RE-356

Paraguay: Country Program Evaluation 2003-2008

Office of Evaluation and Oversight, OVE

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CONTENTS

ANNEXES

EXECUTIVE SUMMARY

This Country Program Evaluation (CPE) was produced following OVE's standard protocol for such evaluations. Use of the protocol made it possible to provide an independent long-run view of the Bank's Paraguay engagement. The evaluation findings are set out in this report to the Board and are provided as input for Management's charting of the Bank's future strategy with the Republic of Paraguay.

The 2003-2008 span evaluated here (hereinafter the "review period") was marked by two signal events: Paraguay's democratic transfer of power following 61 years of Colorado Party rule and the solidification of a successful agricultural commodity exporter model that, nonetheless, has had uneven multiplier effects on the rest of the economy. According to the CPE findings the Bank's strategy and projects had proposed an ambitious set of 107 development objectives for its Paraguay operations in 2003-2008. Important as those objectives were, achieving them on the ground exceeded both the country's delivery capacity and the Bank's monitoring capacity.

The *relevance* of the Bank's program was weak on two counts. First, the Bank continued to approve high amounts despite the country's weakness in effectively formulating and assessing its own development plans and needs. Second, as per the previous CPE (1991-2002), the Bank still did not have a strategic-operational model targeting its actions in areas that maximized their impact for the country, and instead provided diffuse financing in numerous areas.

There was a low level of *anticipation* in the program: just 35% of the programmed operations were approved, and they experienced subsequent delays in their ratification and execution. On average, roughly four years went into the preparation of each operation and eight years into execution. Specifically, the congressional ratification process took twice as long as the average for the Bank's other borrowing countries. Once ratified, operations were seldom cancelled, but they underwent frequent modifications, over which the Bank had strong discretionary power.

The country program also had problems in terms of *coherence*. In particular, the Bank had difficulties deploying instruments on par with the magnitude of the challenge posed by the country's weak institutions. It interaction with more than 60 executing units, many of which had been set up to serve as Bank counterparts, was not very compatible with the objective of long-term institution-strengthening. Moreover, the lack of effective coordination among donors—except in times of crisis or on specific studies—prevented an effective division of labor. The Bank therefore continued to play the *de facto* role of Paraguay's "primary lender", which relativized its selectivity.

The program's *efficiency* was low as well. The fiduciary constraints of working in Paraguay prompted the Bank—and to some extent the country—to emphasize financing for physical infrastructure, without there also being a similar degree of sustainable institutional development. The result was chronic weak management capacity that created inefficiencies that were in turn reflected in the Bank-funded programs where project preparation and implementation costs more than triple the Bank averages. The practice of looking to the Bank to finance multiple particular needs made for a less than optimal engagement for the country, not only because of their high costs, but also because of the unpredictability of disbursements, which could affect the Bank's capacity to provide countercyclical support to the country.

Though the Bank's financial engagement with Paraguay has steadily increased and its technical contribution was highly valued, supporting the country in consolidating sector policies—with some exceptions, such as education—has been a challenge. This was due in part to turnover in a key group of Paraguayan government staffers and to the challenges posed by the dissemination and adoption of the technical knowledge, which in some cases could not be effectively transferred to key decision groups such as the legislature and civil society.

The *evaluability* of the Bank's program and of individual operations was low. Lacking baselines, ex post evaluations, project outcome indicators and/or targets as well as precisely defined development objectives in the country strategy it is not possible to distinguish the operations' marginal contribution or the impact of the Bank's country work. The *effectiveness* of the Bank's program in the country therefore cannot be measured, which in turn makes it difficult to extract lessons for future country work. Nonetheless, there were successful experiences stemming more from specific Bank actions than from the overall program.

These successful experiences *depended heavily on the government staffers and specialists involved, and were achieved only under particular conditions*. Firstly, the operations that were successful were ones that had been focused, or reformulated, around *very specific activities* rather than tying their disbursements to broad sector reforms. Second, the *executing agencies* receiving support *were relatively more professional* and specialized than the Paraguayan government norm. Third, the operations sought *a balance between investing in works and investing in institutional development*—and were generally more successful when the promoted the creation of new specialized entities in a context of gradual reforms. However, thus far there is no evidence that the Bank has institutionalized these lessons learned within the mechanics of how it engages with the country.

Based on its evaluation OVE is making five recommendations, which reaffirm the recommendations put forward in the previous CPE (1991-2002): (i) build broad-based consensus—anchored in technical evidence—around a new country development model, fostering dialogue and discussion avenues to assure that the model has the backing of the citizenry and will transcend political cycles; (ii) support development of a system to prioritize key projects, looking for maximum economic growth impact; (iii) help attract the requisite investment and public and private cofinancing to deliver those key projects; (iv) build up country delivery capacity and systems, seeking stability of key government personnel and meaningful public scrutiny avenues and ensuring that programs and projects are evaluable; active use of nonreimbursable technical assistance vehicles is recommended for those purposes; and (v) ensure that as the country institutes this new development model there is adequate financing for social capital building by means of universal social policies and nimble social protection programs to give Paraguayans access to emerging employment opportunities in the new production sectors.

INTRODUCTION

This Country Program Evaluation (CPE) was produced by the Office of Evaluation and Oversight (OVE) following the guidelines of a preset protocol that has been used previously in Paraguay and in the Bank's other borrowing countries. Following the protocol methodology the CPE provides an independent long-run view of the Bank's Paraguay engagement, as well as of its *effectiveness* in achieving results. As such, the evaluation's aim is to inform the development of the Bank's future strategy with Paraguay.

To that end, the CPE team assessed the program's *relevance* to country and Bank priorities, the *anticipation* of the programming process, and the *coherence* of the resulting program, looking at the types of products used, feasibility of the anticipated outcomes, and specification of the division of work with other stakeholders in the country. The *efficiency* of the program's delivery and its attainment of the charted development objectives were evaluated as well.

Producing the CPE necessitated intensive field work, which included nearly 100 interviews at Headquarters and in-country. The Bank's Management and Paraguayan government representatives provided excellent collaboration, coordinating closely with the work team. In OVE's view this work relationship helped advance the evaluation's ultimate aim, which is to enhance the Bank's service to the country.

The evaluation team used Bank studies and monitoring data but these proved insufficient to convey advances on the development objectives that had been proposed in the country. OVE therefore supplemented that information with data from secondary sources, together with qualitative evidence on the Bank's work in Paraguay. Lastly, since this is the second Paraguay CPE we also evaluated the extent to which the previous OVE recommendations were implemented.

In short, the Bank identified four major development challenges for Paraguay: (i) preserving macroeconomic equilibrium and achieving sustainable growth; (ii) diversifying the economy and making the country more competitive; (iii) fostering social development, and (iv) strengthening governance and institutions. The present CPE is structured around those same issues to facilitate its contribution to the dialogue between Bank Management and the country authorities.

The evaluation is divided into five chapters. The first lays out the backdrop for Paraguay's most serious development challenges. Chapter II reviews the programming objectives agreed to by the Bank and the country and Chapter III examines the programmed activities' implementation performance. Chapter IV reports progress made toward the development objectives proposed in the program and assesses the Bank's contribution. The last chapter presents the evaluation conclusions and recommendations for the Bank's future strategy with Paraguay.

I. PARAGUAY: BACKDROP AND DEVELOPMENT CHALLENGES

A. The review period: 2003-2008

1.1 **Paraguay has a small, commodity-based economy.** Estimated GDP in 2008 was just over US$16 billion at present value (equivalent to US$2,600 per capita).[1] As a result, Paraguay was the sixth smallest of the Bank's member country economies, with agriculture accounting for close to 60% of its economic growth.[2]

1.2 **Growth and stability were the dominant features during the review period.**[3] In 2003-2004 the Paraguayan economy was still suffering the effects of the crisis and its outlook was uncertain; but between 2003 and 2008 it expanded 4.6% annually, on average, buoyed by a benign international environment and the country's relatively stable political landscape.

1.3 **Nevertheless, historically Paraguay's economic growth rates have trailed comparable countries, and its growth has not caught up in recent years.** Between 1990 and 2007 Paraguay posted average annual growth of 2.4%, in the comparable-income Bank member countries the average rate was 3.6%.[4] Over that 17-year span Paraguay's growth was 33 percentage points behind the comparator countries.[5] Growth performance from 2003 forward was also not strong enough to increase the relative size of its economy[6] (see Annex, Figures 1.1 and 1.2).

1.4 **That slow growth pattern has been associated with reduced investment levels.** As a result of the mid-1990s crisis, investment fell significantly from roughly 25% of GDP in 1994 to 15% in 2002. Though growth picked up again in 2003, the average 2003-2007 investment-to-GDP ratio was just 16% and is still below the pre-crisis levels and comparator-country figures. Paraguay would need some US$900 million in additional investment would be needed annually to close the gap with those countries.[7] Human capital formation remains low as well.[8]

1.5 **Nonetheless, Paraguay is a relatively low-debt country that relies on multilateral and bilateral agencies for external finance (58% and 42%, respectively, of the total debt).** In 2008 its external debt stock stood at approximately US$2.2 billion, or 14% of GDP. The IDB is Paraguay's principal creditor and has a strong presence in the country: in 2007 it accounted for about 76% of the country's multilateral finance and 44% of its total debt. From 2003 to 2007, the Bank was the only agency to see its share in Paraguay's debt stock increase, from 40% to 44%.[9]

B. Macroeconomic equilibrium

1.6 **In the years preceding the period reviewed here the Paraguayan economy and political landscape had been very unstable.** Between 1996 and 2002 the country experienced the lengthiest decline in per capita GDP in 50 years. The political instability that culminated in the assassination of Vice President Luis Argaña and the 1999 "Paraguayan March" disturbances that forced out then-President Raúl Cubas who had been elected in 1998.[10] In 2002, Paraguay's per capita GDP was down nearly 9% from 1990. By end-2002 the government began a selective suspension of payments amidst a widening budget deficit.

1.7 **The year 2003 began with dim growth forecasts, but the new government that took office in August and a benign international environment quickly reversed the negative trend.** The IMF forecast a 1% real GDP decline for that year, 17% inflation, and an overall budget deficit of more than three percentage points of GDP.[11] Nonetheless, the Paraguayan economy began to show swift signs of recovery thanks to strong agriculture sector performance, chiefly owing to the good soybean crop and 25% rise in soy prices, and implementation by the new administration of fiscal reforms in the context of an IMF stand-by arrangement[12] supported by the IDB and the World Bank. Those reforms included passage of a law to revamp the tax system,[13] spending controls, and more efficient tax and customs revenue collection.[14]

1.8 **Thanks to the tax reform's positive fiscal outturns, Paraguay's fiscal indicators and external accounts improved.** The country quickly regularized its payment obligations, substantially boosted its international reserves,[15] cut public borrowing, began net payments on its external debt, and reversed the prior-years' budget deficit, running overall surpluses from 2004 forward.[16] The external debt stock began to reverse the upward trend observed since the 1990s crisis. These factors, coupled with the growing economy, slashed the external debt as a percentage of GDP from near-45% in 2003 to around 14% in 2008.[17]

Table 1.1. Main macroeconomic indicators (1999-2008)

Variable	Unit	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP	US$ million	7,300.9	7,100.0	6,447.4	5,092.7	5,551.9	6,972.6	7,505.3	9,289.0	12,518.0	16,151.2
GDP growth	Growth rate	-1.5	-3.3	2.1	0	3.8	4.1	2.9	4.3	6.8	5.8
Inflation	Annual rate	6.8	9.0	7.3	10.5	14.2	4.3	6.8	9.6	8.1	8.3
Tax revenues	% of GDP	9.9	9.9	10.8	10.0	10.3	11.9	11.8	12.0	11.6	N/A
Total central Government expenditure	% of GDP	19.4	19.5	19.7	20.7	17.6	16.9	17.6	17.9	17.0	N/A
Overall fiscal result	% of GDP	-3.3	-4.2	-0.9	-3.3	-0.4	1.6	0.8	0.5	1.0	N/A
International reserves	US$ million	988.0	772.0	723.0	641.0	983.0	1,168.0	1,297.0	1,703.0	2,462.0	2,864.0
External debt stock	US$ million	2,111.5	2,234.6	2,162.4	2,283.4	2,477.6	2,390.7	2,271.1	2,230.1	2,205.3	2,232.2
International reserves	(Index 2003=100)	100.5	78.5	73.6	65.2	100.0	118.8	131.9	173.2	250.5	291.4
External debt stock	% of GDP	28.92	31.47	33.54	44.84	44.63	34.29	30.26	24.01	17.62	13.82

Sources: Ministry of Finance; Central Bank of Paraguay, Debt Management and Administration System (SIGADE).

1.9 **Nevertheless, the tax ratio continues to be low, in part because the binational hydropower plants provide an alternative revenue stream.** Paraguay's tax burden (tax revenues as a proportion of GDP) is 12%. Its tax structure is built primarily upon indirect taxes.[18] Royalties from the Itaipú and Yacyretá binational hydropower plants give the central government a sizable revenue stream, reducing the incentive to increase the tax burden.[19] Nor does Paraguay's budget process—specific items in which are influenced by Congress—favor prioritization of long-range structural policies: the Congress amends the budget by adding requirements beyond those put forward in Executive Branch proposals; therefore, "*if the* *approved budget exceeds the Treasury's revenue collection capacity, capital expenditure is sacrificed."*[20]

1.10 **Moreover, contingent liabilities such as those of the public-sector employees social security system (Caja Fiscal) are a continuing threat to the medium-term sustainability of the public finances**.[21] By 2007, measures in the late-2003 Caja Fiscal Reform Law[22] had reduced the social security system shortfall both in absolute terms and relative to GDP, but the system still is running high deficits[23] and structural problems such as the small proportion of the population who pay into the system and demands to add new beneficiaries to its rolls are still unresolved.

C. Competitiveness

1.11 **Paraguay ranks last among the IDB member countries included in the Global Competitiveness Index.** According to the World Economic Forum, in 2008-2009 Paraguay was in last place among the IDB member countries for various key determinants of competitiveness, such as infrastructure availability, higher education and training, and innovation.[24] It also places near the bottom for technological readiness and business sophistication.[25]

1.12 **With an economy that is preponderantly primary sector-dependent,** Paraguay still is a primary commodity exporter, its top exports being soy seed[26] and meat.[27] Production focuses in recent decades have been agricultural goods and electric energy for export. Between 1991 and 2007 the crop and livestock industry's GDP share rose 41% while the manufacturing share declined almost 19% (see Annex, Figure 1.3).[28]

1.13 **In a very open economy,[29] this makes Paraguay highly vulnerable to external shocks.** In 2007, agriculture accounted for close to 60% of the country's economic growth. This is evidence of how exposed its economy is to commodity price movements and weather events such as droughts.[30] Though a handful of nontraditional, value-added, more labor-intensive products have begun to show export potential, these still make up less than 10% of the agroexport basket.[31]

1.14 **Paraguay continues to post trade deficits, which widened during the review period.**[32] Though its exports tripled between 2003 and 2007 Paraguay's imports increased as well, in large part because of the 2006 and 2007 appreciation of the guaraní and capital goods purchases as agriculture was mechanized (see Annex, Figure 1.4).[33] The customs reform that began to be implemented during the period had greater success in regularizing imports than exports—which were traditionally triangulated through Ciudad del Este—therefore part of this deficit is due to weaknesses in the business registry system. The period was also characterized by the loss of the relative predominance of MERCOSUR as a trade partner, integrating the country into international marketing chains.

1.15 **The country has been running balance of payments surpluses since 2002**.[34] In 2006-2007 the capital and financial account was buoyed by foreign direct investment (FDI), mostly for investments in agriculture.[35] But relative to GDP

(1.6% in 2007) FDI into Paraguay still was among the region's fourth lowest[36] (see Annex, Figure 1.5 and Table 1.2).

1.16 **Moreover, the small financial sector continues to play a limited role as an engine of growth and productive diversification.** Even though the system was successfully cleaned up following the 2001 crisis,[37] there continue to be structural constraints and little financial deepening, which has worsened since 2003 and is below the average for comparator countries.[38] Although deposits recovered, most continue to be sight deposits,[39] with people having opted for ready access to their money rather than interest earnings.[40] This directly affected companies, particularly small and medium-sized ones[41] (see Annexes, Table 1.3, Table 1.4, and Figure 1.6).

1.17 **In sum: throughout the review period the duality between a dynamic primary exporting sector and the rest of the economy deepened.** The agroexport sector grew quickly thanks to the sharp rise in prices—particularly for soybean—and increases in scale and productivity. The performance of this highly technified, low labor intensive sector contrasts sharply with smallholding farming[42] and most other sectors of the economy.

D. Modernization of the State

1.18 **During the review period, Paraguay enjoyed relative stability.** Two things stand out in 2003-2008: the relatively stable political climate, in part the result of robust economic growth, and the April 2008 election of president Fernando Lugo that brought an end to 61 uninterrupted years of Colorado Party rule in a peaceful democratic transition.

1.19 **Nevertheless, public sentiment about the value of democracy is still muted.** In a Latinobarómetro 18-country survey[43] Paraguay came in lowest for proportion of the population (9%) satisfied with the democratic process. It ranked second lowest for proportion in favor of democracy (33%) and second lowest for trust in political parties (12%).

1.20 **Serious governance constraints persist, including corruption.** Paraguay's governance indicators trail the Bank member country and comparable income country averages. The differences are significant for quality of public institutions, voice and accountability, government effectiveness, regulatory quality, rule of law and, particularly, control of corruption, for which Paraguay places among the bottom three countries in the region[44] (see Annex, Figure 1.7). This helps perpetuate the country's low investment levels and competitiveness.

E. Social development

1.21 **Paraguay's economic growth performance during the review period made it possible to reduce the proportion of the population living below the poverty line from 41.4% in 2003 to 35.6% in 2007.**[45] This improvement was due mainly to the effect of the economic growth, rather than to more equitable income distribution.[46] The increase in remittances from emigrants also contributed to this, as they tended to benefit mostly the poorest deciles of the population.[47]

1.22 **Unlike the findings of the previous CPE (1991-2002), poverty in Paraguay no longer has a predominantly rural face, although extreme poverty does continue to be primarily in rural areas**.[48] Heavy domestic migration produced a relative increase in urban poverty[49] though such poverty is moderate overall:[50] In all, 56% of the urban poor are not living below the extreme poverty line, whereas 70% of the rural poor are extremely poor (see Annex, Table 1.5).

1.23 **This new poverty dynamic creates fresh challenges in both rural and urban areas.** Firstly, the pushing back of the agricultural frontier was accompanied by land concentration[51] and increased prevalence of the extremely poor in rural areas, prompting a growing mobilization of campesino groups. Second, the relative rise in urban poverty coincides with an increase in crime and violence rates,[52] together with strong unmet demand for urban infrastructure and services.

1.24 **Though social spending remained on par with GDP growth, it still is low, particularly for health services, water supply, sanitation, and housing**. Central government social expenditure remained relatively stable as a percentage of GDP (roughly 8.5%) from 2003 to 2007, which represented growth of over 20% in real terms. Nonetheless, the country still is allocating scant resources for the social sectors, particularly health services (1.6% of GDP in 2007), water supply, sanitation, and housing (0.14% of GDP that year).[53]

F. Challenges in a time of crisis

1.25 **The global crisis accentuates the challenges described above.** Paraguay is highly vulnerable to external shocks. Indeed, a string of negative signals have emanated since the third quarter of 2008. During the first half of October the guaraní lost almost 20% of its value, and economic agents maintained high liquidity holdings. Foreign currency flows—including emigrant remittances—plummeted. Nevertheless, thanks to strong agriculture sector and aggregate demand performance, 2008 closed with estimated GDP growth of 5.8%.

1.26 **The impact of the global crisis on Paraguay is still uncertain but, depending on its length, could be significant.** A prolonged global recession could have a number of simultaneous adverse impacts on the country, driving up poverty levels and exacerbating latent social and political tensions. Commodity price downturns,[54] coupled with production drops due to adverse weather events,[55] could impact exports. Similarly, the flow of nonresident remittances could start a net downward trend. Borrowing already has become more expensive.[56] The government also has been affected as tax revenue intake has slowed, particularly VAT and customs duties,[57] which could generate a fiscal deficit in 2009.[58]

II. DEVELOPMENT OF THE COUNTRY PROGRAM

2.1 **In this chapter we assess the Bank's programming process in Paraguay,** looking at the following elements: (i) *relevance:* how closely aligned the strategy formulation and objectives and the Bank's assistance program were to country needs and government development plans and priorities; (ii) *coherence*: the suitability of Bank instruments and their coordination with other donors; and (iii) *anticipation*: the programming exercise's capacity to anticipate activities ultimately delivered.

A. Relevance

2.2 **The period covered in this evaluation takes in the 2003-2008 programming cycle, for which the Bank had produced a country strategy covering the years 2004-2008.**[59] The strategy paper summarized the extensive dialogue and broad consensus reached with the country authorities and mapped out three action focuses for the Bank: (i) *strengthening governance*; (ii) *laying the foundations for sustainable growth through the consolidation of the market economy and greater regional and global integration,* and (iii) *reducing poverty and improving the quality of life of low-income sectors of the population.*[60]

2.3 **As the Bank was developing its strategy (2003-2004) Paraguay was in a critical state, with effects on its economic, political, and social stability.** *Macroeconomic equilibrium* was being threatened by contagion from the regional crisis that had left Paraguay's public finances in a precarious state, unleashed inflationary pressures, triggered capital flight and runs on banks, and created uncertainty about repayment of the public debt. Continuation of the *modernization of the State* process that had been unfolding since the country's return to democracy and its transparency and delivery capacity were seriously affected. *Social development* was constrained by the dearth of social services on offer and the absence of social safety nets. Compounding these problems was the inability of the nation's production system to absorb a mass of unskilled workers more and more of whom were either turning to unregistered economic activities, joining the ranks of the unemployed, or emigrating. Paraguay's *competitiveness* was suffering greatly from the shortage of needed investment amid sharp falloffs in bank intermediation and foreign direct investment.

2.4 **As the crisis abated toward the end of 2004 the country's needs focus shifted from stabilization to structural reforms, to which the Bank responded with specific portfolio adjustments.** In late 2004 President Duarte Frutos brought together his cabinet and business and civil society representatives in San Bernardino to draw up a new model for economic growth with equity. The Bank was an active participant in that exercise and agreed to reformulate the existing portfolio.[61] Consultations in the country indicated that a new formal programming exercise was not considered necessary. It was argued that the strategy was clearly focused on long-range issues—primarily enhancing competitiveness—and therefore should remain in effect, without modification.[62]

2.5 **There is no evidence, however, that these one-time adjustments optimized the use of the Bank's financing, while taking advantage of the opportunities created by the new context in the country.** Although the principal issues—such as competitiveness—remained a priority, they could be promoted through very different types of interventions, such as building highways to cut logistical costs, or building consensus within sectors to remove barriers to competitiveness. The decision not to reframe the country strategy meant that the same types of interventions would continue, although there is no evidence that the Bank had conducted a new diagnostic assessment that would be able to validate them or tailor them to the new context. In practice, continuing with the approved portfolio prevented potential delays in implementing new projects.

2.6 **One recommendation in the previous CPE (1991-2002) was that in its work going forward the Bank define its programming priorities more clearly and target its activities more on areas with significant economic growth impacting potential.** This was conveyed in the country strategy's assertion that "*operations need to be targeted at the sectors in which they will have the greatest impact and where the best possible use can be made of the Bank's comparative advantages, [selecting] high-priority programs ... as the focal points for the Bank's efforts.*"[63]

2.7 **However, that same strategy paper relativized this principle of selectivity.** Management referred to limits it faced "*given [the Bank's] role as lead lender and the convergence of multiple demands*" and said that "*advances in this regard will be a process that unfolds gradually over the medium and long terms. Progress in this area will also depend on the pace of the portfolio's execution and on greater participation by other donors in order to avert setbacks and ensure the continuity of the reforms being undertaken.*"[64]

2.8 **The country strategy was therefore very general, leaving the elucidation of development objectives to the loans themselves.** The strategy mapped out 18 development objectives. The projects did not pursue that relatively modest number of objectives: each project set its own. The loans brought in 95 more specific development objectives spread across a range of sectors, only six of them matching the objectives proposed in the strategy. In all, then, 107 objectives were different in the strategy and in projects (see Annex, Table 2.2).

2.9 **Consequently, the previous (1990-2002) CPE finding that the Bank's Paraguay programming was very general continues to hold, there being no evidence of a model for the Bank's country engagement.** Over the 1990-2002 span the Bank had engaged in a growing number of sectors. In its recommendations the previous CPE affirmed that "*the Bank's programming in Paraguay is so general that no specific strategic and operational model for the Bank's activities in the country can be identified. ... there is no observable ... description of the factors that determine the organization and structure of the country ... so Bank actions can be prioritized and its strategic intent 'operationalized.'*"

2.10 **The general nature and scattering of the Bank's program also did not help Paraguay specify its own development needs.[65]** Letters of intent signed with the International Monetary Fund—initially on 5 December 2003 and updated on 8 May 2006—formed the backbone of the government's action plan. Without an undertaking of that kind the country lacked an organized system to advance its long-run development objectives.[66] This also limited the country's capacity to define and prepare projects; instead it relied on those developed by others, including the Bank itself.

B. Coherence

2.11 **Even though the strategy identified weak institutions in Paraguay as a challenge, the program ran into problems deploying instruments that targeted that need.** The Bank ran up against the country's reluctance to borrow for consulting assignments aimed at supporting lengthy institutional reform processes. That was largely due to the Congress's preference for external financing to be allocated to tangible physical works. The Bank's program therefore had to resort to introducing institution-strengthening components in investment loans and to use technical-cooperation initiatives, which nonetheless were not sufficient for addressing a core challenge to the Bank's work in the country.[67]

2.12 **This scattering of the program was not very conducive to creating the conditions for institutional development.** During the review period the Bank worked with 65 executing units, including seven of Paraguay's eleven ministries. Bank-funded operations were spread among a host of institutions: 46 executing agencies each managed a single Bank operation, 15 had two operations, and only four (the Finance, Education, Agriculture, and Public Works ministries) each handled three or more projects. This occurred even though the country strategy itself had affirmed as a lesson learned that the dispersion of Bank operations among multiple institutions could impede institutional development: *"In order to enhance project sustainability, the end purpose of institutional development efforts should be to strengthen executing agencies rather than simply to create them."*[68]

2.13 **The increased number of operations also was not consistent with the country's low delivery capacity.** According to the Bank's programming documents, *"[t]he main factor that interferes with a majority of the operations included in the portfolio is the institutional weakness associated with a shortage of qualified professionals and high staff turnover."*[69] Nevertheless, average annual project approvals jumped from 2.5 in the four previous cycles to 4.3 in the present cycle (with a peak of nine approvals in 2008) (see Annex, Figure 2.1).

2.14 **Despite planning to increase selectivity, the Bank continued to be Paraguay's leading external lender, with US$551 million in approvals between 2003 and 2008.** Though the country strategy paper had stated that *"the Bank should assist in identifying opportunities to heighten the involvement of other donors and multilateral and bilateral credit institutions so that it can be more selective in focusing its operations on a more limited number of sectors,"* the Bank's share not only did not diminish, it increased (see Annex, Figure 2.2).

2.15 **Except in the context of the 2003 crisis, there was no framework for coordinating international cooperation, so this was done on an *ad hoc* basis.** The Bank did endeavor to coordinate its operational and analytic work with other donors. At times this meant respecting tacit agreements on "division of work," in the education and health sectors in particular. In other spheres the Bank worked in concert with the World Bank and IMF: the Country Financial Accountability Assessment (CFAA) and Integrated Fiduciary Assessment (IFA), for instance, were produced jointly with the World Bank.

2.16 **The approvals of the World Bank, which planned to invest amounts similar to the IDB, were less than half of the Bank.** One third (33%) of the US$225 million in 2003-2008 World Bank approvals were for the transportation sector, 17% for agriculture, 17% for public administration, 14% for the health sector,[70] 11% for education, and 9% for the financial system. In contrast to the IDB, the World Bank's share in Paraguay's debt stock edged down over that period, from 11.2% to 10.5%. That low proportion was unexpected even to the World Bank: even the low approvals scenario in its 2004-2007 Paraguay Country Assistance Strategy (CAS) had topped US$300 million. In its evaluation of that CAS the World Bank attributes this lending performance to difficulties in re-engaging in Paraguay following a period of virtual absence from the country and in securing legislative approval for operations.

2.17 **Other institutions continued delivering fairly regular support but cut their funding and sharpened its targeting.** The European Commission, for instance, approved a total of €51.7 million in 2002-2006 for human development and poverty reduction (€24 million), production incentives and Paraguayan competitiveness in MERCOSUR (€21.7 million), and modernization of the State (€6 million). The Andean Development Corporation approved US$29 million for road infrastructure. The United States Agency for International Development also gave in the period 2004-2006 US$15.1 million for democracy building, US$3 million for environmental initiatives, US$5.7 million in reproductive health support, and US$5 million to spur private sector growth. The International Fund for Agricultural Development provided US$12 million in funding for rural development in 2005. More recently, the MERCOSUR Structural Convergence Fund (FOCEM) has allotted some US$40 million per year for Paraguay, but little of that money has been expended as yet.

C. Anticipation

2.18 **The Bank's country strategy laid out two lending scenarios for the 2004-2008 cycle**—a US$350 million base-case scenario and a US$450 million high approvals scenario (US$90 million annual average). These were the high-scenario assumptions: (i) actions already in progress will be built on, especially major advances on Bank-supported reforms such as the government banking system, modernization of public administration, and strengthening of legal certainty; (ii) the investment climate improves, thus attracting more private capital; and (iii) the pace of project implementation speeds up considerably, with average annual disbursements for 2004 and 2005 equivalent to 20% of the balance of the active portfolio as of the start of 2004.

2.19 **Even though some core assumptions were not borne out—notably, projects and reforms executed slowly—the Bank's approvals reached the high-scenario figure.** Disbursements in 2004 and 2005 averaged US$56 million annually, which was 15% of the start-of-2004 aggregate undisbursed loan balance. Approvals totals were relatively low in the first two years of the strategy span (US$3.6 million in 2004 and US$40.5 million in 2005), with US$404.5 million in operations approvals in 2006-2008.[71]

2.20 **The programming anticipation rate thus was low (35%).** Only 10 of the 28 loans anticipated in the country strategy and the 2006 portfolio review report were ultimately approved, whereas the remainder of approvals were either in response to specific requirements or as second tranches of previous operations. Moreover, 5 of the 14 2003-2008[72] cycle approvals had not been foreseen in either of those documents. This made for a programming anticipation rate[73] of barely 35% but a 66% approval anticipation rate[74] (see Annexes, Table 2.3).

2.21 **The anticipation rate for social development and basic service projects and programs was even lower than for the Bank's other work areas.** Only one of the seven anticipated social development, basic services, and land development operations was approved (14% anticipation rate), well behind the programming and approval anticipation rates for the 8 competitiveness operations approvals which were 35% and 86%, respectively. Six operations were approved for modernization of the State, with a 50% approval anticipation rate and a 100% programming anticipation rate (all three programmed operations were approved). Tables 2.4 and 2.5 in the Annex break these data down by sector and project.

2.22 **Its low anticipation capacity notwithstanding, the strategy did provide some core indicators against which to track the set objectives, which made it more evaluable than strategies in previous cycles.** In its logical framework section the strategy paper laid out development objectives and specified ongoing and proposed Bank actions to pursue them. A total of 34 indicators were presented to track those objectives: 67% of them were *outcome* indicators, 74% specified a *target*, 50% had a *baseline*, and none had *milestones*. Because so much information was lacking the strategy's overall ex ante evaluability index was 41%—which did mark an improvement over the previous strategy.

III. DELIVERY OF THE COUNTRY PROGRAM

3.1 **In this chapter we evaluate the preparation and delivery of operations derived from the programming.** After outlining the reviewed portfolio we analyze how *efficiently* the operations were prepared and executed. We look particularly at aspects related to the *operations' evaluability* and *execution problems identified*.

A. Portfolio reviewed

3.2 **The portfolio examined comes to US$861 million, encompassing all operations approvals from 2003 to 2008 and some earlier loans most of whose proceeds were disbursed in those years.**[75] The portfolio reviewed includes 35 investment loans for a total of US$773.8 million, one US$30 million programmatic loan, one US$30 million emergency loan, 63 nonreimbursable technical cooperation operations totaling US$14.6 million, 14 MIF grants for US$7.1 million, and eight small projects for US$5.6 million.

Table 3.1. Approvals by sector and undisbursed balances (US$ million)

Sector	Balance prev. oper.*	Approvals						Appr. 2003-2008	Total portf.	Disb. 2003-2008*	Canc. 2003-2008	Undisb. bal. end-2008*
		2003	2004	2005	2006	2007	2008					
MACRO EQUILIBRIUM	-	-	-	-	-	-	-	-	-	-	-	-
Economic structure	-	-	-	-	-	-	-	-	-	-	-	-
Fiscal equilibrium	-	-	-	-	-	-	-	-	-	-	-	-
COMPETITIVENESS	182.1	1.0	0.5	39.0	247.7	14.8	84.7	387.7	569.7	218.2	4.3	332.8
Competitiveness policies	10.0	0.5	-	0.8	1.9	11.5	0.1	14.8	24.8	7.7	-	12.3
Science and technology	-	-	0.0	7.4	-	-	-	7.4	7.4	0.3	-	6.2
Electric energy	-	-	-	-	69.5	0.2	-	69.7	69.7	3.1	-	66.4
Road infrastructure	162.2	0.5	-	-	134.4	0.0	0.4	135.2	297.4	125.4	-	170.8
Agricultural development	9.9	-	0.5	0.6	33.3	0.1	1.6	36.0	45.9	4.9	4.3	32.2
Financial system	-	-	-	30.2	8.7	3.0	82.6	124.5	124.5	76.7	-	45.0
SOCIAL SECTOR DEVELOPMENT	96.8	54.4	1.0	0.3	0.8	46.0	0.3	102.8	199.7	108.0	11.2	76.0
Social investment	28.4	30.0	0.7	0.1	0.4	0.1	0.0	31.3	59.7	22.4	10.0	26.0
Basic utility services and regional development	12.0	0.9	0.1	0.0	0.1	-	-	1.2	13.2	10.4	-	1.6
Education	32.1	23.6	0.2	0.1	0.3	45.9	0.3	70.4	102.5	51.9	0.2	48.3
Health	24.4	-	-	-	-	-	-	-	24.4	23.3	1.0	0.1
MODERNIZATION OF THE STATE	30.9	9.4	2.1	1.2	11.1	7.5	29.3	60.7	91.6	23.5	7.9	51.9
Support for policy making	4.5	9.2	0.2	0.2	0.2	6.3	0.2	16.1	20.6	5.0	-	14.9
Governance strengthening	26.4	0.3	0.8	0.7	11.0	0.2	28.1	40.9	67.3	18.5	7.9	37.0
Scrutiny of government and transparency	-	-	1.2	0.4	-	1.0	1.1	3.7	3.7	-	-	-
TOTAL	309.8	64.9	3.6	40.5	259.7	68.3	114.3	551.2	861.0	349.7	23.4	460.7

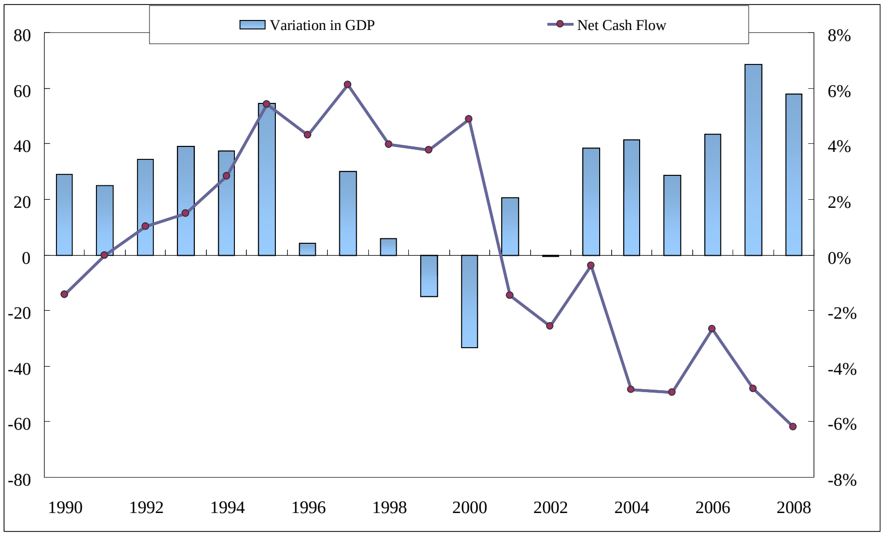
*Excluding TCs.

3.3 **The undisbursed portfolio balance rose 24% in the span starting in 2003, a result of high approvals levels and relatively few cancellations.** The Bank's lending approvals in 2003-2008 came out to US$95.7 million annually, disbursements to US$72.3 million, and cancellations to US$7.9 million. The cancelled final tranche of an emergency social sector loan accounted for most of the "cancelled" figure (almost 50% of total cancellations).[76] The overall undisbursed loan balance rose from US$385.1 million in 2003 to US$477.7 million in 2008. The number of active loans increased more than 60% over that period, from 21 in early 2003 to 34 at end-2008.

3.4 **Total loans in repayment declined 5% owing to the fast pace of repayments and slow pace of disbursements.** In 2003-2008 Paraguay repaid US$112.1 million annually in principal, interest and fees. New disbursements were much slower—an average of US$72.3 million annually, making for a net country-Bank cash flow of US$238.9 million in 2003-2008, US$34.4 million of which went to reduce loans in repayment (equivalent to 5% of total loans in repayment at the start of 2003).

3.5 **The negative net cash flows generated for Paraguay were countercyclical during the growth period examined here.** Owing to the increase in repayments and GDP growth, Paraguay's IDB debt as a percentage of GDP fell from 18% in 2003 to around 8% in 2007. From 2001 forward, following several years of positive flows—even in the midst of the crisis—net cash flows with the Bank became negative, peaking at -US$60 million in 2008. In a future business cycle downswing scenario the slow rate of Bank disbursements (or any type of disbursement constraint) could make it difficult to generate countercyclical flows to support the country.

Figure 3.1. Net IDB–Paraguay cash flow (1987-2008) and GDP change



Source: Loan Financial Management System (FINLMS) and Central Bank of Paraguay.

B. Efficiency

1. Preparation and implementation times

3.6 **Investment project preparation and implementation times in 2003-2008 were significantly longer than planned**. On average it took about 41 months to prepare a Paraguay project—more than 30% longer than the Bank average. Loans for social development and modernization of the State took the longest to prepare, by a slight margin (on average 44 and 42 months, respectively) but, generally, the slippages were comparable in investment projects in all areas.

3.7 **Slippages were longest in the signature-to-first disbursement part of the cycle, which took double the Bank average time.** One major cause of these slippages was the required congressional ratification of approved projects. Paraguay was the second-slowest of the Bank's countries in securing such clearance: in Paraguay over 10 months elapses, on average, between loan contract signature and project ratification, even doubling the Bank average (see Annex, Figure 3.2). These delays encouraged the country's and Bank's intensive use of the Project Preparation and Execution Facility (PROPEF) as an alternate finance avenue until a project was ratified.[77] In March 2009 there were 13 projects awaiting ratification (10 approved in 2008, two in 2007, one in March 2006).

3.8 **On the implementation side, projects took more than double the originally proposed timelines to execute—57% longer than the Bank average.** Some projects in every sector took much longer than originally scheduled. For example, the Modernization of the State program (PR-0081) took 121 months to deliver, a 71-month slippage; as of 31 December 2008 the Primary Health Care Reform Program (PR-0028) had been under way for 120 months, 67 months off schedule; and the second phase of the National Rural Roads Program (PR-0104) was in month 88, 32 months over schedule.

Table 3.2. Project preparation and implementation times (in months)[78]

Loans	Profile I to approval	Approval to contract	Contract to 1st disbursem.	1st disbursem. to orig disb.	Orig. disb. to final disb.	Preparation time	Implem. time
Paraguay							
Average - Investment	21.0	2.5	17.7	46.2	47.0	41.1	93.2
Average - PBLs & Eme	14.0	0.0	12.5	11.5	-0.5	26.5	11.0
Average - Private sector		14.0	1.0	57.0		15.0	57.0
Bank							
Average - Investment	18.3	4.6	8.7	43.8	30.0	31.5	73.8
Average - PBLs & Eme	10.7	2.3	3.3	21.2	0.5	16.3	21.7
Average - Private sector	16.4	5.1	1.4	27.6	-2.6	22.9	24.9

2. Costs

3.9 **The costs of project preparation and implementation in Paraguay were high, making it one of the highest-cost countries for the Bank.** Paraguayan project preparation costs exceeded Bank averages throughout the review period (US$8,116 per million in approvals, compared to the Bank average of US$2,967 per million). Preparation costs were higher still in years that saw fewer investment loan approvals than technical cooperation approvals. In 2004, for instance, when no investment loans were approved, the costs of preparing nine technical cooperation operations and two small projects came to US$66,200 per million in funding approved.[79]

3.10 **Likewise, implementation costs per million dollars disbursed were more than quadruple the Bank averages.** Paraguay was sixth highest among the Bank's countries for implementation costs, after Suriname, Barbados, The Bahamas, Honduras, and Guyana. An important consideration here is that the high preparation and implementation costs both are associated with the relatively small project size[80] (which ups fixed costs relative to disbursed amount) as well as with transactional difficulties and fiduciary safeguards in Paraguayan project approval and implementation processes (see Annex, Figure 3.3).

3.11 **A portion of these costs was passed on to the country via fees charged on the sizable undisbursed loan balances.** Owing to project ratification delays and then disbursement delays the costs in respect of credit fees charged on the undisbursed balance of a loan after signature are higher than the Bank average. Paraguay's ratio of credit fee reflows to principal reflows was among the highest in the Bank's countries, after Suriname, Belize, Barbados, Guyana, Dominican Republic, Panama, and Trinidad and Tobago (see Annex, Figure 3.4).

C. Portfolio issues

3.12 **Over half the operations presented evaluability problems, lacking suitable indicators to describe their outputs and development objectives.**[81] The combination of missing indicators, targets, and milestones made for a 45% ex ante evaluability index for the operations: a baseline was provided for only 30% of the identified indicators and 68% had one or more targets. The quality of logical framework design varied considerably across the projects; the confusing of development objectives and output goals (in over 30% of the projects) and setting of multiple qualitative and hence difficult-to-evaluate targets were two common findings.

3.13 **Over 70% of the proposed objectives were not subsequently tracked.** Fewer than 30% were mentioned in the operations' PPMRs and, even there, there are no complete monitoring series. Weakly defined objectives translated into measurement problems. Around 52% of the proposed objectives were either ad hoc—and thus of interest only for the projects in question, or too generic—such as "strengthen legal system predictability," "strengthen sustainability of growth in basic services," or "increase citizen participation in environmental management," which thus went unmonitored.

3.14 **As the Bank's Management reported in its self-evaluation systems (PPMRs) the average number of issues in 2003-2008 exceeded the previous cycle's figure, having risen from 6 per 10 active operations to 8.** The largest increase among the types of impediments reported by Management was for *executing unit institutional capacity* issues, which climbed from 2.83 in 2000-2002 to 4.17 in 2003-2008. What is more, the relatively low reported frequency of *procurement and legislative approval* issues does not square with the lengthy ratification times, slow disbursements, and frequent mentions of those issues in in-country interviews.[82] And from the PPMRs[83] we can deduce that in 40% of the projects the same type of issue went unresolved for more than 10 months.

IV. BANK COUNTRY PROGRAM OUTCOMES

4.1 **In the 2003-2008 span the Bank set 107 development objectives for its work with Paraguay, less than half of which subsequently were tracked. Nevertheless, the country did achieve improvements in 62% of the focus areas for which we do have data.** Data are lacking for the areas of modernization of the State, social development, and competitiveness, i.e., all of the Bank's work focuses except for macro equilibrium. Though the Bank was Paraguay's chief source of external finance, shortcomings in the monitoring system make it impossible to quantify the Bank's impact.[84] Consequently, in this chapter we report information available on the *country's progress* in each focus area and on the *Bank's actions* but do not posit any quantifiable causal relationship between the two. Details of progress toward each development objective are presented in Tables 4.1 and 4.2 in the Annex.

Table 4.3. Summary of Bank operations and development objective progress[85]

Focus area	Bank-proposed objectives	Bank operations		Country progress			
		Loans reviewed (US$ million)	% Disbursement	Insufficient data	Significant improvements	Some improvement	Limited progress
Macroeconomic equilibrium	2	-	-	0%	100%	0%	0%
Competitiveness	43	540.2	40%	44%	16%	12%	28%
Modernization of the State	30	80.0	29%	73%	3%	13%	10%
Social development	32	184.6	58%	47%	13%	28%	13%
Total / Average	**107**	**804.8**	**43%**	**52%**	***13%***	***17%***	***18%***
					27%	*35%*	*37%*

A. Macroeconomic equilibrium

4.2 **Riding the global growth momentum the government succeeded in stabilizing the macroeconomy during the period reviewed here.** In 2003 the Paraguayan authorities secured a stand-by arrangement with the IMF aimed at stabilizing the public finances through public sector and financial system structural reforms.[86] The stabilization plan yielded quick results: the overall fiscal result in 2007 was about 1% of GDP and the public debt-to-GDP ratio that had stood at 52.6% in 2003 was cut to 29%. The recent tax system reorganization and the new Customs Code boosted Treasury revenues by the equivalent of 15.6% annually from 2004 forward, though public spending accelerated as well at an annual equivalent rate of 13%. However, current expenditures stayed in line with the growth cycle, the ratio of current to capital expenditure having held more or less steady (75% and 25%, respectively).

4.3 **In this work scenario coordinated with the IMF the Bank had no specific macroeconomic operations in its Paraguay program, though it did facilitate implementation of the program agreed on with the Fund and continued to support fiscal reform**. The US$6 million Fiscal Management Strengthening and Modernization Program loan (PR-0115) which the Bank had approved in 2000 was less than half disbursed by 2003. Its aim was to help balance the fiscal accounts by making public finance management more efficient and transparent. Among the outcomes of this loan, which finished disbursing in 2007, was legislation that ultimately pushed up the tax ratio from 9.7% of GDP (2003) to 12.4% (2006) to meet the program target, broadened the taxpayer base, and trimmed public pension rolls. The lowering of the nominal tax burden, its phased implementation, technical preparation supported by the Bank, and the authorities' political resolve were key to delivering those goals.[87]

4.4 **However, the Bank did not promote macroeconomic stabilizing mechanisms, instead using specific quick-disbursing loans**. Considering Paraguay's vulnerability to shifts in terms of trade it is striking that the Bank had not promoted the creation of any macroeconomic stabilizing mechanisms or vehicles for capturing and redistributing surpluses through spending clearly geared towards the very poor. Instead, to help address discrete financing needs it approved two fast-disbursing loans each for US$30 million, for the Social Protection Program (PR-0147) in 2003 and the Programmatic Public Financial Reform operation (PR-L1012) in 2005. Two thirds of the loan for the Social Protection Program, approved under the emergency facility, was disbursed immediately after the program's approval; the balance was eventually cancelled.[88] The Programmatic Financial Reform loan did help put through structural changes that have brought enduring benefits (see Box 4.1).

Box 4.1. The Bank's role in public financial sector reform
The Bank spearheaded the design and establishment of a new second-floor bank (Development Finance Agency—AFD), leveraging the momentum of the Public Financial Reform Program (PR-L1012) in the wake of the severe financial crisis that had beset the country. This was one of the greatest successes of the Bank's work in the period reviewed for this evaluation. That reform program sought to deepen the financial system and make it more efficient by implementing the new sector strategy for public sector financial activity and tightening oversight of savings and loan associations. With the enactment of the AFD Law the new agency now is fully operational. The Bank's Management rates the program as likely to be sustainable and says that in due course it should be complemented by a revamping of first-floor public sector financial activity, thereby completing a comprehensive government banking system reform package. In 2008 the Bank approved a US$50 million loan for the first program under a Conditional Credit Line (CCLIP) for the financing of the AFD (PR-L1024).

B. Competitiveness

4.5 **Loans to enhance competitiveness made up about two thirds of the operations evaluated, a clear indicator both of the importance—in the context of low growth the country was facing—the Bank ascribed to competitiveness and of Paraguay's continuing challenges on that front.** At the end of 2008 Paraguay still was among the least competitive countries in the world, placing 124th on the list of 134 countries in the World Economic Forum ranking. Serious deficiencies persist in all areas that affect competitiveness, notably infrastructure, institutions, innovation, workforce quality, and access to finance.[89] Five loans—one for the agriculture sector, two for roads projects, one in the financial sector, and one for competitiveness policy making—accounted for 95% of Bank competitiveness-loan disbursements. More recently (2005-2008) the Bank approved a further 14 loans totaling more than US$290 million, but owing to delays (primarily for legislative ratification) disbursements on those operations have been modest.

1. Agricultural development

4.6 **Buoyed by high commodity prices, Paraguay's agroexport sector performance improved markedly during the review period.** Agricultural GDP grew 6% annually. In 2007 crop farming represented 19.3% of the total and the livestock industry 5.9%, but in both cases large producers accounted for the bulk of this output. In the past decade or so soybeans have become the leading agricultural export product: between 2003 and 2006 soy exports climbed 9.8% annually alongside 8.9% average annual per-hectare yield increases. Other products of mechanized agriculture (mainly maize and wheat) also posted annual yield increases topping 3% as a result of heavy investment.[90]

4.7 **Through support from two loans totaling US$41.5 million the Bank has maintained ongoing technical work in the sector.** The Agricultural Production Modernization and Diversification Program (PR-0084) approved in 2002 produced satisfactory outcomes, having boosted the income of households working in the fruit and vegetable chain. That operation, together with a sector facility to prepare the Program for Modernization of Agricultural Supports (PR-L1001) ultimately approved in 2006, helped recast the State's role in the agriculture sector.[91]

4.8 **The principal outcome of the Bank's agriculture-sector work was the generation of a technical consensus to shift the State's role in the sector.** The traditional policy based on State delivery of inputs to farmers—primarily for cotton, which came in for an estimated US$200 million in recent decades—was highly regressive: around 80% of the supports went to large producers. The Bank generated a technical consensus around replacing input delivery with cash transfers and direct assistance to farmers.[92] However, the Agriculture Ministry's capacity constraints for program design, delivery, and evaluation still pose a challenge, carried over from the earlier programs.[93]

4.9 **The above-mentioned support notwithstanding, there is no evidence that the Bank-proposed development objectives for family farming have been achieved.** Cotton—the traditional mainstay of family farming, now largely supplanted by sesame—has seen its yields shrink by some 2.6% annually because of low-technology farming practices, poor soil quality, and suboptimal scale production.[94] Moreover, the high prevalence of land titling problems has become a source of uncertainty and social tension, still undispelled.[95] Lastly, far too much information is missing to be able to size and profile family farm households. The 2008 Agriculture Census—the first in 17 years—is filling in some of that data gap. Because of the scarcity of data on these farmers' technology adoption and credit access, half the Bank's proposed development objectives in the sector have not been tracked.

2. Road infrastructure

4.10 **Paraguay achieved the physical-works development objectives in the road infrastructure sector.** Improvements were achieved for three of the seven proposed road-sector development objectives, relating to road system expansion and arterial road maintenance. The inadequate monitoring of the other four objectives, which addressed transportation costs and times and local roads maintenance, points up the sector's institutional capacity constraints. In 2003, 20% of Paraguay's roads were passable year-round; by 2007 the proportion had climbed to 26%.[96] The road system still requires heavy investment and some specific spots need work (e.g. bridge rebuilds).[97]

4.11 **The road maintenance and institutional management objectives sought for this sector were not delivered.** The limited maintenance budget line—enough for only 20% of maintenance needs—is a constraint for the sector's sustainability.[98] On the institutional management side, during the review period the Ministry of Public Works and Communications expended, on average, only 60% of its budget and had serious administrative and technical management issues. There were constraints also in its long-range planning and policy dimensions, to address not just the road system but chart a comprehensive transportation vision that would take in river, air, and rail transport issues as well. Consequently, the additional cost to Paraguay from being landlocked is roughly 4.6% of GDP.[99]

4.12 **In 2003-2008 the Bank disbursed over US$125 million for roads projects and programs. Works projects were slow to implement and institutional development outcomes were unsatisfactory.** The loan for the second stage of the National Rural Roads Program approved in 1999 (PR-0104, US$67 million) was still 80% undisbursed in 2003. The program did deliver its works targets[100] (albeit with much slippage, as its near-10-year completion time attests) but not the institutional change goals.[101] The performance record of the US$100 million Western Integration Corridors Program (PR-0113) approved in 2000 was similar: slow works execution and an unsatisfactory road maintenance component owing to "*budget and management weaknesses*." Other observed issues were "*institutional weaknesses in the executing agency which resulted in low implementation performance, a result of lack of management and decision making, procurement delays and cost overruns, and slippages and cost overruns in works execution and inspections*."[102]

3. Other competitiveness initiatives

4.13 **Most of the progress toward the competitiveness policy development objectives occurred in the top export sectors.** The competitiveness gains in export sectors—especially meat and soy products—contrasted sharply with gains in the rest of the economy. But there is too little monitoring data to be able to gauge progress on the more cross-cutting development objectives, such as improvements in SME competitiveness or business development services offerings—these having comprised over half the objectives the Bank had proposed in this focus area.

4.14 **The Bank took a relatively small SME Business Development Program it had approved in 2001 (PR-0100, US$10 million) and turned it into a platform for public-private consensus building for competitiveness.** The program's overall objective was to help Paraguayan SMEs become more competitive by: (i) making Business Development Services (BDS) for SMEs more relevant, efficient, and sustainable and (ii) encouraging private sector participation in policy and strategy development to enhance key facets of the SME business climate.[103] According to the Bank's Management BDS offerings have been built up but would need to be more targeted. On the other hand, the demand for BDS was not sufficiently structured: gains were made in general business management aspects but they were not needs-targeted.[104]

Box 4.2. The Bank's role in enhancing competitiveness
The SME Business Development Program (PR-0100) successfully incorporated lessons learned in a similar program in Argentina, such as greater standardization of BDS and independent control of business development programs. The program had the further merit of making flexible use of the component to foster private-sector participation in policy making. Two significant byproducts of the operation now are pillars of the country's and Bank's competitiveness efforts: the Investment and Export Network (REDIEX) and the National Competitiveness Agenda. [105] The public-private industry councils set up under REDIEX did much to lower barriers to competitiveness. One of these forums, the Leather and Meat Council, is recognized nationwide for its key role in that sector's strong growth performance.[106] This network now needs to be deepened and extended to take in new industry sectors, a task that would fall at present to the Ministry of Industry and Commerce (MIC)—which Management, in the PPMR, perceives as a risk: "the MIC's capacity to catalyze the engagement of the other public agencies involved poses a significant risk given its employees' capacity to deliver this action." PR-0100 also embedded the concept of competitiveness and the need to construct and pursue a National Competitiveness Agenda. On the matter of its sustainability, the elements developed "should be folded into a broader, more visible discussion that does not just address SMEs but incorporates a 'Paraguay 2030 Competitive Vision' that can establish key elements, actors, and roles to be performed in a competitive national development strategy." [107]

C. Modernization of the State

4.15 **Programs to further modernization of the State made up about 10% of the loans evaluated—a proportion reflective less of the magnitude of the challenges still facing the country in that sphere than of the fact that they are unlikely to be resolved with financing alone.** In the World Economic Forum's late-2008 ranking Paraguay placed among the bottom 10 countries for institutional environment, notably for the judicial independence, rule of law, government spending efficiency, transparency of government policy making, and corruption indicators. It placed in the mid-range relative to its comparators for just one institutional indicator—bureaucratic and regulatory burden. Four loans accounted for 95% of Bank disbursements in this sector, providing support for planning, justice system, and environmental management projects and programs.[108] Disbursements on six more recent loans (2006-2008) totaling more than US$40 million are modest thus far.[109]

1. Public policy planning and design system

4.16 **Limited progress was made toward the development objectives relating to enhancing the country's planning system and public policy making, owing to turnover in key planning personnel and shifts of core planning responsibilities.** In 2004-2005 core planning work was shifted from the Technical Planning Secretariat (attached to the Office of the President but with limited resources) to a Central Public Investment Unit in the Finance Ministry. Amid ministerial-level changes toward the end of the period reviewed here the idea of a Finance Ministry of excellence that would steward economic planning and public policy design and evaluation lost viability. Consequently, there are too few end-2008 data to be able to corroborate Paraguay's progress toward the six objectives proposed in this focus area.

4.17 **The Preinvestment Program (PR-0093) approved by the Bank in 1998 with US$5 million in funding to help produce preinvestment studies and build up the public investment system did not deliver the expected outcomes.**[110] Eight years into the program the loan was less than 25% disbursed, mostly owing to difficulties in finding a suitable executing agency. Disbursements increased in 2006 but in 2007 "*there was virtually no progress on decisions and actions needed to orient the program's delivery*."[111] Nor was there any observable progress in 2008, owing to differing approaches on integrating the information systems of the Operations Programming System (SPO) and Integrated Financial Management System (SIAF).[112] The parallel budgeting structure operating within the Finance Ministry itself[113] and the absence of a National Planning Law are two further continuing challenges.[114]

4.18 **The issues observed in this sector are particularly serious considering that "*the Bank itself contributed, indirectly, to reinforcing the juxtaposition and confusion of actions among different government agencies generally and in the Finance Ministry in particular*."**[115] This is of particular concern given the country's limited capacity for long-range vision charting, mentioned earlier, and the absence of the requisite institutional base and statistics systems for its planning work.

2. Governance strengthening

4.19 **The country's governance progress is hard to quantify because over 80% of the proposed governance-strengthening objectives were not tracked.** That lack of data aside, perceptions of government effectiveness continued to be poorer in Paraguay than in other countries in the region.

4.20 **The Bank lent support for broad governance reforms as well as for targeted sector programs, the latter having generally yielded better outcomes.** Among the relatively successful targeted endeavors were tax and customs reforms and the overhaul of the government procurement system. A number of factors such as availability of own funding, the counterpart's professional capabilities, and strong political commitment to transparency and accountability played a part in those successes. The Bank's work on justice system reform and establishment of an environmental management system was less successful.

4.21 **In the justice area, the US$22 million Modernization of the State Program (PR-0081) that the Bank had approved in 1996 took over 10 years to deliver. Because of flaws in its design its outcomes could not be ascertained with any degree of certainty.** The program's aim was to strengthen the judicial branch and modernize the Civil Register. The original disbursement period had been five years, but by 2003 the loan was still 68% undisbursed. The project completion report (PCR) for this operation[116] noted that "*modernization and reform processes in the country take longer than expected, its institutional base being limited*."[117] Moreover, "*as there was no baseline of anticipated effects, scant data were gathered, analyzed, or reported on the project's intended effects and impacts and how it would help attain sectoral or national development strategy targets*."[118]

4.22 **A US$8 million loan for the Program of Support for the National Environmental System (PR-0116) approved by the Bank in 2000 proved to be an interesting targeted institution-strengthening experience that followed civil service reform good practices.** The project's objective was to help devise and embed an institutional framework for environmental management. According to the operation's PCR, the target institution was indeed strengthened, particularly its human capital dimension.[119] Moreover, "*the staff reassignments through merit- and skills-based competitions was one of the first such exercises in the Paraguayan government and has been followed with interest by the Public Service Secretariat as a pilot experiment.*"[120]

4.23 **The Civil Service Professionalization Program approved in 2006 with a US$4.2 million loan (PR-L1008) is intended to assist Public Service Secretariat efforts to build an efficient, professional civil service**.[121] Though this loan had not yet begun disbursing at end-2008 some of the program's associated technical supports were showing results. The actions slated for funding will give continuity to the work begun with World Bank grants under a now-closed program. A US$150,000 IDB technical cooperation grant (Support for the Public Service Secretariat, PR-T1026) approved in 2005 is now in the early implementation stage. In its section on lessons learned the PPMR underscores the importance of "*targeting efforts on the professionalization of a key corps of professionals who make the engine of government run, adopting merit-based selection and promotion procedures in this segment and enhancing incentives*."[122]

D. Social sector development

4.24 **Social sector projects and programs accounted for just under 25% of the Bank loans reviewed. Their primary focus was support to the country for a series of education, health, and social protection reforms.** Though some poverty and human development indexes did improve the country's uneven growth model could compromise Paraguayan social progress.[123] Six loans—two for education,[124] one for the health sector, two for social investment [125] and one for basic utility services and regional development—together accounted for over 75% of disbursements in this focus area during the period examined here.[126] But with such limited data available on close to 50% of the development objectives it is difficult to gauge their progress.

1. Education

4.25 **Advances were made on a large proportion of the education-sector development objectives for which data are available, thanks to sweeping reforms rolled out in the early 1990s**.[127] Progress was made toward three of the nine development objectives proposed in this sector—early and basic education quality improvements, secondary education access, and internal efficiency in basic education. Progress on the early and basic education access and equity objectives was limited, and there are no data to be able to measure advances toward the other objectives: (i) greater relevance of early and basic education; (ii) years of schooling of marginal populations; (iii) school operation and maintenance; (iv) pedagogic supervision, and (v) human capital development.

4.26 **The above-noted improvements in education indicators notwithstanding, some challenges persist in this sector, particularly enrollment, dropout rates, and teacher quality.** Net enrollment ratios climbed at virtually every level, particularly preschool,[128] and doubled in secondary education.[129] Years of schooling in the reform-targeted group increased from 7.5 in 1995 to 9.3 in 2004; the increase was greater in rural areas, where it rose from 5.7 to 8 years.[130] As for internal system efficiency, first- and second-cycle basic education (BE) grade repetition rates edged down from 5% in 2005 to 4% in 2007, the downtrend holding in urban and rural areas alike.[131] Dropout rates came down at almost every level, most notably in first and second cycle BE which reported a 32% decline. But these improvements have not done away with some persistent challenges, primarily to raise the low coverage rates at all education levels except the first two cycles of BE (see Annex, Table 4.4). Dropout rates in third cycle BE are high. [132] Notwithstanding the progress made in teacher training through one Bank-implemented project (Escuela Viva), teacher quality remains low.[133]

4.27 **The Bank has been working with Paraguay on education for some years now and a direct relationship can be traced between its engagement and the country's education sector outcomes.** The Bank has been working in line with the country on education initiatives for 15 years and continues to do so systematically and strategically and looking long range. Both the Bank and the country have coordinated and held to a clear vision of the education model to follow, with a high degree of focus in evidence.

4.28 **During the review period the Bank assisted Paraguay in education strategy delivery through operations such as the US$40 million Program to Strengthen Basic Education Reform (Escuela Viva I, PR-0117)** approved in 2000, which finished disbursing in 2006. Intended to enhance basic education quality and equity, this program delivered a large proportion of its proposed targets to the output level.[134] According to the output indicators for internal efficiency, participating schools have seen their grade repetition rates fall and retention rates improve.[135] As for education quality, studies have found that mathematics and communications test score averages in the program-targeted schools beat the national averages.[136] To build on the Escuela Viva I gains and give continuity to the government's sector policy the Bank approved a US$49.5 million loan in 2007 for a second stage (Escuela Viva II) that is currently awaiting congressional ratification.[137] In contrast to the situation in other areas, the program's monitoring and evaluation system made it possible to track its indicators' progress and gather outcome metrics data.

4.29 **Another program rolled out by the Bank in coordination with Escuela Viva is the US$23.4 million Early and Preschool Education Improvement Program (PR-0124).**[138] Approved in 2003, this program's objective is to "*improve comprehensive education for boys and girls under six years of age by expanding its coverage based on criteria of quality and equity, strengthening its institutional management, and promoting family and community involvement*."[139] Despite the program's efforts to raise preschool enrollments, particularly among the country's most vulnerable communities, the 2006 gross enrollment ratio was up just 2% over 2001, missing the target. Both net and gross enrollment rates trended down in urban areas and up in rural parts of the country (see Annex, Tables 4.5 and 4.6). As for internal-efficiency markers, the 2001-2007 drop in the BE first-grade repetition rate from 16% to 7.4% did meet the program's milestone targets. The class size targets were not met and the proportion of students over-age for grade increased.[140]

2. Health

4.30 **In contrast to the gains recorded in education, progress toward the Bank health-sector projects' development objectives was modest.**[141] There was some progress toward three of the nine health-sector development objectives (lowering of maternal and infant mortality, comprehensive reproductive health promotion, treatment of common diseases). According to the World Health Organization, Paraguay's infant mortality rate declined from 27 per 1,000 live births in 2000 to 22 in 2006[142] and the maternal mortality rate dropped from 170 per 100,000 live births in 2000 to 150 in 2005.[143] Despite these improvements these still are high mortality numbers, associated particularly with deficiencies in primary health care—a focus of the Bank-funded program. Limited progress was made toward the development objectives relating to furtherance of health sector reform and prevention of common diseases. Too much information is lacking to be able to gauge the other four objectives' progress, particularly the contribution to health sector modernization and access to quality services.

4.31 **To judge from the evidence, the Primary Health Care Reform Program (PR-0028) did not deliver its objective of *support[ing] the gradual process of health sector modernization and reform, while seeking to provide quality services to the Paraguayan population efficiently and equitably.*** The Primary Health Care Reform Program (PR-0028) approved in 1997 with US$39 million in funding finished disbursing in 2008. Because of implementation issues it underwent continual adjustments and ultimately a radical redesign.[144] Its successes are concentrated more in output indicators[145] than outcome indicators, the available data being too sparse for a meaningful evaluation of the program.[146]

3. Social investment

4.32 **The country recorded major progress toward the social-investment development objectives.** Significant progress was achieved toward two of the four development objectives in this focus area, particularly in endeavors to raise living standards of the poor and of rural dwellers. Some progress was made on the objective of improving social investment effectiveness, though the gains were more modest than for the aforementioned two objectives. The scarcity of data precludes an assessment of progress on the objective of risk reduction for vulnerable groups. Paraguay's advances on that front have shown up in poverty-indicator improvements during the review period.

Box 4.3. The Tekoporã *Conditional Cash Transfers Program*
When this program was piloted in 2005 it took in 4,500 households in five of Paraguay's poorest districts, and gradually extended its reach to approximately 20,000 households.[147] Its primary aim is to reduce the number of households living in extreme poverty by delivering cash transfers to families who commit to prescribed actions intended to build up household human capital.[148] This program has been the government's prime social-sector intervention target in recent years. An impact evaluation of the pilot phase of the program identified a number of positive outcomes, notably its impact on school attendance, particularly among groups with the highest dropout propensity.[149] However, it had no appreciable impact on reducing child labor. The program also appears to have had a sizable impact on consumption (mainly by the extremely poor) and extreme-poverty reduction. Nevertheless, a number of **constraints are observed regarding Tekoporã*'s operation and scale-up*.** At the moment the executing agency lacks a clear vision of how the program should be scaled up to take in new beneficiaries such as youth and the elderly. Furthermore, there is no baseline against which to track indicators that would give a clear picture of the program's effectiveness.[150] Compounding those constraints is the absence of planning as to the beneficiaries' future once their involvement in the program ends (currently planned at three years). **The meager supply of social services is a major constraint.** One problem encountered in the early phases of Tekoporã implementation was the impossibility of fulfilling the beneficiary and government undertakings because of the dearth of social services on offer, particularly health services. An important consideration in that regard is that the emphasis given to the program could spur investment in social services delivery for the scale-up phases. **It is important to underscore that conditional transfer programs are not a substitute for long-run social policy but rather instruments to help deliver that policy.** Though such initiatives perform a vital role as social policy supports the country needs universal, financially sustainable, long-run social programs and policies.

4.33 **The Bank lent support to Paraguay to design the Tekoporã *program and, in 2006, provided financing for the above-described conditional cash transfers initiative by reformulating the* PROPAÍS II program** approved in 2002 (PR-0125, US$28.4 million).[151] By political decision the first component of this program was reformulated in 2006, adding a new investment subcategory called conditional income transfers—a change that did not go unquestioned. In the original PROPAÍS II proposal there had been no discussion of any intervention relating to conditional transfer programs so questions were raised as to whether the program's reformulation signified a change in objective, as well as about the program's targeting criterion.[152] Ultimately the Bank adopted a different beneficiary-selection criterion for its loan and tightened conditionality compliance requirements.[153] This created disbursement difficulties and added to the executing agency's workload and costs.[154] This year (2009) the Bank agreed to align its intervention criteria to the government's.[155]

4. Basic utility services and regional development

4.34 **During the review period progress was made toward the safe water supply and sanitation development objectives.** Relative improvements were achieved on four of the nine proposed development objectives in this sector, relating to safe water supply, increased access to sanitation services, sewage disposal, and sanitation improvements in rural and indigenous communities. Because of the scarcity of data the performance of the other five objectives (one relating to more sustainable expansion of basic utilities, the others to regional development) cannot be measured.

4.35 **There were improvements in basic utilities indicators but access disparities persist.** The proportion of the population with access to a safe drinking water supply rose from 53% in 2000 to 69% in 2007 to reach the Millennium Development Goal (MDG) targets.[156] However, there still is an urban-rural water supply gap: only 49% of rural households have access to potable water compared to 84% of city households. Likewise, 79% of the wealthiest fifth of the population have access to a safe water supply but just 56% of the poorest fifth. Gains in basic sanitation coverage are more modest and unevenly distributed, making it unlikely the country will reach the MDG 55% coverage target. Only 1.9% of bottom income quintile households are connected to a public sewer system; 20.9% are connected to a pit latrine and 72% share a common latrine. In contrast, 22.5% of top quintile households are connected to a public sewer system and 67.7% to pit latrines.

4.36 **The Bank helped extend basic utility services through its Water and Sanitation in Small Communities Program (PR-0118)**, with a US$12 million loan approved in 2001. At end-2008 14% of the loan proceeds remained undisbursed. This program, which fit with the government's poverty reduction strategy, has been successful in taking water and sanitation services to 97 rural communities and 11 indigenous communities to benefit 60,000 rural dwellers, 1,500 of them indigenous people.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

5.1 The 2003-2008 span reviewed here was marked by two signal developments: Paraguay's democratic transfer of power after 61 years of Colorado Party rule and the solidification of an agricultural commodity exporter model which has proved successful, albeit with uneven multiplier effects on the rest of the economy. This period also marked record highs for Bank engagement in Paraguay. Mounting loan approvals coupled with slow disbursements increased the already sizable aggregate undisbursed loan balance by 24%, with the concomitant financial costs to the country.

5.2 In its country program the Bank proposed an ambitious set of 107 development objectives for its 2003-2008 engagement with Paraguay. Important as those objectives were for the country, on-the-ground achievement of such a high number exceeded both the country's delivery capacity and the Bank's monitoring capacity. Though the Bank had set out to be more selective, it attained the high scenario for approvals envisaged in the country strategy, even though some assumptions about the pace of execution and reforms were not borne out.

5.3 The *relevance* of the Bank's program was weak. First, this was because the Bank continued to approve high amounts despite the country's weakness in effectively formulating and assessing its development plans and needs. Second, this was because, as indicated in the previous CPE (1991-2002), the Bank still did not have a strategic-operational model that targeted its efforts to areas that maximized its impact for the country, and instead provided diffuse financing in numerous areas.

5.4 There was a low level of *anticipation* in the program: just 35% of the programmed operations were approved, and they experienced subsequent delays in their ratification and execution. On average, roughly four years went into the preparation of each operation and eight years into execution. Specifically, the congressional ratification process took twice as long as the average in the Bank's other borrowing countries. Once ratified, operations were seldom cancelled, but they underwent frequent modifications, over which the Bank had strong discretionary power.

5.5 The country program also had problems in terms of *coherence*. In particular, the Bank had difficulties deploying instruments on par with the magnitude of the challenge posed by the country's weak institutions. It interaction with more than 60 executing units, many of which had been set up to serve as Bank counterparts, was not very compatible with the objective of long-term institution-strengthening. Moreover, the lack of effective coordination among donors—except in times of crisis or on specific studies—prevented an effective division of labor. The Bank therefore continued to play the *de facto* role of Paraguay's "primary lender," which relativized its selectivity.

5.6 The program's *efficiency* was low. The fiduciary difficulties of operating in Paraguay prompted the Bank—and to some extent the country—to emphasize financing of physical infrastructure building, without there also being a similar degree of sustainable institutional development. The result was chronic weak management capacity that led to inefficiencies, which were reflected in turn in Bank programs, where preparation and execution costs were more than triple Bank averages.

5.7 The number of reported execution issues (and of repeated issues, apparently unresolved) rose 50% over the review period. Since the economic cycle could potentially deteriorate in the future, the slow place (or any other restriction) of Bank disbursements could make it difficult to provide countercyclical flows to support the country.

5.8 Though the Bank has been steadily scaling up its financial engagement with the country and its technical contribution was highly valued, helping the country consolidate sector policies has been a challenge—with the exception of cases such as education. This is in part attributable to turnover in a key group of Paraguayan government staffers, but another reason was the challenges posed by the dissemination and adoption of the technical knowledge, which could not always be effectively transferred to key decision groups such as the legislature or civil society.

5.9 The *evaluability* of the Bank's country program and of individual operations was low. Lacking baselines, ex post evaluations, project outcome metrics and/or targets as well as precisely defined development objectives in the country strategy it is not possible to distinguish the operations' marginal contribution or the impact of the Bank's country work. Some 55% of operations did not have basic development indicators and less than half of those received subsequent monitoring, which has contributed to the fact that the Bank has not yet been able to establish *results-based management*.

5.10 Consequently, the *effectiveness* of the Bank's program in the country cannot be measured, which in turn makes it difficult to extract lessons for its future country work. Nevertheless, some experiences were rated successes as a result of *specific Bank actions* rather than of the overall program. Those successful experiences encompassed a set of circumstances and requirements that are detailed below.

5.11 For example, in the *social sector* focus area the Bank implemented education and health reform programs, with very different results. The education sector outcomes were superior owing to a combination of factors—political will, public perception of the importance of education, and a stable, qualified steering team with a clear action plan. In contrast, the health program's implementation performance was slow until it was completely reformulated, at the Bank's discretion, to use the available balance to tackle issues that, while important, bore little relation to the project's original objective.

5.12 In its *Modernization of the State* work focus the Bank promoted both *comprehensive programs* and *targeted programs*, with very different outcomes. In the *comprehensive programs* it was able to promote new legislation but *implementation progress was quite slow* due to opposition from different sectors. In contrast, *outcomes were superior in the targeted and innovative programs* such as the government procurement and customs service operations, working with revamped, self-financing agencies employing highly sophisticated technology. But despite their importance there has been no systematic evaluation of the *drivers and impact of engagement with these technical executing agencies, and technical cooperation supports have been diffuse rather than leveraged to promote these key links*.

5.13 The bulk of funding in the Bank's program went to *competitiveness* operations. Much of those resources went to road construction. There is no evidence, however, that this manner of promoting competitiveness, by cutting localized logistical costs, would result in optimal use of those funds. In fact, building sector consensus to remove barriers to competitiveness—which began to be done by modifying an existing program that was much smaller than the highway programs—had very positive effects and potentially a much greater reach.

5.14 In the area of *macro equilibrium support*, the Bank was important in implementing the agreement established with the International Monetary Fund. A Bank-supported tax reform program facilitated a rise in revenue intake. The Bank responded to Paraguay's fiscal requirements at the start of the period by way of unrestricted loans—policy-based or emergency loans, which addressed discrete needs but did not create countercyclical equilibrium capacities to withstand an eventual cycle downswing.

5.15 The evaluation therefore concludes that *the approval and successful delivery of operations in Paraguay depended heavily on the government staffers and* *specialists involved and was achieved only under particular conditions.* Firstly, the successful operations were the ones that had been focused, or reformulated, around *very specific activities* rather than tying their disbursements to broad sector reforms. Second, the executing agencies receiving support were relatively *more professional and specialized* than the Paraguayan government norm. Third, successful Bank-funded projects and programs sought to strike a balance between *investing in works* and *investing in institutional development;* overall, the most successful operations were ones that created new specialized agencies in a context of gradual reforms.

5.16 However, to date *there is no evidence that the Bank has institutionalized these lessons within the mechanics of its engagement with the country*. Even though the main project implementation roadblocks were identified—institutional capacity constraints, project and program design issues, monitoring system shortcomings—they continued to affect the Bank's country engagement year after year.

5.17 Lastly, on the matter of the program's low *evaluability,* 55% of the operations lacked core development indicators and less than half of those were subsequently tracked. This explains in part why the Bank has yet to embed *results-based management.* As indicated in the previous CPE (1991-2002) a *strategic and operational* model is needed that focuses its actions on areas that can maximize their impact on the country, reducing the current discretionality.

B. Recommendations

5.18 The Bank's engagement with Paraguay continues to resemble the findings of the previous CPE and most of that CPE's recommendations continue to hold—which suggests that there has been limited progress in recent years. The present evaluation thus reaffirms those recommendations and elaborates on them taking account of the current environment.

5.19 This will require the Bank to stop dispersing its lending across virtually the entire gamut of sectors and partner with Paraguay on five main areas: (i) build consensus on a country development model; (ii) prioritize key projects; (iii) attract the requisite investment and cofinancing; (iv) build up institutional capacity and delivery systems; and (v) manage the transition and build up social capital to give Paraguayans access to the emerging production opportunities.

5.20 **Recommendation 1: Build consensus as to the country development model.** The previous CPE stated that "*the country faces a very clear main challenge: achieve a development and economic growth model consistent with the new (democratic) domestic environment and with an external context of greater competitiveness.*" In this evaluation we recommend that such a model be developed on the basis of a broad consensus and anchored in technical evidence, and that from it long-range *guidelines* be charted. It is critical that the Bank facilitate the generation and dissemination of this evidence to the main economic-social actors—such as the Congress and civil society representatives. To this end the Bank should promote dialogue and discussion avenues to assure that those guidelines have public backing, regardless of changes stemming from political cycles.

5.21 **Recommendation 2: Prioritize key projects**. The previous CPE stated that "*to be able to help Paraguay achieve this [new model], the Bank will have to ensure (and demonstrate) that its interventions are structured with the objective of maximizing their potential impact on the country's economic growth*." The present evaluation recommends the extending of such an investment prioritization methodology to the set of *key projects* needed to pursue the guidelines that come out of Recommendation 1 above. It is recommended that the Bank, in its role as one of the country's lead lenders, help promote this discipline, avoiding dispersion of its lending and excessive discretionality in modifying existing operations while ensuring that it continues to address the country's development needs within that discipline.

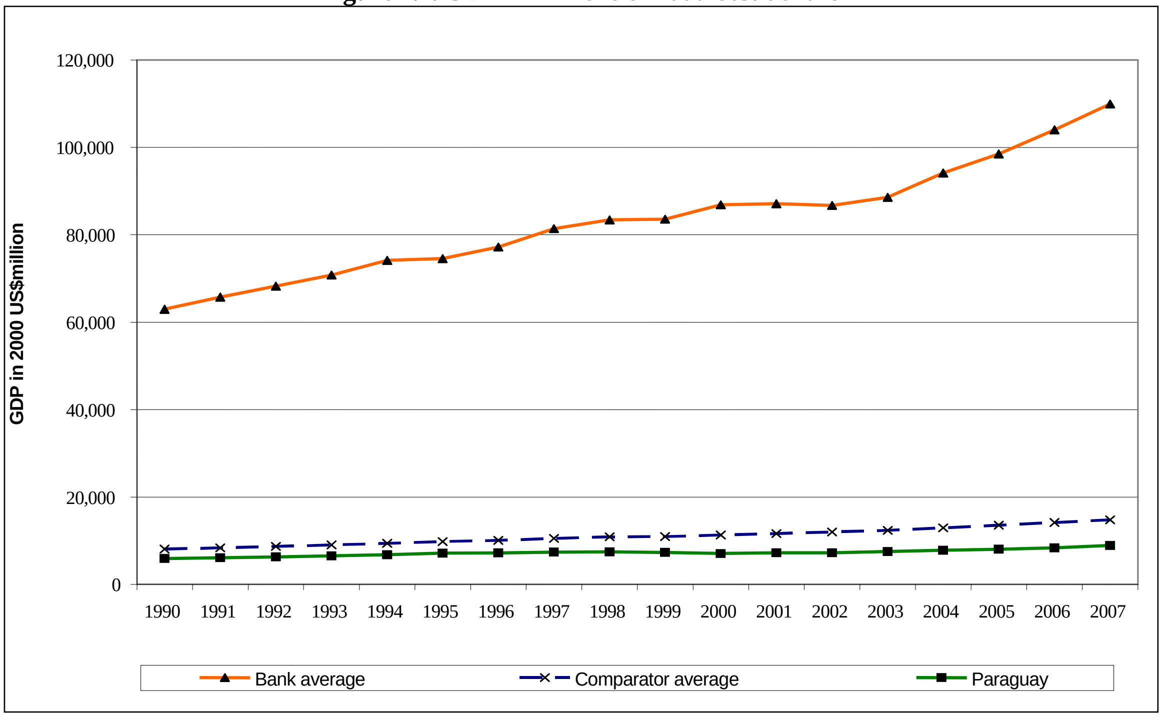
5.22 **Recommendation 3: Attract investment and cofinancing.** As discussed in the foregoing evaluation, the country has been facing an investment shortfall that neither the Bank nor the Paraguayan public sector is able to cover. Accordingly, it is recommended that the Bank help the country create an enabling environment to attract the capital needed to deliver the set of key projects referred to in Recommendation 2. To that end the Bank should optimize the use of the country's fiscal headroom to borrow, leveraging its participation with cofinancing, nonsovereign guaranteed lending, and private direct investment. For the Bank this will mean exploring viable secondary financing alternatives along with reliable public-private partnership formats.

5.23 **Recommendation 4: Build up institutional capacity and delivery systems.** The previous CPE's indicated that, "*the Bank should … develop and implement an integrated plan for enhancing the institutional capacity of the country*." This evaluation upholds that recommendation, suggesting that the Bank work with the country to develop professional technical cadres and transparent public management systems to evaluate and administer the investment program that comes out of the foregoing recommendations. The Bank should work systematically to remove the causes of the main problems affecting project execution, ensuring the reliability of country systems, a stable corps of qualified key government staffers, and a framework for meaningful public scrutiny of the workings of government need to be instituted as well. To that end it is recommended that active use be made of nonreimbursable technical cooperation funding and of any other vehicles that can transfer delivery capacity to the country. The need to "*improve the evaluation and the evaluability of programming in general, and of its projects in particular, through the incorporation of quantifiable indicators*" affirmed in the previous CPE is still there.

5.24 **Recommendation 5: Manage the transition and build up social capital**. Lastly, this evaluation recommends that as this new country development model is instituted there is adequate financing available to grow social capital by means of universal social policies and nimble social protection systems that give people access to emerging *employment* opportunities in the new production sectors. The Bank therefore must make the changes, and find ways to deliver the necessary means and instruments, to see that those funds are disbursed predictably, given the particular features of the country's systems and procedures, and also make sure that this type of operation helps to perform a stabilizing and countercyclical role, in keeping with optimized execution arrangements as a result of implementation of the previous recommendation.

ANNEX

Figure 1.1. GDP in millions of 2000 U.S. dollars



Source: WDI

Figure 1.2. Per capita GDP performance: Paraguay, Bank member countries, and comparator countries: 1990-2007

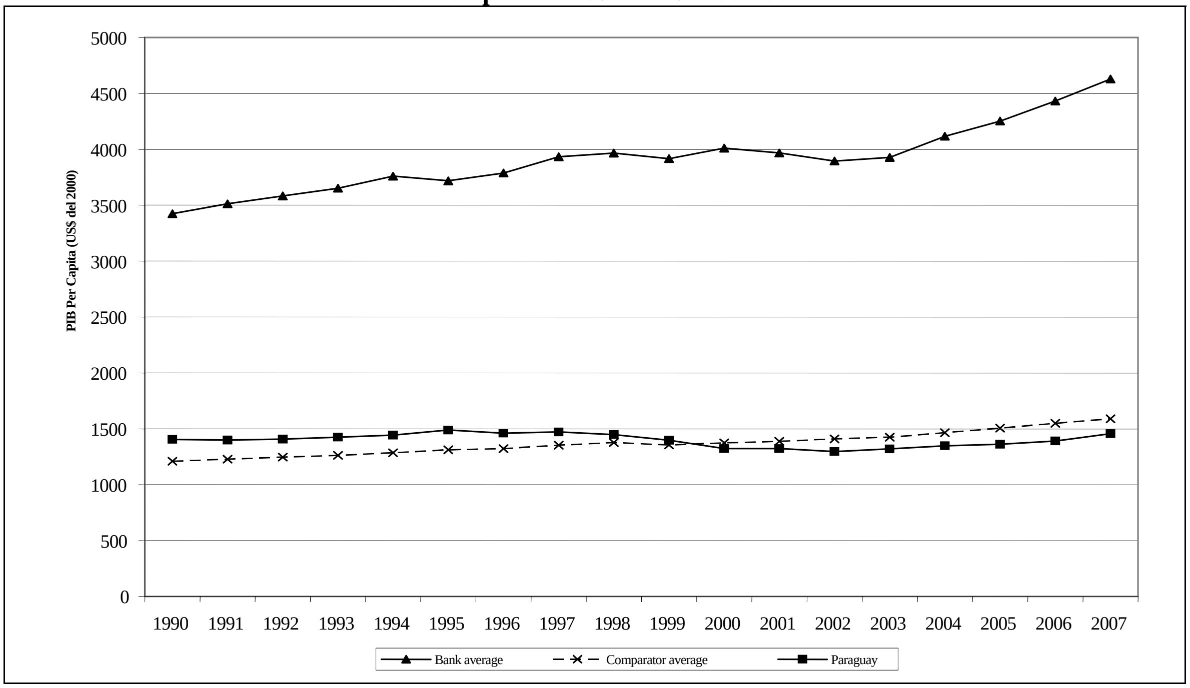


Figure 1.3. Sector shares of GDP (%)

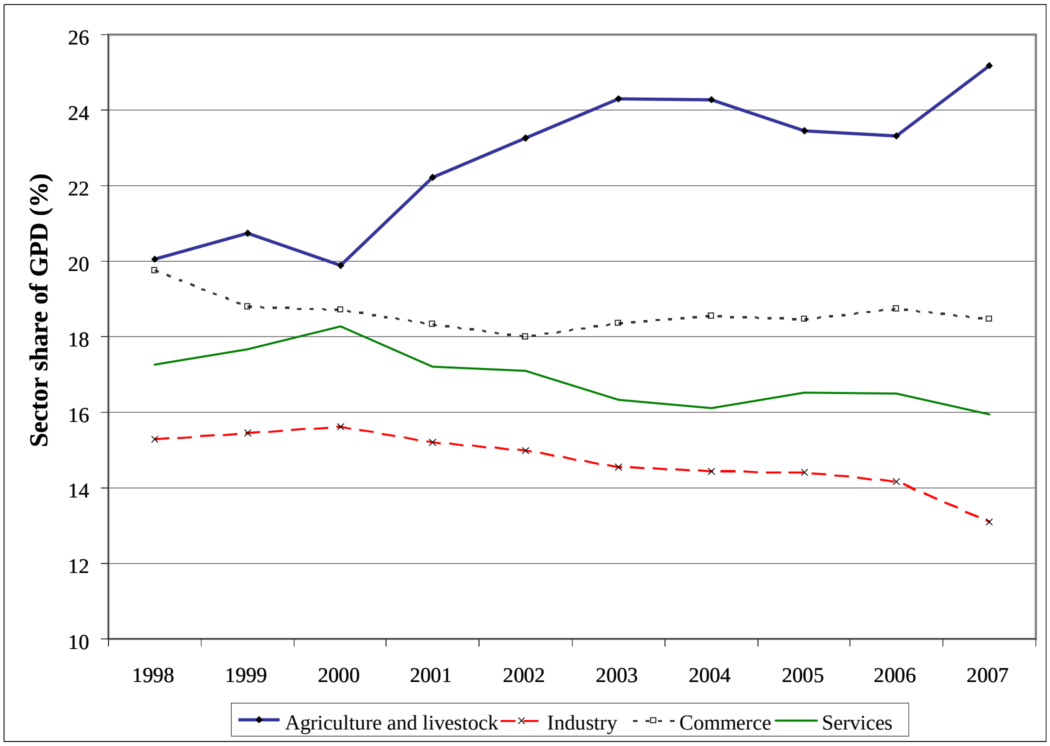


Figure 1.4. Paraguay. Trade balance: 1990-2007

Figure 1.5. Paraguay. Balance of payments current and capital account balances: 1990-2007

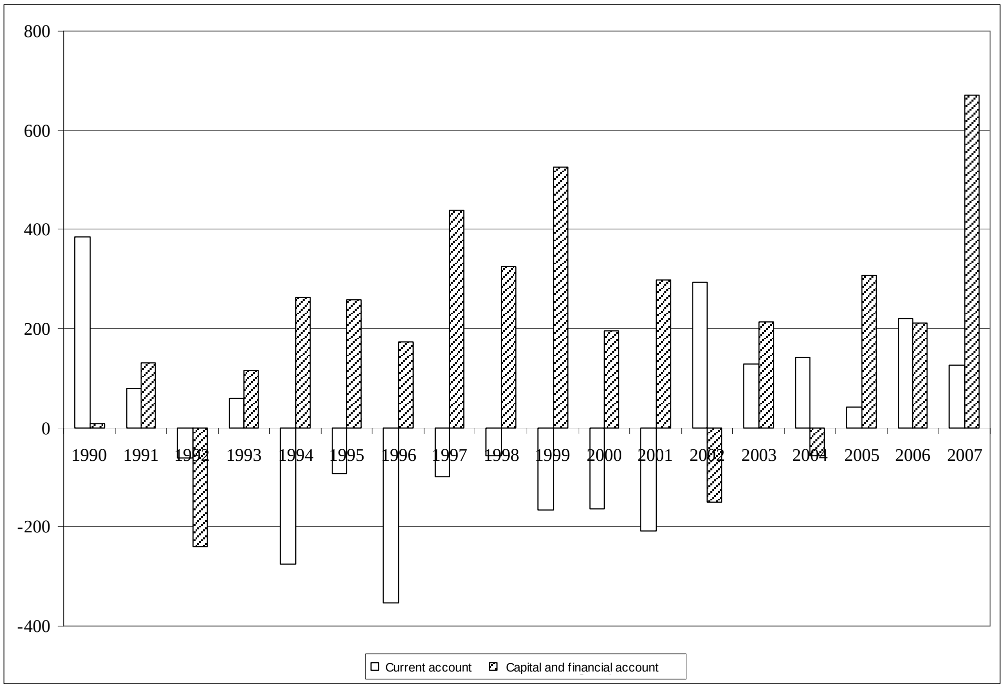


Table 1.2. Main external sector indicators

Variable	Unit	1999	2000	2001	2002	2003	2004	2005	2006	2007
Exports	US$ million	740.8	869.4	990.2	960.6	1,241.5	1,625.7	1,687.8	1,906.4	2,784.7
Imports	US$ million	1,725.1	2,050.4	1,988.8	1,510.0	1,865.3	2,651.7	3,251.4	4,489.0	5,576.8
Trade balance	US$ million	-984.3	-1,181.0	-998.6	-549.4	-623.8	-1,026.0	-1,563.6	-2,582.6	-2,792.1
Balance of payments	US$ million	104.4	-214.9	-45.0	-82.3	301.3	179.1	146.0	386.8	727.4
Exports	% of GDP	10.1	12.2	15.4	18.9	22.4	23.3	22.5	20.5	22.2
Imports	% of GDP	23.6	28.9	30.8	29.7	33.6	38.0	43.3	48.3	44.6
Trade balance	% of GDP	-13.5	-16.6	-15.5	-10.8	-11.2	-14.7	-20.8	-27.8	-22.3
Gross fixed capital formation	% of GDP	17.3	17.7	16.3	15.2	15.7	15.9	16.7	16.4	17.5
Balance of payments	% of GDP	1.4	-3.0	-0.7	-1.6	5.4	2.6	1.9	4.2	5.8

Sources: Ministry of Finance, Central Bank of Paraguay, Debt Management and Administration System (SIGADE)

Table 1.3. Main financial sector indicators (2002-2008)

Variable	Unit	2002	2003	2004	2005	2006	2007	2008
Local currency deposits	Millions of guaraníes	9,009,760	9,695,514	9,595,550	10,145,037	12,859,434	17,331,206	20,454,012
Local currency lending	Millions of guaraníes	6,493,314	4,859,794	5,638,661	6,386,322	6,988,731	9,975,163	11,572,389
Local currency (nominal) lending rate	Percent per annum (weighted average)	50.5	45.7	33.5	29.9	30.1	25.0	NA
Dollar (nominal) lending rate	Percent per annum (weighted average)	9.9	10.2	8.1	9.1	9.1	8.8	NA
Interest spread - Local currency	Per cent per annum	15.8	34.2	28.4	28.2	23.4	20.0	NA
M2	% of GDP	26.4	23.4	23.4	23.7	22.9	23.3	NA
M3-M1	% of GDP	17.1	14.8	13.7	12.4	11.0	10.8	NA
Private sector credit	% of GDP	29.7	17.6	17.0	17.6	16.9	20.0	NA

Sources: Ministry of Finance, Central Bank of Paraguay, Debt Management and Administration System (SIGADE), World Bank-World Development Indicators.

Figure 1.6. Private sector credit as a proportion of GDP: Paraguay, Bank member countries, and comparator countries: 1991-2007

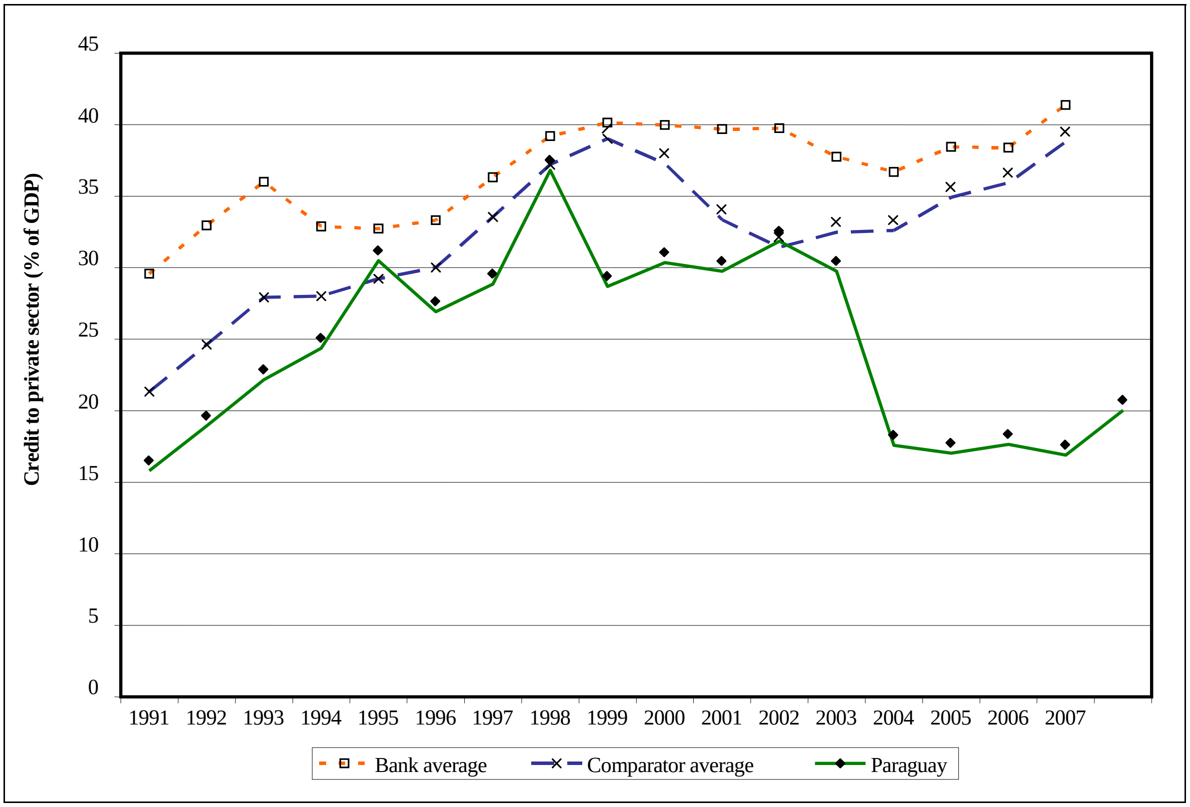


Table 1.4. World Bank/IFC Enterprise Survey financial indicators (2002-2008)

World Bank/IFC Enterprise Survey financial indicators					
	Paraguay				Latin America and Caribbean
	Total	Small firms	Mid-sized firms	Large firms	Total
% of firms identifying access to/cost of finance as a major constraint	28.8	30.4	31.7	9.2	23.2
% of firms using banks to finance expenses and/or investments	26.8	19.3	32.4	47.3	38.9
% of firms with loans or credit lines from financial institutions	34.6	27.4	40.0	53.6	36.5

Figure 1.7. Governance indicators: Paraguay, comparator countries, and Bank member countries

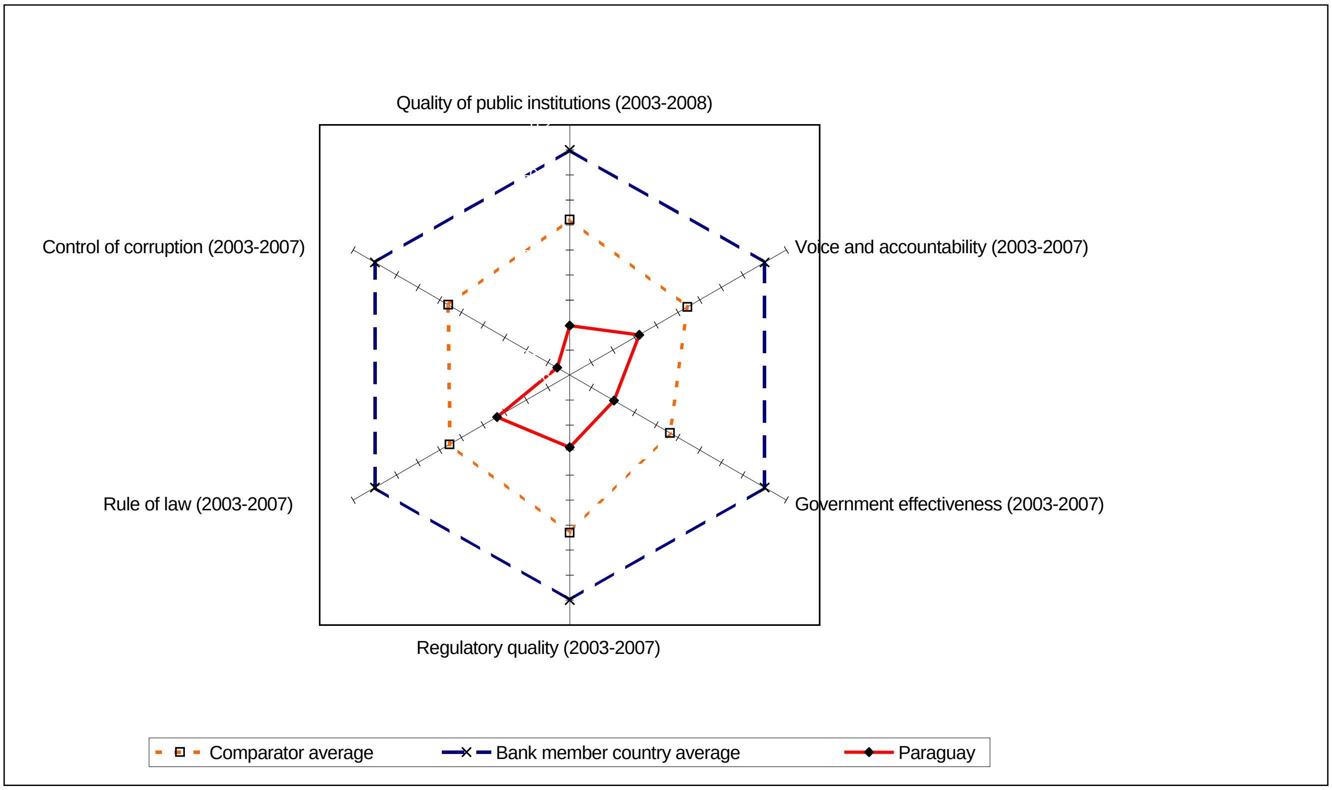


Table 1.5. Poverty indicators

Variable	Unit	2003	2005	2007
Poverty	000 persons	2,350	2,253	2,156
Extreme poverty	000 persons	1,141	914	1,172
Poverty	% of total population	41.4	38.2	35.6
Extreme poverty	% of total population	20.1	15.5	19.4
Rural poverty	% of total population	43.4	36.6	35.0
Urban poverty	% of total population	39.8	39.4	36.0

Sources: DGEEC-Household Surveys 2002, 2003, 2004, 2005 and 2007.

Table 2.1. Programming emphasis matrix – Country and Bank: 2003-2004[157]

<table>
<tr><td colspan="3">Greater country emphasis /
Less Bank emphasis</td><td colspan="3">Greatest country emphasis /
Greatest Bank emphasis</td></tr>
<tr><td>Programmed
0.3%</td><td>Approved
0%</td><td>Disbursed
0%</td><td>Programmed
42.5%</td><td>Approved
49.9%</td><td>Disbursed
56.4%</td></tr>
<tr><td colspan="3">▪ Scrutiny of government and transparency
▪ Fiscal management (*)
▪ Economic structure (*)</td><td colspan="3">▪ Education
▪ Competitiveness policies
▪ Basic utility services and regional development
▪ Financial system
▪ Agricultural development
▪ Health
▪ Social investment</td></tr>
<tr><td colspan="3">Least country emphasis /
Least Bank emphasis</td><td colspan="3">Less country emphasis /
Greater Bank emphasis</td></tr>
<tr><td>Programmed
1.6%</td><td>Approved
4.2%</td><td>Disbursed
1.5%</td><td>Programmed
55.7%</td><td>Approved
45.9%</td><td>Disbursed
42%</td></tr>
<tr><td colspan="3">▪ Support for policy making
▪ Telecommunications (*)
▪ Air transport infrastructure (*)
▪ River transport infrastructure (*)
▪ Hydrocarbons (*)
▪ Science and technology</td><td colspan="3">▪ Electric energy
▪ Governance strengthening
▪ Road infrastructure</td></tr>
<tr><td colspan="6">* Sectors with no Bank programmed operations or approvals.</td></tr>
</table>

Table 2.2: Strategic intent - Strategy, country, and lending

Sectors	Strategy	Country	Loans	Strategy	Country	Loans
MACRO EQUILIBRIUM	1	35	1	6%	33%	1%
Economic structure	0	13	0	0%	12%	0%
Fiscal equilibrium	1	22	1	6%	21%	1%
COMPETITIVENESS	9	28	38	50%	27%	40%
Competitiveness policies	5	8	9	28%	8%	9%
Science and technology	0	0	2	0%	0%	2%
Electric energy	1	0	6	6%	0%	6%
Road infrastructure	1	0	7	6%	0%	7%
Agricultural development	0	7	6	0%	7%	6%
Financial system	2	13	8	11%	12%	8%
SOCIAL SECTOR DEVELOPMENT	4	25	29	22%	24%	31%
Social investment	1	6	4	6%	6%	4%
Basic utility services and regional devt	1	3	8	6%	3%	8%
Education	1	7	9	6%	7%	9%
Health	1	9	8	6%	9%	8%
MODERNIZATION OF THE STATE	4	17	27	22%	16%	28%
Support for policy making	0	1	6	0%	1%	6%
Governance strengthening	3	7	18	17%	7%	19%
Scrutiny of government and transparency	1	9	3	6%	9%	3%
TOTAL	18	105	95	100%	100%	100%
Concentration index (HHI)				1420	1126	958

Figure 2.1. Annual lending approvals 1991-2008

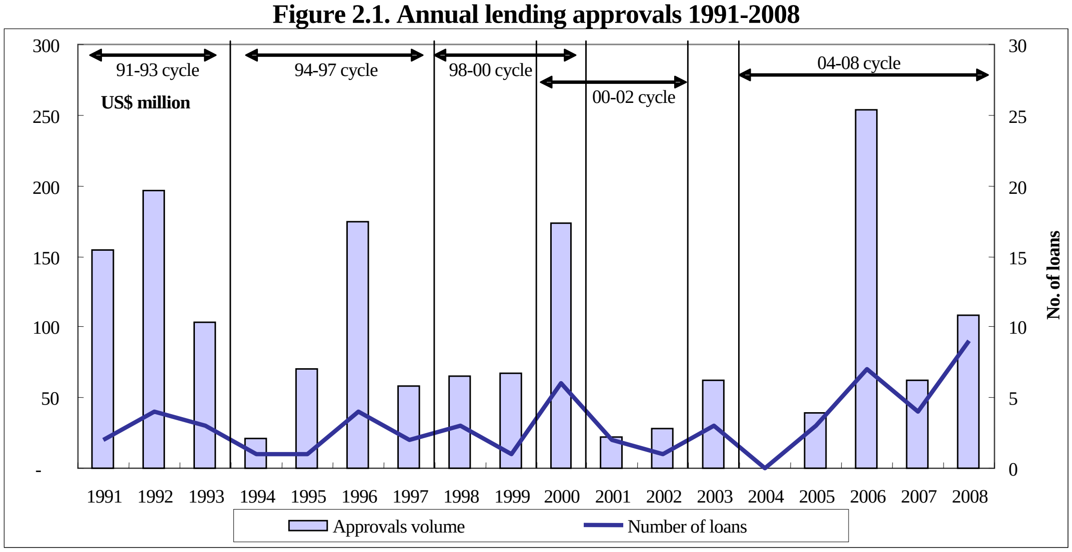
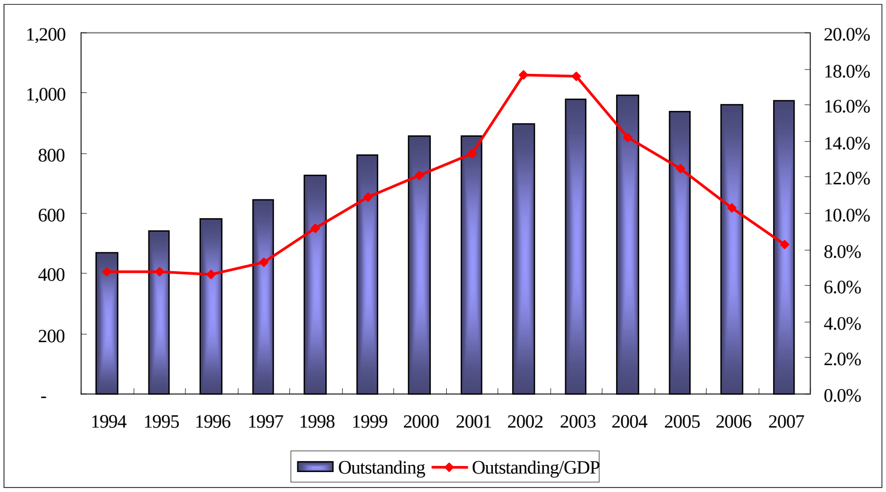


Figure 2.2. Paraguay. IDB debt



Source: Loan Financial Management System (FINLMS)

Table 2.3. Loan approval anticipation rate 2003-2008 (approved portfolio does not include TFFP)

	No. oper.	(%)	US$ million	(%)
Not anticipated	5	100%	107	100%
Competitiveness	2	40%	80	75%
Modernization of the State	3	60%	27	25%
Social sector development	0	0%	0	0%
Macro equilibrium	0	0%	0	0%
Anticipated	10	100%	317	100%
Competitiveness	6	60%	255	80%
Modernization of the State	3	30%	17	5%
Social sector development	1	10%	45	14%
Macro equilibrium	0	0%	0	0%

Source: IDB

Table 2.4. Number of loans anticipated and approved by sector (does not include TFFP)

	Not Anticipated	*Anticipated*	*Total*
Macro equilibrium			
Not approved during cycle	-	1	1
Approved during cycle	-	-	-
Sub total	-	1	1
Competitiveness			
Not approved during cycle	-	11	11
Approved during cycle	2	6	8
Sub total	2	17	19
Modernización del Estado			
Not approved during cycle	-	-	-
Approved during cycle	3	3	6
Sub total	3	3	6
Desarrollo Sector Social			
Not approved during cycle	-	6	6
Approved during cycle	-	1	1
Sub total	-	7	7
Total Programa			
Not approved during cycle	-	18	18
Approved during cycle	5	10	15
Total	5	28	33

Table 2.5. Loan approval anticipation rate 2003-2008 (approved portfolio does not include TFFP)

Project			Amount (millions US$)		Identified in	Identified in	Anticipated	Approved in cycle		Subsector
Code	Name	Antic. year	Antic.	Approved	CSP	August 2006*		Yes/No	Year	
PR-L1001	Modernization Public Mgt. Agricultural Supports	NA	NA	31,5	Yes	No	Yes	Yes	2006	Agricultural development
PR0126	Science and Technology Program	2005-2008	7	6,5	Yes	No	Yes	Yes	2005	Science and technology
PR-L1024	First program under CCLIP for financing of AFD	NA	NA	50	No	No	No	Yes	2008	Financial system
PR-L1011	INCOOP institutional strengthening	2006-2007	4,4	3,6	No	Yes	Yes	Yes	2006	Financial system
PR-L1012	Programmatic Public Financial Reform operation	NA	NA	30	No	No	No	Yes	2005	Financial system
PR-L1007	Integration Corridors Integration/Road Rehabil. and Maintenance Phase 1	2006-2007	134,1	134	Yes	Yes	Yes	Yes	2006	Road infrastructure
PR-L1010	ANDE Multiphase Power Transmission Program - Phase I	2006-2007	80	69,5	No	Yes	Yes	Yes	2006	Electric power
PR-L1018	Paraguayan Export Support Program	2006-2007	10	10	No	Yes	Yes	Yes	2007	Policies to support competitiveness
PR-L1017	Escuela Viva II Program	2006-2007	45	45	No	Yes	Yes	Yes	2007	Education
PR-L1030	National Environmental System Support Program II	NA	NA	8	No	No	No	Yes	2008	Strengthening management
PR-L1027	Fiscal Management Strengthening and Modernization Program II - PROFOMAF II	NA	NA	9,5	No	No	No	Yes	2008	Strengthening management
PR-L1026	Program to Strengthen Customs Revenue Administration	NA	NA	9	No	No	No	Yes	2008	Strengthening management
PR-0146	Justice System Strengthening Program	2004 2006-2007	10 / 6.3	6,305	Yes	Yes	Yes	Yes	2006	#N/A
PR-L1008	Civil Service Professionalization Program	2005-2008 2006-2007	5/4.2	4,2	Yes	Yes	Yes	Yes	2006	Strengthening management
PR-L1021	Economic Census Support Program	2006-2007	4	6,3	No	Yes	Yes	Yes	2007	Support for designing policies
PR-L1005	Strengthening Foreign Trade Negotiating Capacity	2004	2		Yes	No	Yes	No		Policies to support competitiveness
PR-L1004	Central Bank Restructuring Program	2005-2008	2		Yes	Yes	Yes	No		Economic structure
PR-0137	Reform of Government Banking	2004	50		Yes	No	Yes	No		Financial system
PR-0145	TC loan Public Financial Reform	2004	4		Yes	No	Yes	No		Financial system
PR-0127	Global Credit Program	2005-2008	20		Yes	No	Yes	No		Financial system
PR-L1009	Rural Electrification Program	NA	NA		Yes	No	Yes	No		Electric power
NA	Border Zone Economic Realignment Plan	NA	NA		Yes	No	Yes	No		Policies to support competitiveness
NA	Sectoral Competitiveness and Production Diversification Program	2005-2008	30		Yes	No	Yes	No		Policies to support competitiveness
NA	National Local Roads Program II – Second phase	2005-2008	80		Yes	No	Yes	No		Road infrastructure
PR-0143	Asunción Coastal Development Program	2005-2008	55		Yes	NO	Yes	No		Basic services and territorial development
PRL-1003	Design and implementation of vocational education system	2004	5		Yes	No	Yes	No		Education
PRL-1006	District Improvement Program	NA	NA		Yes	No	Yes	No		Basic services and territorial development
NA	Health Sector Modernization Program	2006-2007	15		No	Yes	Yes	No		Health
PR-L1019	National Rural Roads Program II, Second phase	2006-2007	80		No	Yes	Yes	No		Road infrastructure
NA	Tekoporã Program II (Conditional Transfers)	2006-2007	NA		No	Yes	Yes	No		Social investment
PR0127	Global Credit Program for Medium-sized, Small and Microenterprises	2006-2007	25		No	Yes	Yes	No		Policies to support competitiveness
NA	Support for Financial System Reform	2006-2007	NA		No	Yes	Yes	No		Financial system
NA	Water and Sanitation Program Small Communities II	2006-2007	NA		No	Yes	Yes	No		Basic services and territorial development

Figure 3.2. Investment projects: Time from contract signature to ratification (months)

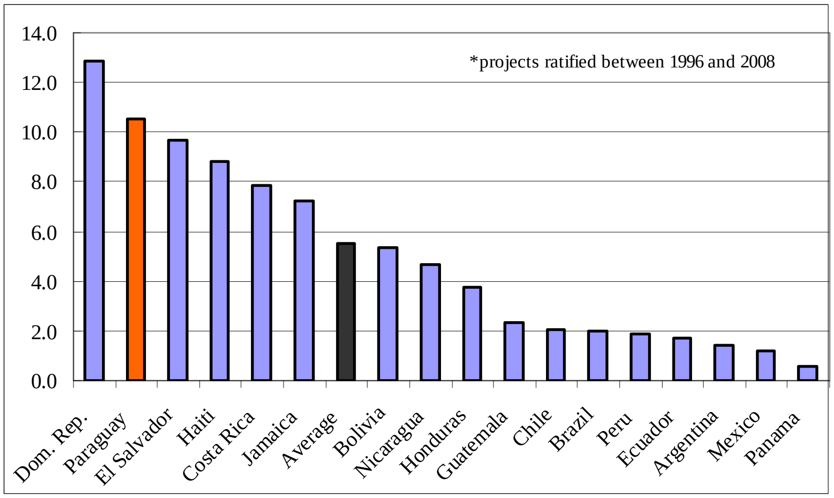
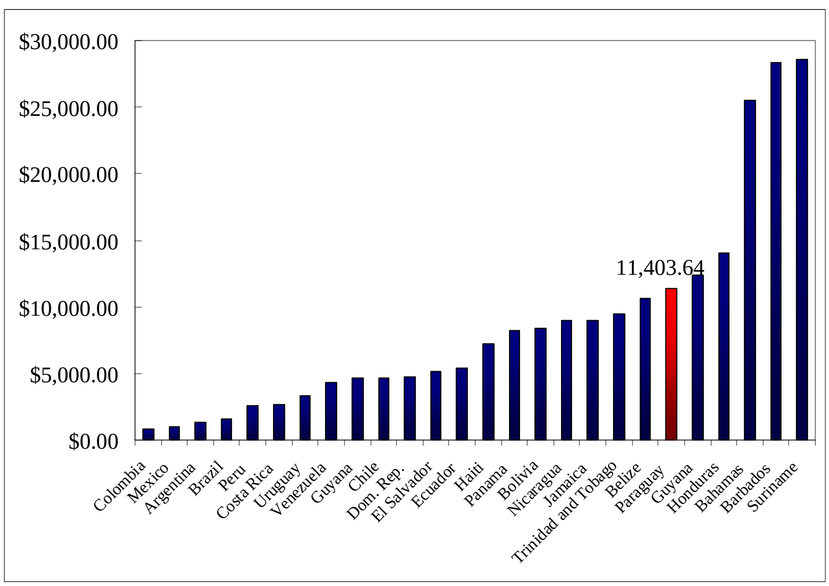


Figure 3.3. Average implementation costs 2003-2008 (US$ per million approved)



Source: IDB

Figure 3.4. Ratio of credit fee reflows to principal reflows (2003-2008)

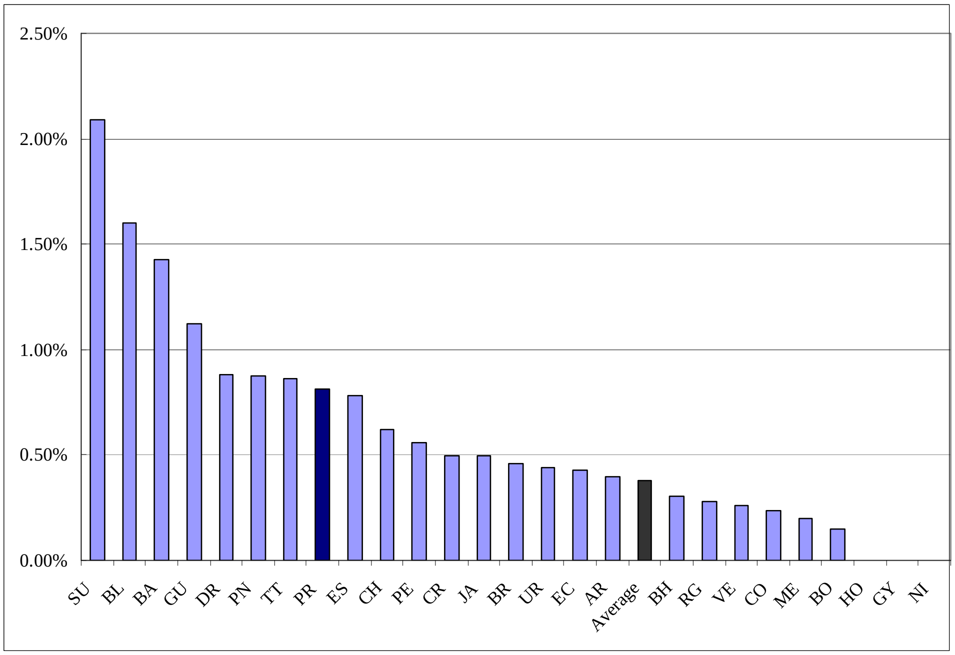


Figure 3.5. Number of reported issues per 10 operations per six-month period

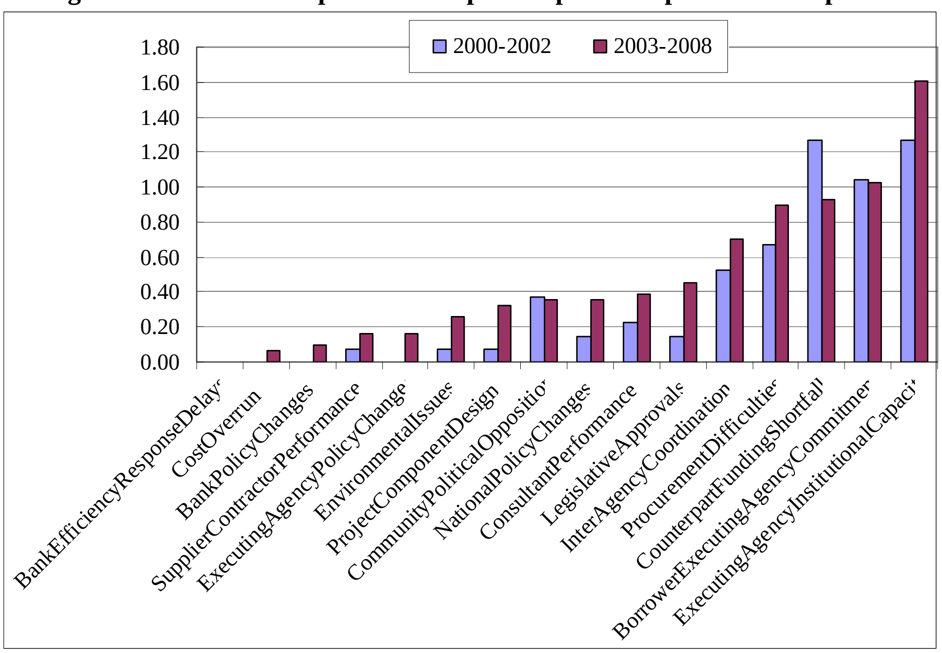


Figure 3.6. Issues identified in self-evaluation systems (PPMRs)

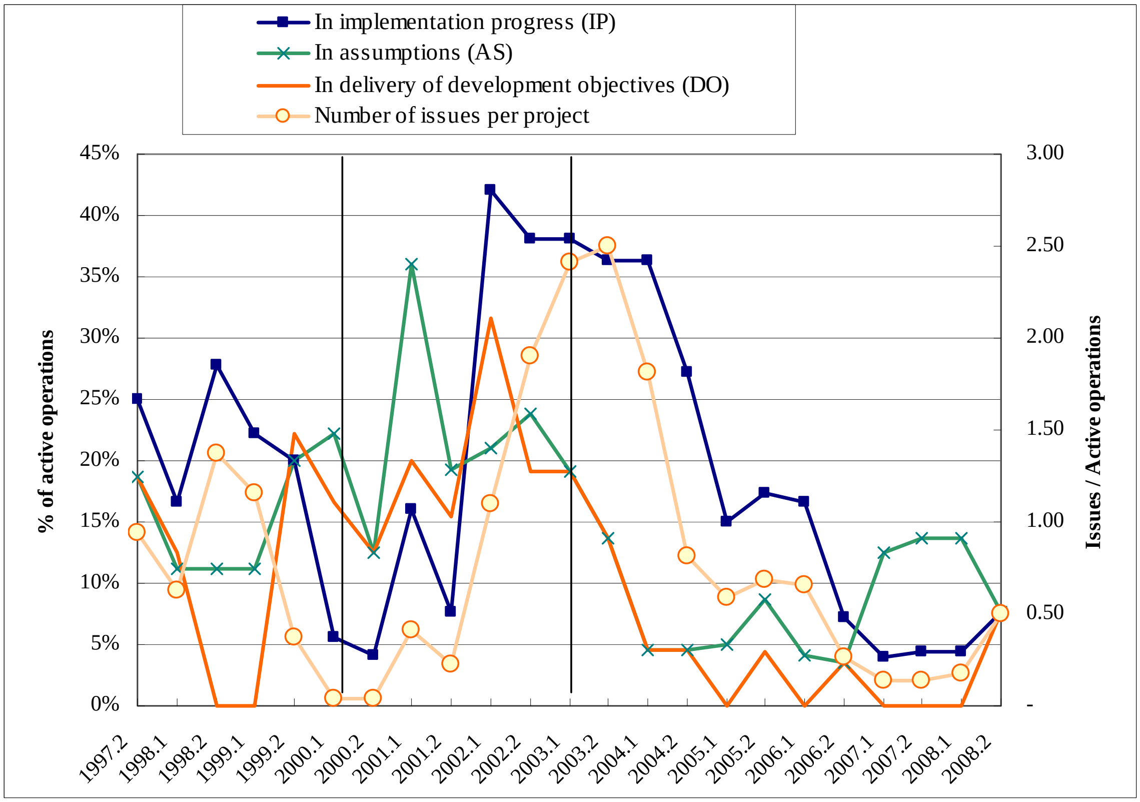


Table 4.1. Progress toward Bank-proposed development objectives (Projects)

Sector	Development objectives	Progress 2003-2008	
Fiscal equilibrium	Help secure fiscal equilibrium	++	Significant improvements
Agricultural development	Raise income of small and mid-sized farmers	++	Significant improvements
	Increase productivity of small and mid-sized farmers	-	Limited progress
	Provide partial temporary compensation to counter farmers' income decline	NA	Insufficient data
	Make agricultural supports more effective	+	Some improvement
	End policy of ad hoc supports to agriculture	-	Limited progress
	Increase agricultural technology adoption	NA	Insufficient data
Energy	Reduce loss levels	-	Limited progress
	Supply growing demand for electricity	NA	Insufficient data
	Extend power transmission grids	+	Some improvement
	Upgrade power transmission grids	-	Limited progress
	Make efficient use of existing power generation	-	Limited progress
	Modernize ANDE	NA	Insufficient data
Road infrastructure	Upgrade and maintain road system	++	Significant improvements
	Improve local roads	++	Significant improvements
	Reduce transportation costs	NA	Insufficient data
	Shorten travel times	NA	Insufficient data
	Increase vehicle traffic	NA	Insufficient data
	Ensure adequate service level on arterial roads	+	Some improvement
	Ensure adequate service level on local roads	NA	Insufficient data
Financial system	Channel funds to production sector for development projects	NA	Insufficient data
	Deepen financial system	-	Limited progress
	Increase financial system efficiency	++	Significant improvements
	Restructure second-floor financial institutions	++	Significant improvements
	Implement new government banking system strategy	+	Some improvement
	Make cooperative sector more sustainable	NA	Insufficient data
	Revise cooperative sector regulation	NA	Insufficient data
	Tighten supervision of Savings and Loan Associations	NA	Insufficient data
Science and technology	Build up research and innovation capacity	-	Limited progress
	Help strengthen National Innovation System	-	Limited progress
Competitiveness policies	Contribute to development of Paraguayan production	+	Some improvement
	Enhance production sector competitiveness	-	Limited progress
	Advance economic integration	++	Significant improvements
	Increase export growth rate sustainably	++	Significant improvements
	Enhance SME competitiveness	NA	Insufficient data
	Enhance SME business environment	NA	Insufficient data
	Make Business Development Services (BDS) more relevant	NA	Insufficient data
	Make BDS more efficient	NA	Insufficient data
	Make BDS more sustainable	NA	Insufficient data
Governance strengthening	Increase government efficiency	-	Limited progress
	Improve economic development policy and program delivery	NA	Insufficient data
	Help modernize the public administration	NA	Insufficient data
	Help optimize public revenue collection	++	Significant improvements
	Make public expenditure management more effective	+	Some improvement
	Help build an accessible justice system	NA	Insufficient data
	Help build a predictable, independent justice system	+	Some improvement
	Help build an efficient justice system	NA	Insufficient data
	Professionalize the civil service	NA	Insufficient data
	Facilitate identification of important judicial acts	NA	Insufficient data
	Facilitate identification of persons	NA	Insufficient data
	Strengthen justice system predictability	NA	Insufficient data
	Strengthen legal certainty	NA	Insufficient data
	Make national environmental quality system operational	NA	Insufficient data
	Improve environmental quality	+	Some improvement
	Institution-strengthening for socioenvironmental sustainability	NA	Insufficient data
	Increase citizen participation in environmental management	NA	Insufficient data
	Make road maintenance management more efficient	+	Some improvement
Support for public policy making	Enhance public investment productivity	NA	Insufficient data
	Improve economic development policy and program design	NA	Insufficient data
	Increase number of preinvestment studies available	NA	Insufficient data
	Make national environmental information system operational	NA	Insufficient data
	Provide better quality local and global economic data	NA	Insufficient data
	Support analysis of 2002 Census returns	NA	Insufficient data
Scrutiny of government and transparency	Increase transparency in management of public monies	-	Limited progress
	Increase scrutiny of use of public monies	-	Limited progress
	Improve economic development policy and program evaluation	NA	Insufficient data
Education	Improve early and basic education quality	++	Significant improvements
	Enhance early and basic education equity	-	Limited progress
	Increase early and basic education access	-	Limited progress
	Increase secondary education access	+	Some improvement
	Improve internal efficiency in basic education	++	Significant improvements
	Make early and basic education more relevant	NA	Insufficient data
	Lengthen schooling of marginal populations	NA	Insufficient data
	Ensure school operation and maintenance	NA	Insufficient data

Sector	Development objectives	Progress 2003-2008	
	Ensure adequate pedagogic supervision	NA	Insufficient data
Health	Reduce maternal and infant mortality	+	Some improvement
	Improve primary health care	NA	Insufficient data
	Help modernize the health sector	NA	Insufficient data
	Help institute health sector reform	-	Limited progress
	Prevent common diseases	-	Limited progress
	Treat common diseases	+	Some improvement
	Promote comprehensive reproductive health	+	Some improvement
	Deliver culturally appropriate care to indigenous populations	NA	Insufficient data
Social investment	Raise living standards of the poor	++	Significant improvements
	Raise rural living standards	++	Significant improvements
	Make social investment more effective	+	Some improvement
	Reduce risks in vulnerable groups	NA	Insufficient data
Basic utility services and regional development	Ensure access to safe water supply	+	Some improvement
	Ensure sewage disposal	+	Some improvement
	Make expansion of basic utilities more sustainable	NA	Insufficient data
	Promote efficient land use	NA	Insufficient data
	Improve land management	NA	Insufficient data
	Improve land-use planning	NA	Insufficient data
	Further social integration	NA	Insufficient data
	Improve sanitation conditions in rural and indigenous communities	+	Some improvement

Table 4.2. Progress toward Bank-proposed development objectives (Strategy)

Sector	Development objectives	Progress 2003-2008	
Fiscal equilibrium	Strengthen fiscal sustainability	++	Significant improvements
Energy	Expand electric and telecommunications and ICT service	+	Some improvement
Road infrastructure	Improve road system and maintenance	++	Significant improvements
Financial system	Strengthen financial system	+	Some improvement
	Improve financial intermediation	+	Some improvement
Competitiveness policies	Improve access to emerging production opportunities	NA	Insufficient data
	Enhance production sector competitiveness	-	Limited progress
	Advance economic integration	++	Significant improvements
	Enhance SME business climate	NA	Insufficient data
	Establish frameworks to attract private sector participation	NA	Insufficient data
Governance strengthening	Increase government efficiency	-	Limited progress
	Strengthen rule of law and justice administration	NA	Insufficient data
	Strengthen inter-branch coordination and cooperation mechanisms	NA	Insufficient data
Scrutiny of government and transparency	Increase civil society participation	NA	Insufficient data
Education	Develop human capital	NA	Insufficient data
Health	Increase access to quality basic health care	NA	Insufficient data
Social investment	Raise standard of living of the poor	++	Significant improvements
Basic utility services and regional development	Increase access to basic sanitation services	+	Some improvement

Table 4.4. Education system coverage: Enrollment ratios

Education levels and cycles		1995	2002	2003	2005	2006	2007
Early	**Preschool**	36	64	72	69	67	67
Basic	**1st and 2nd cycle**	91	87	97	94	92	90
	3rd cycle	38	49	51	55	56	56
Secondary		22	30	34	37	39	41

Table 4.5. Preschool coverage

	2001	2002	2003	2004	2005	2006
Gross enrollment ratio	81	84	87	86	85	83
Net enrollment ratio	67	68	69	69	69	67

Table 4.6. Preschool enrollment rates by location

	2002	2003	2004	2005	2006
Urban	91	90	87	84	81
Rural	77	84	85	86	85

Endnotes

[1] Source: Central Bank of Paraguay, Informe de Coyuntura [Economic Trend Report], April 2009.

[2] Based on 2007 data, when GDP in Guyana, Belize, Suriname, Haiti, and Nicaragua was lower than that of Paraguay. Comparative data for 2008 are not yet available.

[3] Note that some of the data presented in this chapter are for 2007 since 2008 data are not available.

[4] The comparator countries are those classed in Group D: Bolivia, Ecuador, El Salvador, Guatemala, Honduras, and Nicaragua. Growth rates are measured in constant dollars.

[5] Source: World Development Indicators.

[6] The gap exists whichever the selected yardstick—per capita income or purchasing power parity. Up until the late 1990s Paraguay's per capita income exceeded the Group D country average; since 2000 it is about 10% below the average.

[7] Investment was around 20% of GDP. The region average was 21%, the comparator-country average 22%.

[8] Pedro L. Rodriguez, *The Challenge of Sustaining Long-Term Growth*, and Benedikt Braumann, *Long-run Potential Growth in Paraguay*. (To be published.)

[9] Paraguay's debt to the Bank rose 10% in nominal terms between end-2002 and end-2007, from around US$887 million to US$975 million.

[10] The "Paraguayan March" refers to a political crisis triggered by the assassination of Vice President Argaña. The resulting demonstrations ended in the death of seven protestors.

[11] IMF Country Report No. 03/94 of February 2003.

[12] The agreement was signed in December 2003.

[13] The Tax System Restructuring Law (Law 2421) enacted in July 2004.

[14] The object of the law was to raise Paraguay's tax ratio (tax revenues 10% of GDP), expand the taxpayer base, create new taxes, and reduce the number of legal exceptions. Parts of the law were implemented; the agricultural tax and personal income tax provisions were left in abeyance. The Paraguayan Congress is currently debating the entry into force of the personal income tax provisions.

[15] Foreign currency reserves soared from US$641 million in 2002 to US$1.168 billion in 2004.

[16] Sources: Ministry of Finance, Central Bank of Paraguay.

[17] Sources: Central Bank of Paraguay, April 2009 Informe de Coyuntura [Economic Trend Report], SIGADE.

[18] In 2007 these made up 85% of total tax revenues. VAT proceeds that year contributed nearly 45% of the aggregate tax revenue intake, according to the Ministry of Finance.

[19] In 2003-2007, revenues from these binational enterprises provided 33%, on average, of the annual central government budget. The calculation formula to set the value of royalty transfers was politically negotiated.

[20] *Lecciones aprendidas acerca del tratamiento presupuestario en Paraguay, Proyecto Gasto Social en el Presupuesto – Invertir en la Gente.*

[21] Source: Ministry of Finance.

[22] Law 2345 which, among other measures, increases the contribution rate in Finance Ministry-administered pension plans from 14% to 16%.

[23] Around US$100 million.

[24] The Bahamas, Belize, and Haiti are not included in the World Economic Forum country rankings.

[25] For both indicators only Nicaragua and Bolivia rank lower.

[26] According to available data, 2.6 million hectares were planted to soybeans in 2008/09 and the output forecast is 6 million tons—comparable in both cases to the 2007 numbers. Cotton output plummeted as soybean production rose, as the table below illustrates.

Output and planted area

Variables	2003/04	2004/05	2005/06	2006/07	2007/08
Cotton					
Output (tons)	330,000	198,000	180,000	105,000	64,282
Planted area (hectares)	320,000	225,000	245,000	110,000	65,000
Output (Index 2003/04=100)	100.0	60.0	54.5	31.8	19.5
Planted area (Index 2003/04=100)	100.0	70.3	76.6	34.4	20.3
Soybeans					
Output (tons)	3,583,685	3,988,000	3,800,000	6,000,000	6,808,000
Planted area (hectares)	1,935,700	2,200,000	2,400,000	2,644,856	
Output (Index 2003/04=100)	100.0	111.3	106.0	167.4	190.0
Planted area (Index 2003/04=100)	100.0	113.7	124.0	136.6	

[27] 38% and 15%, respectively, of 2008 export sales.

[28] There was an inverse phenomenon in comparator countries. From 1991 to 2007, the industry's value added as a percentage of GDP rose in relation to the agricultural sector.

[29] In 2007 the external sector contributed close to 70% of GDP.

[30] For example, the 2004-2005 drought shrank economic growth to 2.8% in 2005.

[31] Products like dressed leathers, apparel, and wood moldings, panels and flooring are the fruit of innovations that capitalized on Paraguay's traditional competitive advantages, and their output and exports are growing fast. Some other nontraditional agricultural products like stevia and medicinal and ornamental plants also are showing export potential. For instance, the recent international approval of stevia as an additive opens real prospects for that product and other nontraditional crops to generate exports worth more than US$50 million a year. Sesame is replacing cotton as the smallholding farmer's crop of choice.

[32] The MERCOSUR countries still are Paraguay's main trading partners but their trade share has been slipping in recent years—from 60% to 50% for exports in 2003-2007 and from 58% to 44% for imports in that period. The decline in export share can be attributed largely to the increase in Paraguayan meat exports to the rest of the world, the import falloff to heavy entries of products from mainland China from 2005 forward. That year, Chinese products accounted for 21% of Paraguayan imports; by 2007 they made up 28%.

[33] For example, 46% of imports in 2008 were for capital goods for agriculture.

[34] After Central Bank of Paraguay final recording adjustments, including the Itaipú and Yacyretá binational hydropower plants, recorded and unrecorded trade, and re-exports. One highlight of the review period was the strong recovery in re-export trade (sales of imported goods to non-Paraguayans in Paraguay, not recorded as exports) from US$928 million in 2003 to nearly US$2.7 billion in 2007. This type of trade had shrunk significantly since the late 1990s as Brazil tightened customs controls and the guaraní gained value against the Brazilian real at the close of that decade.

[35] Foreign direct investment soared from around US$47 million in 2005 to close to US$190 million in 2007.

[36] Foreign direct investment in 2007 came to roughly 1.6% of GDP in Paraguay, comparable to Bolivia. FDI into Venezuela, Ecuador, and Haiti was lower in GDP percent terms. Estimated FDI into Paraguay in 2008 was around US$225 million.

[37] Paraguay went through two major financial crises: one from 1995-1998 and another in 2001. The 1995-1998 crisis cost the treasury at least an estimated 5% of GDP. The 2001 crisis, in contrast, was more targeted, but still affected Banco Alemán—which at the time was the top ranked in the country—and led to a crisis of confidence and realignment of the system. Another consequence of the 2001 crisis was the increased stake of cooperatives—with more than 20% of the system's total assets. It should be noted that cooperatives are not subject to banking regulations, but rather to a self-regulation system.

[38] Credit to the private sector as a percentage of GDP averaged just over 17% from 2003 to 2007—down significantly from the levels around 30% seen from 1995 to 2002.

[39] From 2003 to 2007 approximately 80% of deposits in local currency were sight deposits.

[40] This is also due to the characteristics of agricultural or business cycles, which tend to promote a short-term culture in Paraguay's economy.

[41] The recovery also lowered interest rates, but available credit was skewed primarily towards large clients, in both the public sector and export sectors. Despite the drop in real interest rates during the review period—resulting essentially from the increased financial intermediation generated by the lower interest rates paid by the BCP and from its monetary regulation instruments—in 2007 they were still double the level in comparator countries (similar to the difference in 2002).

[42] Most of the rural population work smallholdings (*minifundios*). Living below the poverty line, they have scant access to technology, quality soil, financing, and other effective production supports.

[43] Some Bank member countries were not included in the Latinobarómetro surveys: The Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago.

[44] According to 2007 data in *Governance Matters* (World Bank), Haiti and Venezuela ranked behind Paraguay for control of corruption. The World Economic Forum's 2008 index places Paraguay 126th among 134 countries for transparency of government policy making. On the Transparency International Paraguay index of government transparency, integrity, and efficiency the country came in at a mediocre 45.6. Given those indicators, mention should be made of the government's endeavors to improve the career civil service, progress having been made in the customs and government procurement areas.

[45] Poverty rates have declined more steeply in rural parts of Paraguay than in cities: between 2002 and 2007 the rural poverty rate dropped from 50.5% to 35%, the urban rate from 43.2% to 36%. It should be noted that, while Paraguay has made inroads against poverty in recent years, a United Nations Development Programme (UNDP) study rates its progress toward the Millennium Development Goals target of "eradicating extreme poverty and hunger" as "insufficient" to reach that target.

[46] Malarín and Raw, 2003.

[47] Remittances in 2007 were 1.6% of GDP, up from 0.5% in 2003.

[48] According to technical staffers in Paraguay's Statistics, Surveys, and Census Bureau (DGEEC) the survey methodology used may be understating rural poverty.

[49] The expansion of agricultural land triggered distributional tensions in rural parts of the country. From 2003 forward soybean production rose quickly and cotton production (traditionally the mainstay of family farming) dropped off quickly, which increased land concentration. In 2003-2007 the poorest quintile's share in rural income fell more than 40%, from 5.6% to 3.3%. The waves of migration from the countryside to cities in recent years are a reflection of those developments, creating a shift in poverty patterns. Centro de Análisis y Difusión de la Economía Paraguaya (CADEP).

[50] Though the urban poverty rate may be moderate it persists because of labor market constraints. One explanation for the lower proportion of urban dwellers living below the extreme poverty line is their access to informal employment—but that also limits growth prospects, since these workers do not receive the benefits that come with mainstream jobs. The proportion of urban workers who had insecure jobs or were underemployed climbed from 18% in 1999 to 28% in 2006.

[51] According to preliminary data from the 2008 Agricultural Census, the number of farms with less than 10 hectares fell 2.7% from 1991 to 2008, while the number with more than 100 hectares rose 43% in that period.

[52] Fazio and Tornarolli (2006), *Monitoring the Socio-Economic Conditions in Argentina, Chile, Paraguay and Uruguay*. CEDLAS.

[53] Estimates by Thomas Otter, Public Spending and Social Protection in Paraguay, input research paper for the *World Bank Poverty Assessment Paraguay 2008*.

[54] Just as soybean price jumps in 2003 helped Paraguay out of the crisis any sharp drop in world prices could severely hurt its economic performance. The Economist Intelligence Unit (EIU) is forecasting 30% export and import falloffs in 2009. Source: *Country Risk Service: Paraguay*, April 2009.

[55] The drought that began in the second half of 2008 and has worsened in 2009 could further impair agricultural sector performance.

[56] The uptrend in interest rates as a result of credit rationing, competition for liquidity, the increase in the exchange rate, and the heightening of the general climate of risk and uncertainty is already being felt in higher borrowing costs.

57 This slashed the fiscal surplus to around 0.2% of GDP in 2008 from 1% of GDP the previous year.

58 The government projects a deficit of 0.7% of GDP, while the Economist Intelligence Unit estimates it at 2% of GDP. To date, the Central Bank of Paraguay estimates that GDP will fall approximately 4% in 2009.

59 The country strategy paper GN-2312-1 of 2004 supersedes GN-2118-1 of 2000.

60 Document GN-2312-1, page 31.

61 The Bank prepared a progress report (document CP-2771-7) that was presented to the Board for information in November 2006. That report incorporated the October 2005 talks on the continuing structural challenges.

62 Over 98% of the programmed amounts were for these Bank interest focuses (see Annex, Table 2.1).

63 Document GN-2312-1. In Conclusions and Lessons Learned, page 30.

64 Document GN-2312-1, page 44.

65 In principle there was a series of tacit agreements in Paraguayan society on the need for fiscal prudence, monetary stability, low debt, and the importance of education, among other things, but they have not translated into government policies that are upheld independent of short-term business cycles.

66 In 2009, once again to address the prospect of an external shock, the government appears to have anchored its agenda in a Crisis Aversion Plan with a heavy emphasis on liquidity supply, job-creating infrastructure projects, and social transfers.

67 Of the 15 loans approved (not including private sector operations) during the period the country strategy was in effect (2004-2008), 80% contained an institution-strengthening component—equivalent to approximately 10% of total approvals. In the same period, 56 nonreimbursable technical-cooperation operations were approved for a total of US$12.6 million, which corresponds to 2.6% of total approvals.

68 Document GN-2312-1. Page 31. The planning initiative begun in San Bernardino was not executed.

69 Document GN-2312-1.

70 The health project was approved but never received congressional ratification.

71 Including private sector operations, approvals for the period 2006-2008 totaled US$442.3 million.

72 This does not include operations under the TFFP.

73 Anticipated approved/anticipated.

74 Anticipated/approved.

75 The portfolio analysis includes 12 investment loans approved between 1996 and 2002 because over 50% of their proceeds were disbursed during the review period. Also included is a Project Preparation Facility to prepare an operation to support Financial System Reform (PR-0145). The aggregate undisbursed balance of these operations at the start of 2003 was US$309.8 million.

76 The Social Protection Program, Employment Training and Development Program, Modernization of the State Program, and Global Microenterprise Credit Program II were the largest operations cancelled.

77 The Bank approved 12 PROPEFs in the review period. From 2003 to 2008 the number of active PROPEFs doubled from four to eight.

78 Nonreimbursable technical cooperation operations were excluded from the analysis.

79 It should be noted that Bank systems do not produce highly accurate costs estimates.

80 The Paraguay loan approval average over the review period was US$25.7 million; the Bank average was US$86 million.

81 The evaluability analysis was done for a sample of 29 projects approved between 1996 and 2008. The analysts examined 194 indicators taken from the projects' logical frameworks.

82 Nevertheless, the number of reported issues declined from the second half of 2003 forward, particularly starting in 2005 (year of the largest cancellations). The number of issues per operation per six-month period fell from 2.5 in 2003 to 0.5 in 2008. Likewise, the percentage of portfolio operations with reported implementation issues dropped from 36% in the second half of 2003 to just 8% in the second half of 2008 (see Annex, Figures 3.6 and 3.7).

83 The PPMRs report 19 types of issues that fall into three categories: (i) ownership issues, including legislative approvals; borrower/executing agency commitment; counterpart funding shortfall; political/ community opposition, and country policy changes; (ii) institutional capacity issues, including executing agency institutional capacity; consultant performance; interagency coordination; supplier/contractor performance; procurement issues; cost overruns; qualified external audit opinions;

executing agency policy changes, and no monitoring and evaluation system; and (iii) design issues, including: project/component design; contract compliance delays; Bank efficiency (response delay); environmental issues, and Bank policy changes.

[84] Over the review period the Bank loans examined here represented roughly 5% of the country's budget, Bank disbursements about 20% of its capital expenditure.

[85] To measure country progress we looked at the performance of indicators for the development objectives the Bank had proposed (in the country strategy and in loan documents) for each focus area. Where no indicator had been provided for an objective or it had not been tracked we used proxy indicators that generally corresponded to socioeconomic indicators for the 2003-2008 period (unless none were available) from a variety of sources, among them the World Bank, World Economic Forum, UNDP, Central Bank of Paraguay, and Paraguay's Ministry of Finance, Ministry of Public Works and Communications, Ministry of Agriculture, and Statistics and Census Bureau (DGEEC).

[86] In 2006 Paraguay secured a new IMF stand-by arrangement intended not just to further stabilize the macroeconomy but also incorporating supports for pro-growth and social policy reforms.

[87] To continue delivering fiscal management support the Bank approved two new operations in 2008: the second phase of the Fiscal Management Strengthening and Modernization Program (PR-L1027, US$9.5 million) and a US$9 million loan for the Program to Strengthen Customs Revenue Administration (PR-L1026). The first of those loans, under the ambit of the Finance Ministry, is a continuation of the previous fiscal management operation and seeks to strengthen internal tax administration and public expenditure management. The loan contract has not yet been signed; legislative approval is still expected in the second half of 2009 for the program's year-end rollout. This operation also had a PROPEF under way. The purpose of the second of the 2008 approvals—under the ambit of the National Customs Directorate—is to help improve customs revenue collection through more efficient customs service management. That operation, approved on 24 September 2008, is still awaiting congressional ratification, but the conditions precedent in the associated support operation PR-L1036 (PROPEF) are currently being fulfilled.

[88] This project's PCR is not yet available. The most recent PPMR (December 2005) reports that "there is evidence that the loan cushioned the adverse impact of the economic adjustment by shielding selected program budgets. The Clause 4.02 reporting requirement has enabled the timely monitoring of the operation." Other than the project's immediate contribution to the Treasury it is questionable what type of incentive it may have generated in the social dimension, given its subsequent cancellation that coincided with congressional ratification of PROPAÍS II, which was expected to help it deliver the still-unattained budget execution objectives.

[89] A Paraguay Growth Diagnostic produced with Bank backing by the Harvard University research team headed by Ricardo Hausmann was disseminated to senior executive and legislative branch officials, academia, and civil society, among others, but the study's recommendations were not implemented.

[90] Likewise, meat exports increased 37% annually on average in 2003-2007, mostly owing to volume and price increases as new markets opened up when sanitary practices in this subsector improved. The National Animal Health and Product Quality Service (SENACSA), which operates as a livestock producer-led public-private partnership, played a key role in that export performance.

[91] During the review period the Bank also approved seven technical cooperation operations totaling US$700,000: Pilot Training Project and Support for Small Beekeepers; Experiences in Delivering Direct Supports for Agricultural Technology Adoption; Analysis and Monitoring of Supports to Farmers; Forest Vocation Land Policy Implementation in Paraguay; Experiences in Delivering Direct Supports for Agricultural Technology Adoption, stage II; and Incorporation of Jatropha to Smallholding Production.

[92] A policy built around input delivery and distribution to selected product subsectors perpetuates unprofitable activities and creates distortions in the targeted markets and negative externalities elsewhere in the economy. Accordingly, in line with other countries' reforms in this area, the aim is to correct these distortions and allow producers whose products offer the greatest competitive advantages to make their own production decisions. The Bank proposed an end to sector-targeted input subsidies as a policy condition in new loans.

[93] Making matters worse was the virtual collapse of the Crédito Agrícola de Habilitación agricultural development bank which, following the mass forgiving of more than US$40 million in loans during the

"Paraguayan March" disturbances, has become an irrelevant force in endeavors to remedy the serious problem of credit availability for small farmers.

94 A sizable segment of smallholding households are raising crops on a scale too small to be profitable. According to 2007 Household Survey data the average farmer earns 598,000 guaraníes a month, which is below the average in the rest of the economy. According to the 2008 National Agricultural Census preliminary findings, 165,071 farmers/households (67% of those polled) live on farms smaller than 10 hectares, the average being 3.6 hectares; the main crops grown are manioc, maize, beans, cotton, sesame, and sugarcane. In contrast, total soybean producer numbers climbed 3.8% between the 1991 and 2008 censuses. Nevertheless, the steepest decline (17.7%) was in number of farmers working less than 20 hectares. Meanwhile, the number of soybean producers who farm more than 20 hectares rose 77%. The largest increase (285%) was for producers in the 100 to 1,000 hectare range.

95 Agrarian reform is one of the government's stated work-agenda priorities, but to date it has only addressed this issue by means of commissions, the buildup of a specialized agency (INDERT), and partial title deliveries. The economic viability of smallholding farming and the best ways to transfer the necessary resources for its sustainability are continuing issues.

96 The total length of the current inventoried road system is about 31,265 km—9,656 km of national roads, 6,384 km of state roads, and 15,225 km of local roads. The country also has roughly 30,000 km of uninventoried local roads. Only 26% of the inventoried network is paved. A variety of surface treatments are used to make roads passable year-round: 4,507 km are paved with asphalt and concrete, 1,106 km are pebbled, and 2,516 km are gravel surface. In 2003-2007 work was done on a total of 2,171 km of roads, 621 km of them having been paved.

97 An estimated 20 km of wooden bridges are beyond their useful service life and need replacing. This would require outlays on the order of US$200 million.

98 About one third (30%) of the paved road system is in poor repair and 40% in fair condition. The Road Transportation Directorate is responsible for national and state road maintenance, the Local Roads Directorate for local road maintenance. Most maintenance has been done on force account, i.e., using those departments' own staff and equipment. Changes to that approach currently being explored would outsource arterial road maintenance, with service level-based remuneration; other roads would be maintained under agreements whereby the Public Works Ministry would give the municipal agencies equipment and supplies.

99 The Impact of Transportation and Logistics on Paraguay's International Trade. USAID (2006).

100 Total road construction: 1,080 km of main local roads passable year-round, 1,252 km of roads with adequate signage and other safety devices, and 2,552 km of local roads with a maintenance program—of which 1,756 km maintained under agreements with the Public Works Ministry and 796 km with outsourced maintenance. The Bank also contributed to the development of appropriate technical designs for highways in the Chaco area, which in turn helped to negotiate lower costs with works contractors.

101 The typical Bank loan breakdown in this sector was 70%-80% for physical works and 20%-30% for consulting services and audits.

102 In 2006 the Bank approved a US$105 million loan to fund the first stage of an Integration Corridors/ Road Rehabilitation and Maintenance Program (PR-L1007) which again sought to change the way maintenance is managed, but by end-2008 the loan was less than 5% disbursed. During the review period the Bank also approved four technical cooperation operations totaling US$748,000, three of them relating to road maintenance: the "Support for Development of Long-lasting Pavement Technology" TC was approved in 2006 (PR-T1032, US$362,000), the "Exchange of Local Road Maintenance Management Experiences" operation (PR-T1055, US$1,700) in 2007, and "Exchange of Local Road Maintenance Management Experiences" also in 2007 (US$6,500). The "Support for the National Rural Roads Program, Phase II" TC (PR-T1054, US$364,000) was approved as well.

103 The Program was structured around three components: fostering demand for BDS, improving and building up the supply of BDS, and enhancing SME supports.

104 Toward the end of the period examined here the Bank also scaled up its private sector work, approving a MIF loan of just over US$1 million and six Trade Financing Facility (TFFP) operations with Paraguayan banks for a total of US$37 million—virtually all of them intended to help contend with the 2008 global crisis. The MIF operation "Expansion of Financial Services Coverage for Rural SMEs,

Banco Regional" (PR-M1005) was approved in 2007. Two of the TFFPs were for BBVA Paraguay S.A., the others for Interbanco, Banco SudAmeris S.A., Visión Banco S.A., and Banco Regional S.A.

[105] In some instances this support was combined effectively with grants—such as the US$2 million provided by the Government of Taiwan—which enabled the work team to be kept on and continue producing studies under the form of a National Export Plan. Similarly, the Technical Planning Department (which is currently under the Finance Ministry) is using European Union financing to implement a Program to Build Export Sector Competitiveness (FOCOSEP). Its activities include designing the National Competitiveness Plan. See www.paraguaycompetitivo.gov.py.

[106] Though the track record of the other industry councils—Cotton, Textiles and Apparel, Forest Products, Biofuels, Information and Communication Technologies, Tourism, Fruits and Vegetables, and Stevia—is mixed, each of them has provided a forum for tackling sector bottlenecks.

[107] In 2007 the Bank approved the US$10 million Paraguayan Export Support Program (PR-L1018) intended to increase exports of the targeted businesses. As of December 2008 its implementation had not yet begun. It is hoped that the project will receive legislative ratification in the first half of 2009. In the review period the Bank also approved 10 technical cooperation operations (TCs) totaling US$4.8 million: Cleaner Production in Value Chains; Instituting Corporate Social Responsibility Practices in SMEs; Promotion of Tourism to Missions in the Guaraní World; Facilitation of Operations of SME Exporters of Nontraditional Products; Paraguayan Artisan Embroidered Articles in the International Market; Support for High-Growth-Potential Enterprises; Fostering Ethics in Business; Rural Tourism Guide; Airport Security Strengthening; Trade Law and International Investment Capacity Building.

[108] The Bank facilitated the operation of a Civil Society Coordination Group (GASC) where civil society representatives could build capacity to scrutinize the workings of government.

[109] State policy capacity was one Bank support focus. In 2007, for instance, it approved the Program to Support the Economic Census (PR-L1021, US$6 million) to help in the development, delivery, and evaluation of economic development programs through the provision of key data. Among that program's specific objectives are support to Paraguay's Statistics, Surveys, and Census Bureau (DGEEC) to conduct the Economic Census and strengthen that agency's operational and management capacity. The program development team drew on lessons learned in a previous operation in DGEEC. The loan contract was signed on 4 April 2008 and in October 2008 the borrower sent it to the Congress, where it awaits ratification. Meanwhile, in June 2008 at the government's request the Bank approved a US$1.2 million PROPEF associated with the loan; that facility has been disbursement-eligible since December 2008.

[110] The Bank also approved seven TCs to help with policy design but only one of them ultimately provided direct support to an active loan: the US$150,000 TC for Institutional Strengthening of the Central Public Investment Unit (PR-T1008, approved in 2004) supported the Preinvestment Program by building up its executing unit's capacity. The other TCs approved in the review period, totaling US$640,000, were spread across various subject focuses: Implementation of the Interagency Agenda of the Executive and Legislative Branches; Legislative Technique Program; Public Policies to Combat Human Trafficking; Development of the E-Government Strategy – Public Information Portal; Experiences in the Importance of Modernization of the State; and Support for Preparation of the Municipal Management and Development Program.

[111] April 2009 PPMR.

[112] April 2009 PPMR.

[113] "The institutional weight of the Program executing agency (in this case the STP and Finance Ministry–UCIP) for the pursuit and delivery of the intended outputs is insufficient given the existence of a parallel structure of quarters that also have input into the Finance Ministry's internal budget process and are better positioned, under a legal umbrella, to devise and pursue preinvestment and investment actions." April 2009 PPMR, Lessons Learned.

[114] "The absence of a National Planning Law (such as would clearly set out actors, roles, functions, responsibilities and goals) definitely affects planning clarity and leaves gaps that, under other legal instruments, can be addressed and interpreted by other Finance Ministry departments." April 2009 PPMR, Lessons Learned.

[115] According to the April 2009 PPMR, the "likely to achieve development objectives" prediction was posited on the current Finance Minister's resolve to improve public investment management: "In particular, with the appointment of Dr. Borda as the new administration's Finance Minister (April 2008) progress continues and there is a strong likelihood that the outcomes will be realized, since this is the official who in his earlier time in the Finance Ministry (2003-2005) advocated coherent, consistent analysis and assessment of public investment to set the right priorities."

[116] November 2007.

[117] "[Such reforms] took longer to deliver, given the change resistance they create, especially in justice system institutions that tend to be the most risk-averse. This meant that awareness-building and training activities had to come first, to be able to deliver the outputs and gradually deliver outcomes." PCR.

[118] PCR for the operation. The Bank had approved the Justice System Strengthening Program (PR-0146) in 2006 to give continuity to institutional support in that sphere but the program was still awaiting congressional ratification. The purpose of the US$6.3 million in funding was to help develop a more predictable, independent, efficient, and accessible justice system. The institutions targeted for support are the Supreme Court of Justice, Ministry of Defense, and Judicial Council. The loan disbursement period was set at five years. However, in June 2008 the Senate rejected the project allegedly because of "political interests, not matters relating to the program's importance or technical caliber." Consequently, the most recent PPMRs have rated the project's implementation prospects as "unlikely" and its risk profile has been adjusted. During the several-year wait for ratification the associated PROPEF, which began in late February 2007, has given some measure of continuity to the intervention.

[119] "The SEAM's technical staff are highly qualified and highly trained by Paraguayan standards, especially in such fields as biodiversity, wildlife, water resources, environmental impact assessment, and geoprocessing and remote sensing. Though these staffers' low salary levels are demotivating, a core technical team built up within the institution have taken ownership of the Secretariat's mission and vision and—in the past few years particularly—are committed to seeing it strengthened." "Transparencia Paraguay rated the SEAM as the top-performing public agency for government procurement in 2006." PCR.

[120] According to the PCR, though some risks were still in play there were some successes in adapting the program to environmental sector changes and addressing public and government demands. Against this backdrop the Bank approved in 2008 the Program of Support for the National Environmental System, stage II (PR-L1030), likewise for US$8 million, though the contract is still awaiting signature.

[121] During this period the Bank also approved a total of US$5.02 million in technical cooperation funding for 13 operations. One highlight was the continuation of a support vehicle similar to the Inter-American Program of Applied Macroeconomics (PIMA) which resulted in the formation of a stable corps of qualified professionals. Only 4 of the 13 TC approvals were associated with loans in this sector: Support for the Justice System Strengthening Program, Support for Fiscal Decentralization and Training, Support for the Public Service Secretariat, and Civil Service Specialization Program. The objective of the latter program is to develop a critical mass of highly qualified professionals who will work in strategic central government agencies and priority focus areas to improve the quality of public policy and governance, in a bid to fill the gap left when the PIMA ended.

[122] The project won congressional ratification in mid-2008 but as of March 2009 it still had not been declared disbursement-eligible. In any event, like several other portfolio projects this program has a PROPEF under way. In the cadastre area the Bank had approved another loan to improve sectoral management: the US$9 million Cadastre Registry loan (PR-0132) intended to promote efficient land use and enhance land-use planning in Paraguay. The program's implementation was impeded by interagency issues that are an inherent feature of working with two branches of government (judicial and executive).

[123] This phenomenon is reflected, via rural-urban migration streams, in a shrinking of the poorest quintile's share in rural income and increased land concentration, and is showing up also in a rise in urban violence and heightened rural tensions. Though still relatively low, Paraguay's Human Opportunity Index was the indicator that showed the greatest improvement in the countries in the region studied between 1995 and 2005, thanks chiefly to gains achieved in basic education and water

supply coverage. Ricardo Paes de Barros et al., *Measuring Inequality of Opportunities in Latin America and the Caribbean,* The World Bank, 2009. Along with Paraguay the study compared Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Jamaica, Nicaragua, Panama, Peru, and Venezuela.

[124] In 2007 the Bank also approved a US$45 million loan for the Early and Preschool Education Program (PR-0124), but as of December 2008 it had not yet begun disbursing.

[125] One of these operations is the US$30 million quick-disbursing Social Protection Program loan approved in 2003 (PR-0147) discussed earlier.

[126] In 2007 the Bank also approved a US$45 million loan for the Early and Preschool Education Program (PR-0124), but as of December 2008 it had not yet begun disbursing.

[127] In 1990 the country took the first steps toward an education system overhaul that crystallized in 1996 in the government's strategy labeled "Paraguay 2020: Let's Meet the Challenge of Education Together." That roadmap set out policies to improve school management and teacher training, expand school infrastructure, provide schools with instructional resources, and run programs targeted to high-risk populations. In 2002 the Education Ministry crafted the National Education Plan, known as the "Ñanduti Plan" (2003-2015), to adjust and update the Paraguay 2020 strategy goals, adapting its medium- and long-range policies to the new country and sector realities.

[128] The preschool enrollment rate jumped from 36% in 1995 to 67% in 2007.

[129] The net enrollment ratio is the proportion of the population of the official age for a particular education level or cycle who are actually enrolled in that level or cycle.

[130] Data taken from the loan proposal for the Program to Strengthen Basic Education Reform.

[131] The drops between 2001 and 2006 were from 6.7% to 3.4% in urban areas and from 9.5% to 6.3% in rural areas. *Paraguay, Educación en Cifras*, 2001-2006.

[132] A Ministry of Education and Culture report (2007) puts the rural school dropout rate at 7.6%, the urban rate at 4.3%.

[133] According to a Ministry of Education report (2004), the findings on the academic performance of students in the third year of teacher training for Basic Education suggest that there are weaknesses in specific mathematics skills and difficulties with comprehension of texts in Spanish.

[134] School plant and equipment were upgraded and the program successfully fostered avenues to give all education stakeholders (teachers, students, and parents) a say in decisions, via the formation of 1,150 parent-school committees in urban (150) and rural (1,000) schools.

[135] By program closeout the grade repetition rate in rural schools had dropped 4.2 percentage points to 7.3%. The urban school rate fell 5.1 percentage points to stand at 4.2% in 2006.

[136] Pardo (2006) found 4%-5% improvements in third and sixth grade Escuela Viva students' communications test scores relative to schools in a national sample. Mathematics scores were up as well, by 8% and 4.4% respectively, beating the 4.1% and 2.3% improvements in the national sample. Similar outcomes are documented in the program's Final Report, incorporating data from the 2006 National Academic Achievement Assessment System tests. The program also achieved improvements in education offerings and teacher training for the indigenous population. It assisted 91 indigenous schools and benefited 2,000 students of eight ethnic extractions. Indigenous teachers received training and the native language was integrated into instruction. On the teacher training side, the proportion of basic education teachers who had gone through teacher training rose from 76% in 2001 to 92% in 2006.

[137] The objective of this second stage is to give continuity to Paraguayan government education policy, building on the Escuela Viva I gains and making adjustments as needed to adapt the program to the different conditions prevailing in rural areas, indigenous communities, and urban schools.

[138] Each of these programs had an associated Project Preparation and Execution Facility (PROPEF): PR-L1028 "PROPEF: PR-0124 Early and Preschool Education" for US$3 million approved in 2007 and PR-0149 "PROPEF: PR-0124 Early and Preschool Education" for US$900,000 approved in 2003.

[139] This program is particularly important for Paraguay where the proportion of children in the ranks of the poor is so high (the so-called "infantilization" of poverty).

[140] In 2007, 19% of preschool pupils countrywide were not five years old.

[141] The sector is suffering from structural problems, a result of inefficient, inequitable, poor-quality health services. Only a small minority of the population has access to health services and these are of poor quality owing to the shortage of skilled human resources and equipment. According to the 2000-2001 Integrated Household Survey findings health service utilization rates in Paraguay are low and also uneven: only 31% of bottom quintile respondents who reported having been ill had seen a qualified health practitioner, compared to 69% in the top quintile. Though the government did essay policy reforms to overhaul the system and increased its health spending as a percent of GDP (average annual growth of 5.4% over the review period) its interventions have proved to be insufficient to tackle the problem.

[142] Because of recording problems infant mortality may be understated.

[143] A UNDP status report on the Millennium Development Goals (2005) rated Paraguay's progress on lowering infant and maternal mortality rates as insufficient, though there had been some slow improvement.

[144] For example, the program was radically restructured in 2004, notably to bring in the Basic Healthcare Package Program (PCSB). Two of the program's components were eliminated—regional autonomy strengthening and the Excellent Professional initiative.

[145] According to the program's final evaluation its main achievements include: improvements in vital statistics, increased use of mother and child services via the PCSB, infrastructure rehabilitation and equipment upgrades, and improvements in procurement and distribution of pharmaceuticals and supplies using contracts with private firms. Nevertheless, there may be constraints for continuity of these activities since the program was run by a unit outside the Ministry of Health and Welfare.

[146] Though the PCSB targeted mothers and infants, the country's strong growth performance and reductions in poverty explain most of the drop in mother and infant mortality from 2004 forward.

[147] The intention is to gradually scale up the program to take in 120,000 households, extending its reach to other population segments such as youth and the elderly.

[148] The Social Action Secretariat (SAS) sponsors the *Tekoporã* Program and runs it in concert with other public agencies.

[149] International Poverty Centre (2008). *Achievements and Shortfalls of Conditional Cash Transfers: Impact Evaluation of Paraguay's Tekoporã Program.*

[150] Moreover, though the SAS is officially charged with its delivery the program calls for a number of government agencies to work together, which could create coordination issues.

[151] PROPAÍS II had an associated US$1.22 million PROPEF approved in 2003.

[152] The government's targeting criterion was based on a quality of life index which, by Bank estimates, presented significant exclusion (mainly) and leakage errors.

[153] The new selection criterion was based on a proxy means test. The multiple regression method consists in using estimated ratios of income drivers to predict income of the candidate recipient households.

[154] As of May 2009 only US$365,000 had been disbursed under the component that included conditional cash transfers.

[155] Based on an International Poverty Centre assessment.

[156] Though Paraguay has one of Latin America's highest per capita water availability rates (60 m^3/year), water and sanitation coverage is low, in rural areas and poor communities particularly.

[157] Methodology Note: Programming emphasis was rated using indexes combining qualitative and quantitative factors. Each index contains as a qualitative variable the frequency of mentions of each subsector in Paraguayan strategy documents or the Bank's country strategy, and as a quantitative variable the rate of increase in budget resources or Bank programming resources allotted to each subsector. To classify subsectors by programming emphasis the quantitative and qualitative variables take values of 1 or 0 depending on whether they exceed or do not exceed the respective medians, then are combined into a weighted index.