

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PARAGUAY AND IDB GROUP STRATEGIC AGREEMENT COUNTRY STRATEGY

2025 – 2029

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CONTENTS

I. BUILDING A NEW COUNTRY STRATEGY: OPPORTUNITIES, PURPOSE AND APPROACH	12
A. THE COUNTRY IS AT AN INFLECTION POINT FOR BOOSTING DEVELOPMENT	12
B. THE KEY LESSONS FROM THE 2019 – 2023 COUNTRY STRATEGY	14
C. THE FOCUS ON SELECTIVITY TO DELIVER TANGIBLE IMPACT	16
II. PILLARS OF ACTION AND EXPECTED IMPACT	18
PILLAR 1. GREEN PARAGUAY	18
PILLAR 2. PRODUCTIVE PARAGUAY	23
PILLAR 3. HUMAN PARAGUAY	31
CROSSCUTTING PILLARS	37
A. INSTITUTIONAL STRENGTHENING TO ENHANCE EFFICIENCY AND TRANSPARENCY IN THE PUBLIC SECTOR	37
B. PROMOTE INCLUSION AND EQUAL OPPORTUNITY FOR VULNERABLE POPULATIONS	38
III. HOW WE WILL DO IT	40
A. PROGRAMMATIC APPROACH	40
B. SYNERGIES	40
C. IDENTIFICATION OF REFORMS	42
D. REGIONAL IDB GROUP FLAGSHIP PROGRAMS	42
E. STRATEGIC PARTNERSHIPS	42
IV. CONSIDERATIONS FOR IMPLEMENTATION	44
A. KNOWLEDGE	44
B. MONITORING AND EVALUATION CAPACITY	45
C. COUNTRY FIDUCIARY SYSTEMS	46
D. EMERGENCY RESPONSE	47
E. RISK OUTLOOK	48
MACROECONOMIC FACTORS	48
ENVIRONMENTAL, CLIMATE AND SOCIAL RISK	48
EXECUTION RISKS	49
ANNEX I – Results Matrix	50
ANNEX II – Portfolio Alignment And Indicative Pipeline 2025-2026	53
ANNEX III – Country Systems Matrix	54

ANNEX IV – Estimated Lending Framework	55
ANNEX V – Development Effectiveness Matrix	56

ELECTRONIC LINKS

1. [Paraguay Country Development Challenges](#)
2. [IDB Group in Paraguay](#)
3. [Fiduciary Technical Note](#)
4. [Civil Society Consultation](#)
5. [Paraguay 2030 National Development Plan](#)
6. [Development Effectiveness Matrix](#)
7. [Synergies](#)
8. [References](#)

ABBREVIATIONS

ACCA	Association of Chartered de Certified Accountants
AECID	Spanish Agency for International Cooperation and Development
AEO	Authorized economic operator
AFD	Development Finance Agency
ANDE	National Electricity Administration
BCP	Central Bank of Paraguay
BNF	Banco Nacional de Fomento (National Development Bank)
CADEP	Centro de Análisis y Difusión de la Economía Paraguaya (Center for Analysis and Dissemination of the Paraguayan Economy)
CBD	Convention on Biological Diversity
CDC	Country Development Challenges
CERT-PY	Cyber Incident Response Center
CLIMA	Biodiversity and Climate-linked Mechanism for Ambition
CO₂e	Carbon dioxide emissions
COMIP	Comisión Mixta del Río Paraná (Joint Commission of the Paraná River)
CONACYT	Consejo Nacional de Ciencia y Tecnología (National Science and Technology Council)
DEE	Office of Economic Studies
DNCP	National Public Procurement Bureau
DNIT	National Tax Revenue Bureau
ECLAC	Economic Commission for Latin America and the Caribbean
EIEP	Paraguay Business Innovation Survey
ENPAB	National Biodiversity Strategy and Action Plan
ENSIMUP	National Survey on the Status of Women in Paraguay
EPHC	Continuous Household Survey
ESPF	Environmental and Social Policy Framework
ESSAP	Empresa de Servicios Sanitarios del Paraguay S.A. (State-owned water and sanitation utility)
FISLAC	Fiscal Sustainability for Latin American and Caribbean Countries
FOCAL	Governmental Accounting Forum of Latin America
FONPLATA	Financial Fund for the Development of the Plata Basin
FONPRODE	Fondo para la Promoción del Desarrollo (Development Promotion Fund)
FOTEGAL	Latin American Forum of Government Treasuries
GAFILAC	Financial Action Task Force of Latin America

GCF	Green Climate Finance
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
ICDF	Taiwan International Cooperation and Development Fund
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística (National Statistics Institute)
INFONA	Instituto Forestal Nacional (National Forestry Institute)
INTOSAI	International Organization of Supreme Audit Institutions
IRENA	International Renewable Energy Agency
IPS	Instituto de Previsión Social (Social Security Institute)
IPSAS	International Public Sector Accounting Standards
LAC	Latin America and the Caribbean
MADES	Ministry of Environment and Sustainable Development
MAPS	Methodology for Assessing Procurement Systems
MEF	Ministry of Economy and Finance
MIC	Ministry of Industry and Commerce
MOPC	Ministry of Public Works and Communications
MRE	Ministry of Foreign Affairs
MSMEs	Micro, small, and medium-sized enterprises
MSPBS	Ministry of Public Health and Social Welfare
MUVH	Ministry of Urban Planning, Housing and Habitat
M&E	Monitoring and Evaluation
NCD	Noncommunicable chronic disease
NCRE	Nonconventional renewable energy
NDC	Nationally Determined Contribution
ND-GAI	Notre Dame Global Adaptation Index
OECD	Organisation for Economic Co-operation and Development
OLACEFS	Organization of Latin American and Caribbean Supreme Audit Institutions
OLADE	Latin American Energy Organization
p.p.	Percentage point(s)
PCR	Project Completion Report
PEFA++	Public Expenditure and Financial Accountability
PETROPAR	Petróleos Paraguayos (State-owned oil and gas importer and distributor)
PMR	Progress Monitoring Report

PND	National Development Plan
PPP	Public-private partnership
R&D	Research and development
RBB	Results-based budgeting
REDIEX	Red de Inversiones y Exportaciones (Investment and Export Network)
RIISS	Redes Integradas e Integrales de Servicios de Salud (Integrated and Comprehensive Health Care Service Networks)
SEPRELAD	Secretariat for the Prevention of Money and Asset Laundering
SIARE	Integrated State Resource Administration System
SIN	National Interconnected System
SINAFOCAL	National Vocational Education and Job Training System
SJP	Superintendency of Retirement and Pensions
SMEs	Small and medium-sized enterprises
SNCP	National Public Procurement System
TICS	Information and communication technologies
UE	European Union
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
VMME	Office of the Deputy Minister of Mines and Energy
VUAI	Single investor service window
VUE	Single export window
WB	World Bank
WEF	World Economic Forum
WHO	World Health Organization
WIPO	World Intellectual Property Organization

INTRODUCTION

A NEW APPROACH FOR IMPACT

Paraguay's potential

Paraguay is well-positioned to promote structural changes and consolidate its development. The country has a young population and abundant natural resources. The Paraguayan economy has been growing at a faster rate than the average for countries in Latin America and the Caribbean, exhibiting political and social stability, prudent macroeconomic policies, and an ambitious reform agenda. Against this backdrop, over the last two decades, the country accomplished noteworthy reductions in poverty and inequality. However, the recent occurrence of two droughts and a pandemic posed fiscal challenges that make it more difficult to deepen the economic and social achievements. Rising demands from the population and challenges linked to productivity growth are limiting factors, but they can guide the transformations needed for sustainable development.

Country Strategy New Approach

The IDB Group country strategy with Paraguay for the 2025-2029 period aims to maximize impact and effectiveness of the actions supported by the IDB, IDB Invest and IDB Lab for promoting the development of the country. This support is provided within the framework of the priorities established in the IDB institutional strategy (IDBStrategy+) and comprehends areas of intervention that address multidimensional challenges and were determined on the basis of a selective programmatic approach. In addition, the proposed strategic objectives are aligned with the priorities identified in the Country Development Challenges and with the strategic pillars of the Paraguay 2030 National Development Plan. They are also aligned with the IDB Group initiatives designed to scale up and optimize international resource mobilization, including the Biodiversity and Climate-linked Mechanism for Ambition (IDB CLIMA) and the Routes for Integration. The preparation of this country strategy involved an assessment of the IDB Group's positioning in Paraguay, particularly in relation to other multilateral development banks and a review of both the IDB Group's operational experience and the lessons learned. It also entailed analyzing the risks associated with implementation of the strategy and identifying mitigation measures. The intervention proposals will be prepared and implemented while leveraging opportunities for public-private solutions. In addition, strategic partnerships with other institutions will be fostered with a view to enhancing knowledge and optimizing financing. In sum, the strategy will be aimed at maximizing the impact and effectiveness of the IDB Group in the country, fostering the development of a greener, more productive, and more inclusive Paraguay.

Identified Pillars of Intervention and Expected Impact

The main objective of the IDB Group country strategy with Paraguay for the 2025-2029 period¹ is helping the country to become a model of sustainable economic growth and driven by the private sector to benefit the entire population and contribute to addressing global challenges. This aim is built on three pillars:

(1) Green Paraguay: consolidation of an environmentally responsible economy. The actions under this pillar are aimed at protecting the country's natural capital by, on one hand, expanding the coverage of sanitation services and ensuring basic services for the population, with an emphasis on vulnerable groups, thereby

¹ The IDB Group Country Strategy with Paraguay 2025-2029 will become effective upon its approval by the IDB Group Boards of Executive Directors and will remain in effect until 31 December 2029.

helping to control the environmental impact created by the lack of adequate services while assisting in reducing multidimensional poverty. On the other hand, the strategy will promote sector efficiency through actions designed to optimize hydropower transmission and distribution and encourage nonconventional renewable energy generation. Both interventions aim to preserve the resilience of the energy supply matrix against external shocks. Furthermore, the strategy will promote the demand for clean energy to reduce the country's dependence on fossil fuels, creating an impact not only on the environment but also on the balance of payments in view of the country's oil derivative imports.

(2) Productive Paraguay: promotion of productivity, economic diversification, and regional integration. The strategic objectives in the framework of this pillar aim at boosting productivity, diversifying economic activities, and a greater integration into international markets and value chains. Accordingly, the IDB Group will carry out interventions aimed at impacting the availability of capital, fostering innovation, raising productivity and enhancing the resilience of the productive base, diversifying exports and increasing their value added. Therefore, it will require expanding the transportation infrastructure and integration routes and promoting cross-border trade.

(3) Human Paraguay: strengthening social services. This pillar is essential for reducing monetary as well as multidimensional poverty, which is caused by a limited supply of basic services. Access to health care and housing services and financial sustainability of the pension system are of high importance because of the country's demographic dividend. Paraguay has an important opportunity to accelerate its economic growth by harnessing the large reservoir of human resources of working age, which is expected to peak in 2038 and disappear by around 2050. The materialization of these benefits requires living conditions that enable human capital accumulation for successful integration into the labor market. Consequently, the IDB Group actions under this pillar will focus on expanding access to health care services and improving the management of the system, reducing the housing deficit, and financial sustainability of the pension system.

The expected impacts of the interventions will be measured through a set of indicators that are aligned with and contribute to the IDB Group Impact Framework 2024-2030.

Additionally, the strategy establishes the following **crosscutting axes of actions that should be reflected in the mentioned pillars**: (A) institutional strengthening to improve public sector efficiency and transparency; and (B) promoting inclusion and equal opportunity for vulnerable population groups.

Executing this strategic agreement requires, on one hand, to rely on the IDB Group's framework of public-private synergies, which has created institutional conditions for the IDB, IDB Invest, and IDB Lab to work together; on the other hand, public investment needs to be accompanied by private participation in order to narrow the social and infrastructure gaps in Paraguay. In this context, efforts will be combined to develop regulatory frameworks and institutions that favor private investment in areas such as: basic sanitation, expansion of clean and renewable energy sources, energy efficiency, infrastructure, economic diversification, strengthening of production chains and business environment, access to quality public health care, financial inclusion, and housing.

**Partnership
Paraguay-
IDB Group**

In recent years, Paraguay and the IDB Group have deepened their relationship aimed at promoting sustainable development in the country. The Bank has provided key support both financially and in terms of technical experience and strategic guidance in a variety of sectors. In the previous country strategy (2019-2023), the IDB Group proved to be a key partner in facing the challenges brought about by the pandemic, providing direct support to the government as well as to businesses. Heading into the 2025-2029 country strategy period, the country will seek to leverage the opportunities presented by the attainment of investment grade status for the first time in its history. In this context, the IDB Group is strategically well positioned to add for the country's progress. With the long-term development vision that characterizes the IDB Group's work in Latin America and the Caribbean, we will support Paraguay in harnessing its advantages and opportunities to achieve inclusive and sustained economic growth, accomplishing the country's national development objectives while contributing to global solutions.



I. BUILDING A NEW COUNTRY

STRATEGY: OPPORTUNITIES, PURPOSE AND APPROACH

A. THE COUNTRY IS AT AN INFLECTION POINT FOR BOOSTING DEVELOPMENT

- 1.1 Paraguay has a young population and one of the most dynamic economies in the region.** The country has 6.1 million inhabitants, 2.2% of whom identify as Indigenous. The median age of the population is 29, and approximately one third of Paraguayans reside in rural areas (National Institute of Statistics (INE), 2024). Between 2004 and 2023, the economy posted an average annual growth rate of 3.7%, exceeding the 2.5% average growth rate of Latin American and Caribbean (LAC) countries and recording a gross domestic product (GDP) of US\$43 billion in 2023. At the same time, the country's per-capita GDP in 2023, which totaled US\$5,700 (Central Bank of Paraguay (BCP), 2024), was lower than the LAC average of US\$10,700 (World Bank (WB), 2024), and income inequality stood at 0.45 (INE, 2023a).^{2,3}
- 1.2 After two decades of robust economic growth, Paraguay received international recognition in the form of investment grade status for the first time in the country's history.**⁴ This rating highlights Paraguay's low risk level and recognizes the country's ongoing strategy of combining efforts to diversify the economic structure and leverage productivity growth within a framework of fiscal prudence and expansion of financing sources. In parallel, Paraguay has been moving forward on a reform agenda to strengthen institutions and governance, including enactment of the Public Procurement Law (Law 7021/2022) and establishment of a single agency to manage internal tax and customs revenue (Law 7143/2024), with a view to making public policy planning and implementation more efficient. Also worth noting are the recent approvals of the Law Regulating State Oversight of Retirement and Pension Entities (Law 7235/2023) and the Law Regulating State Administrative Organization (Law 7278/2024). In addition, the government has an agenda of future reforms that include the civil service, expansion of State participation in construction works to incentivize private investment, and the public-sector retirement and pension system.
- 1.3 However, the pace of growth has been slowing and is highly volatile.** Despite having outpaced the region since the start of this century, Paraguay's economic growth began to slow prior to the pandemic under the weight of deteriorating external conditions and lower productivity gains. These gains accounted for less than 15% of the country's growth between 2004 and 2019.⁵ In addition, the vulnerability of the economy to external and climate shocks has resulted in growth volatility.⁶ Exports are concentrated in commodities and energy, are aimed mainly at five geographical markets, and have remained that way for decades.⁷ Furthermore, the production system faces challenges to adapt for growing environmental expectations in global markets. As a result, Paraguay has the lowest

² BCP projects a GDP per capita of US\$ 5,813 for 2024.

³ Income inequality is measured by the Gini coefficient, with values that range from zero to one. If a single individual were to earn the entirety of the country's income, the coefficient would be one. If all Paraguayans were to earn the same income, it would be zero.

⁴ On 26 June 2024, the risk rating agency Moody's announced that it was upgrading Paraguay's credit rating from Ba1 to Baa3 with a stable outlook.

⁵ See: Development Challenges for the Country of Paraguay (Electronic Link 1).

⁶ During the 2000-2010 period, Paraguay was ranked 30th out of 181 countries on the Global Climate Risk Index (Germanwatch, 2021). In addition, the country is ranked 99th out of 187 countries in terms of vulnerability to climate change and readiness to adapt (Notre Dame Global Adaptation Initiative, 2022).

⁷ Soybean and derivatives, beef, and electric energy account for two thirds of exports, and are sent primarily to Brazil, Argentina, Chile, Russia, and United States.

participation in global value chains of any country in the region, and the country's share has been progressively declining since the end of the commodities supercycle (Alderete, 2021).⁸ This performance is also related to labor productivity challenges associated with skill gaps, which affect the capacity to develop and adopt new technologies and innovations, limiting economic diversification.⁹

1.4 The fiscal space narrowed after two droughts and a pandemic. Although the pandemic required a great effort of resources from public finances to address economic and social shocks, the country's macroeconomic strength prevented the negative impact from being more severe. The droughts in 2019 and 2021 also had a significant impact on the country's fiscal situation. In 2019, the fiscal rule's escape clauses had to be triggered for the first time since its approval in 2013, and the fiscal deficit has remained above the upper limit of 1.5% of GDP ever since. The great fiscal effort expended to address the pandemic further contributed to the deterioration of the fiscal situation and the public debt, which grew by more than 13 percentage points (p.p.) between 2019 and 2023, although it did remain among the lowest in the region in relation to GDP. Despite the reduced fiscal space, it was possible to allocate resources to support strategic sectors and to keep public investment at similar levels from before the pandemic. Nevertheless, challenges on fiscal and macroeconomic aspects to address new shocks persist. At the same time, external vulnerability increased, in view of the country's growing dependence on external financing. Efficiency and transparency issues in the public sector deepen the challenges. However, the prudent management of macroeconomic and fiscal policy created buffers to face the climate and health challenges, while preserving macroeconomic stability and fiscal balance.

1.5 Paraguay made considerable strides in reducing poverty and inequality over the last two decades. Real GDP per capita grew by 55.3% between 2004 and 2023, exceeding the corresponding figure for the region (24.4% in LAC), while the poverty rate fell by 26.1 p.p. over the same period, from 48.8% to 22.7% (INE, 2023). However, poverty is higher for certain groups: among children it reaches 32.8%, in rural areas 28.8% and for indigenous population, it impacts 66.2% (EPH, 2016-2017). On the other hand, extreme poverty declined by 4.2 p.p. since 2004 and stood at 4.9% in 2023, even though it is higher among children (7.8%) and in rural areas (9.3%). Income inequality decreased but remains high: the Gini coefficient dropped from 0.52 to 0.45 between 2004 and 2023, but it continues to be higher in rural areas than in urban areas.¹⁰ In parallel, the middle class grew significantly, almost doubling in two decades. In 2023, the middle class accounted for 44.3% of the total population, exceeding the region's average of 38% (World Bank, 2024).

1.6 However, deepening the economic and social achievements requires overcoming a triple challenge. First, providing services to address the social demands would entail a larger allocation of public resources. Second, the country faces the challenge of promoting productivity to sustain economic growth, which is compounded by the third challenge of doing so in an environment of limited fiscal space. These challenges arise in a context in which 82% of the population considers income distribution to be unfair or very unfair (Latinobarómetro, 2023). Inequality of opportunity for women is acute: women's participation in national parliaments and local governments is a mere 15% (Economic Commission for Latin America and the Caribbean (ECLAC), 2023) and their share of the workforce is 24 p.p. lower than men's (INE, 2023b). In addition, the people with disabilities (PWD) (2022: 34%) and the Indigenous population's share of the workforce (2022: 38.5%) are lower than that of the total population (2022: 69.2%; 2023: 71.1%).¹¹ Lastly, the percentage of persons with disabilities in the Indigenous population (2022: 10.1%) is almost twice their percentage in the general population.¹²

⁸ Paraguay was ranked 93rd out of 133 countries in terms of local enterprise participation in global value chains (WIPO, 2024). Moreover, the share of foreign value added in exports is only 10%, lower than for other countries in the region (Chile: 23%, Uruguay: 20%, Argentina: 19%; Brazil: 14%).

⁹ Only 45.4% of businesses engage in innovation, and there is a marked difference based on the size of the enterprise (EIEP, 2014-2016). In fact, Paraguay was ranked 88th out of 132 countries on the 2021 Global Innovation Index (WIPO, 2021).

¹⁰ In 2023, income inequality decreased by 15% to 0.42 in urban areas, while decreasing by 11% to 0.47 in rural areas.

¹¹ INE, 2024. The figure for PCD is preliminary.

¹² The figure for PWD in the general population is preliminary. Disaggregated data on persons with disabilities needed to characterize their living conditions is not yet available.

- 1.7 Against that backdrop, the country has been implementing the Paraguay 2030 National Development Plan (PND), updated in 2021.** The PND is built on three strategic pillars: (i) poverty reduction and social development, (ii) inclusive economic growth, (iii) global projection of the country; and (iv) institutional strengthening. It is also designed around four crosscutting lines: (a) equality of opportunity; (b) efficient and transparent public management; (c) environmental sustainability; and (d) land-use planning and development. In addition, the administration of Santiago Peña established five pillars of government: security and defense, economic growth, quality education, a healthy Paraguay, and a Paraguay for all. The strategic areas set out in this country strategy are in line with the PND.

B. THE KEY LESSONS FROM THE 2019 – 2023 COUNTRY STRATEGY

- 1.8 Fewer areas for greater focus.** The lessons from the implementation of the 2019-2023 country strategy, set out in the recommendations of the Office of Evaluation and Oversight (OVE), were incorporated into the country strategy for 2025-2029. The selective approach led to reducing the number of intervention pillars as well as delineating clear and quantifiable objectives, supported by a solid structural logic.¹³ The country strategy for 2025-2029 will provide for an ongoing dialogue on policies and participation under the existing portfolio, in line with the strategic objectives of the country as identified in dialogue with the Ministry of Economy and Finance (MEF) authorities. The IDB Group will also reinforce the risk identification and mitigation mechanisms and will expand its focus on knowledge generation, which together with technical cooperation is a key IDB Group attribute in Paraguay relative to other multilateral development banks. In addition, the strategy will endeavor to boost the existing synergies within the IDB Group and the strategic partnerships with other development organizations and the private sector, with a view to enhancing the impact and effectiveness of the IDB Group in Paraguay.
- 1.9 The lessons learned from the implementation of the 2019-2023 country strategy will enable the IDB Group to deepen the impact and efficiency of its interventions in Paraguay.** While the strategic objectives set out in the 2019-2023 country strategy were aligned with the Paraguay 2030 PND and the IDB Group's diagnostic assessments, the relevance of the strategy turned out to be limited due to selectivity, vertical logic, and evaluability issues.¹⁴ The breadth of the pillars scattered the focus and reduced the ability of the strategy to guide the country program toward attainment of the objectives, while the scope and ambition of the objectives limited the feasibility of making effective progress within the strategy period. The lessons learned highlight the importance of ensuring that the country program focuses on areas where implementation capacity has been strongest and where the IDB Group has had a longstanding presence. In addition, an increase in execution times for investment loans in Paraguay was identified, attributable to various associated factors as external shocks (pandemic), climate (droughts and floods) or institutional factors (limited capacity of executing agencies, time-related factors associated to legislative ratification of projects).
- 1.10 The 2025-2029 country strategy will improve selectivity, considering the IDB Group's capacity for contribution in Paraguay.** Under the current strategy, the selectivity approach prioritized strategic dialogue, operational experience and positioning, coordination and synergies among the three IDB Group windows, and identifying evaluable objectives. Objectives with greater development impact

¹³ Extended Country Program Evaluation, Paraguay 2014-2023 (RE-587-1; CII/RE-96-1).

¹⁴ The strategy aimed to support Paraguay in the country's institutional and productive transformation, under sustainability, equity, and economic and social inclusion criteria, by means of actions grouped under four pillars: (i) public management and institutions; (ii) integration and diversification; (iii) productive and resilient infrastructure; and (iv) human capital and living conditions. In addition, the implementation of the strategy was affected by the needs and restrictions arising from the COVID-19 pandemic between 2020 and 2022 and was focused on budgetary support to the government by the IDB and direct support to the private sector by IDB Invest.

potential were selected on the basis of dialogue with civil society, the private sector, and the government.¹⁵

- 1.11 The design and planning of operations under the 2025-2029 country strategy will take into account Paraguay's institutional characteristics.** To comprehensively integrate the institutional characteristics of Paraguay into the design and planning of sovereign guaranteed operations, the time frames for execution will be consistent with the past averages for the relevant sector, and the IDB Group will work with the government on a technical support strategy designed to accelerate parliamentary ratification of the operations. In addition, the design of the projects will incorporate actions aimed at strengthening the monitoring and evaluation capacity of the executing agencies.
- 1.12 The technical cooperation operations will be aligned with the strategic objectives of the 2025-2029 country strategy.** The technical cooperation portfolio will be established mainly with a view to its contribution toward achieving the strategic objectives of the country strategy. In addition, technical cooperation operations in the country will be included in the annual programming carried out with the government, and the portfolio will be subject to an annual review focused on progress in achieving results.
- 1.13 Strategic and operational lessons will be taken into account under a programmatic approach in implementing the 2025-2029 country strategy.** To support the continuity of national policies at the sector level and diversify the intervention mechanisms, this country strategy will emphasize support for long-term policy dialogue, such as a potential infrastructure policy council, to accompany a programmatic long-term vision for infrastructure investments. Policy-based loan operations will be coordinated with IDB Group support through other instruments. At the operational level, multisector work among the various areas of the IDB Group will be promoted along with the mobilization of resources from other donors and strategic partnerships.
- 1.14 Actions have been identified that will enable progress on implementing the public-private synergies of the IDB Group.** This country strategy was prepared in an environment that seeks to maximize development impact through the public-private synergies of the IDB Group. To identify them, five thematic synergy workshops were conducted (on infrastructure and public-private partnerships (PPPs), productive development, health care, pensions, and housing). All three IDB Group windows took part in these workshops to identify targeted strategic objectives and activities conducive to maximizing development impact based on the experience and comparative advantages of the IDB, IDB Invest, and IDB Lab in Paraguay. This has led to proposing specific actions under the framework of IDB Group synergies with a view to identifying, promoting, and monitoring opportunities for collaboration among the windows and actions to implement or improve the relevant communication processes.¹⁶
- 1.15 The operational lessons on execution delays will be incorporated in the 2025-2029 strategy.** The financial programming of operations currently underway will be included in the annual General State budget proposal to the National Congress as part of the strategic and programmatic dialogue with the authorities. This process aims to ensure the availability of resources to move forward with execution, as a function of the State Agencies and Entities (OEE)' assigned programming. The budget availability must be adjusted according to the specific needs of each project and in turn must be aligned with the convergence plan for the return to the fiscal deficit level established by the Fiscal Responsibility Law, so that, when necessary, requests for increased resources will be met in the process of executing the budget dynamics. It should be noted that delays in execution not only correlate with compliance with the fiscal rule, but are also attributed to the execution capacity of the responsible entity. Therefore, in order to implement the consolidation plan, project prioritization is carried out in a consensual manner with the OEEs. In addition, the IDB Group will continue to support counterpart capacity-building, since

¹⁵ See: Civil Society Consultation (Electronic Link 4).

¹⁶ See: Synergies (Electronic Lin 7).

the length of the procurement processes have delayed the implementation of projects on many occasions. At the same time, the IDB Group will continue to provide advice to strengthen the institutional capacity of potential clients, thus facilitating a more efficient and effective execution.

C. THE FOCUS ON SELECTIVITY TO DELIVER TANGIBLE IMPACT

WHY SELECTIVITY TO ACHIEVE IMPACT?

1.16 The importance of a selectivity approach. The IDB Group's selectivity framework aims to ensure that resources are concentrated on the most impactful areas, with a focus on actions that offer the greatest potential for transformative change. This approach increases the likelihood that interventions will generate significant and lasting outcomes, which is particularly important when addressing complex challenges such as economic growth, poverty reduction, and environmental sustainability. A selective approach allows the focus to be placed on interventions most closely aligned with national and IDB Group priorities, while also helping to manage risks by concentrating efforts on areas where the likelihood of success is higher. Moreover, this approach supports scalable solutions that, once successful, can be replicated or expanded to other areas. Lastly, a selectivity framework ensures that synergies between various stakeholders—both public and private—are effectively leveraged. By concentrating on fewer, well-defined areas, different partners can align their strengths and expertise, resulting in a stronger overall impact than would be achieved if efforts were spread across many areas.

HOW DO WE SHARPEN FOCUS?

1.17 Alignment of priorities. The actions and crosscutting pillars proposed by the IDB Group for this country strategy are aligned with the New Institutional Strategy (IDBStrategy+) and its three core objectives—addressing climate change, boosting sustainable regional growth, and reducing poverty and inequality—as well as with its seven operational focus areas. In addition, the proposed actions and themes are aligned with the New Vision and Business Model for IDB Invest (CII/CA-221) (IDBInvest+) and the IDB Lab Business Plan (MIF/GN-270-1). Furthermore, the 2025-2029 country strategy supports the Paraguay 2030 PND in its country vision for the future.¹⁷ The diagnostic assessment of development gaps (CDC Paraguay, 2023) identified a broad set of challenges and associated policies, which were supplemented by a theoretical, empirical, and operational review of the impact evidence in Paraguay and LAC. Next, the challenges and associated policies for which there is evidence of impact were narrowed down to the national priorities under the Paraguay 2030 PND. It is worth noting that the strategic objectives proposed by the IDB Group are aligned with IDB Group initiatives to scale up and optimize international resource mobilization, including the Biodiversity and Climate-linked Mechanism for Ambition (IDB CLIMA) and the Routes for Integration.

1.18 Strategic positioning. The second phase of the strategic selectivity exercise identified areas in which the Bank has comparative advantages due to its broader presence relative to other multilaterals, as well as areas that present opportunities for collaboration with other partners in terms of mobilizing resources and combining technical experience. Historically, the Bank has been the main source of multilateral financing in Paraguay. In the 2019-2023 country strategy period, the IDB accounted, on average, for 50% of the multilateral debt, with sovereign guaranteed operations approved largely in the infrastructure and modernization of the State sectors. The IDB is a key partner in water and sanitation, science and technology, urban development, health care, modernization of the State, financial markets,

¹⁷ "A competitive Paraguay, ranked among the most efficient food producers in the world, with thriving and innovative industries that employ a skilled labor force, providing technology-based products and services and moving toward a knowledge economy; with social development indexes at the highest level in South America; connected and open to neighbors and to the world; environmentally and economically sustainable; with high levels of legal and citizen security; with attention to Indigenous peoples and a leading role for women; with visionary and trained young people leading the country; with a democratic, solidarity-based, decentralized, and transparent State that promotes equal opportunity" (Paraguay 2030 PND).

micro, small, and medium-sized enterprises (MSMEs), and international trade. The volume of operations in the transportation and energy sectors is also significant. IDB Invest has well-established comparative advantages in the transportation, financial markets, and agribusiness sectors and in business portfolio expansion through financial intermediaries and is the multilateral organization most supportive of the private sector in Paraguay, with lending flows nearly four times larger than the next most active private-sector multilateral institution. During the EBP period, opportunities are seen for IDB Invest in each pillar of the strategy, including the energy sectors, provision of water and sanitation services with PPP modalities, river transport, industries of the circular economy, forestry, and investments that take advantage of green hydrogen.¹⁸ Since 2018, IDB Invest has run a program of bond issues in the Paraguayan market to finance private sector projects, offering clients a financing solution with longer repayment periods and in local currency, thereby mitigating the foreign exchange and interest rate risks associated with investment projects. The continuity of these operations supports the development of the local debt market, mobilizes domestic savings resources to finance the real sector, and creates demonstration effects for similar structures in other countries in the region. Lastly, IDB Lab explores innovative and entrepreneurial solutions to address the challenges of development.

1.19 Operational evidence. The third phase consisted in conducting an analysis of the operational experience of the IDB Group in Paraguay. This analysis was divided into three components. First, each sector's performance during the previous strategy period was rated through a multidimensional operational indicator.¹⁹ Second, each sector's ability to contribute to the development objectives was determined on the basis of the results of the Project Completion Reports (PCRs) on the operations. Lastly, the thematic depth and/or path was determined, as defined by the number of operations per sector in the active portfolio.²⁰ The analysis showed that while, on average, projects encounter similar challenges, the main challenge differs by sector, pointing to the need for a sector-specific vision. The analysis shows that support in the form of targeted technical assistance during the preparation and eligibility stages tends to produce positive impacts on performance and pace of execution. In addition, ownership of the design by the government, ensuring that the vertical logic and scope of the program reflect the priorities of the counterpart, tends to reduce substantial changes during execution to a minimum. This exercise helped to identify focus areas and actions required to maximize the impact of operations based on lessons from past projects.

1.20 Risk analysis. This exercise enabled early identification of risks in implementing the country strategy, including economic, environmental, social, and execution risks. These risks were identified on the basis of the classification system set out in the Risk Taxonomy of the Inter-American Development Bank (GN-2547-15). Section IV of this document describes both the risks and mitigation measures associated with the implementation of the country strategy.

¹⁸ See: Synergies (Electronic Link 7).

¹⁹ Five subindices were included for each rating: (i) ratification time frame, which measures the time elapsed from the approval of each operation to its ratification by the National Congress; (ii) execution time frame, which measures the ratio of the original execution period to the actual execution period of each operation; (iii) disbursement rate, which measures the ratio of the percentage disbursed in each operation to the percentage of execution time frame elapsed; (iv) socioenvironmental alerts, which measures the number of socioenvironmental alerts; and (v) Progress Monitoring Report (PMR), which measures the average score of each operation's PMR.

²⁰ This indicator indirectly assigns a positive rating to sectors that have been a continuous part of the programmatic demand under different country strategies.



II. PILLARS OF ACTION AND EXPECTED IMPACT

2.1. The objective of the 2025-2029 country strategy is helping Paraguay both to become a model of sustainable economic growth driven by the private sector for the benefit of the entire population and to contribute to addressing global challenges. This objective is built on three pillars: (1) green Paraguay: consolidating an environmentally responsible economy; (2) productive Paraguay: promoting productivity, economic diversification, and regional integration; and (3) human Paraguay: strengthening social services in terms of pensions, health care, and housing to reduce poverty and inequality. The strategic objectives associated with these pillars are: (1.1) expanding the coverage of sanitation services and strengthening the management of water resources; (1.2) promoting efficiency in the energy sector, boosting diversification of the energy supply, and fostering demand for clean energy; (2.1) improving the business environment, promoting private investment, and fostering innovation; (2.2) expanding the coverage and bolstering the resilience of the transportation infrastructure and promoting cross-border trade; (3.1) strengthening health care system access and management; (3.2) narrowing the quantitative and qualitative deficit in sustainable housing; and (3.3) fostering financial sustainability of the pension system. The actions to be implemented to achieve the strategic objectives will include criteria to promote the following crosscutting pillars: (A) institutional strengthening to enhance public sector efficiency and transparency; and (B) promoting inclusion and equal opportunity for vulnerable population groups.

PILLAR 1. GREEN PARAGUAY

WHY IS IT IMPORTANT?

2.2. Paraguay faces challenges that threaten its biodiversity, the health of its ecosystems, and the development opportunities provided by its natural capital. These include unsustainable use of natural resources, illegal deforestation, land use change, air, water and soil pollution.²¹ These challenges could be associated with a lack of control over compliance with current national environmental regulations, institutional disorganization, low citizen environmental awareness and, consequently, little participation in decision-making.²²

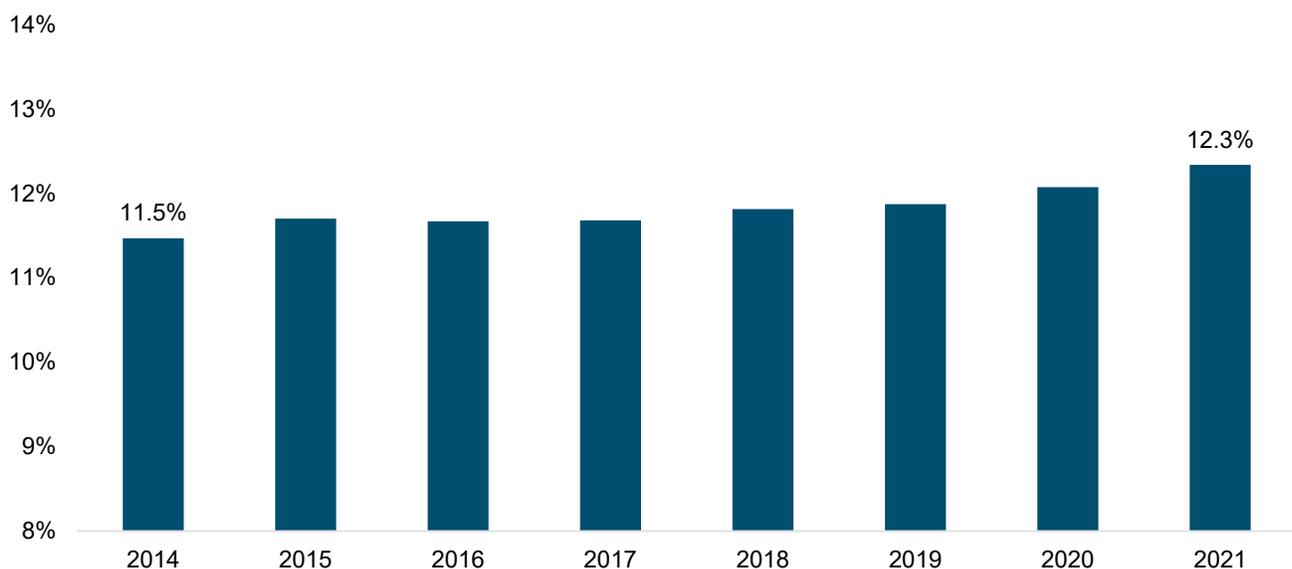
2.3. The effects of climate change have a negative impact on water security. The literature indicates that climate change alters rainfall patterns and intensity, generating extreme events that harm the water and sanitation infrastructure and challenge the capacity to satisfy the demand for services, making it essential to incorporate adaptation measures into water resource management plans and infrastructure designs (MacDonald et al., 2016). In addition, the rise in temperatures due to climate change can accelerate the degradation of water sources by increasing the presence of cyanobacteria (Aguilera A. et al., 2023). At the same time, this degradation raises the cost of water and sanitation services while also affecting biodiversity and opportunities to use natural capital (Wu S. et al., 2008).

²¹ INFONA (2023), MADES/PNUD/FMAM (2023).

²² Update to the Biodiversity Strategy and Preparation of Action Plan to Support the Implementation of the Convention on Biological Diversity (CBD) Strategic Plan 2011-2020 in Paraguay" (ENPAB).

2.4. The growing environmental deterioration is also related to water and sanitation services. The low coverage of sanitation services, limited wastewater treatment, and lack of adequate systems for collection and disposal of solid waste, which is often dumped directly into streams and/or washed away during the rainy season due to the limited urban drainage infrastructure, increase environmental impact.²³ In fact, in 2021, sanitary sewer coverage in Paraguay reached less than 15% of the population, while wastewater treatment coverage reached a mere 7.5% (Figure 1). Both figures are lower than in other countries in the region.

FIGURE 1. PARAGUAY. ACCESS TO SANITARY SEWERS, 2014-2021 (% OF POPULATION)



Source: Authors' calculations, using MITIC (2024) and INE (2024) data. Note: For national coverage calculations, a household is considered to consist of a total of five persons.

2.5. Limited access to water and sanitation services has implications that go beyond the issue of the environment. In fact, this limited access affects quality of life, health, social inclusion, and even economic growth (Howard et al., 2020). Evidence shows that water purification treatment has positive effects on the health of the population (Ahuja et al., 2010), while replacing onsite sanitation with a fixed sanitation structure can reduce waterborne diseases, such as diarrhea, by almost 30% (Norman et al., 2010). In Paraguay, it is estimated that the lack of water and sanitation infrastructure produces diseases or deaths that entail an annual loss equivalent to 10,643 years of life (World Bank, 2020), and that the estimated cost of health care resulting from inadequate water and sanitation services is equivalent to 12% of public health expenditure, while the negative economic impacts are equivalent to 1.6% of GDP as of 2016 (Cusicanqui, 2018). These impacts include loss of appeal of tourist destinations due to environmental degradation and time wasted hauling water for people without connection in the home, which generally has an impact on the education and productivity of women and children (Ayala, Bogado, & Cañiza, 2020). Furthermore, despite the important role that women play in using and managing water at the household level, their participation in sanitation boards is very low.²⁴ In Paraguay, drinking water coverage through piped networks is significantly lower in rural areas (49%) than in urban areas (80%) (ESSAP, 2024).

²³ Greenhouse gas emissions by the waste sector doubled between 1990 and 2019 (MADES/UNDP/GEF, 2023). As of 2019, emissions falling under the "wastewater treatment and discharge" category account for 52.12% of all waste sector emissions in Paraguay.

²⁴ According to an IDB survey, women's average participation in the Areguá, Itauguá, and Capiatá sanitation boards is 19.4%, the highest being in the Capiatá board at 25% (IDB, 2024).

- 2.6. The water and sanitation sector has institutional weaknesses. In general, the sector lags behind in terms of technical expertise, innovative technologies, digitalization, transparency, and accountability.** Empresa de Servicios Sanitarios de Paraguay S.A. (ESSAP) is the main company in the sector, operating under a formal concession mechanism, but informal water vendors, sanitation boards, and neighborhood commissions, which are private operators, also participate. ESSAP and the sanitation boards have a legal framework, pursuant to which infrastructure works financed through the Ministry of Public Works and Communications (MOPC) and the National Environmental Remediation Service (SENASA) can be given to them by the State for operation and maintenance. Water vendors face legal uncertainty and financing limitations and have low technical capacity. The sanitation boards, neighborhood commissions, and ESSAP receive infrastructure subsidies, while the water vendors do not and only have access to financing from private banks, coupled with high operating costs and inefficiencies in service delivery. As a result, their rates do not include recovery of the financial investment in tangible assets. In the case of water vendors, since they are not formally organized, the State cannot provide them with investments for operation and maintenance. This limitation is compounded by the water vendors' legal uncertainty, financing limitations, and low technical capacity, ultimately limiting the expansion of service coverage. Although progress has been made since the regulatory body and the public-sector regulatory and rate framework were established in 2000, the MOPC lacks a system to prioritize investments according to their impact on climate and nature, and its climate change-related monitoring, reporting, and verification capabilities are low, which difficult its contribution to Paraguay's compliance with its Nationally Determined Contribution (NDC) commitments and potential issuance of thematic debt.
- 2.7. The rise in energy demand, coupled with inefficiencies and vulnerabilities in the energy system, poses risks to consolidating an environmentally sustainable economy.** On one hand, the National Electricity Administration (ANDE) projects an annual growth rate in demand of 5.9% until 2030, which means that in less than a decade, domestic consumption will not allow Paraguay to sell the energy surpluses generated by the binational hydropower plants. On the other hand, power transmission and distribution losses continue to rise, standing at 28.5% in 2023 (ANDE, 2024) and exceeding the regional average of 17% (Yépez et al., 2024). In addition, hydropower production is exposed to climate risks that lead to supply volatility. It is estimated that energy production at hydropower plants in ALC drops by 1% for every 1% reduction in volume, while transportation capacity in the power transmission lines falls by 0.4% for each degree Celsius of increase in ambient temperature above the 20°C threshold (Latin American Energy Organization (OLADE), 2024). At the institutional level, there is weakness in terms of integrated sector planning, consequence of a fragmented framework and limited inter-institutional coordination between different actors such as the VMME, ANDE, Petropar, the binational entities Itaipu and Yacyreta, the Mixed Commission of the Paraná River (COMIP), all with different attributions.²⁵ In terms of financial sustainability, the financial status of ANDE is deteriorating, partly due to a rate schedule that is denominated in local currency and is outdated; this could discourage private-sector participation and disincentivize efficient consumption. Lastly, there are gaps in the regulatory framework that limit private sector participation in power generation, hindering the country from taking advantage of opportunities in emerging sectors such as nonconventional renewable energy (NCRE).
- 2.8. The dynamics of energy demand also pose a challenge to environmental sustainability.** End-use energy consumption in Paraguay is concentrated in biomass (38%), oil derivatives (40%), and electricity (22%), despite the fact that 100% of Paraguay's electricity generation comes from clean sources (Office of the Deputy Minister of Mines and Energy (VMME), 2024). Biomass, used mainly in the industrial, commercial, and residential sectors, is derived primarily from native trees from the national territory, and the reforestation rate is insufficient to offset extraction, a situation that is not sustainable in the long term. In the residential sector, predominantly in rural areas, limited economic

²⁵ The institutional framework and the powers conferred to the main actors do not contemplate the mechanisms necessary for the design of comprehensive and optimal policies for the energy sector, as well as the accompaniment and verification of compliance with goals, given that the leadership of the energy sector does not have ministerial rank and in practice coordination is carried out within the framework of the National Energy Roundtable, led by the Presidency of the Republic.

capacity makes it difficult to reduce biomass consumption in the short and medium term. While the electrical power grid reached 98.6% of the population in 2022, one third of Indigenous households had no access to electricity (INE, 2024; International Renewable Energy Agency (IRENA), 2024). The transportation sector is the main consumer of fossil fuels.²⁶ In addition, since Paraguay does not produce hydrocarbon derivatives, it imports the entire amount it consumes, and this dependence has an impact on the national trade balance and fiscal accounts, compounded by vulnerability to international price fluctuations. The country prepared an electric mobility plan for urban public and logistics-related transportation, but the regulatory framework and the cargo and yard infrastructure need to be further developed.

WHAT WILL WE DO?

- 2.9. Expand access to sanitation services, including climate change mitigation and adaptation measures.** The IDB Group will finance and implement operations focused on expanding the coverage of sanitation services. The operations will include interventions designed to include climate- change resilient infrastructure, while prioritizing the use of nature-based solutions to mitigate the adverse effects of climate change and enable the natural ecosystems to continue to provide services to the country's economic sectors.
- 2.10. Strengthen the management and regulation of the water and sanitation sector.** The IDB Group will support ESSAP and the sanitation boards to enhance management efficiency through digitalization and innovation in operating and administrative processes, investment planning with a risk management perspective, and development of an effective decentralization process. In addition, the IDB Group will promote the formalization of small and mid-sized water and sanitation service providers, will foster provider merger strategies to create economies of scale, and will seek to establish conditions conducive to private investment. The IDB Group interventions will be aligned with and support the country's objectives in the water resources and energy priority sectors indicated in the First Climate Change Adaptation Communication submitted under the NDCs, in the Water and Sanitation National Plan, and in the National Climate Change Adaptation Plan of Paraguay (PNACC) 2022-2030.
- 2.11. Optimize the energy supply and promote efficiency in energy consumption.** The IDB Group will support operations to expand the energy production capacity by strengthening and optimizing electric power generation, transmission, and distribution and by developing incentives to facilitate distributed power generation and efficient use in the residential sector and in industries (particularly those that still use noncertified biomass as their main energy resource). In addition, it will encourage reducing biomass consumption through actions that contribute to a more efficient use of it, and will support diversifying the energy matrix to increase the penetration of NCRE sources.
- 2.12. Support the financial sustainability of ANDE.** The IDB Group will continue to promote actions to improve the fiscal and operating performance of ANDE by reducing its energy losses through measures that include comprehensive market use of smart meters and other technologies designed to optimize operation of the National Interconnected System (SIN). In addition, the IDB Group will provide support for an analysis of rate alternatives, use of innovative tools to promote universal access to electricity, implementation of scheduled investments, and strengthening of project formulation and preparation capacity.
- 2.13. Promote the development of NCRE.** The IDB Group will support the development of NCRE projects, including by supporting the preparation and implementation of strategic and/or regulatory frameworks that create predictability and legal certainty for promoting high-potential projects in Paraguay with private sector participation. Through IDB Invest, the IDB Group will endeavor to strengthen investment

²⁶ The transportation sector accounts for 15% of the country's total carbon emissions, which since 2000 have been growing at an annual rate of 8.4%, exceeding the economy's growth rate of 6.1% (MADES, 2023).

in projects of this type, including solar projects, development of the green hydrogen industry, sustainable fuels, and electric mobility.

- 2.14. Institutional strengthening.** In water and sanitation, the IDB Group will promote improvement of the national capacity to design and monitor investment projects, including climate and biodiversity considerations, as well as integration and transparency, fostering collaboration among the relevant actors to encourage efficiency, promote interoperability and integration of information systems, and provide a platform for data access. In the energy sector, the IDB Group will support institutional strengthening of ANDE, as well as implementation of a service quality monitoring and incentive mechanism. This support is informed by the need to develop integrated planning and to strengthen the VMME's technical capacity and ANDE's financial capacity to face challenges such as high electricity losses and the growing demand for energy. In addition, the IDB Group will promote adopting smart technologies and improving the power transmission and distribution infrastructure to ensure a sustainable, reliable, and efficient supply.
- 2.15. Foster inclusion and equal opportunity.** The IDB Group will promote actions aimed at reducing access inequality for women, persons with disabilities, and the Indigenous population, including specific activities to narrow the gaps in access to water and sanitation. In addition, the IDB Group will support human capital formation for work in the water and sanitation and energy sectors, with a focus on participation by women and the Indigenous population.

EXPECTED OUTCOMES

Consolidate an environmentally responsible economy

Expand the coverage of sanitation services. The IDB Group will focus on expanding the coverage of sanitation services and strengthening water resource management, promoting proper disposal of the wastewater flow in the Paraguay river.

Promote efficiency in the energy sector, encourage diversification of the energy supply, and foster demand for clean energy. To promote efficiency in the electricity sector, the IDB Group will carry out interventions aimed at expanding the energy supply by reducing transmission and distribution losses. The boost to diversification of the energy supply will take the form of an increase in NCRE generation. Encouragement of demand for clean energy will be measured by the reduction in the consumer structure's dependence on fossil fuels.

Portfolio alignment. The operations in preparation will aim to expand the coverage of sanitation services and strengthen water resource management as well as promote generation diversification by increasing, strengthening, and optimizing the power transmission and distribution infrastructure. The portfolio operations are expanding the coverage and enhancing the quality of water and sanitation services in rural and Indigenous communities and small towns, improving water resource management, increasing energy supply and diversification, and boosting the efficiency of energy consumption. The portfolio encompasses investments in climate adaptation, including sanitary sewer and wastewater treatment works, which help to improve environmental conditions, and replacement of public lighting bulbs and electrical equipment in public buildings to reduce energy consumption.

PILLAR 2. PRODUCTIVE PARAGUAY

WHY IS IT IMPORTANT?

- 2.16. As a developing economy with relative size in the region, Paraguay needs to be further integrated into international markets and value chains in order to continue to grow.** Achieving this objective requires greater availability of capital, more productive and resilient businesses, a diversified supply of exports with greater value-added, and an adequate transportation infrastructure.
- 2.17. The productive sector is vulnerable to climate-related shocks.**²⁷ The Paraguayan economy is heavily dependent on ecosystem services, especially those provided by water and soil. This includes the primary sector, agroindustry, and hydropower generation, which together account for approximately one third of GDP and 80% of exports.²⁸ However, climate change mitigation and adaptation measures are limited, and this also affects logistics activities such as road and river transportation, which can in turn have a global impact on food security.²⁹ Land-use change and deforestation account for most of the carbon dioxide emissions (CO₂e).³⁰ Paraguay is ranked 83rd among countries most exposed to weather events,³¹ and while its exposure to such events is not as frequent as in other countries, even within the LAC region, its capacity to respond to these events is limited.³²
- 2.18. Paraguay's exports are concentrated in terms of both products and destination markets and are characterized by low sophistication and technological content.** Soybean and derivatives, electric energy, and beef account for two thirds of all exports, and 80% of the country's exports are sent to five destination markets: Brazil, Argentina, Chile, Russia, and United States. This percentage has remained relatively stable in the last decades.³³ Between 2018 and 2023, it was observed that products such as corn, rice, vehicle wiring harnesses, undenatured ethyl alcohol and insecticides and destinations such as India, Uruguay, Peru, Taiwan and Israel entered the export universe of those mentioned above. The Harvard Growth Lab's Economic Complexity Index shows that in 2021, Paraguay was ranked 85th out of 133 countries, having made modest progress since 2004, when it stood 94th out of 132 countries. In addition, Paraguay was ranked 77th out of 153 countries in medium- and high-tech manufactured exports share in total manufactured exports, and 117th in industrial export quality, according to the Competitive Industrial Performance Index (UNIDO, 2024).

²⁷ Idem 6.

²⁸ Own calculations based on Annual National Accounts (GDP for 33 sectors) and Statistical Annex of the Economic Report, both from the BCP.

²⁹ Paraguay is the world's third largest soybean exporter (USDA, 2024).

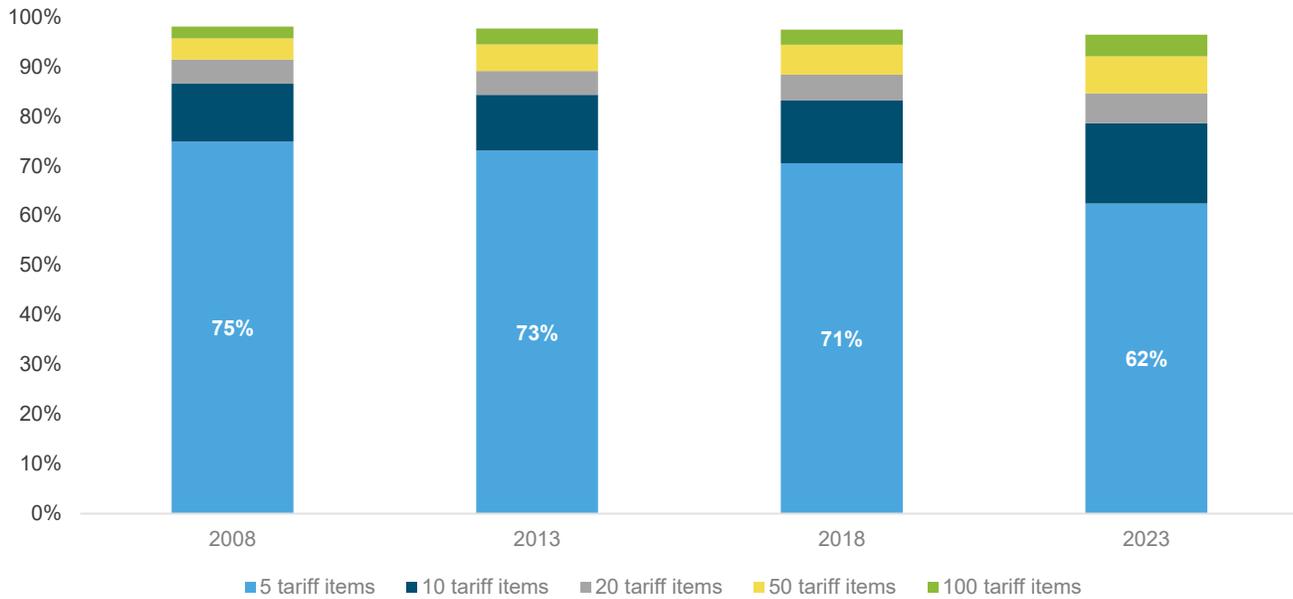
³⁰ MADES/UNDP/GEF.2023. Fourth National Communication of Paraguay to the UNFCCC. Draft FNC and BUR3.

³¹ NDGAI. ND-GAIN vulnerability index (exposure).

³² NDGAI. Vulnerability index (adaptive capacity).

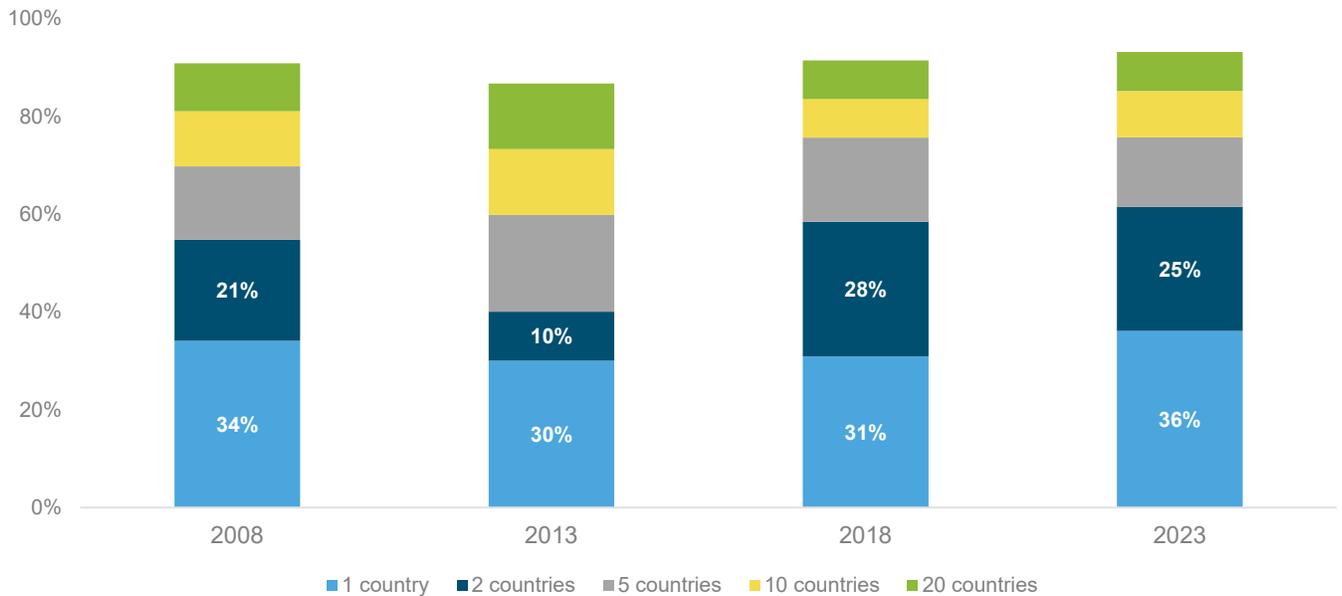
³³ In fact, an IDB study shows that the increase in exports is mainly due to an expansion of the extensive margin, i.e., the result of exporting, both to existing and new markets, more of what is already being exported, while expansion of new export products, whether to existing or new markets, is marginal (Mesquita Moreira and Stein, 2019). At the same time, the number of exporting companies is low: in 2021 there were 1,225 companies that were exporting, a third more than in 2004, but they only account for 0.2% of total businesses, trailing regional peers. In addition, 1% of exporting companies account for more than half of total exports (Park et al., 2019).

FIGURE 2. PARAGUAY. CONCENTRATION OF EXPORTS, BY TARIFF ITEM (% OF THE TOTAL)



Source: Authors' own calculations using 2024 COMTRADE data.

FIGURE 3. PARAGUAY. CONCENTRATION OF EXPORTS, BY EXPORT MARKET (% OF THE TOTAL)

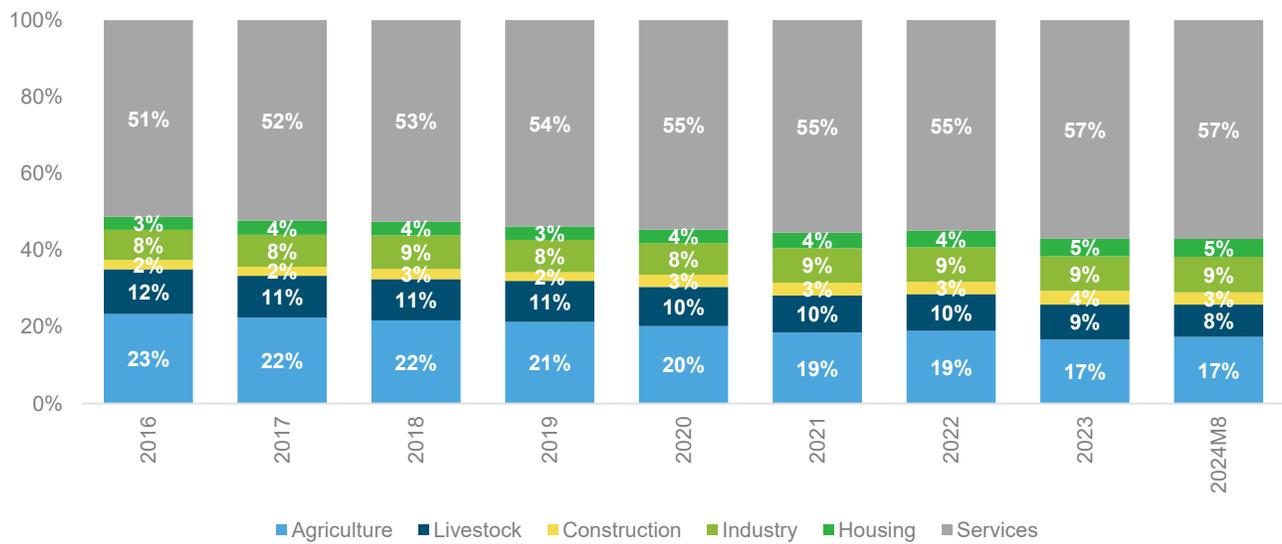


Source: Authors' own calculations using 2024 COMTRADE data.

- 2.19. While the vitality of the forestry sector creates an opportunity to diversify the economy, the sector's institutional lag jeopardizes environmental sustainability.** According to the BCP, timber exports increased from US\$59.5 million in 2003 to US\$94.6 million in 2023, and a new private investment project for pulp and derivatives in the north of the country is expected to provide an even greater boost to the timber-forestry sector.³⁴ In this context, in addition to its global environmental commitments and challenges, Paraguay is implementing public forestry policies that need to be strengthened at the institutional, regulatory, and technical levels. The National Forestry Institute (INFONA), responsible for the sustainable forest management, needs to respond to the growing demand for services and ensure that the sector's requirements will not undermine the conservation of natural forests. To this end, INFONA needs more information, capacity, and flexibility to supervise the sector's growth and streamline procedures, and it needs to be more active in areas such as foreign trade and technology. In addition, it is crucial to develop modern regulations and policies that provide a secure and environmentally robust legal context for the forestry sector. Experience in forestry technologies is limited. INFONA's capacity to support producers of various sizes and production models needs to be increased.
- 2.20. Developing the green hydrogen economy in Paraguay is also an opportunity for sustainable economic development.** Recognized worldwide for its carbon neutrality, green hydrogen is positioned not only as the main alternative to fossil fuels in certain sectors that are hard to electrify, but also as a renewable commodity with great industrial potential. The constant availability of hydroelectric energy enables the production of green hydrogen, in contrast to other renewable solutions with intermittent production. This makes Paraguay an ideal producer and opens the door to developing other renewable sources, such as solar and wind, to supplement the country's renewable power generation matrix. In addition, Paraguay's proximity to markets with high fertilizer consumption and emerging demand for green products presents a major opportunity for developing this industry at the national level. There is also potential for the use of green hydrogen in transportation in Paraguay, to reduce foreign energy dependence, particularly in heavy road transportation and river transportation.
- 2.21. The lack of access to long-term financing restricts investment in physical capital, innovation, and technology.** While credit to the private sector in Paraguay exhibited a certain degree of vitality, exceeding the LAC average as a percentage of GDP (PRY: 52.6%; LAC: 50.8%), it is still far from the average in more advanced countries (Organisation for Economic Co-operation and Development (OECD): 149.7%) (Figures 4 and 5). The financial system continues to have a tenor mismatch that discourages long-term financing. Moreover, the lending gap is related both to the economy's high levels of informality, which disproportionately affect MSMEs, especially those led by women or established in rural areas, and to the limited coverage of private credit reporting bureaus. There is a financing gap for nontraditional sectors, such as forestry, NCRE, pharmaceuticals, auto parts, apparel, and textiles, but the lack of data, including breakdown by gender, continues to make it difficult to characterize those gaps. In addition, industrial companies identify lack of financing as one of the two main obstacles to adopting more advanced technologies (Feal and Garnero, 2024).

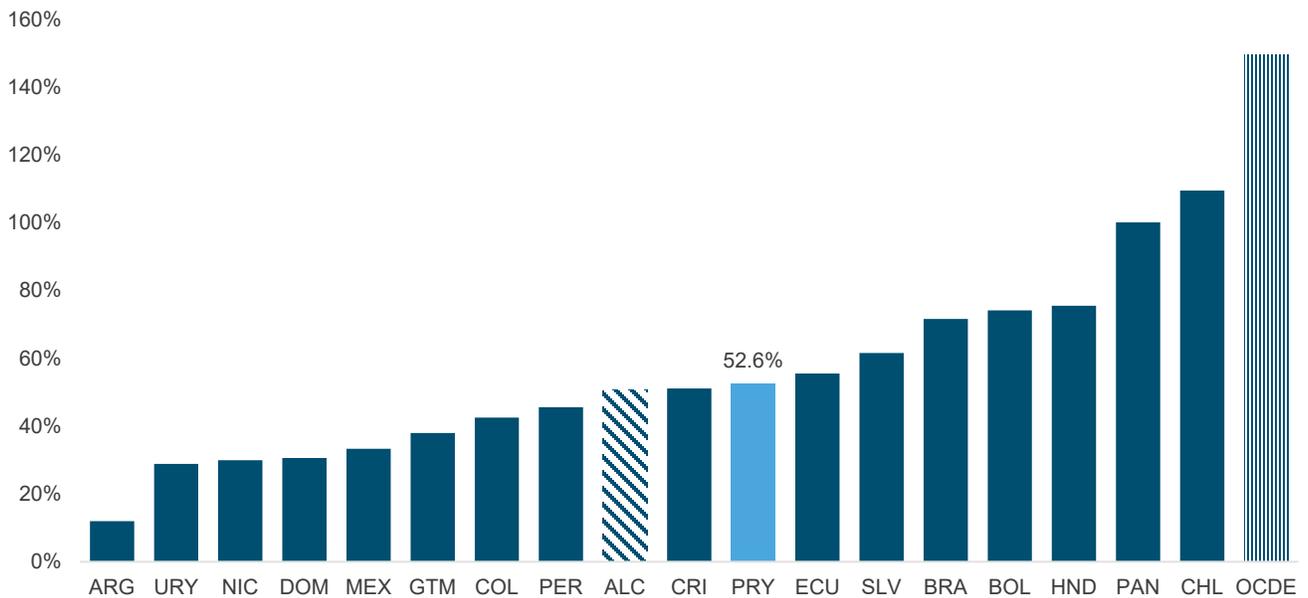
³⁴ Parcel's approximately US\$4 billion project is expected to become operational in 2027, and the company plans to produce 1.8 million tons of pulp a year in Concepción, in the north of Paraguay.

FIGURE 4. PARAGUAY. BANK CREDIT TO THE PRIVATE SECTOR, 2016-2024 (% TOTAL)



Source: BCP (2024).

FIGURE 5. BANK CREDIT TO THE PRIVATE SECTOR 2023 (% OF GDP)



Source: World Bank.

- 2.22. The capacity of Paraguayan businesses to innovate and incorporate technology is limited.** It is estimated that 80% of industrial companies in Paraguay use less advanced technologies (Feal and Garnero, 2024), and that a mere 31.5% of businesses conduct research and development (R&D) activities, with a marked difference based on the size of the business (Paraguay Business Innovation Survey (EIEP), 2018-2020), contributing to a poorer performance than expected in view of the country's development level. In fact, in 2024, Paraguay was ranked 93rd out of 133 countries on the Global Innovation Index (WIPO, 2024). That performance is also associated with the limited links between R&D firms and universities and laboratories, the absence of technological and nontechnological service providers, and an incipient innovation ecosystem with limited local technology-based enterprises. The digital connectivity gap places yet another constraint on the national innovation system and on the digital transformation of businesses, particularly in rural areas.³⁵
- 2.23. Workers lack the skills required by the production and innovation sectors and for the green transition.** One of the main obstacles to the digital transformation of Paraguayan industry is the lack of adequate human capital (Feal and Garnero, 2024). The available evidence indicates that one third of employers report challenges in finding workers with the necessary skills (Enterprise Survey, 2023). Although the IDB Group has supported 1,394 students with master's scholarships until 2023, of which 64% were women, the gap in advanced human capital still persists.³⁶ Paraguay is ranked 10th out of 15 LAC countries in terms of number of researchers per million inhabitants. This is due to the fact that there is limited training capacity for specialized human capital in the local university system, with a narrow offering of specialized undergraduate and graduate courses. In addition, the financial market to support graduate studies is underdeveloped. At the same time, workers lack the skills required for green jobs, which are generally more advanced (IDB, 2024).
- 2.24. The trade facilitation agenda has outstanding issues.** Paraguay has weaknesses in information availability, trade community participation, duties and fees, and automation. In addition, although Paraguay has a single export window (VUE) that was launched in 2013, this facility has not been fully implemented and lacks real-time interoperability with other windows. Furthermore, the country has an authorized economic operator program in place that went into effect in 2018. However, this program was used in only 2% of the export and import transactions performed in the five years since its inception.
- 2.25. There are institutional limits on investment promotion.** While the Investment and Export Network (REDIEX) has made progress in recent years in globally promoting and assisting in the placement of investments, thereby creating an institutional positioning that previously did not exist, its services and tools are limited and its monitoring and evaluation activities exhibit shortcomings. In addition, investment formalities and processes are cumbersome and there is no single point of entry and support for investors in the form of a single investor service window (VUAI).
- 2.26. Lags in transportation infrastructure limit regional integration.** Roads are severely inadequate in the western region, and rural accessibility indicators are the most unfavorable in the region. Of the 78,713 km of roads, only 13% are paved and the rest of the network consists of dirt roads (84%) and improved roads (3%). Insufficient toll collection and low budget allocation for infrastructure maintenance pose additional challenges.³⁷ Meanwhile, the Paraguay–Paraná waterway is a vital link in the regional integration of the economy, since it is used to transport the majority of foreign trade goods (Sánchez et al., 2022). Nevertheless, navigability challenges due to lack of dredging persist and have been aggravated by droughts, adding to deficient beaconing and signaling in the waterways. The infrastructure and quality of air transportation services are not in keeping with the new production

³⁵ While 95.8% of private homes have access to cellular service, only 54% of Indigenous homes do (INE, 2024).

³⁶ Strengthening the National Program of Postgraduate Scholarships Abroad Don Carlos Antonio López (PR-L1086).

³⁷ Maintenance of highways and roads is highly dependent on external public financing sources.

opportunities, and the rail network is mostly in disuse. The State-owned railway operator faces technical and financial limitations that hamper progress on new projects.

2.27. The transportation sector faces technical challenges and institutional weaknesses. Although the planning, execution and maintenance activities of land transport infrastructure are concentrated in the MOPC, this makes it difficult to optimize the allocation and use of financial and technical resources. Improvements in governance are required, as well as the creation of a project bank and clear guidelines for the prioritization of programs.

2.28. Private sector participation in infrastructure projects is constrained by institutional weaknesses and poor institutional coordination in PPP processes. Paraguay has various instruments to promote private participation in public works and services, but the country's operational capacity and experience are still incipient, and private sector participation in infrastructure investments is persistently low.³⁸ In terms of a facilitating environment for PPPs, Paraguay is ranked 14th out of 26 LAC countries (Infrascope, 2023-2024). The coordination weaknesses in the relevant entities and limitations in structuring and management capacity create delays in identifying, prioritizing, and moving forward on projects of this type (STP, 2021). This is compounded by low competitiveness in the bidding processes.

WHAT WILL WE DO?

2.29. Improve the productive sector's capacity to adapt to negative climate change impacts and increase its environmental sustainability. The IDB Group will support the adoption of climate change mitigation and adaptation measures as well as the transition to a low-carbon economy and the implementation of risk management instruments in the private sector, including supporting a sustainable forestry industry and strengthening existing value chains to enable them to boost their energy efficiency, reduce water consumption and carbon emissions per unit produced, and promote the circular economy. By facing such challenges, Paraguay will be able to maximize the development opportunities provided by its natural capital to continue developing new economic opportunities.

2.30. Facilitate access to business financing resources. The IDB Group will continue to support strengthening and expanding the institutional and operational capacity of public sector banks such as the National Development Bank (BNF) and the Development Finance Agency (AFD) in their respective roles as first- and second-tier institutions. This will include support for structuring new financing instruments and mechanisms for the productive sector, with an emphasis on nontraditional production activities. The IDB Group will also facilitate interconnections between financial institutions that generate and disseminate information on credit risk, helping them to expand the risk analysis spectrum into new sectors with potential for growth. This will assist financial institutions in identifying new financeable sectors and markets where financing is in demand but still scarce. In addition, the IDB Group will promote financing for infrastructure projects, as well as the design of maintenance systems for this infrastructure, under various contracting modalities with the private sector. At the same time, IDB Invest will continue to search for opportunities with local financial institutions to boost financing for underserved productive segments such as MSMEs, promoting the growth of portfolios in sectors with large financing gaps and reinforcing the work with anchor companies and their value chains in order to reach MSMEs on a larger scale.

2.31. Foster innovation and technology adoption. The actions of the IDB Group will focus on: strengthening the instruments for innovation support based on the productive sector's demand and the strategic plan for science, technology, and innovation; promoting coordination among actors in the innovation system; and reinforcing existing programs and the incubator and accelerator system by facilitating access to seed capital, loans, or subsidies. In addition, the IDB Group will: assist in

³⁸ There is only one concession and one PPP in operation, together with a turnkey contract (public works with private financing). In 2022, only 2.5% of the public debt was associated with private sector investment for infrastructure development.

strengthening the National Science and Technology Council (CONACYT) by fostering specialized human capital, innovation services, and client portfolio; promote the use of digital technologies and their adoption by businesses; and support mass adoption and optimized use of digital technologies in MSMEs. At the same time, IDB Invest will promote investments in innovation-related business activities, appropriation of emerging technologies, and research and development collaboration between industry and academia.

- 2.32. Develop digital skills and other key worker qualifications.** The IDB Group will promote digital reskilling and upskilling programs as well as the replicability and sustainability of programs to strengthen specialized skills, including qualifications needed for green employment and productive economic diversification. In addition, the IDB Group will continue to support specialization in the scientific, technology, education, productive, social, and environmental sectors. Efforts will be focused on women, Indigenous peoples, and persons with disabilities to promote their integration into the labor market and acquisition of digital skills.
- 2.33. Strengthen the multimodal infrastructure and integration logistics.** The IDB Group will foster investment in logistics infrastructure to improve regional integration and competitiveness, prioritizing an efficient interconnection between the road system and the waterway-port system. Actions will also prioritize the development of strategic corridors, such as the bioceanic corridor that is part of the Routes for Integration, as well as improvement of national, departmental, and local roads to provide access to such corridors and thereby ensure better regional integration while at the same time enabling better access to services and markets for rural populations. In addition, the IDB Group will foster public-private collaboration arrangements to strengthen the Paraguay-Paraná waterway through dredging, channeling, signage, and beaconing works.
- 2.34. Strengthen the regulatory frameworks and the institutional dynamics to boost private sector participation in infrastructure construction and maintenance.** The IDB Group will promote improved institutional coordination between agencies and sector governing bodies, including the MEF and MOPC, in identifying, prioritizing, and consolidating a portfolio of projects with private participation that moves forward effectively along the project cycle. It will foster the creation of road maintenance mechanisms that include maintenance arrangements for the primary, secondary, and rural networks, aimed at financial sustainability, and the implementation of regulatory and operational systems to foster private sector participation in infrastructure financing, including access to cooperation resources and public-private financing. The MOPC will be supported in the development of infrastructure investment planning exercises and tools that consider climate change criteria. In terms of resource mobilization, the role of institutional investors, both public and private, will be strengthened to channel long-term resources to infrastructure projects.
- 2.35. Improve trade facilitation.** The IDB Group will continue to optimize trade transaction procedures, facilitating real-time connectivity between the VUE and a potential VUAI and development of its additional functionalities. It will support the modernization of border crossings within a coordinated border management framework, expanding partnerships with private sector actors to secure and expedite trade through authorized economic operator programs, continue to negotiate and execute agreements for their mutual recognition, and finalize procedures for pre-arrival processing of import documents. In addition, the IDB Group will work to support the internationalization of local companies and their participation in global value chains. Meanwhile, IDB Invest will foster an expansion of international trade through financial intermediaries and support for well-coordinated productive linkages.
- 2.36. Strengthen the institutional framework and tools to boost foreign investment.** The IDB Group will continue to assist in modernizing the institutional framework of REDIEX, including its promotion, monitoring, and evaluation functions, professional training, and services to the private sector, in addition to supporting the work of designing and implementing the VUAI.

- 2.37. Dialogue area:** Railway development will be explored as a means of supplementing the country's logistic corridors.
- 2.38. Institutional strengthening to enhance public sector efficiency and transparency.** The IDB Group will support modernization and improvement of the capacity of key institutions to boost productive development, innovation in general, and particularly national and international logistics interoperability and the road infrastructure, as well as the preparation of production statistics that can inform decision-making and lead to better coordination among the various agencies. The IDB Group will lend technical and financial support to infrastructure investment planning and prioritization efforts and will continue to support institutional strengthening of the National Tax Revenue Bureau (DNIT) to improve tax and customs management. In addition, the IDB Group will assist in strengthening the regulatory, institutional, and technical environment for integrated Paraguayan government action toward a productive, resilient, and sustainable forestry sector through public policy modernization and efficiency, strengthening of human capacity, infrastructure improvement, and service optimization and digitalization.
- 2.39. Promote inclusion and equal opportunity for women, Indigenous communities, and persons with disabilities.** The IDB Group will promote the incorporation of these promotion criteria into both private-sector and public infrastructure projects, including PPP projects. Specifically, the IDB Group will reinforce its work with public sector banks and with regulatory and oversight agencies toward greater credit access for businesses led by women, Indigenous people, and persons with disabilities, particularly in terms of designing appropriate products and the capacity to collect data disaggregated by gender at the business level. In addition, the IDB Group will promote the removal of barriers to the inclusion of businesses led by women, Indigenous people, and PWD in trade and integration' and innovation and technology adoption projects. It will also support the preparation of disaggregated production statistics to measure the existing gaps and improve the design of instruments that support the inclusion of women. The IDB will help the MOPC develop and implement a strategy to advance equal opportunity for women in all its projects and will provide support for a strategy for persons with disabilities. IDB Invest will foster the integration of MSMEs, including those led by women and other vulnerable segments, into the financial system through financing and strategic partnerships with the national financial system as well as through guarantee arrangements with local development banks and other institutions to manage portfolio risk in these segments. IDB Lab will search for innovation solutions for the financial inclusion of women, persons with disabilities, and the Indigenous population.

EXPECTED OUTCOMES

Promote productivity, economic diversification, and regional integration

Improve the business climate, boost private investment, and foster innovation. The IDB Group will promote interventions to boost women's participation in firm's leadership and to equip the work force with the skills demanded by employers. To boost private investment, the IDB Group will promote actions aimed at expanding bank credit to cover nontraditional economic activities and MSMEs as well as investment aimed at bolstering the productive sector's resilience to climate change and exports. In terms of innovation, the IDB Group will promote the coordination and strengthening of the National Innovation System, the use of ICTs in companies, and skills training for workers to meet employer requirements.

Expand the coverage and resilience of transportation infrastructure and boost cross-border trade. The IDB Group will focus its efforts on improving road coverage and promoting road resilience, as measured by the increase in the percentages of paved roads and roads

that are accessible year-round. To foster cross-border trade, the IDB Group will focus on strengthening institutions linked to logistics management and trade facilitation and expanding logistics infrastructure and services. These actions seek to ease the access of Paraguayan companies to international markets, through more interoperability of public services associated to international trade.

Portfolio alignment. The pipeline under review with the government will help to strengthen the institutional framework, infrastructure, and mechanisms for improving the integration logistics, as well as to deploy financial instruments for productive sectors that further economic diversification and promote business innovation. The IDB Group portfolio is aimed at supporting the expansion and improvement of strategic road corridors—including the first PPP project in the country: Routes 2 and 7—as well as local roads. It also contributes to streamlining border crossings and improving tax and customs management through the recently created DNIT, and modernizing the logistics framework, supporting exporting companies, and promoting access to financing for MSMEs and the agricultural sector. Lastly, it contributes to strengthening advanced human capital through the Don Carlos Antonio Lopez Scholarship Program.

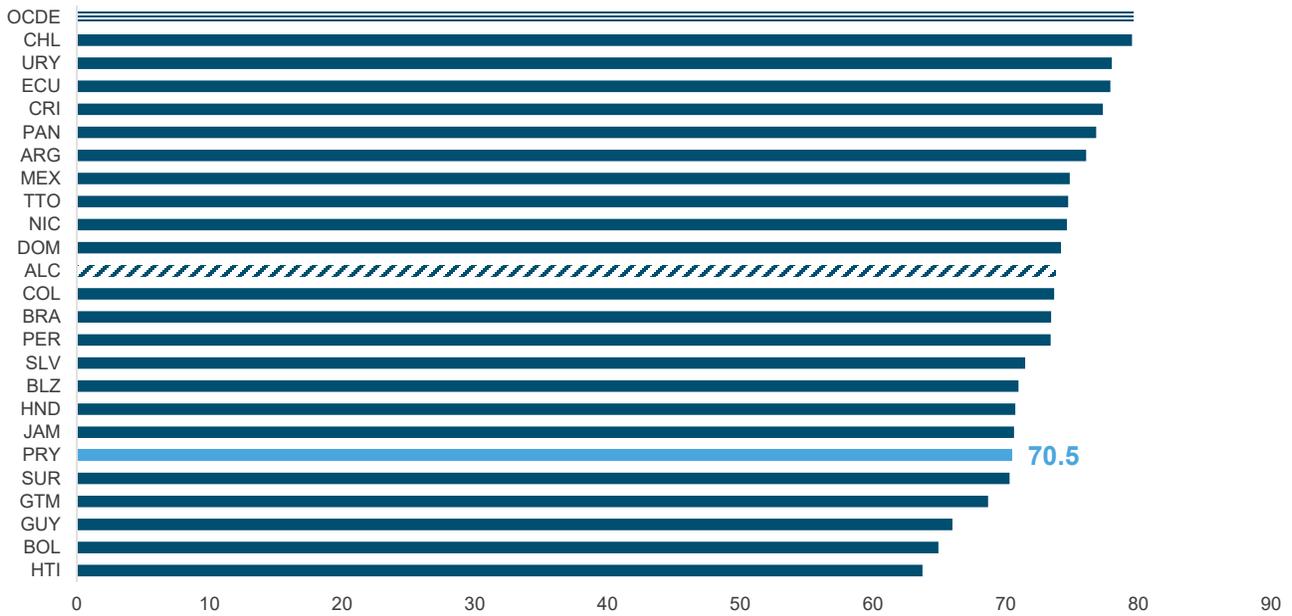
PILLAR 3. HUMAN PARAGUAY

WHY IS IT IMPORTANT?

- 2.40. Strengthening social services is a necessary condition for harnessing the demographic dividend.** It is estimated that the potentially productive population of Paraguay (ages 15 to 64), which in 2022 accounted for 66% of the total population (INE, 2024), will reach the peak of the demographic dividend around 2038, with the dividend disappearing by approximately 2050. Thus, the country has an opportunity to accelerate economic growth through the large volume of human resources of working age. However, harnessing these resources requires good living conditions as well as an education system and ongoing training that enable human capital accumulation for successful integration into the labor market.
- 2.41. Expanding access to social services and improving service quality play an essential role in reducing multidimensional poverty.** While economic growth and employment are needed to alleviate monetary poverty, improvements in the quality of, and access to, social services help to reduce multidimensional poverty, which takes into account the multiple deprivations that individuals can suffer simultaneously (Borga et al., 2021). It is estimated that multidimensional poverty affected 17.2% of the population in 2023, a 2.5 p.p. improvement with respect to the preceding year's estimate. In the rural area, multidimensional poverty affects one of every three, with an incidence of 33.1% (INE, 2023).
- 2.42. While Paraguay has been making strides in the area of health care, indicators continue to lag behind the region and the system provides users with limited financial protection.** The country continues to deal with a high prevalence of mother and child conditions and infectious diseases associated with poverty, coupled with the growth of noncommunicable chronic diseases (NCDs) and external causes (accident and violence). This triple health burden requires differentiated and complementary services, often incompatible with the current health care system. Life expectancy at birth is among the lowest in LAC (Figure 6), while the maternal mortality rate is among the highest in LAC despite a reduction from 180 to 71 live births per 100,000 inhabitants between 2004 and 2020. Infant mortality has declined by 35% but remains above the regional average. NCDs are responsible for 77% of deaths, and the NCD mortality rate rose by 63% between 2000 and 2016. Paraguay has a high incidence of high blood pressure in the population (Figure 7). In addition, there are persistent gaps

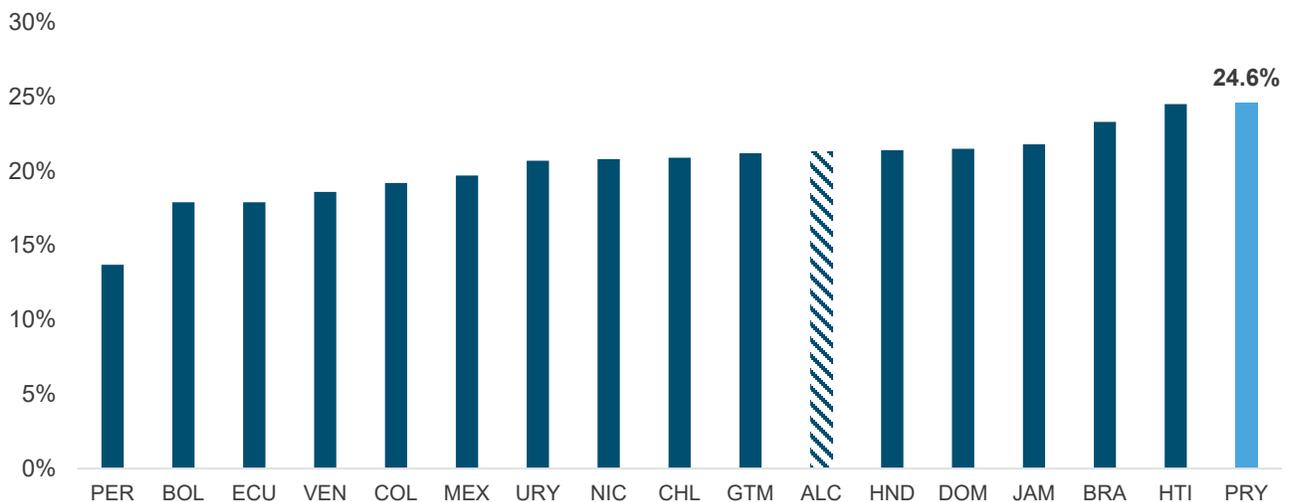
in indicators for the poorest populations, rural areas, and Indigenous communities.³⁹ All told, 10.1% of the Indigenous population has at least one type of disability, whether visual, hearing, or motor (INE, 2024).

FIGURE 6. LIFE EXPECTANCY AT BIRTH, CIRCA 2022 (YEARS)



Source: World Bank, 2024

FIGURE 7. INCIDENCE OF HIGH BLOOD PRESSURE, CIRCA 2022 (% POPULATION)

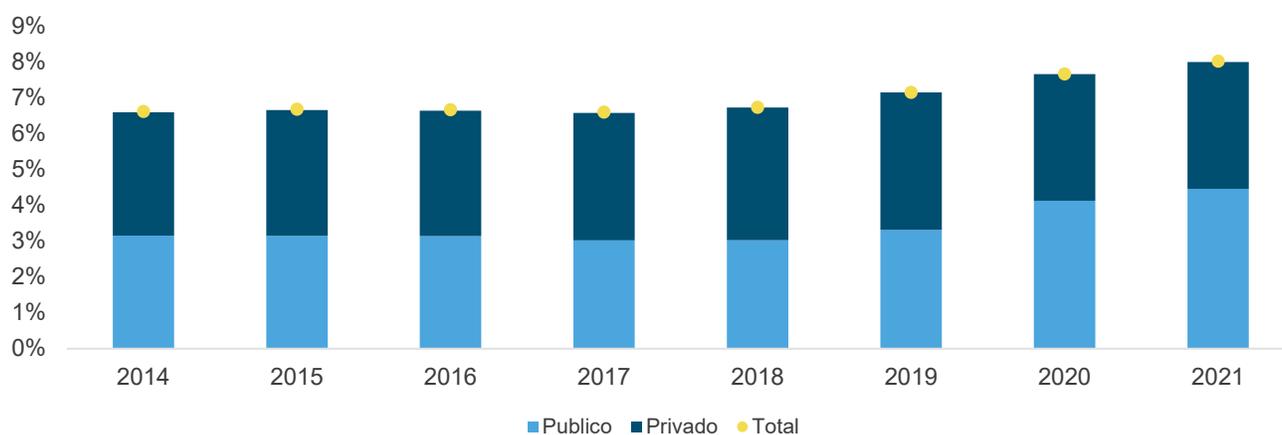


Source: PAHO, 2024.

³⁹ Although the overall fertility rate fell from 4.6 to 2.4 between 1990 and 2020, the changes have been mixed. Adolescent pregnancy surpasses 15% of births in some departments of the country, with a rate of 72 births per 1,000 women between the ages of 15 and 19 (LAC: 59). Among Indigenous women, the overall fertility rate is 4.5, which rises to 6.5 among Indigenous women living in rural areas, while adolescent fertility rates are 50% higher in rural areas and 2.5 times higher among Indigenous adolescents.

2.43. The available resources in the health care system are lower than the regional levels and reference standards. Public health expenditure in Paraguay has risen in the last decade (Figure 8). However, little more than 50% of health care spending is public, which poses catastrophic expense risks for the lowest income quintiles (Figure 9). The country has 1.15 hospital beds per 1,000 inhabitants, which is below the LAC (2 : 1000) and OECD (4.6 : 1000) averages.⁴⁰ In addition, there is persistent and sharp inequity in the supply of services depending on income level, ethnicity, and geographical area. Approximately 44% of all hospital beds in the private subsystem are located in Asunción, 14% in Central, 13% in Alto Paraná, and 9% in Boquerón (Ministry of Public Health and Social Welfare (MSPBS), 2021). In the department of Boquerón, which has the largest share of the country’s Indigenous population, only 32% of inhabitants have primary health care coverage (IDB, 2022). Likewise, the number of physicians and health workers in departments such as Alto Paraná, Concepción, and San Pedro is 5 to 10 times lower than in Asunción.

FIGURE 8. PARAGUAY. CURRENT HEALTH EXPENDITURE BY SECTOR, 2014-2021 (% OF GDP)



Source: WHO, Global Health Expenditure Database.

FIGURE 9. CURRENT HEALTH EXPENDITURE, CIRCA 2021 (% GDP)



Source: WHO, Global Health Expenditure Database.

2.44. Fragmentation and governance in Paraguay’s health care system are conducive to inefficiency and inequity. The country has a mixed system in which a combination of public and private providers

⁴⁰ The national data was calculated with information from the MSPBS and INE for the year 2022, while the statistics for LAC and OECD come from the World Bank (WB, 2020).

coexists.⁴¹ The information systems are fragmented, with poor coordination between system and subsystems and with shortcomings in terms of information quality and timeliness, limiting the development of effective health policies. The subsectors have different sources of financing and levels of resources, leading to disparities in benefit packages and quality parameters.⁴²

- 2.45. The social security systems are important for development,** because they protect workers against risks such as unemployment, illness, and loss of income in old age. In addition, they create impacts in terms of reducing poverty and inequality and improving fiscal balances (Barrera-Osorio et al., 2011; Berlinski, Galiani, and Gertler, 2009; Levy and Schady, 2013; IDB, 2021b; Ebbinghaus, 2021; Goudswaard, 2012; Le Garrec, 2012). Furthermore, they play an important role in deepening the capital markets (Bijlsma, 2014) by stimulating the growth of the financial market and increasing liquidity (Davis, 2005). There is evidence of a positive relationship between pension assets and economic growth, particularly in sectors that depend on external financing (Bijlsma, 2024 and 2018; Kajwang, 2022). Preliminary IDB calculations indicate that the effects of retirement savings on average GDP growth in the countries of the region varied by 6% and 22% over the last 40 years.
- 2.46. In Paraguay, the pension system faces financial sustainability challenges that will deepen with the demographic transition.** Considering that the proportion of the population over 65 years of age is expected to increase from 13% of the total population in 2023 to 18% in 2050 (United Nations Population Fund (UNFPA), 2024), and that life expectancy at the age of 65 is expected to rise from 16.1 to 18.4 years over that period, pressure will be created on the pay-as-you-go pension system as the number active workers declines in relation to retirees, making continuity of the intergenerational transfer and solidarity mechanism increasingly difficult. This would imply an additional pressure to the financial situation of the Caja Fiscal (Fiscal Fund), resulting in a higher increase in the fund's overall deficit and implying the need for transfers of Treasury funds that could amount to about 2% of GDP by 2056, with a present value of flows to 2056 equal to 27% of the 2021 GDP (WB, 2023).
- 2.47. The contributory pension system has informality-related shortcomings, with pronounced geographic inequalities.** Less than one quarter (23%) of employed workers contributed to a retirement system in 2022 (EPHC, 2022). The figure was slightly higher among women (24.6%) than among men (23.2%). This low coverage is partly due to exemptions for independent workers, commission agents, and family and domestic employees, as well as to contribution evasion.⁴³ In addition, coverage is markedly regressive, much lower for the lowest income quintile (2.1%) than for the highest income quintile (40%). This disparity is associated with the high level of employment informality and limited savings capacity of massive segments of the population who live in poverty. Moreover, coverage shows high geographic dispersion, with urban coverage (29.4%) that is broader than rural coverage (11.9%).
- 2.48. Lack of access to formal housing reinforces poverty.** Informal housing conditions can hurt labor productivity by contributing to poor health, limited access to public services, and longer and/or more difficult commutes to employment opportunities (Libertun de Duren, 2017). This exclusion is linked to labor informality, which includes almost two thirds of workers. In Paraguay, the qualitative housing deficit encompassed 53.3% of households (EPHC, 2022), and these were mostly urban (80.7%) and low-income households. In addition, there is urban vulnerability to weather events, which exacerbates social exclusion, and the country does not have an official database on informal settlements (Nogues et al, 2023).

⁴¹ The MSPBS, which is also the system's governing body and the health authority, is the largest public provider and mainly serves the population in the first three income quintiles, while the Social Security Institute (IPS) provides insurance and services to formal workers (slightly less than 20% of the population). The private subsector consists of for-profit and nonprofit institutions and is financed by around 8% of the population through direct payments and private insurance.

⁴² There are access inequities created by the segmentation of services and evidenced in parameters such as spending. It is estimated that the IPS applies more than twice the amount of annual resources per capita to its beneficiary population than the MSPBS (INE, EPH 2023).

⁴³ The contributory pension system is divided into eight different funds for different professions. The largest funds are the IPS (for the private sector) and the Fiscal Fund (for the public sector), which together account for more than 95% of total contributors. The asset-to-liability ratios of the IPS and Fiscal Fund are approximately 10 and 4, respectively (CADEP, 2021).

2.49. The housing deficit is also attributable to the low availability of resources to finance housing.

While mortgage loan balances have posted an average annual growth of 21% in the last 10 years, mostly due to the placement of AFD's housing finance products, the financial system faces difficulties in capturing sufficient long-term savings to be used to finance housing on favorable terms for the middle class (Fernandini et al., 2019). At the same time, it has not been possible to develop either a long-term investment flow (mainly through the equity market) or the risk mitigation instruments needed to direct it not only to the middle class population but also to lower-income populations (those with family incomes ranging from two to three times the minimum wage).

2.50. The multiplicity of actors involved in the housing sector and the lack of coordination among them lead to weaknesses in the organizational structures and administrative processes.

At the national level, the organizations involved in the urban development, territory and housing sectors are the Ministry of Urban Planning, Housing and Habitat (MUVH), MEF, MOPC and the Ministry of Environment and Sustainable Development (MADES). The MUVH was created in 2018 and is the main body responsible for both sectors but has limited organizational capacity to create and adequately develop national policies and to guide the implementation of regulations and instruments at the municipal or local level. In addition, the fragility of its internal organization restricts long-term retention of high-level employees. Lastly, the country has limited structured mechanisms to encourage urban development at the municipal level.⁴⁴

WHAT WILL WE DO?

2.51. Expand health care service access and quality. The IDB Group will implement operations to expand hospital services and upgrade referral hospitals and will increase financing and expansion of early intervention services. IDB Invest will seek to complement public sector efforts through private investments to expand the supply of hospital infrastructure and health services, including high complexity services. IDB Lab will support the digitalization of the healthcare system and expansion of health care access through innovative business models such as telemedicine platforms.

2.52. Strengthen the technology infrastructure for integration of the health care system, prioritizing expanded connectivity in health care facilities. In addition, the IDB Group will support updating legal and regulatory provisions with a view to adopting interoperability standards that allow data sharing between facilities and subsystems, as well as defining and expanding the use of electronic medical records while ensuring the privacy and confidentiality of personal data. IDB Lab will explore opportunities to support the digitalization of the health care system.

2.53. Support implementation of the Law on the Office of the Superintendent of Retirement and Pensions. The IDB Group will promote operations aimed at fostering financial sustainability of the pension system, improving the link between each individual's contributions and benefits, with clear rules regarding the basic parameters of the system, establishing oversight and regulation mechanisms, and eliminating inequities between different groups of workers. In addition, the IDB Group will support the digital transformation of the pension system to improve the accuracy of beneficiary targeting. Lastly, the IDB Group will foster increased channeling of retirement benefits toward investments in infrastructure and the productive sector, reinforcing the availability of long-term, local currency financing and expanding the benefits of diversification and the return on the pension funds' investment portfolio in favor of the system's beneficiaries.

2.54. Build social housing and help to narrow the deficit in quality housing and urban infrastructure, incorporating climate-resilience criteria into their design and construction.⁴⁵ These operations

⁴⁴ Municipios are responsible for formulating Sustainable Development and Urban and Land Use Plans, but only 4% of Paraguay's municipalities have an Urban and Land Use Plan that has been approved by the municipal councils. This causes serious damage at the local level by encouraging unregulated land occupation and contributing to informal occupation.

⁴⁵ In line with prioritized mitigation measure 4 for the energy sector (Foster sustainable urban construction) and with objective 2 (Boost the resilience of cities by protecting and restoring green areas) of the First Communication on Climate Change Adaptation submitted under the NDCs.

will be supplemented by the environmental recovery of lagoons, streams, and wetlands and the protection of natural buffer zones, and by creating conditions for economic and institutional sustainability and for improvement of the adaptive capacity of families in the event of resettlement.

- 2.55. Institutional strengthening.** The IDB Group will aim to strengthen the strategic and management capacity of the MSPBS, as well as the government's capacity to structure and contract health care infrastructure and data management projects in the context of the digital transformation of the sector. In addition, the IDB Group will support the authorities in promoting efficiency in public expenditure through improvements in monitoring and evaluation (M&E) of Fiscal Fund housing programs, management, and sustainability and through the implementation of a pension information system.
- 2.56. Foster inclusion and equal opportunity.** The IDB Group will promote women's access to sexual and reproductive health care; availability of quality health care services in rural areas and in municipios with the largest concentrations of Indigenous populations, providing a culturally appropriate offering; and delivery of specific sexual and reproductive health information and services for adolescents, including through digital initiatives. In addition, through public institutions, the IDB Group will promote a culture of inclusion and zero tolerance for violence against women, persons with disabilities, and Indigenous groups. It will support interagency coordination of the care and protection system for women victims of violence and incorporation of criteria associated with access for women and persons with disabilities to programs aimed at reducing the deficit in quality housing and urban infrastructure. In terms of information and capabilities, the country strategy will prioritize: identifying public expenditure and strengthening the capacity to reduce inequality of opportunities in the case of women and Indigenous populations; and periodically generating disaggregated vital statistics, and statistics on access to social services, on women, persons with disabilities, and Indigenous populations.

EXPECTED OUTCOMES

Strengthening social services

Expand access to, and improve management of, the health care system. The IDB Group will help to expand access to the health care system, including through private sector participation, to be measured by the increase in the number of hospital beds, while management will be promoted through the adoption of information systems at health care units.

Foster financial sustainability of the pension system. The IDB Group will support the sustainability of the pension system by supporting the regulator's implementation of investment risk management in pension funds as well as by supporting the regulated funds in preparing plans for adaptation to the new rule on financial oversight of retirement and pension institutions.

Reduce the quantitative and qualitative deficits in sustainable housing. The IDB Group will promote access to sustainable housing, with a focus on reducing the quantitative deficit in housing in Asunción and the qualitative deficit in the Central department.

Portfolio alignment. The portfolio discussed with the government for the 2024-25 period will be aimed at complementing the Bank's investments in Paraguay while maintaining a programmatic approach. The operations of the IDB Group will continue to strengthen the primary care networks by expanding and upgrading family health care units, increasing their capacity through infrastructure, equipment, and training, and by improving the infrastructure and equipment. Human resources and quality of care will also be strengthened. The IDB Group will finance the construction of a hospital and the deployment and management of tertiary

health services (highly specialized hospitals), consistent with the RIISS model that the Bank has been implementing in Paraguay, structured to encompass problem-solving primary care as well as hospital services. In addition, the IDB Group will support the implementation of urban and environmental development plans that were prepared with Bank support, creating housing solutions for the low-income population and supplementary urban works. The operations currently in execution are expanding and strengthening the primary and hospital care services, improving housing conditions in vulnerable areas and their surroundings through the recovery of lagoons, streams, and wetlands, and supporting social integration.

CROSSCUTTING PILLARS

WHY ARE THEY IMPORTANT?

A. INSTITUTIONAL STRENGTHENING TO ENHANCE EFFICIENCY AND TRANSPARENCY IN THE PUBLIC SECTOR

2.57. The challenges in the context of fiscal convergence and the gradual return to the deficit limit of 1.5% of GDP limit the degree of fiscal policy action. Low tax pressure, coupled with the need to improve the efficiency of public spending, limit the ability to implement countercyclical policies and multi-year spending plans consistent with the fiscal rule.⁴⁶ Although public spending is low, it is rigid and room for improvement in financial allocation and management must be found.^{47,48} The current public investment strategy is consistent with current growth levels and available fiscal margins and seeks to encourage private sector participation to reduce infrastructure gaps, while simultaneously targeting public investment, optimizing its quality and impact.

2.58. The limited use of technological tools in Paraguay curtails efficiency and transparency in public management. While Paraguay has made strides in terms of government effectiveness, the country continues to lag behind the region (PRY: -0.61; LAC: -0.17) (World Bank, 2022). In terms of the development of electronic government as measured by the use of ICT in the delivery of public services, Paraguay climbed 14 places between 2022 and 2024 (2022: 96/193; 2024: 80/193) (UN, 2024). In addition, the country moved up 4 places on the E-Participation Index, which measures the use of online services to provide public information to citizens, from 76th in 2022 to 72nd in 2024. This improvement was influenced by the deployment of digital tools such as the interoperability platform, the one-stop online services window, the digital identity, and Cyber Incident Response Center – Paraguay (CERT-PY).⁴⁹ However, Paraguay lags in terms of adapting human capital to the use of technological tools in government. Lack of transparency is one of the main obstacles to the business environment in the country (Enterprise Survey, 2023). Paraguay was ranked 136 out of 180 countries in terms of perceived corruption (Transparency International, 2024).

⁴⁶ The low tax burden (2022: 10.4% of GDP) reflects three characteristics of the Paraguayan tax system: (i) a narrow tax base due to the degree of informality of the economy (it is estimated that the shadow economy represents more than 40% of GDP); (ii) a tax policy based on low tax rates, with maximum rates of 10% for both personal and corporate income tax and VAT; and (iii) inefficiencies in tax and customs processes. However, there are opportunities for improvement, since according to UNDP (2023) estimates for 2016-2018, the VAT compliance gap stands at 27%; meanwhile, the corporate income tax compliance gap is 47.5%.

⁴⁷ Public spending, in addition to being among the lowest in the region, is mainly allocated to current expenditures. Wages and salaries accounted for 47% of public spending in 2019-2021 (LAC: 29%).

⁴⁸ Inefficiencies in spending can be found in three main areas: public procurement, transfer leakages, and inefficiencies in public employment management (Izquierdo et al., 2018).

⁴⁹ The E-Government Development Index (EGDI) is a composite index that evaluates the development of e-government based on the weighted average of the telecommunications infrastructure, human capital, and online services indices.

B. PROMOTE INCLUSION AND EQUAL OPPORTUNITY FOR VULNERABLE POPULATIONS

➔ **2.59. Violence against women and women's lack of financial independence create a vicious cycle, resulting in economic and social costs for society as a whole.** Nearly 8 of every 10 women have experienced some form of violence at some point in their lives, with sexual violence being the most prevalent (60.9%), followed by psychological (67.8%), physical (25.7%), and financial (25%) violence (ENSIMUP, 2121). In this regard, the rate of femicides is 1.1 per 100,000 inhabitants, which places the country in 9th place out of 19 countries (ECLAC, 2023). In addition to violence, there is a limited economic capacity. A gap of 20.8% was identified in the average income of women compared to men, which is deepened in the self-employed occupational category (INE, 2023c). Although the percentage of companies with female participation in their ownership (63.4%) is higher than the regional average (47.4%), the fraction of firms where most owners are women (18.9%) and the percentage of companies with a female general manager (19.1%) are smaller (Enterprise Survey, 2023). It is estimated that violence against women has a cost equivalent to 5% of GDP, of which 48% is borne by women themselves and their households and micro-enterprises, 38% by companies, and 14% by the State (GIZ, 2017). Paraguay's femicide rate in 2020 was 1 victim per 100,000 inhabitants, placing the country in 13th place out of 21 countries on this indicator, according to ECLAC data. Violence against women is the main cause of 911 calls, although the percentage of women seeking institutional help is low. It is estimated that violence against women has a cost equivalent to 5% of GDP, and that 48% of this cost is borne by women, their households, and their microenterprises, while 38% is borne by businesses and 14% by the State (GIZ, 2017).

WHAT WILL WE DO?

2.60. The IDB Group will boost the role of crosscutting issues during the 2025-2029 country strategy period. In terms of institutional strengthening, the IDB Group will continue to support development of the National Public Procurement Bureau (DNCP), while also supporting civil service' and organization of State's reforms and the streamlining and digitalization of management processes. In addition, the IDB Group will support strengthening the macro-fiscal institutional framework, including by supporting development of the medium-term fiscal and expenditure frameworks and optimization of fiscal rules and by continuing to implement the Fiscal Sustainability for Latin American and Caribbean Countries FISLAC platform to support the fiscal strategy. It will similarly promote ongoing improvement in the quality of expenditure by supporting the implementation of results-based budgeting (RBB) to boost the allocational efficiency of expenditure. Moreover, it will support the development of an integrated social information system, which will identify expenditure by gender, income level, and other relevant categories, including Indigenous populations and people with disabilities; and will continue to promote reviews of tax spending and incentive programs to identify inefficiencies and promote transparency. At the same time, it will continue to support the National Public Investment System (SNIP) at the national and municipal levels, seeking improvements at all stages of the public investment cycle, including through the development of a green taxonomy. The IDB Group will also support reinforcing the financial management systems to enhance the quality and traceability of public expenditure by strengthening the Integrated State Resource Administration System (SIARE) at the national and municipal levels. On the revenue side, the IDB Group will continue to support strengthening tax and customs administration and explore options to improve the distributive impact of tax policy. Implementation of the bill providing for a national integrity, transparency, and corruption prevention system comprising the three branches of government, the Office of the Comptroller General of the Republic (CGR), and the Public Prosecutor's Office will be supported once it is approved. The IDB Group will continue to foster the use of data from the National Population and Housing Census 2022 (INE, 2024) through the preparation of monographs and through information dissemination actions, including the generation of statistics disaggregated by gender, Indigenous population, and persons with disabilities, while providing support to improve the quality of administrative records and use these records to generate vital statistics, and will continue to strengthen INE's role as coordinator and regulator of the national statistics system. The

IDB Group will support the monetary authority in investment infrastructure and asset management, as well as support the development of capital markets, through the Capacity Building, Asset Management, and Advisory Services Program (CaSA). In terms of interventions to foster security and prevent violence, it will promote the use of technology to optimize police services, rapid response to violence against women, and anti-money laundering transactions. In addition, the IDB Group will continue to support institutional strengthening of both the Ministry of Women, as the lead agency on issues of violence against women, and the National Care Policy, and will support community programs for violence prevention and rapid response to women that are victims of violence.

2.61. Specific additional actions for institutional strengthening and for promoting equal opportunities for women and vulnerable groups are listed in each pillar.



III. HOW WE WILL DO IT

A. PROGRAMMATIC APPROACH

- 3.1 Programmatic approach to boost impact.** During the 2025-2029 country strategy period, the dialogue to define the operational program will emphasize development needs that require interventions over time. Where appropriate, new Conditional Credit Lines for Investment Projects (CCLIPs) will be proposed as an organizing instrument. Policy-based loan operations will be concentrated in sectors in which the Bank has had a constant presence and has provided technical assistance in formulating key reforms. In the selective deployment of the IDB's knowledge, investment, and policy-based instruments, the Bank will promote interventions that help to create favorable conditions for productive development and sustainable growth of the private sector, seeking synergies with IDB Lab and IDB Invest. The proposed programmatic approach should enable the IDB Group to strengthen the selectivity and vertical logic of its interventions, including consistency between the expected results and the resources allocated to them, sustaining a long-term vision that transcends the political cycle.
- 3.2 Innovative financial tools will be deployed to align client needs with strategic objectives.** During implementation of the country strategy, the IDB Group will leverage the country's newly attained investment grade status to move forward on deepening the local debt market with a view to attracting foreign capital. This will be done by strengthening the legal and institutional framework to facilitate a diversification of financing sources and help in reducing exposure to international volatility. Within the framework of a comprehensive sustainable debt strategy, the IDB Group will support the country in effectively integrating sustainable finance, in the wake of the Bank's support for tools aimed at enabling thematic (green, social, or sustainability) sovereign bond issues, such as Paraguay's Sustainability Bond Framework, which was given the highest possible rating in a second-party opinion by Sustainalytics. The IDB Group will also boost nonbudgetary financing for strategic projects by means of innovative vehicles and structures to finance large projects through the capital markets, PPPs, or other modalities.

B. SYNERGIES

- 3.3 The objectives of the 2025-2029 country strategy will be pursued through a continuum of public-private solutions in Paraguay.** The IDB Group framework of public-private synergies has created institutional conditions for joint work by the IDB, IDB Invest, and IDB Lab. At the same time, there is a need to supplement public investment to reduce social and infrastructure gaps in Paraguay. Therefore, leveraging resources from the private sector is not only an opportunity but an imperative for promoting economic and social development in Paraguay. In this context, the pursuit of the country strategy objectives is fundamentally a public-private task, requiring efforts on both sides to develop regulatory frameworks and institutions that favor private investment. Similarly, joint work is required for the development of markets and for their sustainability, promoting the rise of competitive enterprises in the medium and long term. This section identifies opportunities for synergies, within each pillar of the country strategy, to leverage resources for the proposed pillars, including areas such as: basic

sanitation, expansion of clean and renewable energy sources, greater energy efficiency, infrastructure expansion and maintenance, economic diversification, strengthening of productive chains and the business environment, access to quality public health care, financial inclusion, and housing.

- 3.4 IDB Invest's new business model and capital increase provide additional tools to improve the IDB Group's impact and contribution to Paraguay's strategic objectives.** These new tools will enable the IDB Group to step up the mobilization of institutional investors and enhance its local currency offering while increasing its ability to engage in high-risk, high-impact projects.⁵⁰ They will also enable the IDB Group to focus on the social agenda to better support poor and vulnerable populations and expand advisory services. The IDB Group Synergies Framework emphasizes its focus on sovereign-guaranteed public programs to boost growth and social impact by improving the business environment for private investment, among other goals.
- 3.5 Pillar I: Green Paraguay.** The IDB Group will promote synergies among the three windows to maximize the impact of its interventions on environmental sustainability. This will be done through systematic exchanges aimed at sharing business models, priorities, and capabilities as well as through the development of incentives and procedures for early involvement by the three windows in implementing programs in the country. The IDB Group identified key areas for preliminary, or upstream and operational, work, including in structuring and financing NCRE projects, seeking opportunities where private sector participation offers advantages in the delivery of water and sanitation services, and collaborating in the development and implementation of the National Green Hydrogen Strategy. The Bank has assisted in the preparation of this strategy, which identifies actions to promote green hydrogen industry in the country. In addition, the IDB Group will continue the efforts to support the country to advance in the normative framework for the implementation of the strategy for charging infrastructure as well as to promote the electrification of the public and private vehicle fleet.
- 3.6 Pilar II: Productive Paraguay.** To promote productivity, economic diversification, and regional integration, the IDB Group will foster public and private upstreaming synergies, including support for the formulation and execution of a national infrastructure and PPP plan, generation of opportunities for private sector participation in public infrastructure construction and maintenance, investment of venture capital funds in early stage businesses in the country, and promotion of technological solutions to overcome trade barriers and contribute to the emergence of innovative companies. Furthermore, it will foster strengthening institutional capacity to attract private investment to develop and consolidate strategic manufacturing clusters and will coordinate linking them to lagging companies or industries, in addition to exploring innovative solutions for the financial inclusion of vulnerable groups. At the same time, other types of synergies will be promoted in the IDB Group, such as for creating, developing, and financing technology-based companies and innovative solutions that address Paraguay's development challenges, financing the industrial sector and other, nontraditional sectors, and supporting the expansion of financial services for productive MSMEs through public development banks and the commercial financial system.
- 3.7 Pilar III: Human Paraguay.** To strengthen social services, the IDB Group will promote upstream initiatives for attracting private investment to improve the coverage and quality of water and sanitation infrastructure, health care infrastructure, and housing.
- 3.8 Specific additional actions on IDB Group synergies under the Green Paraguay, Productive Paraguay, and Human Paraguay pillars are listed in the relevant link.⁵¹**

⁵⁰ IDB Invest has carried out five bond issues since 2018 for G 345 billion, primarily aimed at expanding access to financing for SMEs.

⁵¹ See: Synergies (Electronic Link 7).

C. IDENTIFICATION OF REFORMS

- 3.9 Under pillar I, Green Paraguay,** the IDB Group will provide support to the Office of the Deputy Minister of Transportation (VMT) in the process of decarbonizing the transportation sector through a comprehensive restructuring of the system, with a focus on electromobility. This includes updating the standards and regulations for the vehicle fleet, modernizing operating concessions, and developing new financial arrangements aimed at promoting fleet renewal. The IDB Group will provide support in creating a Ministry of Energy equipped with the technical capacity and resources needed to lead and coordinate the actions of the sector's various actors with a view to promoting sustainability and diversification of the energy matrix.⁵²
- 3.10 Under pillar II, Productive Paraguay,** the IDB Group will continue to support strengthening a framework designed to enable private investment and boost its impact, by amending the PPP law and updating the science, innovation, and technology policy. In addition, the Bank may support future reforms aimed at improving productivity, such as revising the investment attraction instruments and the regulatory framework.
- 3.11 Under pillar III, Human Paraguay,** the IDB Group will support implementation of the approved pension system reforms, which were supported by the Bank, giving the State a supervisory role over retirement and pension institutions (Law 7235/2023), including implementation of the prudential regulatory standards which the retirement institutions will be required to meet.

D. REGIONAL IDB GROUP FLAGSHIP PROGRAMS

- 3.12 Routes for Integration.** Progress will be made in implementing in Paraguay a regional cooperation agreement among development banks to create a South American integration and development network, with an emphasis on sustainable, resilient, and inclusive infrastructure. The indicative program for 2025-2026 includes IDB Group financing to support Paraguay in moving forward with the layout of routes across the nation's territory to connect cities that are emerging as economic hubs with their own dynamics and characteristics. In particular, the IDB Group will support the development of access roads to the Bioceanic Highway as well as a section of this important road that will connect the country's western region and thereby make the region's products more competitive, which is a key step toward encouraging investment, increasing productivity, and creating jobs.
- 3.13 IDB CLIMA.** During the implementation period of the 2025-2029 country strategy, the implementation phase is expected to begin for a pilot project under the Results-driven Pilot Program that Rewards Development Effectiveness in Biodiversity and Climate Investment Loan Operations (IDB CLIMA). The conditions for obtaining the incentive (a grant equal to 5% of the principal amount of an IDB loan) include independent verification of the nature- and climate-related key performance indicators.

E. STRATEGIC PARTNERSHIPS

- 3.14 During the 2025-2029 country strategy period, the IDB Group will establish strategic partnerships to maximize its impact, leveraging financing as well as knowledge.** For Pillar 1, given the importance of environmental issues, the IDB Group plans to collaborate with the Spanish

⁵² Main actors: (i) ANDE, in charge of the electricity sector and directly linked to the MOPC; (ii) PETROPAR, in charge of oil derivative imports and distribution and directly linked to the MIC; (iii) Binational Itaipú and the Yacyretá Binational Agency, directly linked to the president of Paraguay; (iv) Paraná River Joint Commission, in charge of developing hydropower projects between Paraguay and Argentina, directly linked to the MINEX; (v) MADES, in charge of national environmental policy, and INFONA, in charge of sustainable management of forest resources, directly linked to the president of Paraguay.

Agency for International Cooperation and Development (AECID), European Union (UE), the Taiwan International Cooperation and Development Fund (ICFD), IMF, AFD, the Development Promotion Fund (FONPRODE), and the Japan International Cooperation Agency (JICA) to finance investments that support the green transition in the water and sanitation and energy sectors. In terms of knowledge and technical assistance, the IDB Group aims to establish or continue partnerships with various research centers, universities, and organizations that focus on environmental and climate change issues. For Pillar 2, the IDB Group will prioritize partnerships, mainly with the French Development Agency (AFrD) and the Green Climate Fund (GCF), to mobilize resources aimed at advancing productivity, economic diversification, and regional integration. Regional development banks such as the Development Bank of Latin America and the Caribbean (CAF) and the Financial Fund for the Development of the Plata Basin (FONPLATA) also represent key partnership opportunities due to their broad presence and influence in the country. In addition, the IDB Group will collaborate with research centers, academic institutions, and other partners to improve the country's international integration. For Pillar 3, the IDB Group intends to partner with other development organizations, including The Pandemic Fund and the French Development Agency, to strengthen social services in health care, pensions, and housing. In addition, it will search for partners to improve the quality of public expenditure and advance government digitalization. Lastly, for all pillars, the IDB Group will endeavor to expand collaboration with the WB and the United Nations agencies within the scope of existing agreements.



IV. CONSIDERATIONS FOR IMPLEMENTATION

A. KNOWLEDGE

- 4.1 Fostering a robust policy dialogue and advancing a knowledge agenda that actively responds to government priorities are comparative advantages for the IDB Group.** The Paraguayan government regards the knowledge agenda as a distinguishing feature of the IDB relative to other multilateral organizations. The government acknowledges the IDB Group's efforts to generate and disseminate strategic knowledge crucial to implementing public policies and promoting social and economic development. During the 2025-2029 country strategy period, the IDB Group will promote a knowledge agenda that effectively contributes to the objectives of IDBStrategy+ and the country strategy.
- 4.2 The knowledge agenda will contribute to all pillars of the 2025-2029 country strategy.** To enable the green transition and strengthen climate resilience, the IDB Group will continue to provide simplified access to a large amount of information and data about LAC to help understand the region and contextualize operations in an optimized way. The IDB is also building an agenda that aims to strengthen Paraguayan climate governance and its mitigation and adaptation actions within the framework of IDB CLIMA, providing technical support to the government. The IDB, together with the government, has analyzed measures for improving monitoring, reporting, and evaluation systems and strengthening the country's capacity to design and manage projects that include climate action interventions. The IDB is supporting the development of a green taxonomy, a tool designed to identify economic activities and assets that are considered environmentally sustainable with a view to mobilizing additional financial resources under a transparent and standardized framework that provides confidence and security to market participants, positioning Paraguay as an attractive target for sustainable investments and facilitating access to thematic debt markets.
- 4.3 The IDB Group has a robust agenda for accelerating growth through strong institutions and enhanced productivity.** The IDB Group is contributing dialogue and the knowledge agenda to support the development of policy, regulatory, and implementation measures needed to accelerate growth. For example, the PPP Risk Management Group is a regional public good available to the governments, providing analyses that range from regulatory, fiscal, and institutional frameworks to project feasibility and structuring. The IDB will also develop a knowledge agenda to promote resilience-driven technologies, technical regulations, and policy guidance in the infrastructure sector. Similarly, the IDB Group will continue to promote knowledge on guarantee funds designed to boost financing of strategic sectors such as MSMEs and housing. In addition, it will continue to work on creating new financing vehicles that can generate impact and scalability in channeling resources toward development. In the forestry sector, the IDB Group will promote knowledge generation and establishment of forestry system models. It will also support knowledge generation and dissemination on sustainable agricultural systems and mitigation of natural risks.
- 4.4 The knowledge agenda will support expanding quality social services.** In health, the IDB Group will continue to advance knowledge toward promoting smart spending, digitalization of the sector—not only in order to enhance the sector's efficiency but also as a key intervention in response to pandemics—and strengthening of health care staff. In pensions, the IDB Group will continue to deepen knowledge generation with a view to reaching a comprehensive, long-term solution to the shortcomings

of the region's pension systems. Thus, it will produce applied studies on Paraguay to promote financial security and quality of life for older adults. In housing, the Bank has been working with the government to promote the country's Intersectoral Strategy for Sustainable Housing, with a view to fostering better access and quality and taking advantage of the opportunities provided by the value chain. At the same time, the IDB Group will continue to strengthen the knowledge agenda to foster equal opportunities for women, people with disabilities, and Indigenous communities by estimating the economic benefits associated with boosting their share in the work force as well by identifying their barriers to entry. Lastly, the IDB Group will continue to support a broad knowledge agenda encompassing other key areas for human capital accumulation. In coordination with other bilateral and multilateral development agencies, the IDB Group will maintain a dialogue and provide technical assistance to promote the sustainability and scalability of solutions and lessons learned from Bank support in the area of vocational training and education.

B. MONITORING AND EVALUATION CAPACITY

- 4.5 Regulatory framework in Paraguay.** The country is moving forward in implementing an institutional reorganization, with the potential to strengthen its monitoring and evaluation systems. The structure of the State's economic area⁵³ was reorganized by creating the MEF in place of the Ministerio de Hacienda (Ministry of Finance).⁵⁴ The MEF retains governance over the budget and monitoring and evaluation systems, while also taking over responsibility for the planning system, which was formerly under the Secretariat for Technical Planning (STP), now absorbed by the MEF. The country has a solid regulatory and technical foundation, essentially on the budget side, on which to strengthen the monitoring and evaluation systems. The RBB was implemented in 2004 and has steadily progressed in the years since, having been recently buttressed through the establishment of a full legal framework and methodological guidelines for the design of programmatic structures for budget preparation, with their respective targets and indicators. On the investment side, the recent Law on the National Public Investment System defines the investment plan as a multiyear planning instrument that will help to link planning more closely to the budget. It now remains to deepen the implementation of these tools and processes on the side of the government agencies.
- 4.6 Coordination and feedback mechanisms.** Coordinating planning and the budget is the country's main challenge on the road to having a solid monitoring and evaluation system. The wide gap between the Paraguay 2030 PND at the macro level and the program-based budget at the micro level disconnects these two instruments from one another in the absence of intermediate planning tools. Monitoring is concentrated on financial and (somewhat weak) physical follow-up of budget programs. Evaluation is institutionalized at the regulatory level and is applied to budget programs, while being implemented on a very small scale and out of step with the budget cycle. The evaluation system itself requires further conceptual and methodological development, as well as development of greater institutional capacity.
- 4.7 Opportunities for improvement.** The Bank will help strengthen the monitoring functions and the national evaluation system by leveraging the efforts deployed by Paraguay and boosting existing programs. In the short term, the Bank will boost actions regularly carried out to help create monitoring and evaluation capabilities in Paraguay. It includes contributing to the National Evaluations Database by providing evaluations of IDB-financed projects and actively sharing their results with counterparts and the MEF to bolster the use of evaluations in decision-making processes. In addition, the Bank will harness the systems and knowledge of the execution units to strengthen the institutions' existing systems, especially the monitoring function. In the medium-term, given that Paraguay already has extensive information in its systems but lacks mechanisms for creating management reports aimed at

⁵³ According to Law 7158/2023 creating the MEF and MEF Resolution 14/2024 approving its organizational units.

⁵⁴ The MEF was created in late 2023, absorbing the former Ministry of Finance (but not its Undersecretariat for Taxation (SET)), the Secretariat for Technical Planning, and the Civil Service Secretariat. In addition, with a view to improving revenue collection, the National Tax Revenue Bureau (DNIT) was created by merging the National Customs Authority with the SET, which had formerly been part of the Ministry of Finance.

decision-making and at corrective actions to improve public management, in collaboration with the authorities, the IDB Group will identify a series of priority actions to consolidate the institutional reform led by the MEF and boost the efforts already initiated through RBB in the government agencies. The IDB Group can also provide technical assistance to fine-tune the methodological guidelines for planning, execution, monitoring and evaluation, as well as the alignment of indicators between the planning and budget systems.

C. COUNTRY FIDUCIARY SYSTEMS

- 4.8 Use of country systems.** For sovereign-guaranteed lending operations, the budget, the treasury, the accounting systems, the electronic reverse auction for goods and non-consulting services, and the Public Procurement Information System (SICP) are used. The activities planned for the strategy period will contribute to strengthening national fiduciary systems, increasing their use in the execution of operations, and improving the efficiency and transparency of public management, in line with the PND and the operational approach of the Bank's Institutional Strategy.
- 4.9 Strengthening the country systems.** The Bank will support the MEF in the implementation of actions derived from the evaluation of the Public Expenditure and Financial Accountability (PEFA++) Paraguay 2022. The system of accounting and reporting will be strengthened and its use in the Bank's portfolio will be expanded. In addition, the Bank will support the implementation of the SIARE, specifically the goods and services management system, contributing to better management and administration of public goods. To ensure attainment of the expected results, the Bank will continue to engage in dialogue with other cooperation agencies and multilateral organizations with a view to coordinate efforts in initiatives to support the government in the use and reinforcement of national financial management systems. The Bank will advise the government on strengthening actions identified in the diagnostic assessment of Paraguay's public procurement system performed using the Methodology for Assessing Procurement Systems (MAPS).
- 4.10 Office of the Comptroller General of the Republic (CGR) and National General Accounting Office.** Within the framework of adoption of, and compliance with, the International Standards of Supreme Audit Institutions (ISSAI), the Bank will support the CGR's participation in training events in order to strengthen its technical capacity. In addition, the Bank will assist in ensuring that CGR participation in activities organized by Latin American and Caribbean Organization of Supreme Audit Institutions (OLACEFS) and International Organization of Supreme Audit Institutions (INTOSAI) facilitates regional and global coordination and exchanges, with a view to enhancing the quality of the governmental oversight and control process as well as the credibility and reliability of the outputs arising from supreme State oversight. Within the framework of support and technical assistance to Forum of Government Accounting Firms of Latin America (FOCAL) member countries, the Bank will facilitate participation by Paraguayan government accountants in training in International Public Sector Accounting Standards (NICSP) and, subsequently, in obtaining an NICSP Certificate from the Association of Chartered Certified Accountants (ACCA), with a view to strengthening technical capacity in applying these standards. The Bank will encourage nonfinancial public sector and CGR employees to share their experience and good practices at the regional level by supporting their participation in forums and training events organized primarily by Forum of Government Treasuries of Latin America (FOTEGAL) and FOCAL.
- 4.11 Public procurement.** During the country strategy period, the Bank will: (i) evaluate the DNCP's framework agreement procedure for online procurement of goods and services, linked to the virtual shop (electronic catalogue), to potentially authorize its use in IDB-financed projects; (ii) coordinate with the government to perform a new diagnostic assessment of the National Public Procurement System (SNCP) using the upgraded MAPS technology to reflect advances made in the SNCP and examine the possibility of validating other subsystems for use in IDB-financed projects; (iii) monitor the

procedures used by the DNCP to approve procurement processes and provide technical assistance to make them more efficient; (iv) support the DNCP in implementing its action plan for sustainable public procurement; (v) support the DNCP in preparing and implementing a roadmap for public procurement in innovation; (vi) advise the government on certain strengthening actions prioritized by the government and identified in the diagnostic assessment of Paraguay's public procurement system; (vii) support the MEF in implementing the National Public Supply System pursuant to the new Law on Public Supply and Procurement; and (viii) support access by the DNCP and key Paraguayan government agencies to advice and knowledge on successful experiences in the region, with a view to strengthening the SNCP and boosting its participation in regional cooperation mechanisms such as the Inter-American Network on Government Procurement.

D. EMERGENCY RESPONSE

4.12 The pillars of the 2025-2029 country strategy provide a comprehensive approach to emergency preparedness and response, particularly regarding climate-related disasters and economic resilience.

4.13 Green Paraguay. The first pillar focuses on supporting the country in promoting key investments to adaptation and mitigation of climate change. This includes optimizing and diversifying the energy matrix to reduce vulnerability to droughts, since power production in Paraguay is dependent on fossil fuels and exhibits transmission and distribution losses that exceed the regional averages. In addition, interventions to expand sanitation coverage are particularly important for containing water-borne diseases, which rise in the event of floods. By enhancing resilience to climate change, this pillar aims to make wastewater treatment plants and sewer systems more resistant to extreme weather events. In addition, transportation infrastructure projects under this pillar will include measures to prevent floods (higher pavements and bridges and drainage systems) and boost adaptation to climate change.

4.14 Productive Paraguay. Interventions under the second pillar will include updating policies and programs to support the management of forest fires through fire prevention and management projects and training of specialized firefighting brigades. The second pillar indirectly addresses economic diversification as a core component in making the economy less vulnerable to external shocks. Fostering regional integration (by expanding resilient transportation infrastructure) and efficiency in cross-border trade is also essential for the transit of people, goods, and services, even more so in emergency situations. A systematic approach will help to mitigate the economic impact of emergencies.

4.15 Human Paraguay. The third pillar will strengthen the health care and housing systems. Interventions will be aimed at updating policies and programs to provide timely and practical support in health care for affected populations, while at the same time promoting access to sustainable housing, with a focus on climate change mitigation.

4.16 The three pillars represent a strategy that helps to address the immediate impacts of emergencies and build long-term resilience and adaptability into the country's infrastructure, economic planning, and social systems. In addition, the IDB Group offers a comprehensive suite of innovative Climate and Disaster Risk Finance (CDRF) products and services designed to enhance the country's resilience and promote fiscal sustainability. An effective financial strategy should include a mix of financial instruments tailored to the country's climate and disaster risk profile and financing needs, including the IDB Group's climate-resilient debt clause or debt-pause clause (Principal Payment Option and Disaster Protection Conversion), as well as market transactions carried out by the IDB Group.⁵⁵

⁵⁵ At present, only borrowing member countries with an active Contingent Credit Facility for Natural Disasters and Public Health Emergencies at the Bank are eligible for activating the Principal Payment Option.

E. RISK OUTLOOK

MACROECONOMIC FACTORS

4.17 Risks: The main macroeconomic risks identified for this country strategy include fiscal risks associated with the pension system and external factors, including climate change effects, as well as balance of payment and exchange rate risks. In fiscal terms, while the authorities remain committed to the rule that establishes a ceiling of 1.5% of GDP for the central government, there are contingent expenditures related to floods and droughts and to the pension fund for public employees, which has a State guarantee. In terms of external factors and the balance of payments, soybean and energy revenues are subject to fluctuations in commodity and oil prices as well as to the weather, especially droughts. This country strategy's focus on supporting the productive development of nontraditional sectors poses an additional risk, since the agricultural and power generation sectors have been significant drivers of growth in recent years. While the average inflation rate in Paraguay continues to be one of the lowest in the region, a significant rise in inflation could have an impact on project costs. Lastly, in terms of the exchange rate, since a high percentage of Paraguay's public debt is denominated in foreign currency, increases in the foreign exchange rate could raise project costs and adversely affect their implementation.

4.18 Mitigation: During country strategy implementation, the IDB Group will: (i) identify at an early stage any budget item or expense related to projects affected by budgetary limits or inflationary or foreign-exchange effects, with a view to preparing mitigation plans that ensure good management of public resources, including equitable and effective revenue collection policies, in addition to care in spending and tools to detect and prevent fiscal risks; (ii) closely monitor project execution to identify potential changes in costs associated with foreign exchange and/or inflation issues, and determine the relevant action; (iii) monitor the trends in nontraditional economic sectors by means of high-frequency economic activity indicators; (iv) monitor the trend in the high-frequency economic activity indicator for nontraditional sectors; (v) implement climate change mitigation measures, such as energy matrix diversification to include renewable alternatives to hydropower, and adaptation measures, such as investment in climate resilient infrastructure. Within this framework, the IDB Group will continue to support the MEF in preparing its fiscal risk reports, which cover macroeconomic, public enterprise, social security, PPP, and climate risks.

ENVIRONMENTAL, CLIMATE AND SOCIAL RISK

4.19 Risks: The Paraguayan habitat is highly fragmented and degraded as a result of the historically intensive use of land and natural resources. Consequently, some of the interventions supported by the Bank could create a risk of additional, cumulative impacts on biodiversity and ecosystem services, including the country's carbon capture capacity. Paraguay continues to face a high risk of biodiversity loss due to land-use change and a production model predominantly based on the primary sector. At the same time, this represents an opportunity for the Bank's support to help strengthen ecosystem services and biodiversity through the recovery of degraded and deforested areas. In addition, the growing international demand for sustainable and/or responsible value chains in the agricultural, livestock farming, and forestry sectors poses a significant risk for sectors that fail to adapt to these new market requirements. Those who continue to rely on production systems associated with deforestation could face problems in obtaining access to international markets that are increasingly demanding in terms of sustainability. Furthermore, Paraguay is highly exposed to natural disasters such as floods and droughts and to increasingly severe fires; this could affect the implementation of projects, while certain Bank-supported projects could exacerbate the vulnerability of the beneficiary populations to these hazards. The public sector's limited institutional capacity to address these issues poses a risk to

the preparation and implementation of interventions supported by the Bank. Paraguay exhibits a high rate of social inequality at the local level, primarily in rural areas and the urban periphery, where the resident Indigenous and rural communities are for the most part made highly vulnerable by lack of access to basic services and violence against women. Some Bank-supported interventions could exacerbate existing vulnerabilities. In urban areas, there are interventions located in zones that are home to vulnerable populations and are prone to flooding. Meanwhile, the limited capacity of executing agencies to address social and environmental issues, coupled with the high turnover of their staff, poses a challenge in terms of compliance with environmental and social safeguards and with the performance standards under the new Environmental and Social Policy Framework. Risks could arise in the form of complaints from beneficiary communities in the event of delays in project implementation, lack of engagement, or inadequate management of expectations, potentially posing a challenge to the fulfillment of the strategy.

4.20 Mitigation: The country strategy will mitigate these risks by means of: (i) a sector-by-sector approach to implementing the country's commitments to the CDB and its NDC goals; (ii) support to the country in its actions to mitigate and adapt to natural disasters and climate change; (iii) strengthening the capacity of public institutions to implement the IDB Group Environmental and Social Policy Framework (ESPF) (GN-2965-23); (iv) promoting more sustainable and responsible supply chains to maintain export competitiveness and protecting biodiversity and ecosystem services (forest fire management, flood and drought control, water purification, rainfall regulation, and other services); (v) sustainable management of forest resources, which could be boosted through new investments in the pulp industry; (vi) equal opportunities, for women, people with disabilities, and the Indigenous population; (vii) sustainable, resilient, and inclusive infrastructure; and (viii) identifying and assessing risks associated with compliance with human rights (especially taking vulnerable groups into account), and if regulatory gaps are identified, proposing additional measures to address them as provided in Performance Standards 1, 2, and 7 of the ESPF. In addition, as part of the country strategy, efforts will be redoubled to increase civil society participation in the Bank's consultation processes.

EXECUTION RISKS

4.21 Risks: Four specific risks related to the implementation of operations have been identified. First, delays in parliamentary ratification of loans could affect the relevance and timeliness of the corresponding interventions. Second, the annual budget ceilings impose constraints on the contracting and payment processes, which could slow down procurement by the executing agencies. Third, the high turnover of key staff in the execution units could cause delays in project implementation. Lastly, the institutional weakness of executing agencies could affect compliance with the social and environmental safeguards in projects. The materialization of these risks could erode the achievement of project results, limiting their effectiveness and impact.

4.22 Mitigation: During implementation of the country strategy, the Bank will: (i) identify, jointly with the authorities, the potential effects of applying the budget ceilings in the case of operations financed through external loans, with a view to creating a shared understanding as to those effects and maintaining a suitable pace of execution; (ii) establish mechanisms for effective project closures; (iii) when appropriate, agree on project changes before approving disbursement period extensions to address implementation challenges and maximize the delivery of results; (iv) include more realistic implementation periods in line with past averages for the sector; (v) support the government in developing technical inputs to facilitate dissemination of IDB Group projects to stakeholders and help to accelerate parliamentary ratifications; (vi) implement periodic training on the new ESPF for project teams and institutions, covering identified critical issues of social and environmental compliance; (vii) ensure that the necessary socioenvironmental profiles are present in the loan contract teams to ensure compliance with the various socioenvironmental management plans; and (viii) provide ongoing monitoring and support for compliance with the established socioenvironmental plans and requirements, including joint visits to work sites.

ANNEX I – RESULTS MATRIX

Government priority	Strategic area	Strategic objective	Expected impact	Indicator ⁵⁶	Baseline	Source
Inclusive economic growth ⁵⁷ Poverty reduction and social development ⁵⁸	Consolidate an environmentally responsible economy	Expand the coverage of sanitation services	Broader coverage of sanitation services	Percentage of the population with sanitary sewer coverage	12.3% (2021) ⁵⁹	SIAP and INE ⁶⁰
		Promote efficiency in the energy sector, encourage diversification of the energy supply, and foster demand for clean energy	Improved efficiency in the electricity subsector	Percentage of losses in power transmission and distribution	28.5% (2023) ⁶¹	ANDE ⁶²
			Increased generation of nonconventional renewable energy	Installed nonconventional renewable energy capacity as a percentage of current installed energy capacity ⁶³	0% (2024)	MOPC/VMME ⁶⁴
			Reduced dependence on fossil fuels	Percentage of petroleum derivatives in the structure of end-use energy consumption	40% (2023)	
	Promotion of productivity, economic		Greater participation of women at management level of firms	Percentage of firms with woman at higher management	19,1% (2023)	World Bank ⁶⁷

⁵⁶ Indicators are nationwide unless geographically specified.

⁵⁷ The second strategic pillar of the PND (inclusive economic growth) envisages making rational use of primary resources. Specifically, it aims to bolster environmental capital, setting goals that include promoting renewable energy.

⁵⁸ The first strategic pillar of the PND (poverty reduction and social development) envisages addressing basic human needs, including universal access to drinking water and improved sanitation.

⁵⁹ The indicator baseline is calculated by dividing the number of individuals with access to sanitary sewers (895,010) by the total population (7,252,672).

⁶⁰ Sanitary Sewers: Paraguay Water Information System (SIAP). Available at <https://siaparaguay.ine.gov.py/indicadores/detalle/114> (in Spanish). Consulted on 23 October 2024. Population: INE. Open data – Population projections. Available at <https://www.ine.gov.py/microdatos/indicador.php?ind=16> (in Spanish). Accessed on 11 October 2024.

⁶¹ Power losses of 6,303,164 MWh out of 22,194,514 MWh of total delivered power.

⁶² ANDE, Dirección de Planificación. Dato administrativo del 2024.

⁶³ Paraguay's current installed energy capacity is 8,810 MW, broken down as follows: 7,000 MW from Binational Itaipú, 1,600 MW from the Yacyretá Binational Agency, and 210 MW from the Acaray Hydropower Plant. Available at <https://www.itaipu.gov.py/es/energia/comparaciones>, <https://www.eby.gov.py/datos-tecnicos/#:~:text=Yacyreta%20es%20una%20presa%20multiprop%C3%B3sito,litros%20de%20agua%20por%20hora> and https://www.ande.gov.py/documentos_contables/163/memoria_y_balance_2009_3.pdf (in Spanish). Consulted on 23 October 2024.

⁶⁴ VMME/SSME. National Energy Balance Sheet 2023. Available at: https://www.ssme.gov.py/vmme/pdf/balance2023/BEN%202023_Analitico%20VF.pdf (in Spanish). Accessed on 11 October 2024.

⁶⁷ World Bank Group, 2024. Enterprise Surveys: What Businesses Experience. Paraguay 2023. Country Profile. Disponible en <https://www.enterprisesurveys.org/en/data/exploreeconomies/2023/paraguay#gender>. Accessed on 12 November 2024.

<p>Inclusive economic growth⁶⁵</p> <p>Paraguay's adequate insertion into the World⁶⁶</p>	<p>diversification, and regional integration</p>	<p>Improve the business climate, boost private investment, and foster innovation</p>	Narrower human capital gap	Proportion of employers who report difficulties in finding workers with the required skills	38,0% (2019)	SINAFOCAL ⁶⁸	
			Greater credit allocation to nontraditional activities	Bank lending to the industrial sector as a percentage of total bank lending	9.0% (2024) ⁶⁹	BCP ⁷⁰	
			Greater credit allocation to MSMEs	Percentage of the bank loan portfolio allocated to MSMEs	22,7% (2024) ⁷¹	BCP ⁷²	
			Greater credit allocation to export firms	Foreign trade financing	US\$1,355,000 (2023)	Trade Finance Facilitation Program, IDB Invest	
			Greater adoption of technology and innovation	Percentage of businesses that introduce technological products or processes	62,6% (2021)	EIEP ⁷³	
				Percentage of businesses that introduce innovation in products or processes	77,4% (2021)		
			Increased productive sector resilience to climate change	Agricultural capacity score ⁷⁴	0,957 (2022)	GAIN ⁷⁵	
			Expand the coverage and enhance the resilience of the transportation infrastructure, and boost cross-border trade	Expanded coverage of ground transportation infrastructure	Paved roads as a percentage of total roads	13.1% (2023) ⁷⁶	MOPC ⁷⁷
				More resilient ground transportation infrastructure	Length of primary roads accessible year-round	2.063 km (2023)	

⁶⁵ The second strategic pillar of the PND (inclusive economic growth) envisages improving connectivity.

⁶⁶ The third strategic pillar of the PND (Paraguay's adequate insertion into the World) envisages the promotion of economic integrations. In particular, the aim is to facilitate investment, market access and technology transfer, as well as the competitiveness of the financial market.

⁶⁸ SINAFOCAL, 2020. Job demand and labor skills. Employment Observatory. Available at https://observatorio.sinafocal.gov.py/application/files/5816/0920/9113/TIC_2020_-_Informe_final_Version_para_impression.pdf. (in Spanish). Consulted on 14 October 2024.

⁶⁹ The indicator baseline is calculated by dividing lending to the industrial sector (G 12,623,582) by total lending (G 140,613,743). As of August 2024.

⁷⁰ BCP. Financial Statistical Bulletin - Banks. Credit by sector (in Spanish).

⁷¹ Date for March 2024.

⁷² Financial Statistical Bulletin. BUSINESSES. Available at <https://www.bcp.gov.py/boletines-de-empresas-11385> (in Spanish). Consulted on 22 October 2024.

⁷³ CONACYT. ICT indicators. Available at <https://www.conacyt.gov.py/indicadores-cti>. (in Spanish). Accessed on 11 October 2024.

⁷⁴ The agricultural capacity score under the food sector's vulnerability index is the average of the two best scores (lowest vulnerability scores) in terms of (i) quantity of fertilizer use; (ii) quantity of pesticide use; (iii) capacity to equip the farmed area with irrigation; and (iv) frequency of tractor use. This score reflects a country's capacity to acquire and deploy agricultural technology.

⁷⁵ Available at <https://gain.nd.edu/our-work/country-index/rankings/>. Accessed on 18 October 2024.

⁷⁶ The indicator baseline is calculated by dividing the length of paved roads (10,290 km) by the total length of roads (78,713 km).

⁷⁷ MOPC/VMT. Road Network. Available at <https://mopc.gov.py/red-vial/> (In Spanish). Consulted on 23 October 2024.

			Greater interoperability of international trade services	Scoring of the public services pillar for the international trade topic of the Business Ready ⁷⁸	57.54 (2023)	WB ⁷⁹
Poverty reduction and social development ⁸⁰	Strengthen social services	Strengthen access to the health care system and management of the system	Greater coverage of hospital services	Number of hospital beds	1.15: 1,000 inhabitants (2022) ⁸¹	MSPBS and INE ⁸²
			Better management of the health care system	Percentage of health care units that use the health information system	19.8% (2023) ⁸³	MSPBS ⁸⁴
		Reduce the quantitative and qualitative deficits in sustainable housing	Greater access to sustainable housing	Quantitative housing deficit, Asunción	3.9% (2019) ⁸⁵	EPHC ⁸⁶
			Narrower gap in housing quality	Qualitative housing deficit	53.3% (2022) ⁸⁷	
		Foster financial sustainability of the pension system ⁸⁸	Improved risk management in the public pension system	Percentage of pension funds subject to SJP prudential standards in risk and investment management	0,0% (2024)	MEF ⁸⁹
			Improved oversight of pension institutions	Number of retirement and pension institutions that submitted an adaptation plan to comply with the regulations issued by the SJP	0,0 (2024)	

Source: Prepared by the authors.

⁷⁸ The public services pillar for the topic of international trade is measured by the sum of the scores of the categories (i) physical and digital infrastructure, which is composed of three subcategories (i.1) electronic systems and interoperability of services; (i.2) transparency and availability of information; and (i.3) trade infrastructure; and (ii) border management, which is also composed of three subcategories (ii.1) risk management, (ii.2) coordinated border management; and (ii.3) accredited trader programs.

⁷⁹ Available at https://www.worldbank.org/en/businessready/economy/paraguay?topic=IThttps://www.aduana.gov.py/?page_id=14523. Consulted on 20 de November 2024.

⁸⁰ The first strategic pillar of the PND (poverty reduction and social development) envisages improving the delivery of quality social services and of adequate and sustainable housing.

⁸¹ The indicator baseline is calculated by dividing the number of hospital beds (7,028) by the total population (6,109,903).

⁸² MSPBS. Health Statistics. Coverage Indicators. Number of beds in health care facilities 2022. Available at <https://portal.mspbs.gov.py/digies/05-indicadores-cobertura/> (in Spanish). Accessed on 11 October 2024. INE. Final results of the 2022 National Census of Population and Homes. Available at <https://www.ine.gov.py/censo2022/> (in Spanish). Accessed on 11 October 2024.

⁸³ The indicator baseline is calculated by dividing the number of health care units that use the health information system (HIS) (300) by the total number of health care units nationwide (1,516).

⁸⁴ MSPBS. BAGP 2023. Percentage of health care units that use the HIS: (health care units with HIS implemented) / (health care units). The total number of health care units reflects the subtotals of family health units, hospitals, health care centers, health stations, and dispensaries.

⁸⁵ The indicator baseline is calculated by dividing the number of households with a quantitative deficit (5,449) by the total number of households (141,300), in both cases in Asunción.

⁸⁶ INE. Available at <https://www.ine.gov.py/microdatos/Encuesta-Permanente-de-Hogares-Continua.php>. (in Spanish). Accessed on 11 October 2024. IDB, 2024. Housing value chain in Paraguay. Available at <https://publications.iadb.org/es/cadena-de-valor-de-la-vivienda-en-paraguay> (in Spanish). Accessed on 11 October 2024.

⁸⁷ The indicator baseline is calculated by dividing the number of households with a qualitative deficit in the department of Central (240,955) by the total number of households in that department (535,551).

⁸⁸ Under Law 7235 of 2023 providing for the establishment of the Superintendency of Retirement and Pensions, this agency will issue general rules and prudential standards in the following areas: (i) corporate governance; (ii) prevention and management of conflicts of interest; (iii) oversight and audit; (iv) accounting, financial, and asset and liability valuation criteria; (v) financial statements and actuarial reports, and conditions for validating actuarial reports; (vi) transparency and information disclosure to members and beneficiaries, and retirement education; (vii) management of confidential information; (viii) comprehensive risk management; (ix) investments; and (x) adaptation plans for retirement institutions.

⁸⁹ The data will be generated by the Ministry of Economy and Finance, the supervisory entity for retirement funds.

ANNEX II – PORTFOLIO ALIGNMENT AND INDICATIVE PIPELINE 2025-2026

Strategic area	Strategic objective	Portfolio alignment	Pipeline 2025-2026
Consolidate an environmentally responsible economy	Expand the coverage of sanitation services and strengthen water resource management	PR-L1029, PR-L1094, PR-L1172, RG-L1134	- Third Program for the Construction of Water and Sanitation Systems in Rural and Indigenous Communities - Second Sanitation Program for Intermediate Cities in the Eastern Region of Paraguay
	Promote efficiency in the energy sector, encourage diversification of the energy supply, and foster demand for clean energy	PR-L1156, PR-L1173, PR-L1183	- Supplementary Financing for the CHA Rehabilitation and Modernization Program - Expansion of the High Voltage Transmission System and Institutional Strengthening (Phase III)
Promote productivity, economic diversification, and regional integration	Improve the business environment, boost private investment, and foster innovation	PR-L1146, PR-L1170, PR-L1070, PR-L1157, PR-L1097, PR-L1150, PR-L1153, PR-L1176, PR-L1185, PR-L1147, PR-L1148, PR-L1162	- Business Innovation Program II - Promoting Productive Financing in Paraguay - Strengthening the Agricultural Statistics System of Paraguay (FOSEA) - Guarantee Fund for Liquidity Platform - Strengthening and Innovation in Public Services for the Paraguayan Forestry Industry
	Expand the coverage and enhance the resilience of the transportation infrastructure, and boost cross-border trade	PR-L1080, PR-L1084, PR-L1092, PR-L1105, PR-L1139, PR-L1145, PR-L1164, PR-L1174	- Support for international insertion, promotion and trade facilitation of Paraguay (PR-L1182) - Reform program to strengthen logistics and trade integration in Paraguay (PR-L1188) - Program to improve rural connectivity and modernize road management in Paraguay (PR-L1196) - Project for the Improvement of the Bioceanic Corridor and regional Integration of the Chaco region (PR-L1200) - Metropolitan Corridor of the East Northern Section - Corridor of Integration and Socioeconomic Development in the Southwest Region
Strengthen social services	Strengthen access to the health care system and management of the system	PR-L1167, PR-L1190	
	Reduce the quantitative and qualitative deficits in sustainable housing	PR-L1082, PR-L1152	- Supplementation of resources for the rehabilitation and housing program of the southern district of Asunción
	Foster financial sustainability of the pension system		

Source: Prepared by the authors.

ANNEX III – COUNTRY SYSTEMS MATRIX

Strategic objective	Expected result	Indicator	Unidad de medida	Baseline	Base year	Main target	Period	Corporate Results Framework alignment
Increase the use of country systems	Increased use of the accounting and reporting subsystem	Active portfolio that uses the accounting and reporting subsystem	% of the active portfolio	0%	2023	12%	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the reverse auction subsystem	Active portfolio that uses the reverse auction subsystem	% of the active portfolio	21%	2023	40%	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
Strengthen country systems	Implementation of the new SIARE system	System developed	Implemented	0	2023	1	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Implementation of the action plan for IPSAS adoption	Progress in implementing the action plan (interventions supporting the action plan)	% progress in implementing the plan (# of interventions)	0	2023	1	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Approval for use of the framework agreement / DNCP virtual store procedure	Evaluation of the DNCP procedure for online procurement of goods and services, linked to the virtual store (electronic catalogue)	Evaluation performed	0	2023	1	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Challenges and opportunities to improve the SNCP identified	Evaluation of the SNCP, using updated MAPS methodology	Evaluation performed	0	2023	1	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality

* The increase in the use of the accounting and reporting subsystem in IDB projects will depend on progress in project PR-L1150.

Source: Prepared by the authors.

ANNEX IV – ESTIMATED LENDING FRAMEWORK

The sovereign guaranteed lending framework provides for approvals of US\$1.220 billion between 2025 and 2029, determined on the basis of the country's financing needs,⁹⁰ strategic dialogue with the authorities, and operational dialogue maintained by the sectors working in the country. The IDB Group will continue to provide technical support in the strategic areas and explore loan opportunities in local currency to reduce exchange rate risk. To expand the reach of the results, the IDB Group will also explore fostering financing through the national development banks and subnational service providers and will seek to leverage resources through strategic partnerships. These resources will be added to the IDB Invest and IDB Lab amounts for Paraguay for the country strategy period. In addition to positioning the Bank as a strategic partner in terms of technical support and knowledge generation for the country, the expected approvals and respective disbursements should allow the Bank to maintain a share of 19% to 21% of the country's total debt and of 22% to 24% of the total external debt.

Millones de dólares	2019-2024 Strategy							2025-2029 Strategy					
	2019	2020	2021	2022	2023	2024	Total	2025	2026	2027	2028	2029	Total
Approvals	565	690	293	710	210	309	2,777	260	300	250	200	210	1,220
Disbursements	298	815	243	740	270	415	2,782	458	462	424	346	250	1,940
Principal repayment)	83	88	89	90	82	72	504	181	215	302	289	301	1,288
Net capital flows	215	727	154	650	188	343	2,277	277	247	123	57	(51)	653
Subscriptions and contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and fees	56	54	48	74	149	94	475	205	208	201	191	178	982
Net cash flow	159	673	106	577	40	249	1,803	72	39	(78)	(134)	(229)	(330)

Deuda BID	1,669	2,393	2,541	3,184	3,368	1,892	3,988	4,234	4,357	4,414	4,363
Deuda BID/deuda multilateral (%)	56%	51%	47%	48%	45%	48%	52%	55%	57%	57%	57%
Deuda BID/deuda externa (%)	23%	23%	22%	24%	23%	24%	26%	27%	28%	29%	28%
Deuda BID/deuda total (%)	19%	20%	19%	21%	20%	21%	22%	24%	24%	25%	25%

Notes:

- Interest projections are calculated on the basis of the rate in effect as of 30 September 2024.
- There are no payments for subscriptions and capital contributions.

⁹⁰ From 2025 to 2029, the government's gross financing needs will, on average, be 4% of GDP. The planned disbursements will cover approximately 4% of the government's gross financing needs during the country strategy period. The projections of financing needs were taken from the 2024 Article IV Consultation Staff Report.

ANNEX V – DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Executive Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the “Good Practice Standards for Country Strategy and Program Evaluation.”

COUNTRY STRATEGY: PARAGUAY

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the country strategy (CS) are consistent with the country development challenges and with the government’s development plans and priorities.

EFFECTIVENESS

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and buildup of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete.	Yes
- The CDC clearly identifies the main development challenges.	Yes
- The CDC presents the main development challenges that are based on empirical evidence.	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area’s specific constraints and challenges.	100%
- That clearly identify and assess, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges.	100%
- That provide corresponding policy recommendations.	100%
III. Results Matrix**	%
- The strategic objectives are clearly defined.	100%
- The expected outcomes are clearly defined.	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the diagnosis.	100%
- The indicators are outcome indicators and are SMART.	100%
- The indicators have baselines.	100%
IV. Vertical Logic	Yes/No
- The CS has vertical logic.	Yes

* This analysis includes any potential diagnostic document used and prepared to inform.

** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

DIAGNOSTIC ASSESSMENT

As part of the Bank's Strategy in Paraguay 2025-2029, a diagnosis of the country's development challenges was presented. The diagnosis is comprehensive and based on empirical evidence. Through discussions and the process of dialogue with the country, the strategy will focus on three development challenges: (i) Consolidation of an environmentally responsible economy; (ii) Promotion of productivity, economic diversification, and regional integration; and (iii) Strengthening social services in pensions. Based on empirical evidence, the diagnosis clearly identifies and measures the main limitations and challenges of the priority areas. It clearly identifies the main factors or causes that contribute to the specific limitations of the priority areas. It provides specific policy recommendations for the priority areas, including the Bank's strategic objectives. Results matrix. The results matrix contains 7 strategic objectives for the Bank's action and 20 indicators to measure progress towards the proposed objectives. 100% of the strategic objectives are clearly defined. 100% of the expected results are clearly defined. 100% of the strategy objectives are directly related to the main challenges identified in the diagnosis. 100% of the indicators used are results-based and SMART. 100% of the indicators have baselines. National Systems: Fiduciary oversight currently relies on the following national systems: (i) Public Financial Management System: Budget, Treasury, Accounting and Reporting (except the reporting subsystem which is not used to account for IDB-financed Projects), Internal Audit and External Audit; (ii) Procurement: all subsystems were approved for advanced use: Information System; goods and services other than consulting; and consulting services, up to the Bank's limit amounts for international public bidding; and Individual Consulting with no cost limit.

RISKS

The main risks during the implementation of the Country Strategy are: (i) macroeconomic risks; (ii) natural disaster risks; (iii) political risks; (iv) execution and institutional capacity risks. Mitigation and monitoring measures have been identified for all risks.
