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PARAGUAY

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

(PR-L1175)

LOAN PROPOSAL

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ABBREVIATIONS	
AECID/FONPRODE	Spanish Agency for International Development Cooperation/ Development Promotion Fund
AFD	Agencia Financiera de Desarrollo [Development Finance Agency]
BCP	Central Bank of Paraguay
CAF	Andean Development Corporation
CBA	Cost-benefit analysis
CEA	Cost-effectiveness analysis
COVID-19	Coronavirus disease 2019
ECG	Evaluation Cooperation Group
ECLAC	Economic Commission for Latin America and the Caribbean
EPH	Encuesta Permanente de Hogares [Continuous Household Survey]
GDP	Gross domestic product
IDB	Inter-American Development Bank
IHR	International Health Regulations
IMF	International Monetary Fund
KIF	Korea Infrastructure Development Cofinancing Facility
MSME	Micro, small, and medium sized enterprise
MSPBS	Ministry of Public Health and Social Welfare
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
PBL	Policy-based loan
PBP	Programmatic policy-based loan
SARS	Severe acute respiratory syndrome
SARS-CoV-2	Severe acute respiratory syndrome coronavirus 2
UNDP	United Nations Development Programme
UTGS	Unidad Técnica del Gabinete Social [Technical Unit of the Social Cabinet]
WHO	World Health Organization

PROJECT SUMMARY

PARAGUAY PROGRAM TO STRENGTHEN PUBLIC POLICY AND FISCAL MANAGEMENT IN RESPONSE TO THE HEALTH AND ECONOMIC CRISIS CAUSED BY COVID-19 IN PARAGUAY (PR-L1175)

Financial Terms and Conditions					
Borrower			Flexible Financing Facility ^(a)		KIF
Republic of Paraguay			Amortization period:	20 years	25 years
Executing agency			Disbursement period:	2 years	
Ministry of Finance, through the Debt Policy Division			Grace period:	5.5 years ^(b)	7 years
Source	Amount (US\$)	%	Interest rate:	LIBOR-based	2.5%
IDB (Ordinary Capital):	160,000,000	76.2	Credit fee:	(c)	N/A
			Inspection and supervision fee:	(c)	N/A
IDB (KIF): ^(d)	50,000,000	23.8	Front-end fee:	N/A	0.1%
Total:	210,000,000	100	Weighted average life:	12.51 years	N/A
			Currency of approval:	United States dollars	
Project at a Glance					
Project objective/description: 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: (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; (iii) to promote economic and fiscal recovery during the post pandemic period.					
Special contractual conditions precedent to the first and sole disbursement of the loan: 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).					
Exceptions to Bank policies: Partial exception to the Public Utilities Policy (see paragraph 3.4).					
Strategic Alignment					
Challenges: ^(e)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(f)	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>	IC <input checked="" type="checkbox"/>

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

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) 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.

^(d) The Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (KIF) is administered by the Bank. KIF resources for this operation will become available once the Government of Korea has approved the financing for the program and transferred the corresponding funds to the Bank, in accordance with the terms set out in the agreement establishing the KIF, signed by the Ministry of Strategy and Finance of the Republic of Korea and the Bank on 28 March 2015, as amended.

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Macroeconomic context

- 1.1 The health and economic crisis caused by the coronavirus disease 2019 (COVID-19) pandemic is deeply impacting all of the world's countries, which has led to a widespread decline in economic activity.^{1,2} The macroeconomic and social effects of this crisis are expected to be tremendous in Latin America and the Caribbean, and their magnitude will likely vary depending on the regional and specific characteristics of each country.³ The International Monetary Fund (IMF)⁴ expects South America to see a substantial drop in export revenue as a result of both the decline in export volumes and the slippage in commodity prices.
- 1.2 The downturn in both domestic and foreign economic activity in most countries of Latin America and the Caribbean is expected to drive down tax revenue. Combined with the anticipated increases in public spending to deal with the fallout from the crisis, this will likely result in considerably higher fiscal deficits. Currency depreciations and the potential shortage of some products due to potential value chain disruptions would also raise inflation in the region. The soundness of local banking systems could also be affected if the crisis persists, as a result of business bankruptcies, higher unemployment, and sudden stops in capital flows.⁵
- 1.3 In Paraguay, the economic impacts of COVID-19 will be felt through various channels at different times. The first, associated with the priority of saving lives in the very short term, is the direct costs of the health sector response. The second is the costs associated with the necessary changes in people's behavior to "flatten the curve" of COVID-19 progression, which will contribute to saving lives. These behaviors may be the result of government mandates (closing schools, canceling public events, etc.), decisions made by companies and other institutions (teleworking, cutting back production, etc.), or decisions made by consumers (reducing social contact).
- 1.4 From a macroeconomic perspective, in addition to shrinking domestic demand, there are other channels for international transmission of the impacts of the crisis on Paraguay's economy: (i) a decrease in economic activity of key trading partners (Argentina and Brazil) that will impact the demand for exports and crossborder trade; (ii) interruption of global value chains; (iii) a drop in prices for the main products exported by Paraguay, especially soybeans and soybean products and beef; and (iv) worsening international financial terms. All this will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is over. The Central Bank of Paraguay (BCP) estimates that the Paraguayan economy will contract by 2.5% in 2020, a steep decline from the 4.1% growth projected prior to the crisis.

¹ [G. Gopinath \(2020\)](#).

² [W. McKibbin and R. Fernando \(2020\)](#).

³ IDB (2020). Macroeconomic Report.

⁴ [A. Werner, \(2020\)](#).

⁵ According to the [Institute for International Finance](#), cumulative net capital outflows in emerging markets since late January have surpassed the levels observed during the peak of the 2008 great financial crisis.

- 1.5 Last year, following a decade of growth averaging over 4%, a confluence of external and internal factors, including adverse climate-related factors, brought Paraguay's growth to a standstill. In response, the government implemented a series of countercyclical policies that led to a twofold increase in public investment, which resulted in a fiscal deficit for the central government equivalent to 2.8% of gross domestic product (GDP), breaching, for the first time, the deficit ceiling of 1.5% of GDP established in the Fiscal Responsibility Law. Public debt remains relatively low but on a rising trend. Meanwhile, monetary policy has been accommodative, with the BCP having cut the monetary policy interest rate on several occasions in 2019 and 2020 in response to the economic slowdown. This has been possible thanks to anchored inflation expectations and an annual inflation rate of 2.8% in 2019, which has remained at the lower end of the target range set by the BCP (4±2%). And growth in credit to the private sector, primarily credit in foreign currency, is moderating. In relation to the external sector, the deterioration in the trade balance spurred the deficit in the current account, while flexibility in the exchange rate continues to buffer external shocks (see Table 1). In this context and to address the impacts of the crisis generated by the COVID-19 pandemic, it is estimated that Paraguay will have to borrow approximately US\$1.6 billion.

Table 1. Selected economic indicators

Indicators	2015	2016	2017	2018	2019
Real GDP growth (% change)	3.1	4.3	5.0	3.4	0.0
Unemployment (% economically active population)	5.5	7.4	5.2	5.6	5.7
Inflation (end of period and in %)	3.1	3.9	4.5	3.2	2.8
Total income (% GDP) 1	14.1	13.9	14.2	14.1	14.1
Tax revenue (% GDP) 1	9.6	9.5	9.9	10.0	9.9
Total expenditure (% GDP) 1	15.5	15.0	15.3	15.3	17.0
Primary expenditure (% GDP) 1	15.0	14.4	14.7	14.7	16.1
Public sector fiscal balance (% GDP) 1	-1.3	-1.1	-1.1	-1.3	-2.8
Public sector debt (% GDP) 2	15.1	17.3	18.2	19.7	22.9

Sources: Prepared by the authors based on data from the Ministry of Finance, the Central Bank of Paraguay (BCP), and the Division of Statistics, Surveys, and Census (DGECC).

1. Central government.

2. Total public sector.

2. The COVID-19 pandemic and the health crisis

- 1.6 The severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) that causes COVID-19 was detected in China in late 2019 and spread very quickly to the rest of the world. On 11 March 2020, the World Health Organization (WHO) declared the disease a pandemic. On 16 April 2020, there were some two million confirmed infections and over 136,000 COVID-19 deaths⁶ around the globe. While the spread of the virus in Latin America and the Caribbean began later than in Asia and Europe, the number of cases in the region is also rising rapidly. As of 16 April 2020, seven weeks after the first case was confirmed in the region, the number of confirmed

⁶ [World Health Organization](#) (2020).

infections in Paraguay stood at 174, with a death toll of 8,⁷ figures that will quickly become obsolete.

- 1.7 The rapid increase in the number of cases has been putting pressure on the health care system, potentially compromising its capacity to respond to the pandemic in a timely and efficient manner, as well as to maintain essential care for people with other illnesses. A recent analysis by the WHO found that most countries in Latin America and the Caribbean, including Paraguay, are not adequately prepared to handle pandemics.⁸ These gaps impact the entire pandemic management cycle: rapid identification, prevention and control of infections, communication to the public about information on symptoms, risk factors, and prevention measures, and patient care.
- 1.8 COVID-19 can be easily spread from person to person through respiratory secretions and direct contact. For this reason, social distancing and isolation measures are essential features of the public health response with the goal of reducing the number of healthy people whom a patient can infect (known as the reproduction number). In other words, over time, these measures are expected to lower the average number of new cases that are generated by an individual case to a value below 1. These measures slow the spread of COVID-19, in order to delay a sudden spike in cases that would overwhelm the health system's capacity to care for patients.^{9,10,11,12}
- 1.9 Paraguay began by implementing mitigation measures, such as isolation of individuals with symptomatic infections and voluntary quarantine of their families, and then took steps to suppress transmission by closing schools and public spaces and mandating household quarantine. While social distancing and preventive isolation can reduce the speed with which COVID-19 is transmitted, these measures have not completely stopped the disease from spreading. Countries have therefore had to implement additional health measures. For example, early health interventions are necessary to conduct mass testing of individuals in order to detect, confirm, or rule out infection with the virus and track possible cases of infection for subsequent isolation. These interventions have proven effective in bringing the pandemic under control faster.^{13,14} In addition, healthcare services, especially hospital services, must be expanded to deliver care to infected individuals with severe symptoms. Both types of interventions require material and financial resources, which must be provided urgently and expeditiously. In many countries, including several in Latin America and the Caribbean, governments are ramping up

⁷ Ministry of Public Health and Social Welfare (MSPBS).

⁸ Operational capacity was assessed based on the percentage of compliance with the 13 areas of capacity to manage public health events established in the International Health Regulations (IHR).

⁹ J. Hellewell, S. Abbott, A. Gimma, N.I. Bosse, C.I. Jarvis, T.W. Russell, et al. Feasibility of controlling COVID-19 outbreaks by isolation of cases and contacts. *Lancet* 2020; 8(4):488-496. [doi:10.1016/S2214-109X\(20\)30074-7](https://doi.org/10.1016/S2214-109X(20)30074-7).

¹⁰ T. Day, A. Park, N. Madras, A. Gumel, and J. Wu. When Is Quarantine a Useful Control Strategy for Emerging Infectious Diseases? *American Journal of Epidemiology* 2006; 163(5): 479-485. [doi:10.1093/aje/kwj056](https://doi.org/10.1093/aje/kwj056).

¹¹ N. Ferguson, D. Cummings, C. Fraser, J.C. Cajka, P.C. Cooley, and D.S. Burke. Strategies for mitigating an influenza pandemic. *Nature* 2006; 442:448-452. [doi:10.1038/nature04795](https://doi.org/10.1038/nature04795).

¹² A. Dénes and A. Gumel. Modeling the impact of quarantine during an outbreak of Ebola virus disease. *Infectious Disease Modelling* 2019;4:12-27. [doi:10.1016/j.idm.2019.01.003](https://doi.org/10.1016/j.idm.2019.01.003).

¹³ [S. Correia, S. Luck, and E. Verner.](#)

¹⁴ [K. Prem, Y. Liu, T.W. Russell, et al.](#)

spending on health. Paraguay, for example, announced a package of measures in this sector that will increase health spending from 2.3% to 2.7% of its GDP.

- 1.10 **Health challenges and advances.** Paraguay's economic growth over the past 15 years combined with better investment in health care and the healthcare reform currently underway have led to an improvement in health indicators. However, some indices are still weak when compared with the region. The maternal mortality rate was 70.8 per 100,000 live births in 2019, much higher than the rates in countries of the Southern Cone, such as Chile and Uruguay (at 13 and 17 per 100,000 live births, respectively).¹⁵ While infant mortality has fallen in recent years, it was 13.2 per 1,000 live births in 2019, virtually double the rate of the aforementioned countries. Paraguay is undergoing a rapid epidemiological transition and must cope with a double disease burden: chronic noncommunicable diseases,¹⁶ which increase with every year due to a higher life expectancy and lifestyle changes, and communicable diseases, which in 2019 were responsible for 78.8 deaths per 100,000 inhabitants, above the region's average.¹⁷
- 1.11 One of the factors behind the persistence of these indicators is low health service coverage and efficiency. The country has been investing in the expansion of basic health care through family health units,¹⁸ but despite these efforts, close to 60% of the population still has no access to primary public health care.¹⁹ Paraguay's hospital network also has major structural deficiencies and a limited capacity to respond to emergencies.²⁰ It has a patient capacity of 130 hospital beds per 100,000 inhabitants, practically half of the average of countries in Latin America and the Caribbean, and has barely 10 intensive care beds per 100,000 inhabitants.²¹
- 1.12 In addition to implementing disease prevention and promotion actions, public health services play a crucial epidemiological surveillance role. Following the recommendations of the International Health Regulations (IHR), Paraguay established the National Focal Point²² in 2006, which coordinates the reporting and verification of events that could affect public health. To this end, it relies on a network of 18 regional epidemiological units, which in turn draws on 1,200 surveillance points. The system was strengthened in recent years with the implementation of Sentinel Surveillance of Acute Respiratory Infection and Influenza-like Illness to contain outbreaks of diseases of the respiratory system. In terms of diagnostic capacity, Paraguay has a National Laboratory Network whose main reference and

¹⁵ Basic Health Indicators for Paraguay, 2019. MSPBS.

¹⁶ The top ones are circulatory, respiratory, and cerebrovascular diseases and tumors. Together, they accounted for 269 deaths per 100,000 inhabitants in 2019 (MSPBS, 2019).

¹⁷ In 2016, the Southern Cone average was 70 deaths per 100,000 inhabitants (Pan American Health Organization, 2019).

¹⁸ Over the past decade, the network of family health units was expanded from 176 to 804 centers.

¹⁹ Each family health unit is supposed to cover approximately 3,500 people, which is why it is estimated that 4 million Paraguayans are excluded from these community services. In all, 21% of the Paraguayan population has contributory health insurance through the Social Security Institute and 9% pays for private insurance.

²⁰ Hospital emergency rooms generally receive an excessive number of low-complexity consultations due to the limited basic healthcare coverage (World Bank, 2018).

²¹ WHO, based on MSPBS data.

²² Created by Resolution 838 of 20 October 2006.

governing institution is the Central Public Health Laboratory.²³ This network has a presence in the 18 health regions. Despite these advances, the surveillance network has monitoring and reporting capacity limitations, and the capacity of the regional laboratories varies.²⁴

- 1.13 Given these healthcare system limitations, Paraguay launched the National COVID-19 Response Plan early on to reduce the number of cases as much as possible. Following the IHR guidelines, the country has implemented actions in four areas: (i) coordination, planning, and monitoring, including the creation of the Emergency Operations Center, which coordinates all components of the healthcare system; (ii) risk disclosure and community participation; (iii) epidemiological and laboratory surveillance²⁵ to promptly detect and investigate suspected cases; and (iv) service expansion through an initial 13% increase in the number of intensive care beds.
- 1.14 **Social challenges and advances.** Close to 26% of the Paraguayan population lives in poverty, which accounts for 322,872 families representing more than 1,800,000 people.²⁶ An analysis of the incidence of poverty and the gap in income earned by the poor relative to the poverty line, that is, the shortfall in income to cover the total cost of a basket, reveals that the average percentage distance in 2018 was 32.8%. To protect the income of the poorest households, Paraguay has a conditional cash transfer program called “Tekoporã,” which helped 156,560 families in 2019, as well as a support program for the economic promotion and inclusion of families living in poverty, called “Tenonderã.”²⁷ However, significant coverage gaps remain, meaning that the intensity of these efforts must be reviewed and targeted transfers must be generated for the groups most affected in critical contingency situations.
- 1.15 Paraguay has made major advances in its institutional framework to improve its strategies to fight poverty. In 2018, it upgraded the Secretariat for Social Action to the Ministry of Social Development, whose mandate is to implement poverty reduction plans and coordinate interagency actions to reduce inequalities and improve quality of life for those experiencing poverty and vulnerability, with a life cycle approach. That same year, the Social Cabinet approved the creation of a social protection system called “VAMOS” aimed at organizing State action to expand the social safety net and alternatives for the economic and social inclusion of vulnerable groups, including the National Poverty Reduction Plan. These institutional advances help improve response speed and quality in emergencies such as the current one, directing efforts and resources to the groups most affected.

²³ It is equipped for biological containment at Biosafety Level 3, in accordance with the criteria established by the U.S. Centers for Disease Control and Prevention, which measures complexity on a scale from 1 to 4, with 4 being the highest.

²⁴ Integrated Management Strategy for the Prevention and Control of Arboviral Diseases. Action Plan 2018-2022, MSPBS.

²⁵ See the COVID-19 Epidemiological and Laboratory Surveillance Guide at: <https://www.mspbs.gov.py/dependencias/portal/adjunto/5231da-Guiadevigilanciaepidemiologica.pdf>.

²⁶ Continuous Household Survey (EPH), 2017.

²⁷ Just over 26,000 families receive financial or technical assistance for production-related activity under this program. Data from the Ministry of Social Development, 2019.

3. Public policy and fiscal management challenges during health crises

- 1.16 Public policy and fiscal management play a central role in ensuring the availability and timely execution of resources. Good practices during crises highlight the importance of having institutions, policies, processes, and information systems that are flexible, efficient, reliable, and transparent and that encourage accountability.²⁸ Nevertheless, in previous health crises, such as the outbreaks of Ebola and severe acute respiratory syndrome (SARS), fiscal management institutions and systems had weaknesses and became bottlenecks that reduced the public sector's response capacity in key areas.²⁹ The biggest challenges lie mainly in: (i) the lack of additional budgetary and financial resources to respond to the crisis; (ii) the unavailability of funds for service delivery units and for timely disbursements, with due regard to controls; and (iii) the lack of transparency in the use of resources deployed as part of crisis response and reporting.³⁰ Tackling these challenges requires changes in existing budgetary regulations for more efficient allocation and execution of public resources.
- 1.17 One of the areas where the introduction of changes in applicable regulations is vital for crisis response is in public procurement systems. The response of countries affected by the Pandemic H1N1/09 Virus (Influenza A) in 2009 underscored the need to guarantee that administrative processes facilitate, and do not impede, the flow of public resources to the health sector.³¹ However, traditional procurement processes in the public sector, such as competitive bidding, can take between 20 and 135 days to reach the contract award stage.³² To encourage greater efficiency in public procurement processes during a crisis, some good practices include:³³ (i) introducing guidelines for the use of expedited procedures for emergency procurement;³⁴ and (ii) regulating the most appropriate procurement procedures for key purchases, including centralized procurement mechanisms.
- 1.18 A thorough analysis of goods and services critical for dealing with the health crisis³⁵ is important in order to introduce policies that prevent shortages in that regard. In countries where critical goods are mostly imported, streamlined customs procedures should be introduced³⁶ and tariffs and nontariff barriers should be reduced on the importation of these products,³⁷ in order to decrease their cost.^{38,39}

²⁸ World Bank Group (2019).

²⁹ [S. Saxena and M. Stone \(2020\)](#).

³⁰ Including exploiting the fungibility of resources in treasury single accounts. According to Yaker et al. (2012), proper sole account management can help countries gain access to liquidity. I. F. Yaker and S. Pattanayak (2012).

³¹ D. Hurst and S. Shapre (2017).

³² IDB (2016). Public Procurement in Latin America and the Caribbean and IDB-financed Projects.

³³ The National Association of County and City Health Officials (2013).

³⁴ These types of procedures include the use of exceptional, faster procurement methods, such as single-source selection.

³⁵ [Harmonized System classification reference for Covid-19 medical supplies](#), according to the World Customs Organization.

³⁶ [World Customs Organization guidelines for the clearance of goods in emergency situations](#).

³⁷ Tariffs on medical equipment, supplies, and disinfectants in the region are well above the world average, ranging from 5% to 15%, while nontariff barriers affect 90% of these items.

³⁸ IDB/INT (2020).

³⁹ World Bank Group (2014).

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

- 1.19 Unlike in developed countries, which have consolidated social security systems, such systems in Latin America and the Caribbean are inadequate and deficient partly due to the high levels of informal labor, which is heavily concentrated among poor and low-income households.⁴⁰ In Paraguay, these households will be hit hardest by the effects of the COVID-19 pandemic, and among them, particularly the households headed by women,⁴¹ households with people with disabilities,⁴² and households in indigenous communities.⁴³ In terms of Paraguay's labor market, the rate of informality stood at 64.3% in 2018, above the regional average (at around 53%). This sector is especially vulnerable because it lacks insurance and assets to mitigate the effects of the crisis, and once economic activity resumes, it will be harder for informal workers to rejoin the labor market. Informality in Paraguay affects women and rural workers more severely.⁴⁴ By income level, 79% of workers earning less than the minimum wage are employed in the informal sector.⁴⁵
- 1.20 A policy that has proven effective in protecting household income during crises is to support the businesses where the individuals from those households work,⁴⁶ as a way of preventing widespread job losses and bankruptcies. While the economic crisis caused by COVID-19 is affecting most of the economy, some sectors are harder hit than others, including tourism, recreation, and food services, as a consequence of the powerful impact that social distancing and isolation measures have on them. The sharp fall in sales also creates liquidity problems for businesses, in many cases exacerbated by the destruction of the payment chain. These liquidity problems tend to affect micro, small, and medium-sized enterprises (MSMEs) more acutely given their more limited access to financing.
- 1.21 In Latin America and the Caribbean, this liquidity problem may be more severe than in developed countries considering the high rates of informal business, which make access to financing difficult. The latest available data indicate that of the 11 million economic units in the region with at least one worker in addition to the employer, the vast majority (over 10 million) are micro and small enterprises (with 50 or fewer employees). These businesses employ 47% of the region's workforce.⁴⁷ In Paraguay, 97% of businesses registered with the Sole Taxpayer Registry are

⁴⁰ J. M. Salazar-Xirinachs and J. Chacaltana (2018).

⁴¹ In 2019, 35.6% of Paraguayan households were headed by women (EPH). Female heads of household earn less, on average, than their male counterparts, a situation that is associated with underemployment, differences in number of hours worked, and the occupational segregation of women.

⁴² In Paraguay, 12.4% of the population has at least one disability, and their rate of economic activity is lower than that of other groups, with 42% of men and 77% of women with disabilities not economically active. National Population Census, 2012.

⁴³ Indigenous communities make up 1.8% of the population and are in the poorest quintile. A full 66.2% of the indigenous population lives in total poverty, and 34.4% lives in extreme poverty. National Population Census, 2012, and EPH.

⁴⁴ In 2018, 66.8% of employed women were in the informal sector, compared with 62.3% of men.

⁴⁵ This figure declines as the wage level increases. Among workers earning three times the minimum wage, the rate of informality is 25.2%.

⁴⁶ International Labour Organization. A review of global fiscal stimulus.

⁴⁷ Thematic Labour Overview. "Small Enterprises, Large Gaps. Employment and Working Conditions in Micro and Small Enterprises in Latin America and the Caribbean." Regional Office for Latin America and the Caribbean, International Labour Organization (2015).

MSMEs, and they employ 65% of the workforce while accounting for just 10% of the formal economy.⁴⁸

5. Public policy and income protection

- 1.22 Public policy and fiscal management can play a crucial role in economic crises such as the one caused by COVID-19,⁴⁹ protecting household income during the social distancing period and supporting the survival of businesses to keep jobs safe. Proper design of interventions presents challenges, inasmuch as they must benefit those individuals and sectors that need it most, when they need it most.⁵⁰ With respect to selecting beneficiaries, targeting difficulties arise mainly due to the absence or lack of reliability of integrated systems containing information about individuals (particularly in the case of individuals in informal labor situations).⁵¹ This incomplete information leads to targeting errors, reducing efficiency in the use of public resources. To address this challenge, public policy design must focus on transparency in the use of these public resources, in order to increase accountability of executing agencies and reduce room for misuse.⁵²
- 1.23 Fiscal policies that support households are also usually difficult to reverse, especially if the benefit duration is prolonged. This is because individuals begin to consider such benefits as acquired rights, which raises the political cost of withdrawing them. One of the main lessons of the fiscal policy response in Latin America and the Caribbean to the 2009 global financial crisis was that various programs introduced during the crisis to mitigate its effects ended up becoming permanent programs that were not reversed once the economic shock had subsided.⁵³ This ended up eroding fiscal fundamentals in the medium term.⁵⁴ Thus, to encourage efficient use of public resources, time-bound provisions⁵⁵ must be considered in household and business support policies from the outset so that such policies do not become recurrent costs.

6. The economy and public finance during recovery from the pandemic

- 1.24 While the global growth outlook is still highly uncertain, IMF estimates⁵⁶ point to a decrease in worldwide growth in 2020 of around 3 percentage points of GDP and as much as 5.5% for Latin America and the Caribbean. Meanwhile, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the region will experience an increase in unemployment of 10 percentage points, as well as a spike in poverty, with 35 million new people sinking into poverty and 22.6 million descending into extreme poverty.⁵⁷ In the case of Paraguay, with the level of poverty mentioned in paragraph 1.14, an immediate sharp increase is expected given the

⁴⁸ National Economic Census, 2011.

⁴⁹ K. Storesletten, C. Telmer, and A. Yaron (2001).

⁵⁰ V. Gaspar and P. Mauro (2020).

⁵¹ Izquierdo, Pessino, and Vuletin (2018).

⁵² S. Cecchini and A. Madariaga (2011).

⁵³ IMF (2015).

⁵⁴ Between 2008 and 2019, public debt jumped from 40% of GDP to close to 60% of GDP for a typical country in the region.

⁵⁵ V. Gaspar and P. Mauro (2020).

⁵⁶ World Economic Outlook, April 2020. In November 2019, the global growth forecast for 2020 was 3%. [OECD Economic Outlook, Interim Report March 2020](#).

⁵⁷ [COVID-19 Will Have Grave Effects on the Global Economy and Will Impact the Countries of Latin America and the Caribbean](#) (ECLAC, 2020).

large number of workers whose ability to earn income has been interrupted by the pandemic and the social distancing measures put in place by the government.

- 1.25 The economic crisis will take a heavy toll on countries' public finances. The economic contraction will drive tax collection down considerably in the near term, with no immediate recovery.⁵⁸ In countries that depend on income from nonrenewable resources, this loss will be coupled with a deterioration in tax revenue due to a lower production value (through both prices and lower external demand). The loss of revenue, combined with higher spending to contend with the health, economic, and social crisis, will put pressure on fiscal and public debt positions. Considering that the region entered the crisis in a weak fiscal position on average,⁵⁹ many countries are expected to experience a high degree of fiscal vulnerability in the wake of the pandemic.⁶⁰
- 1.26 Given the severe impact of the COVID-19 health crisis on economic activity and public finances, the post-pandemic period will require support policies to rebuild the economy and restore fiscal performance. To encourage a return to growth with equity, comprehensive plans will have to be developed and implemented as an economic stimulus to support the most vulnerable households and businesses during the return to normal. These plans will have to take into account budgetary constraints so as not to jeopardize fiscal sustainability. Lessons learned from the current pandemic will also have to be identified so that countries can design contingency plans for minimizing the associated human and nonhuman cost.
- 1.27 **Rationale.** Inasmuch as the direct and indirect impacts of the COVID-19 emergency deepen in Paraguay, it is essential to redouble the support provided by the Bank to improve preparedness, response capacity, and subsequent recovery. From the standpoint of fiscal management and policy, this first operation in the programmatic series supports measures that will help make resources available to respond to the health crisis, promoting efficiency and transparency in the use thereof. It also advances temporary measures designed to protect the income of vulnerable households during the crisis, including through special cash transfers and subsidies for informal workers, as well as to provide liquidity to businesses hit by the economic fallout of the pandemic. It will contribute to post-pandemic efforts to strengthen the economic and fiscal situation by supporting efforts under way by the Paraguayan government to set up a strategic interagency team to look into State reforms for improving the efficiency of the public sector.⁶¹ In terms of the response in the health sector, this program supports the Paraguayan government's strategy to fight the

⁵⁸ During the 2008-2009 crisis, consumption tax fell close to 10% in a typical country of the region, and tax revenue dropped by as much as 3.5 points of GDP in some countries (IDB-Inter-American Centre of Tax Administrations, 2019).

⁵⁹ When the region entered the 2008-2009 global financial crisis, the primary balance of a typical country was above 2.5% of GDP and the overall position was balanced. For 2019, the primary deficit was -0.3% and the overall deficit was above 2.5% (IMF World Economic Outlook, 2020).

⁶⁰ According to preliminary estimates by Andrian and Valencia (2020), the fiscal deficit could increase in the short term between 4 and 8 percentage points of GDP in response to the downturn in economic growth and the increase in emergency public spending.

⁶¹ At the initiative of the national government, a dialogue was launched in late March 2020 with representatives of the economic, policy, public, and social sectors, reflecting the consensus of key actors in Paraguayan society, to analyze a structural reform of the State, including sweeping reform of the civil service and the redesign of public institutions; both measures are included in the second operation in the series (see <https://www.hacienda.gov.py/web-hacienda/index.php?c=972&n=12576>).

disease with key measures to contain its spread and mitigate the economic and health consequences of the pandemic, in accordance with WHO guidelines.

- 1.28 In the second operation in the series, the program will contribute to the robust agenda of reforms and enhancements to fiscal management and policy, aimed at resuming a path of fiscal balance. It supports policy measures that will enhance the country's preparedness and ability to respond to future emergencies. Among the substantive measures that are proposed are the conclusion of the state of emergency and extraordinary measures arising from it; the presentation of legislation to Congress to reform the Fiscal Responsibility Law; the provisioning of the Emergency Operations Center for its operation; the implementation of complaint mechanisms related to the use of public resources defined by the Emergency Law; the implementation of an electronic bidding module for the procurement of public goods and services for the central government; the entry into force of the directives establishing the Integrated Social Information System, with data made available for managing services targeted to vulnerable populations (such as people with disabilities, indigenous communities, and female heads of household) and the Social Protection System as a priority public policy; the preparation of a document with guidelines to adjust the tax reform to the post-pandemic period; and the presentation to Congress of legislation to reform the civil service and redesign public institutions, to improve their efficiency.
- 1.29 **Bank operational work and technical support in the country.** This operation complements the support that the Bank has been providing to the Paraguayan government through the policy-based loan Public Finance for Sustainable Development (4667/OC-PR), which advances various priority reforms that contribute to objectives of this new loan, such as improving the medium-term fiscal framework, modernizing and streamlining the tax system, and supporting a committee to improve expenditure quality. It also complements transparency measures included in the Program to Support the Transparency Agenda in Paraguay (4866/OC-PR), such as the public procurement contract monitoring system. In the health sector, the Bank has been providing support to the Ministry of Public Health and Social Welfare (MSPBS) through the Early Childhood Development Program (2667/OC-PR), which is financing the expansion of the public health services network, improvements to quality of care, and the procurement of personal protective equipment for the health regions. The program also complements the Program to Strengthen Comprehensive Integrated Health Services Networks Based on Primary Care (4872/OC-PR), which is scheduled to launch in 2020 and will help improve health conditions among the Paraguayan population. In the area of social protection, this program incorporates advances made under an operation to support the establishment of a social protection system in Paraguay (ATN/OC-17404-PR). Moreover, the program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), inasmuch as it forms part of the Bank's support to its borrowing member countries in the adoption of fiscal management and public policies to mitigate the effects of the health crisis and alleviate the economic impacts. The program will coordinate efforts with the various supports consisting of: (i) immediate public health response; (ii) safety nets for vulnerable populations; and (iii) economic productivity and employment.

- 1.30 **The Bank's experience in the region.** The IDB Group has supported the region through various types of crises (macroeconomic, health, natural disasters) to mitigate their immediate effects and to design reforms for the recovery period. The Bank's support varies depending on the nature of the crisis to be addressed.⁶² 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.⁶³ In the area of health, the Bank has experience in programs and initiatives aimed at the prevention and better control of various communicable diseases, including malaria, Zika, cholera, Pandemic H1N1/09 Virus (Influenza A), 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 affected by earthquakes.⁶⁴
- 1.31 **Coordination with other donors.** This operation has cofinancing of up to US\$50 million in resources from the Korea Infrastructure Development Cofinancing Facility (KIF) administered by the Bank. Along with this cofinancing, the IDB will sponsor a nonreimbursable knowledge-sharing exchange between the Government of Paraguay and the Republic of Korea based on the latter's valuable experience in successfully containing the COVID-19 emergency and its consequences. In the framework of the pandemic and its effects on the country, the IDB Group has been proactively coordinating its response and support with the IMF, the WHO/PAHO, the World Bank, CAF, the UNDP, AECID/FONPRODE, and various other bilateral donors and United Nations agencies active in Paraguay. Coordination activities are intended to prevent duplication of efforts, achieve synergies between the contributions of the various donors, provide a nimble, provide an agile, quality response to meet country needs, and amplify the impact of the interventions. With regard to this specific operation, during preparation, the Bank coordinated the technical aspects of the measures included in the present program with the IMF, which recently approved a rapid financing instrument for Paraguay in the amount of US\$274 million.⁶⁵ The IMF is also considering a possible future operation that would include reforms to help the country return to a path of fiscal balance. The Bank has also maintained an ongoing dialogue with the World Bank and the CAF, which are disbursing unrestricted funds to Paraguay in April and May, including for an economic management development policies operation approved in March 2020 and a loan in response to COVID-19 approved in April 2020, both at the World Bank. During program execution, coordination with multilateral and donor entities will be implemented through coordination tables and senior-management meetings. The Bank will share its progress on program implementation with the IMF and the rest of the donors.

⁶² The first contingent financing instrument for natural disasters was the Contingent Credit Facility for Natural Disaster Emergencies. Examples include the Dominican Republic (DR-X1003), Honduras (HO-X1016), Ecuador (EC-X1014), and others (document RE-496-1).

⁶³ The most recent policy reform support programs include the Program to Deepen Fiscal Reform in Colombia (4552/OC-CO), the Program to Support Fiscal Sustainability in Costa Rica (4819/OC-CR), and the Finances for Sustainable Development Program in Paraguay (4667/OC-PR).

⁶⁴ In 2016, the Bank supported Ecuador in restoring infrastructure and basic services in earthquake-affected areas through various instruments (EC-X1014; 3751/OC-EC; 3906/OC-EC; and ATN/JF-15752-EC). Other examples include support for Haiti in 2010 and for El Salvador following the 2001 earthquake.

⁶⁵ See [IMF press release dated 21 April 2020](#). It should be noted that the Government of Paraguay also issued bonds valued at some US\$1 billion in April 2020, against financing requirements of approximately US\$1.6 billion for 2020.

- 1.32 **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 the maintenance of essential health services in order to overcome the health crisis and through support to maintain minimum levels of income and wellbeing among the communities most vulnerable to the effects of COVID-19. The program is also aligned with the crosscutting theme corresponding to institutional capacity and rule of law, inasmuch as it will strengthen fiscal policy and management to tackle the health, economic, and social crisis, by helping to promote transparency and integrity. In addition, it will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12).⁶⁶ The program is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) as concerns strengthening public sector management, and it is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), which highlights the importance of institutional strengthening to improve public expenditure quality as well as fiscal equity and social inclusion. The program is consistent with the Health and Nutrition Sector Framework Document (document GN-2735-7), inasmuch as it will help strengthen the capacity of the health authorities for sector leadership, health intelligence, and cross-sector coordination.

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: (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.
- 1.34 The program is structured as a programmatic policy-based loan and consists of two separate but technically linked operations whose policy actions aim to help the country adopt measures in the short term to tackle the main challenges faced by countries in their response to the health and economic crisis caused by COVID-19 (see paragraph 1.27).⁶⁷
- 1.35 The program is organized into the following components:
- 1.36 **Component 1. Macroeconomic stability.** The objective of this component is to ensure that a macroeconomic context consistent with the program objectives as set forth in the Policy Matrix and the sector policy letter is maintained.
- 1.37 **Component 2. Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19.** The objective of this component is to promote the availability and timely execution of public resources and mechanisms to respond to the health crisis caused by COVID-19. The component supports the following actions: (2.1) establish measures that channel resources for the

⁶⁶ See Annex I – Summary Development Effectiveness Matrix.

⁶⁷ Policy-Based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), Section II, Definition and Objective of Policy-Based Loans.

country-wide state of emergency in Paraguay resulting from the pandemic declared by the WHO due to COVID-19;⁶⁸ (2.2) approve, for the 2020 fiscal year, the suspension of macrofiscal 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; (2.3) create an Emergency Operations Center to strengthen the country's preparedness and ability to respond to the pandemic; (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; (2.5) establish measures for transparency and accountability in the administration of resources provided for in the Emergency Law in response to the COVID-19 pandemic;⁶⁹ (2.6) adopt measures that simplify and streamline public procurement processes during the emergency;⁷⁰ and (2.7) approve changes to tariffs applicable to the importation of large quantities of medical supplies for COVID-19 prevention and mitigation.

- 1.38 The second operation in the programmatic series will continue to promote the efficient, orderly, and transparent allocation and execution of public funds, with a view to promoting economic and fiscal recovery. The following policy measures are planned: (2.1) determine when and how to end the state of emergency and the extraordinary measures arising from it; (2.2) submit legislation to the National Congress to reform the Fiscal Responsibility Law, aimed at promoting fiscal recovery during the post-pandemic period; (2.3) equip the Emergency Operations Center with operating procedures, physical infrastructure, information and communications technology infrastructure, and information systems for their operation; (2.4) publish the operational guide for the epidemiological and laboratory surveillance of COVID-19 as well as the private laboratory certification guide for sample processing,

⁶⁸ The specific measures of Emergency Law 6524 are as follows: (i) redirect budget appropriations under the 2020 National General Budget towards the health emergency; (ii) reallocate up to 100% of the 2020 initial cash balances for institutional resources to fund the health emergency; (iii) introduce expenditure rationalization measures in the 2020 National General Budget to redirect expenditures to the MSPBS; (iv) establish a simplified procedure for budgetary changes for entities involved in the health emergency; (v) approve up to US\$1.6 billion in borrowings to finance emergency measures and the economic effects of the health crisis; (vi) create the Health Emergency Fund, consisting of the resources provided for in the Emergency Law, grants, and rescheduling; and (vii) authorize the payment of a special premium to healthcare workers responding directly to the pandemic.

⁶⁹ The specific measures of Emergency Law 6524 are as follows: (i) create a Transitional Bicameral Congressional Commission for the continuous monitoring of transparency in the management of resources provided for in the present law; (ii) authorize the Comptroller General of the Republic to establish guidelines on transparency and control in the management of resources provided for in the present law and on the prevention of corruption; (iii) require State agencies and entities to submit their financial reports to the Comptroller within 60 days following the end of the state of emergency; (iv) require State agencies and entities that received funds under the Emergency Law to provide the public with updated information on how the resources were used; (v) instruct the authorities and officials of State agencies and entities that manage the resources provided for in the Emergency Law to make a sworn statement to prevent conflicts of interest; (vi) task the National Anticorruption Secretariat with launching the Anticorruption Reporting Portal and the institutional channels necessary to receive reports of any irregularities in the management of funds intended for the emergency, making protection mechanisms available to the reporting party.

⁷⁰ The specific measures of Emergency Law 6524 are as follows: (i) make a provision for the National Public Procurement Directorate to adopt simplified and more expeditious administrative measures for the procurement of goods and services by public institutions directly affected by the emergency; (ii) authorize the MSPBS to procure goods and services and build public works through a simplified direct contracting process, with efficiency and transparency criteria; and (iii) authorize the National Economic Team to establish ad hoc procurement units that collaborate with healthcare providers to streamline processes for procuring the goods or supplies needed to respond to the emergency.

strengthening the country's capacity in the preparedness and laboratory spheres established in the IHR for the management of public health events; (2.5) implement mechanisms, at the Comptroller General of the Republic and the National Anticorruption Secretariat, for reporting issues concerning the use of public resources, particularly those defined by the Emergency Law; and (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, improve transparency, and obviate in-person tendering.

- 1.39 **Component 3. Strengthening public policy and fiscal management to respond to the economic crisis.** The objective of this component is to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households⁷¹ and increase liquidity for businesses during the health and economic crisis. To achieve this objective, the component supports the following measures: (3.1) approve the implementation of measures to safeguard the income of informal workers;⁷² (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;⁷³ and (3.3) establish measures to support MSMEs.⁷⁴
- 1.40 The second operation in the programmatic series will support policies that help align tax incentives with economic recovery. To achieve this objective, the following trigger mechanisms have been included: (3.1) bring into force guidelines establishing the Integrated Social Information System as a tool for centralizing databases from administrative registries, strengthening the availability of inputs for the management of social protection services with a focus on vulnerable populations and for better preparedness in crisis situations; (3.2) bring into force the normative instrument establishing the Social Protection System as a priority public policy, approving its strategic framework and providing for its implementation; and (3.3) prepare a document with guidelines for adapting the tax reform to the post-emergency period stemming from COVID-19.

⁷¹ This includes vulnerable families that participate in existing social protection programs; vulnerable families that do not participate in social protection programs; and informally employed or unemployed individuals (without a source of income).

⁷² The specific measures of Emergency Law 6524 are as follows: (i) create a Social Fund to be administered by the Ministry of Finance in order to implement measures designed to safeguard the income of informal workers; and (ii) authorize the Executive Branch to contribute up to US\$300 million towards establishment of the fund.

⁷³ The specific measures of Decree 3495 governing the emergency are as follows: (i) approve regulations to define the criteria and implementation plan for special transfers to vulnerable families in connection with COVID-19 that did not participate in social protection programs before the crisis; and (ii) transfer 25% of the legal minimum wage in force to informal workers as part of the strategy to combat the impacts of COVID-19.

⁷⁴ The specific measures of Emergency Law 6524 are as follows: (i) authorize the Executive Branch to extend due dates and total or partial payment of taxes for the 2020 fiscal year and outstanding 2019 obligations; (ii) temporarily postpone and/or discount by up to 100% for MSMEs and vulnerable sectors utility bills incurred with Empresa de Servicios Sanitarios del Paraguay, private water providers, sewerage boards, and sanitation commissions, according to their economic conditions and financing options; (iii) begin an abbreviated registration and update process for MSMEs so that businesses can access the benefits of the Emergency Law; (iv) authorize the Ministry of Finance to make a capital contribution to the Development Finance Agency (AFD) in the amount of 120 billion guaraníes to finance measures to mitigate the economic effects of COVID-19, with particular emphasis on MSMEs; and (v) authorize the AFD to establish credit lines with favorable financial terms to bring economic relief to MSMEs.

- 1.41 **Component 4. Economic and fiscal strengthening for the post-pandemic period.** The objective of this component in the first operation in the programmatic series is to promote economic and fiscal recovery in the post-pandemic period. To achieve this objective, the first operation will implement the following policy measure: (4.1) set 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.
- 1.42 The second operation in the programmatic series will support implementation of the following structural measures in support of State efficiency: (4.1) introduce legislation in the National Congress for civil service reform; and (4.2) introduce legislation in the National Congress to redesign public institutions to improve their efficiency.

C. Key results indicators

- 1.43 The expected program results are included in the Results Matrix. At the impact level, these are: (i) deaths due to COVID-19; and (ii) primary balance of the government. The outcome indicators are: (i) budget allocated to the health sector; (ii) strategic preparedness and response plan activities initiated; (iii) public expenditure (medical goods and services) associated with the emergency subject to special audits; (iv) health sector expenditure executed; (v) State entities and agencies using the electronic bidding system; (vi) average tariff on imports of sensitive medical supplies during the health emergency; (vii) households benefited by temporary direct cash or in-kind transfer programs related to the COVID-19 health crisis; (viii) workers benefited by temporary employment subsidies; (ix) instruments deployed for the financial management of the crisis for the maintenance of the productive fabric; and (x) actions set out in the plan for economic and fiscal recovery implemented.⁷⁵
- 1.44 **Economic analysis.** Based on the recommendations by the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects⁷⁶ 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),⁷⁷ 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,⁷⁸ it was determined that an economic analysis would not be performed for this type of loan, as 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.

⁷⁵ These indicators only apply to the first operation.

⁷⁶ Document RE-397-1: Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis (CBA) and the cost-effectiveness analysis (CEA). Yet neither a CBA nor a CEA is applicable to policy-based loans.

⁷⁷ Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

⁷⁸ According to the ECG, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the size of a policy-based loan is related to a country's financing gap, independent of the project's benefits.

- 1.45 **Beneficiaries.** The direct beneficiaries of the first operation in the programmatic series are the citizens of Paraguay, particularly those in the most vulnerable sectors, owing to the positive social effects identified in this program: (1) improvements in the provision of public health services, through policy measures to increase available resources for responding to the health crisis; and (2) mitigation of the impact of the health crisis on the wellbeing of the country's citizens, particularly low-income individuals, through policy measures to protect household income and business liquidity.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Financing instrument.** This operation has been structured as a programmatic policy-based loan (PBP) and is the first operation of a programmatic series consisting of two contractually independent but technically linked loans, in line with the guidelines for the preparation and implementation of programmatic policy-based loans set forth in document CS-3633-2. It is estimated that the second operation in the programmatic series could launch in 2021. The programmatic modality was chosen because: (i) it promotes ongoing policy dialogue between the Bank and the country with the aim of providing continuous support during the pandemic and in the post-pandemic period; (ii) given the uncertainty regarding the length and severity of the crisis caused by the pandemic, this instrument leaves room for adaptation to evolving circumstances and monitoring of the program's scope; and (iii) it facilitates the development, fine-tuning, and implementation of economic and fiscal recovery plans, with a view to resuming growth with equity and fiscal sustainability in the post-pandemic period.
- 2.2 **Dimensioning.** The cost of this operation will be US\$210 million, financed with a US\$160 million loan from the Bank's Ordinary Capital and US\$50 million in cofinancing from the KIF, which is administered by the Bank. All proceeds will be disbursed in a single tranche. The cost of the operation is justified by the public sector's financial needs and has no direct relationship to the cost of the program's reforms, in accordance with document CS-3633-2 (paragraph 3.27 (b)). As mentioned in paragraph 1.5, the public sector's financing needs for 2020 are estimated at approximately US\$1.6 billion dollars.

B. Environmental and social risks

- 2.3 Based on guideline B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require ex ante classification of impacts. The operation supports the development of policies, standards, management tools, and other institutional strengthening actions. Therefore, no direct significant effects on the environment or natural resources are anticipated.

C. Fiduciary risks

- 2.4 No fiduciary risks associated with the operation have been identified. 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 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 **Public management and governance risks.** There is a medium public management and governance risk related to delays in implementing the measures included in the second loan for this program due to the highly intensive response. To partially mitigate this risk, the Bank will provide technical support to help Paraguay implement and transparently monitor these measures.
- 2.6 Additionally, there is a medium risk that measures for tax relief and protection of household income and business liquidity will not reach the sectors most affected by the health crisis. To mitigate this risk, the Bank will work closely with the country to coordinate the use and cross-referencing of electronic tax rolls and social assistance rosters so as to better target these measures.
- 2.7 **Development risk.** There is a medium risk that the packages of program-supported measures to respond to the health and economic crisis will only be partially implemented, due to a lack of financial resources. To mitigate this risk, the Bank is coordinating the financial support to Paraguay with other multilateral institutions, such as the IMF and the World Bank.
- 2.8 **Fiscal sustainability risk.** Given the severity of the health and economic crisis, along with other external factors such as the drop in oil prices, the fiscal and debt position of the countries of the region is expected to worsen significantly, which in the case of Paraguay will generate a medium fiscal sustainability risk. To mitigate this risk, the Bank, along with other international organizations, will provide technical support to help Paraguay develop and monitor implementation of post-pandemic economic and fiscal recovery plans that will help lock in a sustainable path for public finances.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Paraguay, acting through the Ministry of Finance. The borrower will execute the program through the Ministry of Finance's Debt Policy Division, with the support of the Ministry of Public Health and Social Welfare (MSPBS) and the Technical Unit of the Social Cabinet (UTGS). The Ministry of Finance will have technical responsibility for program execution and agrees to: (i) act, on its own or by means of a designee, as the official liaison 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 policy objectives defined in the program; 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 and the UTGS. The Ministry of Finance maintained a fluid dialogue with both entities during program preparation in order to define the policy measures, which will help coordinate implementation thereof.

- 3.3 **Special contractual conditions precedent to the first and sole disbursement of the loan: 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.**
- 3.4 **Partial exception to the Public Utilities Policy.**⁷⁹ Management is requesting approval from the Board of Executive Directors for a partial exception to the Public Utilities Policy set forth in document GN-2716-6, with respect to fulfillment of the condition of financial sustainability. This exception is regarded as necessary inasmuch as one of the policy measures adopted by the country in response to the health crisis (Emergency Law 6524), intended to ensure that the population and MSMEs have access to basic public services, could impact the financial sustainability of the businesses providing these services. The fiscal sustainability of the measure is an integral part of support under this proposal, and the measure is expected to be temporary taking into account the criteria of efficiency, transparency, and financial viability.
- B. Summary of arrangements for monitoring results**
- 3.5 **Monitoring.** Program monitoring consists of verification of the agreed policy measures ([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 related to the operation's 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.
- 3.6 **Evaluation.** The evaluation strategy will consist of: (i) a "before and after" analysis of the outcome and impact indicators included in the Results Matrix; (ii) a review of the intervention's theory of change; (iii) a literature review of evidence on the effectiveness of similar interventions in comparable contexts; and (iv) a qualitative evaluation that provides complementary information on how the achieved results can be attributed to the program. In addition, interrupted time series models will be used for outcome variables with the data required by this strategy to empirically estimate the impact of the policy measures adopted under the program. The evaluation's main questions will address whether the policies implemented helped achieve the program objectives ([monitoring and evaluation plan](#)). Additionally, a program completion report will be prepared. Both the ex post evaluation and the program completion report will be conducted at the end of execution of the programmatic series.

IV. POLICY LETTER

- 4.1 The [policy letter](#) reiterates the country 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.

⁷⁹ This exception is activated due to the inclusion in Emergency Law 6524, of 26 March 2020, of a measure to support MSMEs in the area of public utilities. See footnote 74, subparagraph (ii).

Development Effectiveness Matrix		
Summary		PR-L1175
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries receiving health services (#) -Beneficiaries of targeted anti-poverty programs (#) -Micro / small / medium enterprises financed (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		See paragraphs 1.27 and 1.28.
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	Evaluable 10.0	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	N/A	
5. Monitoring and Evaluation	7.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation		
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		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note: The proposal is the first operation in a series of two operations under the Programmatic Policy Based Loan (PBP) modality for emergency assistance caused by COVID-19 in Paraguay. The operation is part of the Bank's operational response to the COVID-19 Pandemic under intervention number IV (Program for Strengthening Public Policy and Fiscal Management for the Attention to the Sanitary and Economic Crisis caused by COVID-19). The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in Paraguay to address the health and economic crisis caused by COVID-19. The program includes three of the four specific objectives of the prototype document. The specific objectives are (i) to promote the availability and timely execution of public resources to address 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 to increase the liquidity of firms during the health and economic crisis and (iii) promote economic and fiscal recovery in the post-pandemic period.

The loan proposal presents a solid diagnosis, as well as a review of international evidence. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of outcomes and impacts. Given that this is a PBL, the outcome indicators are appropriately defined to measure the achievements of the implementation or adoption of the proposed policy reforms. The impact indicators reflect contributions to the final health (reduction of deaths from COVID-19) and fiscal (primary government balance) objectives of the operation.

The monitoring and evaluation plan proposes a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a review of the theory of change, an updated review of international evidence and qualitative studies. In addition, for time series outcome indicators, an interrupted time series analysis will be implemented to empirically estimate the magnitude of the effects to which the program contributes. The monitoring and evaluation activities will be carried out by the executing agency in coordination with the Bank.

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

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: (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.

Components / Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions for programmatic loan I	Triggers for programmatic loan II
Component 1: Macroeconomic stability			
Maintain a macroeconomic context consistent with the program objectives 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.	Fulfilled.	1.1 Maintain a macroeconomic framework consistent with program objectives and the guidelines set forth in the sector policy letter.
Component 2: Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19			
Promote the timely availability of public resources and mechanisms 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.	Fulfilled, March 2020.	2.1 Determine when and how to end the state of emergency and the extraordinary measures arising from it.
	2.2 Approve, for the 2020 fiscal year, the suspension of macrofiscal 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.	Fulfilled, March 2020.	2.2 Submit legislation to the National Congress to reform the Fiscal Responsibility Law, aimed at promoting fiscal recovery during the post-pandemic period.
	2.3 Create an Emergency Operations Center to strengthen the country's preparedness and ability to respond to the pandemic.	Fulfilled, February and March 2020.	2.3 Equip the Emergency Operations Center with operating procedures, physical infrastructure, information and communications technology infrastructure, and information systems for their operation.
	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 Publish the operational guide for the epidemiological and laboratory surveillance of COVID-19 as well as the private laboratory certification guide for sample processing, strengthening the country's capacity in the preparedness and laboratory spheres established in the International Health Regulations (IHR, 2005).

	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.	Fulfilled, March 2020.	2.5 Implement mechanisms, at the Comptroller General of the Republic and the National Anticorruption Secretariat, for reporting issues concerning the use of public resources, particularly those defined by the Emergency Law.
Promote the timely execution of public resources to respond to the health crisis caused by COVID-19.	2.6 Adopt measures that simplify and streamline public procurement processes during the emergency.	Fulfilled, March 2020.	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, improve transparency, and obviate in-person tendering.
	2.7 Approve changes to tariffs applicable to the importation of large quantities of medical supplies for COVID-19 prevention and mitigation.	Fulfilled, March 2020.	
Component 3: Strengthening public policy and fiscal management to respond to the economic crisis			
Strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households during the health and economic crisis.	3.1 Approve the implementation of measures to safeguard the income of informal workers.	Fulfilled, March 2020.	3.1 Bring into force guidelines establishing the Integrated Social Information System as a tool for centralizing databases from administrative registries, strengthening the availability of inputs for the management of social protection services with a focus on vulnerable populations and for better preparedness in crisis situations.
	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.		3.2 Bring into force the normative instrument establishing the Social Protection System as a priority public policy, approving its strategic framework and providing for its implementation.
Strengthen the countercyclical effect of public policy through the temporary introduction of measures to increase liquidity for businesses during the health and economic crisis.	3.3 Establish measures to support micro, small, and medium-sized enterprises (MSMEs).	Fulfilled, March 2020.	3.3 Prepare a document with guidelines for adapting the tax reform to the post-emergency period stemming from COVID-19.
Component 4: Economic and fiscal strengthening for the post-pandemic period			
Promote economic and fiscal recovery in the post-pandemic period.	4.1 Set 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.	Fulfilled, April 2020.	4.1 Introduce legislation in the National Congress for civil service reform.
			4.2 Introduce legislation in the National Congress to redesign public institutions to improve their efficiency.

* 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 makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

RESULTS MATRIX

Program 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: (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..
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target	Final year	Means of verification	Comments
I1. COVID-19 deaths	Number	20,000 ¹	2020	8,000 ²	2020	World Health Organization (WHO) reports	The difference between the number of confirmed deaths and the number simulated in epidemiological models for the situation without control measures, using a mortality rate of 0.4%, will be analyzed. The actual value is expected to be equal to or less than the final target.
I2. Government primary balance	Percentage	-3.7 ³	2020	-2.1	2022	International Monetary Fund, WEO, April 2020	Primary fiscal balance as a percentage of GDP.

¹ April 2020. The denominator, the number of COVID-19 cases, was calculated based on the SEIR and SIR model. *Dinámica temprana de COVID-19 en Paraguay*. Technical report, Week 1, March 2020, prepared by the Applied Scientific Computing Laboratory at the Polytechnic School of the National University of Asunción.

² Estimate by the Imperial College for Paraguay, where the percentage of the population that is infected would be between 47% and 60%, the number of hospitalizations would fluctuate between 59,000 and 97,000 (10,000 to 22,000 in critical condition), and the number of deaths would be in the range of 8,000 to 16,000.

³ WEO projection (IMF, April 2020).

EXPECTED RESULTS

Indicators	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
SPECIFIC OBJECTIVE 1: Promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19.						
1.1 Budget allocated to the health sector	% GDP	3	2019	4.3	Budget approved by Congress and supplementary finance ministry budgets	The increase will be measured at year-end 2020, based on the 2020 budget approved by Congress.
1.2 Strategic preparedness and response plan activities initiated	Percentage	0	2019	80	COVID-19 Plan, MSPBS Resolutions, PAHO report.	Fulfillment of measures established in the COVID-19 response plan that help strengthen the country's capacity in the areas defined in the International Health Regulations (IHS, 2005) will be measured.
1.3 Public expenditure (medical goods and services) associated with the emergency subject to special audits	Percentage	0	2019	90	Bicameral Commission on Expenditure Control, provided in Article 41 of Emergency Law 6524.	
1.4 Health sector expenditure executed	Percentage	82	2019	85	Budget approved by Congress and finance ministry expenditure execution reports	Percentage of allocated budget actually executed.
1.5 State agencies and entities using the electronic bidding system	Number	0	2019	6	DNCP report.	System to be implemented initially in at least 6 of a total of 19 institutions.
1.6 Average tariff on imports of sensitive medical supplies during the health emergency	Percentage	18.7%	2019	0	Decree 3471/2020	Average tariff on the following items: gloves, masks, gowns, and suits for protection against biological risks (tariff codes 4015.11.00, 6210.10.00, 6307.90.10).
SPECIFIC OBJECTIVE 2: 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.						
2.1 Households benefited by temporary direct cash or in-kind transfer programs related to the COVID-19 health crisis	Percentage	0	2019	21	Administrative records of ministries of finance, ministries of social development, and similar agencies	The final target is the number of households that receive temporary benefits, some 330,000 families, under the Ñangarekó Program. The denominator is the total number of households in Paraguay.

Indicators	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
2.2 Workers benefited by temporary employment subsidies	Percentage	0	2019	43	Administrative records of ministries of finance, ministries of social development, and similar agencies	The final target was calculated based on the Finance Ministry's projected number of informal workers who will apply for the subsidy as a result of the economic crisis caused by COVID-19. The denominator is the economically active population in Paraguay, which is 3,465,976 people (DGEEC, 2018).
2.3 Instruments deployed for the financial management of the crisis for the maintenance of the productive fabric	Percentage	0	2019	100	Resolutions by the AFD governing board Decree issuing regulations for the emergency trust fund	This includes the following three instruments: entry into effect of the increase in the guarantee fund, implementation of the emergency trust fund administered by the AFD, and reassignment of products to make a special line of refinancing from the AFD available to the financial system.
SPECIFIC OBJECTIVE 3: Promote economic and fiscal recovery during the post-pandemic period.						
3.1 Actions set out in the plan for economic and fiscal recovery implemented ⁴	Percentage	0	2019	33	Official letter of the finance ministry documenting the plans prepared and implemented	Percentage of all actions set out in the economic and fiscal recovery plan that have been implemented.

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
Component 2: Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19.						
a. Promote the timely availability of public resources to respond to the health crisis.						
Tranche 1: Law establishing measures that channel resources for the state of emergency declared as a result of the COVID-19 pandemic, enacted and published.	Law	0	2020	1	See means of verification matrix	Baseline at the beginning of the year and targets as of December 2020.
Tranche 1: Article of law suspending the application of macrofiscal rules for the preparation and approval of the National General Budget, published.	Article of Law	0	2020	1		

⁴ Linked to 4.1. At least one of the two projects was sent.

Outputs	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
Tranche 1: Resolution creating the Emergency Operations Center, issued.	Resolution	0	2020	1		
Tranche 1: Document containing the National Response Plan for the Eventual Emergence of the Coronavirus (COVID-19), prepared.	Document	0	2020	1		
Tranche 1: Law establishing measures for transparency and accountability in the administration of resources for the COVID-19 pandemic, enacted and published.	Law	0	2020	1		
b. Promote the timely execution of public resources to respond to the health crisis.						
Tranche 1: Law establishing measures that simplify and streamline public procurement processes during the emergency, enacted and published.	Law	0	2020	1	See means of verification matrix	Baseline at the beginning of the year and targets as of December of each year.
Tranche 1: Decree approving changes to tariffs applicable to the importation of medical supplies for COVID-19 prevention and mitigation, published.	Decree	0	2020	1		
Component 3: Strengthening public policy and fiscal management to respond to the economic crisis.						
a. Strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households during the health and economic crisis.						
Tranche 1: Law establishing measures to safeguard the income of informal workers, enacted and published.	Law	0	2020	1	See means of verification matrix	Baseline at the beginning of the year and targets as of December of each year.
Tranche 1: Decree creating a food security support program in the context of the health emergency related to the spread of COVID-19, published.	Decree	0	2020	1		
b. Strengthen the countercyclical effect of public policy through the temporary introduction of measures to increase liquidity for businesses during the health and economic crisis.						
Tranche 1: Law establishing measures to support micro, small, and medium-sized enterprises (MSMEs), enacted and published.	Law	0	2020	1	See means of verification matrix	Baseline at the beginning of the year and targets as of December of each year.
Component 4: Economic and fiscal strengthening for the post-pandemic period.						
Promote economic and fiscal recovery in the post-pandemic period.						
Tranche 1: Document proposing a strategic interagency team (Country Reform Team) to analyze State reforms, published.	Document	0	2020	1	See means of verification matrix	Baseline at the beginning of the year and targets as of December of each year.

**PROGRAM FOR STRENGTHENING PUBLIC POLICY AND FISCAL MANAGEMENT FOR THE RESPONSE TO
THE SANITARY AND ECONOMIC CRISIS CAUSED BY COVID-19 IN PARAGUAY**

PR-L1175

CERTIFICATION

I hereby certify that this operation will be approved for financing under the **Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean (KIF)** through its administration agreements, committing an amount of up to **USD50,000,000** in order to finance the activities described and budgeted in this document.

Donor's commitment does not have validity until the KIF administration agreements between the IDB and the donors are agreed upon and signed for this operation. Therefore, this certification will remain conditional until the corresponding KIF administration agreement or agreements are signed and effective.

Certified by:

(Original signed)

May 4, 2020

Maria Fernanda Garcia Rincon

Date

Chief

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

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

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 Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Paraguay. Such financing will be in the amount of up to US\$160,000,000, 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 ____ 2020)

LEG/SGO/CSC/EZSHARE-746870777-12402
PR-L1175

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Paraguay. Loan ___/KI-PR to the Republic of Paraguay. Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Paraguay

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, acting as the Administrator of the Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean (the "Facility"), 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 Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Paraguay (the "Program"). Such financing will be in the amount of up to US\$50,000,000 from the Facility, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

2. That the authorization granted in paragraph 1 above will be effective once the Republic of Korea has approved the financing for the Program, in accordance with the agreement for the creation of the Facility, entered into by the Ministry of Strategy and Finance of the Republic of Korea and the Bank, dated March 28, 2015, as amended and restated.

(Adopted on ___ 2020)