaluation offices of the multilateral development banks,<sup>50</sup> as provided for in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which indicates that an analysis of efficiency in the use of financial resources is unnecessary,<sup>51</sup> it was determined that an economic analysis would not be performed for this type of loan, as was reported to the Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis, and no such analysis is considered for purposes of measuring the evaluability score in the program's Development Effectiveness Matrix.
- 1.41 **Beneficiaries.** The direct beneficiaries of this operation are the citizens of Paraguay, particularly those in the most vulnerable sectors. This includes specific groups, such as women and indigenous populations, through gender and diversity measures; civil servants, through more efficient public procurement management; and companies as they join SIFEN, through lower tax obligation compliance costs. The positive

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<sup>48</sup> The following adjustments were made to reflect the advanced stage of the pandemic: at the general objective level, the original indicator on deaths was replaced by vaccination coverage. Regarding the specific objective of Component 2, the health emergency response indicators were replaced to reflect the containment of spending on consumer goods (mainly health supplies); the sustainable improvement in Paraguay's health capacity; and the contribution to transparency and efficiency in the use of public resources from the DNCP's electronic bidding module. Regarding the specific objective of Component 3, the indicators related to temporarily introducing income protection measures for vulnerable households and increase the liquidity of firms were replaced by the rolling back of pandemic-related emergency social spending, and monitoring budget allocations for narrowing gender gaps. With respect to the specific objective of Component 4, indicators were added to measure expansion of electronic invoicing coverage and start preparation of preinvestment studies with FOPREP resources.

<sup>49</sup> Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the CBA (cost/benefit analysis) and the CEA (cost-effectiveness analysis). Yet neither a CBA nor a CEA is applicable to PBLs and PBP's."

<sup>50</sup> *Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.*

<sup>51</sup> The Evaluation Cooperation Group calls for PBLs to be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because PBLs are sized according to the country's financing gap, independent of project benefits.

social effects identified are: (i) enhanced sustainability and predictability of fiscal management and policy, through a stronger macro fiscal institutional framework, more efficient public procurement, collections, and spending targeting, better allocation of public investment resources, and a more sustainable Caja Fiscal; (ii) heightened capacity in Paraguay to respond to health emergencies; (iii) greater formalization of employment, promoted by reducing the cost of complying with tax and social security obligations for taxpayers; and (iv) improved design of gender and diversity policies, by having quality information for decision-making, and promoting those policies through the National Care Policy.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Financing instrument.** This is the second operation in a programmatic series consisting of two contractually independent but technically linked loans, in line with the provisions of “Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The programmatic modality was chosen because: (i) it promotes ongoing policy dialogue between the Bank and the Government of Paraguay with the aim of providing continuous support during the pandemic and in the post-pandemic period; (ii) it facilitates adaptation based on lessons learned and findings from executing the first operation at a time of high uncertainty due to the pandemic; and (iii) it facilitates the development, fine-tuning, and implementation of fiscal and economic recovery plans, with a view to resuming growth with equity and fiscal sustainability in the post-pandemic period.
- 2.2 **Dimensioning.** This operation will be for US\$250 million, financed from the Bank’s Ordinary Capital. All proceeds will be released in a single disbursement. This amount is justified by the public sector’s financial needs and has no direct relationship to the cost of the program’s reforms, which is consistent with document CS-3633-2 (paragraph 3.27 (b)). This operation represents approximately 25% of the Government of Paraguay’s financing needs for 2022.<sup>52</sup>

### B. Environmental and social safeguard risks

- 2.3 Under Directive B.13 of the IDB’s Environment and Safeguards Compliance Policy (operational policy OP-703), no ex ante impact classification is required for this program. The operation supports the development of policies, standards, management tools, and other institutional strengthening actions, so no significant or direct adverse environmental and natural resource impacts are anticipated.

### C. Fiduciary risks

- 2.4 No fiduciary risks are identified for the operation. A financing instrument that does not call for procurements will be used. In addition, the operation’s proceeds will go directly to the Treasury Single Account in order to meet the Paraguayan government’s financing needs. To that end, the executing agency has the

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<sup>52</sup> Around two-thirds of the total financing gap would be covered with multilateral bank loans, and the remainder through issuances on the market.



necessary financial management tools and supervision systems. The resources will be disbursed once the policy measures set forth in the loan contract have been fulfilled.

#### **D. Other key issues and risks**

- 2.5 **Economic-financial environment risk.** One high risk is that, if negative external shocks persist, be it due to the emergence of a new COVID-19 variant, climate disasters, and/or global economic uncertainty from the military conflict in Europe, it could become necessary to maintain the emergency spending, which would affect the measures aimed at containing spending, reducing special outlays, and promoting fiscal recovery. To help mitigate this risk, the Bank will provide technical assistance, together with other international organizations (paragraph 1.29), to design and implement the main measures to contribute to fiscal and economic recovery in Paraguay, leveraging the proceeds from the loans in execution (notably [4671/OC-PR](#)) and technical cooperation operations (notably [ATN/OC-18056-RG](#)).
- 2.6 **Political environment risk.** One medium-high risk is that, if Congress does not approve the bills in the policy matrix or does so with substantial modifications, the objectives of those measures might not be met. To help mitigate this risk, the Bank is supporting the Government of Paraguay through technical assistance for designing sound, evidence-based bills that are aligned with international good practices. In addition, the Bank will provide ongoing support to the Government of Paraguay in preparing and implementing a communication campaign to accompany and provide an understanding of the importance of implementing the bills promoted under this operation.
- 2.7 **Sustainability.** The majority of the conditions in this operation have been fulfilled. Those still pending are being closely monitored by both the Bank and the Ministry of Finance and by the corresponding counterparts. In the case of the bills supported by this operation that have not yet been sent to Congress, the Ministry of Finance is firmly committed to doing so and, as indicated in the previous paragraph, mitigation steps are in place for the political environment risk of those bills not being approved or being approved with substantial changes. Lastly, as indicated in paragraph 1.30 and the infographic found in [optional link 6](#), in coordination with the Government of Paraguay, there are plans to leverage the knowledge and dedicated work of Bank staff, the technical cooperation operation, and other loans to further and deepen the reforms prioritized under this operation.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Paraguay. The borrower will execute the program through the Ministry of Finance's Debt Policy Division, in coordination with the Ministry of Public Health and Social Welfare (MSPBS), the Technical Unit of the Social Cabinet (UTGS), the National Statistics Institute (INE), and the Ministry of Women. The Ministry of Finance will have technical responsibility for program execution and agrees to: (i) maintain communication with the Bank and submit reports and evidence of fulfillment of the



operation's conditions, as well as any other report that the Bank requires, according to the agreed deadlines and terms; (ii) promote actions to achieve the program's policy objectives; and (iii) collect, record, and submit to the Bank all data, indicators, and metrics that help the Paraguayan government and the Bank monitor, measure, and evaluate the program's results.

- 3.2 **Coordination mechanism.** Responsibility for fulfilling the program's measures falls to the Ministry of Finance, as well as the MSPBS, the UTGS, the INE, and the Ministry of Women. The Ministry of Finance maintained a fluid dialogue with these entities during program preparation in order to define the policy measures, which will help implement them.
- 3.3 **Special contractual conditions precedent to the first and sole disbursement of the financing:** The first and sole disbursement of the Bank's loan proceeds will be contingent on fulfillment of the policy reform commitments described in the Policy Matrix (Annex II), as well as fulfillment of the other conditions set forth in the loan contract.

#### **B. Summary of arrangements for monitoring results**

- 3.4 **Monitoring.** Program monitoring consists of verification of the agreed policy measures (see [monitoring and evaluation plan](#)). The executing agency and the Bank will meet regularly to monitor the operation's results and anticipate and resolve technical difficulties associated with its execution. The executing agency will submit to the Bank all information required for measuring fulfillment of program targets and will provide timely information on progress toward those targets.
- 3.5 **Evaluation.** The project will be evaluated based on the targets and output and outcome indicators in the results matrix, comparing results before and after. The project also calls for an impact assessment using the difference-in-differences method with matching, which will assess the impact of rolling out the electronic invoicing system. A final evaluation will also be performed and a project completion report (PCR) prepared. Both the ex post evaluation and the PCR will be done at the end of execution of the programmatic series. The evaluation's questions will address whether the policies implemented helped achieve the program objectives ([see monitoring and evaluation plan](#)).

### **IV. POLICY LETTER**

- 4.1 The [policy letter](#) reiterates the national government's commitment to the objectives and actions envisaged in the program. Additionally, the Bank and the Government of Paraguay agreed on a Policy Matrix that identifies the policy actions under this operation.

Development Effectiveness Matrix		
Summary		PR-L1179
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN- 2958	(i) boost the mobilization of public and private resources for development; and (ii) improve the coverage and quality of social services.
Country Program Results Matrix	GN-3087	The intervention is included in the 2022 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		9.2
3.1 Program Diagnosis		1.9
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium 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.
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	Support on specific issues to increase the probability of success of the reforms: 4671/OC-PR - purchases, ATN/OC-18056-RG - fiscal risks and public investment, ATN/KP-18680-PR - health issues, ATN/OC -17404-PR - household targeting system, ATN/OC-17502-PR - transparency, ATN/OC-17375-PR - pensions.

**Evaluability Assessment Note:**

The program is structured as a PBP. This is the first of two operations whose policy actions aim to support the country in the adoption of activities to respond to the main challenges generated by the health and economic crisis due to COVID-19. The operation ES-L1143, for US\$250 million, is part of the Bank's operational response to the COVID-19 Pandemic. The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period.

The loan proposal presents a solid diagnosis of the problem, reviews the government's response to the economic and health crisis caused by COVID-19, and the support that the IDB has provided in this process. The new operation focuses on two types of policies: (i) Those that give continuity to the innovative and necessary policies implemented during the pandemic; and (ii) policies that put the country on a path of economic and fiscal recovery. The proposed solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of results and impacts. The result indicators are appropriately defined to measure the achievements of the program and the fulfillment of its specific objectives. The impact indicators reflect the contribution to the health and fiscal objectives that are to be achieved by the end of the operation.

The monitoring and evaluation plan proposes to carry out a reflexive analysis of the results and impact indicators included in the results matrix, complemented by a review of the theory of change, an updated review of international evidence, and qualitative studies. In addition, the project proposes an impact assessment to causally establish the impact of the expansion of the obligation to use electronic invoicing on its effective adoption (outcome indicator 3.1) and tax collection. The effect on tax collection should improve the country's primary fiscal balance (impact indicator 2).

## POLICY MATRIX

**Objective:** The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in Paraguay in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are to: (i) promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) promote economic and fiscal recovery during the post-pandemic period.

Components / Policy objectives	Policy conditions Programmatic loan I	Policy conditions programmatic loan II	Fulfillment status of programmatic loan II conditions <sup>1</sup>
<b>Component 1: Macroeconomic stability</b>			
Maintain a macroeconomic context consistent with the program objectives as set forth in the policy matrix and the sector policy letter.	1.1 Maintain a macroeconomic framework consistent with program objectives and the guidelines set forth in the sector policy letter.	1.1 Maintain a macroeconomic framework consistent with program objectives and the guidelines set forth in the sector policy letter.	Fulfilled
<b>Component 2: Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19</b>			
Promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19.	2.1 Establish measures that channel resources for the country-wide state of emergency in Paraguay resulting from the pandemic declared by the WHO due to COVID-19.	2.1 Provide for measures to contain spending by State agencies and entities, primarily for consumer goods.	Fulfilled (Q1 2022)
	2.2 Approve, for the 2020 fiscal year, the suspension of macro fiscal rules for the preparation and approval of the National General Budget, set forth in the Fiscal Responsibility Law, in order to respond to the emergency.	2.2 Provide for the following measures, with a view to strengthening the macro fiscal institutional framework: (i) submittal to Congress of a bill on strengthening the fiscal institutional framework, aimed at promoting fiscal recovery in the post-pandemic period; (ii) preparation of a macro fiscal risk model that includes drought and flood risks associated with climate change; and (iii) and preparation of a fiscal risk and contingent liability report, including risks stemming from climate change and options for managing them.	Fulfilled (Q4 2020)  Fulfilled (Q2 2022)  Fulfilled (Q2 2022)

<sup>1</sup> This information is merely indicative as of the date of this document. In accordance with document CS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), compliance with any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower submits the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

Components / Policy objectives	Policy conditions Programmatic loan I	Policy conditions programmatic loan II	Fulfillment status of programmatic loan II conditions <sup>1</sup>
	2.3 Create an Emergency Operations Center to strengthen the country's preparedness and ability to respond to the pandemic.	2.3 Emergency Operations Center is operating.	Pending (Q3 2022)
	2.4 Develop a National Response Plan for the Eventual Emergence of the Coronavirus (COVID-19) in accordance with the guidelines of the WHO Strategic Preparedness and Response Plan, which establishes priority public health measures that countries must adopt to deal with the pandemic.	2.4 Publication of the National Epidemiological Surveillance System's updated national disease surveillance and control guide.	Pending (Q2 2022)
	2.5 Establish measures for transparency and accountability in the management of resources provided for in the Emergency Law in response to the COVID-19 pandemic.	2.5 SENAC implements complaint mechanisms related to the use of public resources, including those set out in the Emergency Law.	Fulfilled (Q1 2022)
	2.6 Adopt measures that simplify and streamline public procurement processes during the emergency.	2.6 Implement the electronic bidding module for the procurement of public goods and services by the national government, which will speed up bid submission and evaluation times, boost transparency, and obviate in-person tendering.	Fulfilled (Q1 2022)
	2.7 Approve changes to tariffs on the importation of large quantities of medical supplies for COVID-19 prevention and mitigation. <sup>1</sup>		
<b>Component 3: Strengthening public policy and fiscal management to respond to the economic crisis</b>			
Strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis.	3.1 Approve the implementation of measures to safeguard the income of informal workers.	3.1 Reduce special outlays related to the special measures stemming from the state of emergency.	Fulfilled (Q1 2022)
	3.2 Create a food security support program for the sector hardest hit by the measures taken as a result of the health emergency caused by the spread of COVID-19, entailing the implementation of cash transfers for the purchase of food, medicine, and staple items.		

<sup>1</sup> The second operation did not include any policy measures, because the tariff reduction was expected to be maintained, as has been the case.

[illegible]

Components / Policy objectives	Policy conditions Programmatic loan I	Policy conditions programmatic loan II	Fulfillment status of programmatic loan II conditions <sup>1</sup>
		4.3 Provide for the following measures related to implementing the Public Investment Law: (i) FOPREP regulations on allocating resources for formulating public investment projects; and (ii) Preparation of the proposed Investment Plan and its updating protocol, to strategically guide the allocation of public investment resources	Fulfilled (Q3 2021)  Fulfilled (Q1 2022)

## RESULTS MATRIX

<b>Project objective:</b>	The specific objectives are to: (i) promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) promote economic and fiscal recovery during the post-pandemic period. Achievement of these objectives will contribute to the program's general objective to strengthen the efficiency and effectiveness of public policy and fiscal management in Paraguay in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Baseline year	Final target	Final year	Means of verification	Comments
Vaccination coverage in the total population	%	40.3	2021 (December)	60	2023	Expanded Program on Immunization. Ministry of Public Health and Social Welfare (MSPBS).	Includes the percentage of the population that has received a second dose.
Government primary balance/GDP	%	-5.1	2020	-1.7	2022	Ministry of Finance of Paraguay.	The primary balance is expected to improve as Paraguay surmounts the pandemic.

### SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Final target	Final year	Means of verification	Comments
<b>SPECIFIC DEVELOPMENT OBJECTIVE 1:</b> Promote the timely availability of resources to respond to the health crisis caused by COVID-19.							
Spending on consumer goods/current expenditure	%	10	2020-2021 average	8	2022-2023 average	Integrated Finance and Administration System (SIAF) reports.	Reflects measures to contain spending, focused on consumer goods, both to reduce pandemic-related emergency spending (health supplies) and to contribute to fiscal responsibility.
Capacity dimensions of the International Health	Number	0	2019	7	2022	Annual performance report for Paraguay, IHR, <i>Capacity Progress</i> .	Increased capacity in at least 7 of the 13 indicators the World Health Organization measures each year, to capture the strengthening of surveillance and of the response to public health events; 2019 is used as a baseline to show pre- and post-pandemic progress.

Indicators	Unit of measure	Baseline	Baseline year	Final target	Final year	Means of verification	Comments
Regulations (IHR) are strengthened. <sup>1</sup>							
State agencies and entities in the executive branch that use the electronic bidding module	Number	0	2019	10	2022	DNCP report.	At least 10 of the 19 institutions in the executive branch voluntarily use the module; 2019 is used as a baseline as that is the year before implementation of the module began.
<b>SPECIFIC DEVELOPMENT OBJECTIVE 2:</b> Strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis.							
Pandemic-related emergency social spending/total social spending	%	9	2020-2021 average	3	2022-2023 average	SIAP reports.	Reflects the reduction in short-term initiatives created to mitigate the pandemic in the social arena.
Percentage of budget activities aimed at narrowing gender gaps	%	6	2021	8	2023	Report of the General Budget Office.	Pro-gender indicator. By implementing the methodology for monitoring budget execution in gender-focused programs and activities, progress is expected to be made in identifying activities that help narrow gender gaps.
<b>SPECIFIC DEVELOPMENT OBJECTIVE 3:</b> Promote economic and fiscal recovery in the post-pandemic period.							
Percentage of invoicing through the National Integrated Electronic Invoicing System (SIFEN)	%	10.1	2021	18	2023	Report of the Undersecretariat of State for Taxation (SET).	Volume of invoices in SIFEN divided by total volume of invoices.
Number of preinvestment studies to which FOPREP resources are allocated	Number	0	2021	2	2023	General Directorate of Public Investment (DGIP) report.	Shows the allocation of FOPREP funds to preinvestment studies.

<sup>1</sup> The dimensions are: legislation and financing, coordination and national IHR focal points, zoonotic events and the human-animal interface, food safety, laboratory, surveillance, human resources, national health emergency framework, health service provision, risk communication, points of entry, chemical events, and radiation emergencies Self-Assessment Annual Report, WHO.



## OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Final target (year)	Comments
Component 2: Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19					
Ministry of Finance memo attaching the regulatory decree to the Budget Law for fiscal year 2022, providing for measures to contain spending by State agencies and entities, among other things.	Decree	0	2021	1 (2022)	<a href="#">Means of Verification Matrix</a>
Ministry of Finance memo attaching a copy of the bill on strengthening the fiscal institutional framework.	Bill	0	2019		
Ministry of Finance memo reporting the macro fiscal risk model that includes drought and flood risks associated with climate change.	Model	0	2021		
Ministry of Finance memo attaching a copy of the fiscal risk and contingent liability report, including risks stemming from climate change and options for managing them.	Report	0	2021		
Emergency Operations Center functioning.	Emergency Operations Center	0	2020		
National Epidemiological Surveillance System’s national disease surveillance and control guide published.	Guide	0	2021		
SENAC website for lodging complaints related to the use of public resources, including those established under the Emergency Law.	Website	0	2019		
Ministry of Finance memo attaching the report on implementation of the electronic bidding system for the procurement of goods at executive branch ministries, prepared by the National Public Procurement Directorate (DNCP).	Report	0	2019		
Component 3: Strengthening public policy and fiscal management to respond to the economic crisis					
Budget execution report providing evidence of lower special outlays related to special measures stemming from the state of emergency.	Report	0	2020	1 (2022)	<a href="#">Means of Verification Matrix</a>
Report on proposed Master Plan on the reconversion and architecture of the Integrated Social Information System (SIIS).	Report	0	2020		
Ministry of Finance memo attaching a copy of the decree establishing the social protection system.	Decree	0	2020		
Ministry of Women memo attaching a copy of the minutes of the Inter-agency Group to Promote Formulation of the National Care Policy (GIPC) approving the proposed Policy.	Minutes	0	2021		Pro-gender indicator <a href="#">Means of Verification Matrix</a>
Ministry of Finance resolution with the proposed methodology for measuring gender in the General Budget of Paraguay and an implementation report.	Resolution	0	2021		Pro-gender indicator <a href="#">Means of Verification Matrix</a>

Outputs	Unit of measure	Baseline	Baseline year	Final target (year)	Comments
Report with the results of the National Survey on the Status of Women.	Report	0	2021		Pro-gender indicator <a href="#">Means of Verification Matrix</a>
National Statistics Institute (INE) report documenting the pilot test of the Indigenous Census.	Report	0	2020		Pro-diversity indicator (indigenous peoples) <a href="#">Means of Verification Matrix</a>
Ministry of Finance memo attaching a copy of the draft bill creating the special social security regime.	Bill	0	2021		<a href="#">Means of Verification Matrix</a>
Component 4: Economic and fiscal strengthening for the post-pandemic period					
Ministry of Finance memo attaching a copy of the bill aimed at improving sustainability and equity in the Public Sector Pension and Retirement System (Caja Fiscal).	Bill	0	2021	1 (2022)	<a href="#">Means of Verification Matrix</a>
Resolution stipulating the implementation schedule and expansion of mandatory use of SIFEN.	Resolution	0	2020		
Decree publishing the FOPREP regulations.	Decree	0	2020		
Ministry of Finance memo attaching the proposed Investment Plan and protocol for updating it.	Proposal	0	2021		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Paraguay. Loan \_\_\_/OC-PR to the Republic of Paraguay. Program to Strengthen Fiscal Policy and Management in Response to the Health and Economic Crisis Caused by COVID 19 in Paraguay II

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 financing aimed at cooperating in the execution of the Program to Strengthen Fiscal Policy and Management in Response to the Health and Economic Crisis Caused by COVID 19 in Paraguay II. Such financing will be in the amount of up to US\$250,000,000, from the resources of the Bank's Ordinary Capital, 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 \_\_\_ 2022)