

Report No. 22874

Paraguay Country Assistance Evaluation

September 17, 2001

Operations Evaluation Department



Document of the World Bank

Abbreviations and Acronyms

CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
EBY	Entidad Binacional Yacyreta
ESW	Economic and sector work
EXIMBANK	Export-Import Bank of Japan
FG	Fondo Ganadero
FONPLATA	Fondo para la Cuenca de la Plata
GDP	Gross Domestic Product
GNP	Gross National Product
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agriculture and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
MOPC	Ministry of Public Works and Communication
OECD	Overseas Economic Cooperation Fund (Japan)
OED	Operations Evaluation Department
OPEC	Organization of Petroleum Exporting Countries
UNDP	United Nations Development Program

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
Director, Operations Evaluation Department	:	Mr. Gregory K. Ingram
Manager, Country Evaluation & Regional Relations	:	Mr. Ruben Lamdany
Task Manager	:	Ms. Laura Kullenberg
Peer Reviewers	:	Mr. René Vandendries
		Mr. Luis Ramirez
		Mr. Warren Van Wicklin

September 17, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

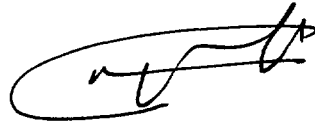
SUBJECT: Paraguay Country Assistance Evaluation

This Country Assistance Evaluation (CAE) examines World Bank assistance to Paraguay from 1989–99. Until the mid-1980s, Paraguay experienced long periods of sustained growth based on expansion of agricultural production, and later, construction of the massive Itaipu dam. It is also a transshipment point for unrecorded trade with its neighbors. However, by the mid-1980s, Paraguay entered into a period of macroeconomic crisis. In 1989 the 35 year dictatorship of General Stroessner ended in a military coup. The incoming government initiated a series of reforms but still faced serious economic and governance challenges. Agricultural expansion was approaching physical and environmental limits. The country's financial institutions were fragile, public sector management was poor, the legal framework weak and poverty and social unrest were growing concerns. These problems have worsened and the situation today is even more precarious; the fiscal situation has deteriorated, growth has stagnated, corruption persists, the banking sector crisis is not fully resolved. Structural reform remains politically contentious and little progress has been made in modernizing the country's economy or institutions.

The Bank had a modest program in Paraguay from 1952 until 1984 when it suspended lending due to disagreements over macroeconomic issues. With the change of Government in 1989, the Bank launched an intensive program of ESW and project preparation. Two projects were approved in 1992, followed by a Country Assistance Strategy (CAS) in 1993 which focused on: (i) private sector development; (ii) agricultural development and natural resource management; and (iii) poverty alleviation and human resource development. Nine loans totaling US\$349.8 million were approved between 1992–97, five of these are now considered problem projects. The 1997 CAS adopted a more cautious approach, recommending a maximum of two projects per year (US\$50 million), conditional upon significant improvement in portfolio performance and satisfactory management of the fiscal deficit. These conditions have not been met and no new lending has taken place since 1997. The Bank experienced a low point in country relations after lingering environment and resettlement problems associated with the Yacyreta hydroelectric project prompted an Inspection Panel review in 1997.

OED considers the overall outcome of Bank assistance in the past decade unsatisfactory. Projects approved since 1992 have had serious difficulties, due mainly to governance conditions. When the Bank resumed lending, it outlined specific economic and governance reforms needed to move the country onto a path of sustainable development. However, ultimately there was insufficient social and political ownership for fundamental reform. In hindsight, the 1993 CAS was overly optimistic about the potential for reform and implementation capacity in the country,

and the Bank may have rushed too quickly in committing loans (e.g., the triggers and selectivity measures proposed in the 1997 CAS might have been more effectively applied earlier). Given the above, and the Bank's past and present difficulties in achieving ownership goals, the institutional development impact of Bank assistance is also considered negligible and its sustainability unlikely. In sum, experience indicates that Bank lending to Paraguay has limited impact as long as the authorities do not undertake the minimum reforms needed to get on a track of sustained growth and poverty reduction. Management's decision to reduce funding in 1997 was appropriate and is fully supported by OED. However, given the lack of progress since that time, the question remains whether in its next CAS the Bank should reduce its assistance further pending a clearer signal of Government interest in reform.

A handwritten signature in black ink, consisting of a large, stylized initial 'M' followed by several horizontal strokes and a final upward-pointing stroke.

Contents

1. Background	1
Evolution of Paraguay's Economy	1
Governance Conditions.....	2
Poverty and Social Conditions.....	3
The Ongoing Financial Crisis	4
Recent Economic Performance.....	5
Current Outlook	5
2. Bank Assistance	6
The Bank's Operational Experience	6
The Bank's Country Assistance Strategy	8
The Current Portfolio.....	8
The Yacyreta Problem	10
3. Evaluation of Bank Assistance	12
4. Lessons for the Future	14

Tables:

1.1 Selected Macroeconomic Indicators 1992–98	5
2.1 Multilateral and Bilateral Financing as of July 31, 1996.....	6
2.2 Paraguay – Active Portfolio Disbursement Lag	9

Annexes

1. Bank Assistance 1952–84: Sectoral Lessons and Outcomes	15
2. Performance of Current Portfolio	17
3. Statistical Information	
Table 1. Paraguay at a Glance.....	22
Table 2. Paraguay – Gender Profile.....	24

The Government of Paraguay has reviewed this document and provided written comments stating it has no objections to the Evaluation's analysis and findings. The Government's response is included as Attachment A. This report was prepared by Laura Kullenberg with David Greene (Consultant). Kevin Lumbila provided statistical information. Norma Namisato provided administrative support.

Contents (cont.)

Table 3.	Paraguay – Social Indicators.....	25
Table 4.	Paraguay – Key Economic Indicators, 1988–97.....	26
Table 5.	Paraguay: ESW List (1991–99).....	27
Table 6.	Paraguay: OED Summary, FY91–FY99.....	28
Table 7.	OED Ratings, Disbursement by Sector, FY91–FY99	29
Table 8a.	Paraguay: World Bank Project Ratings, FY92–FY99 (sorted by sector).....	30
Table 8b.	Paraguay: World Bank Project Ratings, FY69–FY99 (sorted by sector).....	31
Table 9.	Paraguay: Active Projects Portfolio.....	33
Table 10.	Paraguay: Public Expenditure in Social Sectors.....	34
Table 11.	Bank Management for Paraguay: 1990–99.....	35
Table 12.	Paraguay: Comparative Lending Costs for Selected Countries, FY90–FY99	36

Attachments

A.	Letter from the Ministerio de Hacienda of Paraguay.....	37
B.	Management Action Record.....	39

1. Background

Evolution of Paraguay's Economy

1.1 Paraguay is a small country of 5.2 million people and a per capita GNP of US\$1,760 (1998). Landlocked between Argentina, Bolivia and Brazil, Paraguay's political and economic history have been heavily influenced by its relationship with its neighbors. The economy is dominated by agriculture. Paraguay's informal economy is estimated to be as much as half the size of its official one and a significant amount of economic activity, (particularly border trade) occurs outside the legal framework. Paraguay had one of the best records of economic growth in Latin America between 1960–92, during which time GDP increased by an average of 5.9 percent per annum. This performance was attributed to four factors: abundant land for agricultural expansion, development of the country's considerable hydroelectric resources, a *de facto* open economy and a small public sector. The evolution of Paraguay's economy can be roughly divided into three phases:

1960s and 1970s: Strong economic growth . . .

1.2 During the 1960s and 1970s, the Paraguayan economy experienced relatively high rates of economic growth coupled with low inflation. Agricultural expansion was an important source of growth and during the 1960–70s land under cultivation expanded rapidly, with cotton and soybeans emerging as important export crops. Paraguay's growth also reflected the influence of triangular trade with its neighbors. Some of this trade is legal: goods are imported into Paraguay, low Paraguayan tariffs are paid, and the goods are then sold to "tourists" from Brazil and Argentina. However, some of the merchandise is smuggled into Paraguay and/or smuggled from Paraguay into Brazil and Argentina. It is very difficult to estimate the value of this trade, or its trend, but the Bank's 1999 Country Economic Memorandum (CEM) estimated that the value added from "tourist trade" and smuggling was equivalent to 25 percent of GDP. Although profitable, this activity is not an unmixed blessing. As the CEM notes, smuggling encourages corruption, affects governance and encourages other illegal activities (such as money laundering).

1.3 Paraguay's growth accelerated in the 1970s with the stimulus provided by Brazil's construction of the Itaipu hydroelectric project on the Parana River, the largest hydroelectric project in the world at the time.

1980s: Recession, inflation, macroeconomic problems . . .

1.4 However, with completion of the major works on the Itaipu dam in the early 1980s and economic problems in Argentina and Brazil, Paraguay slid into recession. The Government attempted to offset the recession through expanded spending. Rather than stimulating economic growth, the increased external and domestic borrowing that financed over-dimensioned, unprofitable projects led to accelerating inflation and debt service problems. Medium and long-term debt increased from 15 percent of GDP in 1981 to 62 percent in 1987.

1.5 This led the Government to stop servicing some of its external debt. Domestic credit to the Government was expanded at a rate of over 25 percent a year during 1978–84, contributing to

inflation. Consumer price increases, which had been in the 10 percent annual range, accelerated to 20–30 percent. Ceilings on interest rates resulted in financial disintermediation. The Government instituted a multiple exchange rate system wherein exporters were required to surrender part of their foreign exchange earnings at below market prices, and the Central Bank sold foreign exchange to favored importers at even lower rates. This policy resulted in inflationary Central Bank losses, skewed incentives against exports and encouraged corruption. The Bank strongly disapproved of the economic policy regime, especially multiple exchange rates and halted disbursements on existing loans from 1985–87.

1989: End of Stroessner Era, transition to democracy . . .

1.6 In February 1989, the 35-year dictatorship of General Stroessner was brought to an end as his military aide, General Rodriguez, deposed him. General Rodriguez initiated a process of political liberalization and was elected President later that year on the promise to return the country to full democratic rule in 1993. Macroeconomic policy and management improved. Exchange rates were unified and the foreign exchange market was liberalized. The new Government implemented a fiscal reform program involving tax increases, cuts in capital outlays and improvements in the finances of public enterprises. Public sector accounts swung from a deficit of three percent of GDP in 1988 to a surplus of almost five percent in 1991. A new tariff code was passed in 1992, simplifying and reducing tariffs. Paraguay joined the regional common market, Mercosur.¹ Financial reforms included liberalizing most interest rates, abolishing most selective credit controls, and reducing reserve requirements and making them more uniform.

1.7 These policies restored a modicum of macroeconomic stability, inflation declined, external arrears were eliminated and foreign exchange reserves increased. In 1992, agreement was reached with external creditors on settlement of arrears and resumption of debt service payments. However, the economic and political reforms of the early 1990s did not presage an era of political stability and economic growth. In fact, after a relatively few years, Paraguay became mired in political turmoil, financial crises and economic stagnation.

Governance Conditions

1.8 A new democratic constitution was promulgated in 1992 and in May 1993, Juan Carlos Wasmosy, supported by the Army and part of the Colorado party, was elected President in the first fully open election in more than two generations. However, the opposition won control of both houses of Congress. In April 1996 the army chief General Lino Oviedo failed in an attempt to overthrow President Wasmosy. Despite this, Oviedo was nominated to be the Colorado party's presidential candidate in September 1997. A few months later he was arrested on charges relating to his coup attempt and was sentenced by a military court to ten years' imprisonment. He was replaced as the Colorado presidential candidate by Raul Cubas Grau, who was elected President in 1998 with the Colorado party regaining control of Congress. Shortly after his election, President Cubas commuted Oviedo's sentence and ordered his release. As a result, the Colorado party was badly split, with the party's president, Vice President Luis Argana leading the faction that opposed Cubas.

¹ Members of Mercosur include Argentina, Uruguay, Paraguay and Brazil.

1.9 In March 1999 Vice President Argana was assassinated, President Cubas resigned and General Oviedo went into exile in Argentina. In accordance with the Constitution, the President of the Senate, Luis Gonzales Macchi, became President, forming a coalition cabinet with the opposition Liberal party, but nevertheless dominated by the Arganistas, including the Stroessner old guard—a populist group favoring employment creation through public works, forgiveness of agricultural debt and free distribution of seed. The Colorado party controls Congress but remains split between Arganistas and Oviedistas. In January 2000, the Liberals left Government, (thus ending the coalition government of “national unity”), due to displeasure with the slow pace of reform.

1.10 The ongoing political uncertainty is exacerbating Paraguay’s underlying governance problems. Policy making is not always transparent. The country’s legal and institutional framework is weak, leading to evasion and selective enforcement of laws and regulations. The absence of clear and appropriate procurement procedures hampers the effectiveness of development projects. Paraguay is perceived as having a serious problem of corruption. For example, Transparency International’s 1999 survey of businessmen’s perceptions ranked Paraguay as one of the ten most corrupt of the 99 countries rated, in a three way tie with Yugoslavia and Kenya. The Government has recently started an anticorruption program with assistance from the World Bank Institute.

Poverty and Social Conditions

1.11 The lack of data on rural incomes and expenditures has made it difficult to discern the true extent of poverty in Paraguay. The Bank’s 1994 Poverty Assessment characterized poverty as “surprisingly low, lower than in most Latin American countries, including many with higher per capita income.”² Poverty estimates based on data for the Asuncion metropolitan area indicated a 20.5 percent overall poverty rate, 19.7 percent for urban areas and 28.5 percent for rural areas within the Asuncion metropolitan area. However, Asuncion accounted for only 12 percent of the country’s total population in 1992 and the Bank’s assessment probably underestimated the extent of the problem.

1.12. The Economist Intelligence Unit Country Profile 1998/9 was less sanguine about the poverty situation. It characterized Paraguay as a country where economic power has traditionally been in the hands of a small cattle ranching and trading elite based in Asuncion and 70 percent of the population live in poverty as peasant farmers or underemployed shantytown dwellers. It cited a 1996 report prepared by the Secretariat for Social Action, part of the Office of the President, as indicating that 85 percent of the poor are living in absolute poverty in rural areas. It also cites a recent government report as indicating that 81 percent of households lack sewerage, 57 percent lack running water and 49 percent have no electricity.

1.13 Bank documents³ suggest poverty is a result of several factors, including high population growth rates, sluggish economic growth, isolation, lack of rudimentary infrastructure, a highly skewed pattern of land holding (with a large number of small, economically marginal units divided under population pressure), a growing number of landless and dependence on

² “Poverty and the Social Sectors in Paraguay: A Poverty Assessment” (Report No. 12293-PA, 6/94).

³ Paraguay Country Assistance Strategy, March 6, 1997.

monocrops. The highest rates of poverty are found in households that have low levels of education, are located in rural areas, are headed by women where only Guarani is spoken.

1.14 Expression of social discontent is also growing. Widespread peasant protests in February 1994 drew public attention to the growing problem of landlessness, an issue that had been suppressed during the Stroessner era. In addition, there was a general strike by urban workers in May 1994, a 48-hour strike in May 1996, and demonstrations by workers and farmers in 1997. In 1999/2000 frequent strikes protesting privatization took place in addition to several invasions of large rural properties by landless peasants whose intention was to exploit the remaining timber resources on the land.

1.15 Although social sector spending is low relative to GDP, social indicators are generally good. Access to primary education is almost universal and both infant mortality and chronic malnutrition appear to be very low. This is often attributed to Paraguay's abundance of land and traditions of self help and strong community participation in service delivery. However, some social indicators are quite poor and indicate the need for aggressive action: maternal mortality is high, the quality of primary education is poor, secondary school enrollments are low, and coverage of water and sewerage services is poor. Primary dropout rates are high; only 58 percent of the children who enrolled in 1990 completed the five-year cycle by 1995. Paraguay also has a poor health profile. Preventable diseases are widespread, reflecting poor sanitation, nutrition and environmental conditions (river pollution).

1.16 Another source of poverty data, the 1999 UNDP Human Development Report, ranks Paraguay 84th out of 174 countries on its Human Development Index (the index averages life expectancy, education attainment and adjusted real GDP). Paraguay ranks somewhat higher—74th—on the Gender Development Index which adjusts a country's HDI rating in accordance with the disparity between men and women.

The Ongoing Financial Crisis

1.17 Since 1995, Paraguay has suffered a series of financial crises that have undermined confidence in the banking system, had substantial fiscal costs and impaired overall economic performance. The proximate cause of the continuing crisis was the liberalization and deregulation of financial markets in 1989 within a deficient legal and regulatory framework. (IMF Staff Country Report No. 98/15 Paraguay: Selected Issues and Statistical Annex, February 1998.) However, interest rate ceilings, subsidized, directed credit, high reserve requirements and non-performing loans to state enterprises during the Stroessner administration had already weakened the financial system.

1.18 Lax entry requirements led to a proliferation of new banks, many of which were undercapitalized. Inadequate supervision allowed an entrenchment of poor banking practices and led to mounting loan delinquencies, liquidity problems and the ultimate insolvency of a number of commercial banks. A first crisis occurred in May 1995, when the Central Bank intervened in four insolvent banks and a number of smaller financial institutions due to their inability to clear overdrafts with the Central Bank. The interventions uncovered many fraudulent activities, including lending to related parties and sizable unrecorded deposits. The Central Bank action led to a substantial withdrawal of deposits from private domestic banks. A run on the

system was avoided due to the presence of other, largely foreign-owned banks that were perceived to be safe, and to a large interjection of liquidity by the Central Bank. However, the clean up of the financial system was not completed and institutions with significant deficiencies were allowed to continue operating.

1.19 The lingering effects of the 1995 financial crisis resulted in a new crisis in June 1997. The Central Bank was forced to intervene in the largest savings and loan institution and the largest domestic private commercial bank, due to their inability to honor depositor claims and cover overdrafts to the Central Bank. These interventions triggered a run on deposits. Calm returned after passage of legislation raising deposit insurance limits. Supervision was increased and some banks were recapitalized, but regulation continued to be lax. In September 1998 the Central Bank was forced to intervene with three more banks because of liquidity problems. The IMF estimated the total cost of banking rescue operations to be one billion dollars,⁴ (more than 11 percent of GDP) and the crisis is still not fully resolved.

Recent Economic Performance

1.20 The combination of the financial crisis, the reduction in triangular trade, and the exhaustion of opportunities for further agricultural expansion, coupled with the unsettled political situation has resulted in a substantial deterioration of macroeconomic performance since 1995. GDP growth has decelerated, averaging less than 1.5 percent per year over 1995–98 (nonagricultural GDP has grown by less than 1 percent per year). The fiscal position has deteriorated. The consolidated public sector surplus equivalent to 2.5 percent of GDP in 1995 slid into a deficit of 1.2 percent in 1998. Inflation has accelerated, with CPI increasing by 14.3 percent in 1998, reversing the stabilization of the previous two years. International reserves have declined from a high of 3.7 months of imports in 1994 to 2.5 months in 1998.

Table 1.1: Selected Macroeconomic Indicators 1992–98

	1992	1993	1994	1995	1996	1997	1998
GDP growth (%)	1.8	4.1	3.1	4.7	1.3	2.6	0.6
CPI increase (%)	15.5	18.3	20.6	13.4	7.8	7.0	14.3
Public sector balance (%) GDP	0.0	1.1	1.5	2.5	1.7	-0.8	-1.2
Non-performing loans as % of credit to private sector	4.5	4.5	4.7	6.8	7.6	13.3	
Months foreign exchange reserves	3.4	2.7	3.7	2.7	2.4	2.0	2.5

Source: IMF.

Current Outlook

1.21 The Economist Intelligence Unit⁵ suggests that long-term growth could rise to above five percent a year in the medium term and that stability prospects are good if: (i) authorities follow prudent macroeconomic policies, particularly with respect to fiscal and financial management; (ii) terms of trade do not deteriorate further; and (iii) regional growth remains strong. But the EIU report also predicts that Paraguay's political infighting and conflicts with its neighbors could threaten the fragile coalition government as well as future economic prospects. It warns

⁴ IMF, Paraguay Recent Economic Developments, December 22, 1998.

⁵ EIU Business Outlook Paraguay, 15 November 1999.

that officials may continue to placate powerful interest groups and implement one-off measures to stimulate economic growth rather than address needed structural and fiscal reforms.

2. Bank Assistance

2.1 The Bank has not played a major role in Paraguay. Paraguay is one of the few Bank clients that has had no adjustment operation (or Fund program), no consultative group or donor coordination mechanism, and until 1998, no Bank resident mission. The Bank is only the fourth largest official lender in Paraguay, following the Inter-American Development Bank, OECF Japan,⁶ and Taiwan. On a per capita basis, Paraguay has been the largest recipient of Japanese aid in Latin America. Lending by Taiwan has been expanding rapidly, pushing the Bank into fourth place. IDB is by far Paraguay's largest donor, accounting for nearly one third of total multilateral and bilateral borrowing. Its program is more than twice the size of the Bank's and covers most of the areas for which Paraguay requires foreign assistance. A slow rate of disbursement is evident across all donors' programs. IFC's experience to date has not been positive; all of its previous investments—the last being in 1986—had to be restructured or sold at a partial loss and IFC currently has no portfolio in the country.

2.2 Since lending began in 1952, IBRD/IDA lending has typically involved one or two operations per year and there have only been 42 operations in total: 36 by IBRD (US\$807.9 million) and 6 by IDA (US\$45.5 million). IDA lending ended in 1977.

Table 2.1: Multilateral and Bilateral Financing as of July 31, 1996

	<i>Total Approved Loans</i>	<i>Total Disbursed</i>	<i>Total Undisbursed</i>	<i>Percent Undisbursed</i>
(US\$ million)				
IDB	746.0	170.0	576.0	77
OECF (JBIC)	376.0	155.0	221.0	59
IBRD	288.0	47.5	240.5	84
KFW	34.1	0.2	33.8	99
Other	171.6	16.3	155.3	91
Total	1,615.7	389.0	1,226.6	76

Source: Technical Planning secretariat and IDB.

Other includes: FONPLATA, Japan EXIMBANK, OPEC, IFAD, and EIB.

The Bank's Operational Experience

1952–84: The Early Years . . .

2.3 From 1952 to 1984 the Bank approved a total of 33 projects. Operational activity was consonant with the country's ongoing land-intensive development and weak transport infrastructure. Lending centered on regional agricultural development, transportation, education, water supply and sanitation, and industrial credit. The result of assistance during this era was mixed; as a broad generalization project implementation was slow and although physical

⁶ OECF is now called JBIC after a merger with JEXIM.

objectives were generally achieved, institution-building efforts were less successful. Investments in livestock and agriculture tended to favor larger farmers over small holders, even despite attempts to target the latter. The outcomes of eight of the 27 completed projects rated by OED were rated unsatisfactory (see Table 8b in Annexes). Poor project performance reflected weaknesses in counterpart institutions. However, underlying this were more general problems of poor governance. The few bright spots were in education and rural water supply, where projects built successfully on Paraguay's strong tradition of community participation. A detailed description of project outcomes and sectoral lessons is found in Annex 1.

Hiatus in Bank Operations . . .

2.4 There was a hiatus in Bank operations between 1984 and 1992. Disbursements against local currency expenditures were halted from August 1985 to January 1987 because of the heavily overvalued exchange rate being applied to local currency disbursements. In 1984, the Bank suspended lending to Paraguay due to disagreements on macroeconomic issues.

The Bank Resumes Operations . . .

2.5 The end of the Stroessner regime and the political and economic reforms that followed provided new opportunities for involvement and in 1989 the Bank resumed preparation of new projects and launched an intensive program of economic and sector work (ESW) to update its knowledge base and restart its policy dialogue with the Government. The key pieces of ESW have been three CEMs (1991, 1994, and 1999), the Agricultural Sector Report of 1995, the report on The Role of the State of 1996 and the Policy Note of 1998. **The CEMs of 1991 and 1994** were important in providing warnings about the weaknesses of the financial system and the need to improve bank supervision and regulation. The 1991 CEM pointed out that to avoid political crisis and economic decline, the Government would need to maintain macroeconomic stability, shift agricultural policy, invest in transport infrastructure, improve financial sector regulation and supervision, unify tariffs to prepare for entry into Mercosur, improve management of public enterprises (including privatization), and reform the tax system.

2.6 The **1994 CEM** was prepared in light of the improved macroeconomic management and performance that began in 1989. It made a number of suggestions for sustaining growth and paid specific attention to monetary management and the health of the financial system. The **1995 Agricultural Sector Review** was a seminal document in pointing out that the incorporation of new land into agriculture had almost reached its limits and that a fundamental change in strategy was required to promote intensified, sustainable resource use.

2.7 The **1996 report on the Role of the State** was another breakthrough document, the first specifically drawing attention to governance issues. It pointed out that there had been little change in public sector norms and practices since the events of 1989. The report urged that public officials be held accountable for their actions and that control over use of public funds be strengthened to reduce opportunities for public servants to make improper personal gains. The **Green Cover Policy Note** was issued in **1998** to provide the new (Cubas) administration with the views of the Bank on key development issues facing the country. The impact of the Policy Note was limited as President Cubas resigned six months after it was issued. The **1999 CEM** focused on the macroeconomic policies required for reactivating growth.

2.8 In sum, the Bank's ESW was well focused and often prescient. Its investment in dissemination stimulated public debate, particularly on the need for reform. However, most of the Bank's recommendations have not been adopted by Government.

The Bank's Country Assistance Strategy

2.9 The Bank resumed lending in 1992 with the approval of two projects.⁷ A Country Assistance Strategy (CAS) followed in 1993, proposing a US\$270 million program for FY94–97 focusing on: (i) private sector development (45 percent of lending); (ii) agricultural development/natural resource management (35 percent); and (iii) poverty alleviation/human resource development (20 percent). The CAS established policy goals in each sector of Bank involvement and flagged risks to the proposed program, namely that the government might not be able to pass key legislation upon which projects were dependent. A total of nine loans (US\$349.8 million) were approved between 1992–97. The majority of these have experienced serious implementation problems.

2.10 A transitional CAS followed in 1997 (with a full CAS scheduled for 1999). The 1997 CAS focused on short-term objectives that were feasible within Paraguay's institutional and policy constraints. It recognized that the risks identified in 1993 were still largely in place and that the deteriorating political situation made reform unlikely. It recommended a cautious "base-case" funding strategy with a maximum of one or two projects approved per year (up to US\$50 million annually) subject to improved implementation of the existing portfolio. Projects were to be poverty-oriented, smaller and simpler with an emphasis on piloting. In view of the importance of continued macroeconomic stability, further lending was conditioned on the Government maintaining the deficit below two percent of GDP. To improve project management, the CAS recommended annual reviews and establishing a Resident Mission to provide continuity between missions. No new loans have been approved since 1997.

2.11 Both the 1993 and 1997 CAS documents had poverty alleviation objectives, and the 1997 CAS recommended a near exclusive focus on poverty-oriented investments targeted to areas where the poor reside. Reliable poverty data on Paraguay is scarce. Neither CAS contained a thorough analysis of poverty conditions or a specific, monitorable poverty reduction strategy. However, a significant share of the investments approved between 1992–97 were directed to poverty-oriented social sectors such as rural water supply and education where the Bank had achieved results in the past. The Bank's 1994 Poverty Assessment appears to have underestimated the extent of the poverty problem nationwide and the 1997 CAS recommended further analytical work on poverty to strengthen the data base for future investments. Gender issues were also covered lightly in the two Country Assistance documents (though neither CAS contained a specific analysis of gender concerns or a strategy for addressing them).

The Current Portfolio

2.12 From 1992–1997 the Bank approved nine operations totaling US\$349.8 million. These projects built on successful initiatives of the past (i.e., Rural Water Supply and Secondary Education) or involved new approaches to sectors where past project performance was less than

⁷ Land Use Rationalization (US\$29 million) in March 1992 and Third Rural Water Supply Project (US\$22.9 million) in September 1992.

successful. These include: (i) the Land Use Rationalization and Natural Resources Management projects which constitute a new paradigm for rural development; (ii) the Eighth Highway project with its new approach to improving transport sector management; and (iii) the Private Sector Development project which aimed to strengthen the financial sector. The portfolio also expanded to include sectors where the Bank had not previously been active—i.e., the urban-based Asuncion Sewerage project and the Maternal Health and Child Development project.

2.13 As of May 2000, only one of the nine projects in the portfolio has closed and five of the remaining operations are considered to be problem projects. Two projects—Private Sector Development and Asuncion Sewerage—have been restructured. Implementation and procurement delays, frequent changes in project management staff and poor compliance with project related-actions have been problems across the portfolio. The 1997 CAS lists the principal causes of these problems to be weak public sector capacity, lack of familiarity with Bank procedures and the institutional complexity of projects. A detailed description of the performance of individual projects is found in Annex 2.

Table 2.2: Paraguay – Active Portfolio Disbursement Lag

	<i>Months</i>	<i>Percentage</i>
Land Use Rationalization	73	60
Asuncion Sewerage	29	67
Secondary Education	8	25
National Resource Management	11	35
Maternal and Child Health	17	65
Highways VIII	18	42
Rural Sanitation	15	100
Private Sector Development	6	10

Note: Cumulative actual disbursements compared to appraisal estimates.

2.14 In December 1998 the Bank's Regional Vice President (LAC) announced by letter that the Bank would not prepare new lending until there were improvements in the performance of the existing portfolio and in implementing the outstanding actions agreed to in the Yacyreta hydroelectric project (see Yacyreta below). Over the last year the Bank has made a sustained effort to resolve portfolio problems. In August 1999, with Paraguay one of the Bank's ten worst performing portfolios, the new Vice President for LAC met with the new Government in Asuncion and reiterated the Bank's position on further lending. In October 1999 the Region commissioned a Portfolio Panel Review which provided a number of recommendations for discussion during the December 1999 Country Portfolio Performance Review (CPPR). During this mission the Bank established Action Plans for all projects in the portfolio and the Government agreed to a six-month timeframe to produce results, (with the understanding that lack of progress would jeopardize further Bank lending). In May 2000, the Bank announced that due to the decentralization of the Country Director to Peru, the Bank's Asuncion office would be downsized to a liaison office and the Paraguay program would be managed from the regional office in Lima. This created concern among the Paraguayan authorities about the Bank's future program in Paraguay. In response the Bank stressed that the following criteria would need to be met before new loans would be considered: (i) progress on Yacyreta; (ii) improved implementation of the existing portfolio; and (iii) progress in key reform areas.

The Yacyreta Problem

2.15 The Yacyreta hydroelectric project deserves special mention because, though it is technically an Argentine project, lingering problems have damaged the Bank's public image and country relations in Paraguay in recent years. Yacyreta began in 1973 with signature of a binational treaty between Argentina and Paraguay to develop the hydroelectric power of the Parana river. One of the largest and most complex construction projects undertaken in Latin America, the 65 km. Yacyreta dam straddles the Parana between Argentina and Paraguay and was expected to generate 3,100 MW of electricity for Argentina (requiring the resettlement of 33,000 people). Though Yacyreta is a joint project between the two governments, it is financed entirely by Argentina (with loans from the World Bank and IDB),⁸ and managed by a binational company—the Entidad Binacional Yacyreta (EBY). Construction began in 1983. The strategy was to fill the reservoir in three stages—to 76, 78 and 83 meters above sea level—over a period of several years, with resettlement and environmental works undertaken concurrently. Yacyreta has been under design or construction for over 20 years and has experienced chronic management problems, construction delays and cost overruns. Original costs were estimated at US\$3.7 billion, and are now expected to surpass US\$8.5 billion. The project has been labeled a “monument to corruption” by Argentinean President Carlos Menem.

2.16 Yacyreta was designed under circumstances and standards very different from those of today. Serious problems have arisen with respect to the resettlement and environmental actions that were part of the loan agreements, with progress on these dimensions lagging seriously behind construction of the engineering works. In 1994 the Bank (and IDB) issued a “no objection” to filling the reservoir to the first stage (76 masl)⁹ on the assumption that the EBY would complete the required environmental and resettlement actions by 1995. This did not happen. In 1995, Argentina suspended financing for Yacyreta due to external fallout from the Mexican crisis (called the “tequila effect”). Meanwhile, the reservoir had already been filled—a decision which created negative environmental effects, placed populations living in low-lying areas on both sides of the reservoir at risk, and damaged the confidence of the local population in EBY and the Bank.

2.17 The Bank's assumption that the complementary works would be done was highly optimistic considering that little action had been taken on these issues since the first supervision report of October 1992. Whatever progress had been made on the resettlement and environmental protection aspects of the project was due largely to the Bank's initiatives: EBY had neither the staff, skills nor interest to oversee these types of activities. In addition, the resettlement and environmental components were financed from Argentina's counterpart funds, and this funding was suspended during Argentina's economic crisis.

2.18 In September 1996 the World Bank Inspection Panel received a request for inspection from a local NGO representing Paraguayan residents in the project area who claimed that their health and livelihoods had been adversely affected by filling the reservoir and by Bank omissions and failures in preparation and implementation of the project. The Inspection Panel review found

⁸ The Bank has provided a total of US\$900 million in loans to Argentina for Yacyreta since the late 70s, the IDB an equal amount, with the remainder of costs covered by export credit agencies and the GOA.

⁹ Seventy-six meters above sea level.

some justification to the claims,¹⁰ notably that the Bank's "no objection" to filling the reservoir resulted in environmental damage and may have subjected the local population to risks of serious health hazards through exposure to unsanitary conditions and poor water quality. Other risks included the potential losses of sustainable livelihoods and natural resources. The Panel found that Bank supervision had been inconsistent and that the Bank had failed to bring the project into compliance with relevant Bank policies.

2.19 The Bank downplayed the negative aspects of the Panel's findings in its initial communication to the local Paraguayan NGO, giving the impression that the Panel found Bank policies had been fully respected. This response was covered in the local press and widely criticized by project area residents and the NGO community as misrepresenting the Panel's findings. Bank senior management subsequently expressed its regret over the incident and restated its commitment to stay the course and address the Panel's findings with great urgency. Since then, communication with the affected population and the NGO community has improved, though the project's problems are far from solved.

2.20 Paraguay is committed by the Second Yacyreta Owners Agreement of December 1993 to a timetable for carrying out a comprehensive resettlement and environmental management program. Amendments in December 1997 added commitments to resettle additional families on the Paraguayan side, providing them with free title to land which has access to internal roads and is serviced by drainage, piped water, electricity, schools and a health clinic. Implementation of this commitment was slow, but by May 2000 the majority of additional families affected by operation of the dam at 76 masl have been resettled, although further upgrading of the basic infrastructure (roads, water, etc.) is required.

2.21 The future of the project is still uncertain. Debate continues about how the project should be financed and managed in the future and whether the reservoir should remain at its current level of 76 masl (where it is not financially viable) or move to 83 masl (which would flood twice the current area with additional social and environmental consequences). In 1998 the Bank commissioned an independent "blue ribbon" panel to assess the options for optimal operation of the dam. The panel recommended that the reservoir be raised to 83 masl, but that EBY be replaced by an entirely new management structure (private sector concession) in order to make a fresh start and gain credibility with the local population. In January, Bank management forwarded its position that "no action should be contemplated to raise the water level without guarantees that necessary measures are in place to protect affected communities—both those resettled, as well as others who would be displaced by raising the water reservoir level—and the environment."

2.22 A participatory Community Development Project (LIL) has been prepared to deal with broader poverty alleviation issues in Encarnacion (and to offset some of the problems associated with this project). Completion of resettlement and environment works associated with the 76 masl level is now scheduled for mid-2001. While many of difficulties with Yacyreta lie on the Paraguayan side, resolving these has been complicated by the fact that the Paraguayan

¹⁰ See The Inspection Panel, *Review of Problems and Assessment of Action Plans: Argentina/Paraguay: Yacyreta Hydroelectric Project*, September 16, 1997.

Government did not borrow from the Bank for this project, giving the Bank no formal supervision role with the Paraguayan authorities.

3. Evaluation of Bank Assistance

3.1 **Outcome.** OED considers the overall outcome of Bank assistance to Paraguay in the past decade unsatisfactory, due to its modest relevance and negligible efficacy. While Paraguay is a country where the Bank in principle could play an important role, the majority of the projects approved since 1992 have had serious implementation problems and poor outcomes. This is due mainly to governance problems; achievement of CAS goals required significant movement on reform and ultimately there was simply insufficient social and political ownership for the types of economic and governance reforms the Bank tried to bring about.

3.2 **Relevance.** Paraguay's situation in the first half of the 1990s clearly indicated (and still indicates) the need for structural reform, supported by Bank adjustment lending. Some of the elements of such a program would have included fiscal measures aimed at ensuring macroeconomic stability—i.e., reform of the legal and regulatory framework for the financial system, definitive measures to clean up problem institutions, privatization of state enterprises, and social security reform. In fact, when the Bank resumed lending in 1992, it produced a strong package of ESW which outlined specific reforms needed to move the country onto a path of sustainable growth (including financial and public sector reforms and revamping agricultural and trade policy). In this situation one would have expected the Bank to condition resumption of lending on adoption of an adjustment program. However, the Government was not receptive to structural reform (or an IMF program),¹¹ and this ultimately limited the range and relevance of Bank assistance. While the investment program that emerged contained important development objectives, it did not address the main constraints to development and poverty reduction in the country.

3.3 **The 1993 CAS** reflected Government priorities and country needs, had important development objectives and projects selected fell within CAS parameters. The new approach to rural development incorporated in the Natural Resource Management and Land Use Rationalization Projects was relevant to the changing sectoral requirements. The concentration of the Bank's program on poverty/human development issues evidenced by the water and sanitation projects, maternal and child health and secondary education was justified by poverty conditions. The priority of revisiting the highway sector seems of a lower order.

3.4 However, in retrospect the 1993 CAS strategy was too optimistic about the potential for reform and country implementation capacity, given Paraguay's poor track record in these areas and the extensive policy constraints and weak institutional environment in the country at the time. Between 1992 and 1994 the Bank approved five projects totaling US\$202 million, several which were over-dimensioned or too complex for the Paraguayan context. The Bank may have rushed too quickly in committing loans, and the triggers and selectivity measures introduced in

¹¹ Until the mid-1980s Paraguay had relatively good macroeconomic policy performance and saw little need for IMF assistance or structural reform. At present, political instability and the ready availability of funds from Taiwan, IDB, Japan and other donors have further diminished incentives for reform.

the 1997 CAS might have been more effectively applied earlier. The Bank's ESW was well focused and often prescient; it provided warnings about the financial system, argued for fundamental change in agricultural strategy and economic policy, drew specific attention to governance issues and advocated for changing the role of the state. However, most of the Bank's recommendations were not adopted.

3.5 Both the **efficacy** and **efficiency** of Bank assistance have been low. Project implementation has been slow across the board. Because of the long interval in which there were no new commitments to Paraguay, the country exhibited many characteristics of a new borrower—e.g., the absence of a network of officials familiar with Bank policies and operational procedures. The need for congressional approval of projects has also contributed to implementation delays, and the lack of counterpart funds has adversely affected all projects. Progress on policy reform has been hampered by political instability, a divided government and frequent changes in leadership, as well as interference of the military and special interest groups in policy making. The projects have suffered from the same problems of institutional weakness and political rigidity that characterized operations up to 1984. The average cost of Paraguay projects is close to the Bank-wide average, but is the highest of comparator countries in the region (Bolivia, Ecuador, Peru, Uruguay). Project costs per dollar committed are much higher for Paraguay than the even the Bank-wide average.

3.6 Given the state of the current portfolio, the Bank's past and present difficulties in achieving ownership and institutional development objectives, the lack of progress on reform and the limited impact of ESW, the **institutional development impact** of Bank assistance is also considered negligible and its **sustainability** unlikely.

3.7 **Managerial Issues.** Since 1987 there have been four Country Directors for Paraguay and until recently the number of countries covered by one Country Director was quite large. The Paraguay program has also been put in management units with much larger countries—either Brazil or Argentina, or both, and since 1997, with Andean countries. All operations in Paraguay face a common set of institutional problems but there does not seem to have been much cross-sectoral learning or a common approach to problems.

3.8 **Perceptions of the Bank.** The public view of the Bank in Paraguay is positive and its recommendations are taken seriously. Over the past few years, the Bank has consistently urged reform of the state, especially privatization of state enterprises and improved governance. These recommendations have been generally ignored by government, but are frequently referred to in the press. The Bank is currently, for the first time, directly and specifically addressing the issues of corruption. This is enhancing the Bank's image. On the negative side, prolonged resettlement and environmental issues associated with Yacyreta have harmed the Bank's image. Within Government, individuals tend to view the Bank's procurement regulation as an impediment to "business as usual" in awarding public contracts.

3.9 **Aid Coordination.** A greater effort needs to be made in improving aid coordination and encouraging the donor community to take common positions, especially on structural reform and governance issues. The Government does not have its own coordination unit and there is no formal mechanism for coordinating international assistance. The Bank's position is difficult in that it is a relatively small lender and its influence on policy is thus restricted. There has been

coordination of Bank assistance with the IDB and projects are often complementary. For example, IDB lends for primary education and the Bank for secondary education; in maternal and child health the Bank is active in six departments and the IDB in the others. However, the two organizations are far from the point of agreeing on sector policies and jointly financing national programs. There has been limited coordination with the IDB on macro-conditionality. The IDB did not make any new loans in 1984–86 when Bank disbursements were suspended, but it did continue to disburse on its existing operations. The Bank and IDB cooperate on Yacyreta issues, but this is because both are caught in the same predicament. Given that IDB is by far the largest lender to Paraguay, it could take a stronger leadership role in aid coordination, (with possible technical support from the Bank). Optimally however, the Government should provide leadership and management of the aid coordination function, which has not been the case to date.

4. Lessons for the Future

4.1 Overall Bank effectiveness in Paraguay has been constrained by an adverse policy environment and systemic problems which were difficult for the Bank to address, given its status as a small lender, its weak position following a long hiatus in lending, the availability of other donor funds and lack of a common donor position on reform and governance issues. The Bank's choice not to invest heavily may have limited its influence, but it also limited its exposure.

4.2 Experience from the past indicates that Bank lending has limited impact, as long as the Paraguayan authorities do not undertake the minimum reforms needed to get on a path of sustained growth and poverty reduction. Management's decision to reduce lending in 1997 was appropriate and is fully supported by OED. Introducing triggers increased the relevance of the Bank's strategy by linking it closely to signals of Government ownership in critical reform areas. Current efforts to restructure or cancel loans are appropriate.

4.3 While the Bank could continue to leave the door open for pilot or enclave projects (as provided for in the 1997 CAS), this has not proven very effective thus far as minimum conditions for new lending have not been met since 1997. In its next Country Assistance Strategy management may want to consider further reducing the administrative resources dedicated to Paraguay, pending a clearer signal of Government interest in reform. Current plans to downgrade the Resident Mission to a liaison office appear justified in this context. The Bank could maintain an institutional presence through selective analytic and advisory activities (including continued support to poverty assessment and anticorruption activities and possibly public sector and judiciary reform). Policy dialogue should continue to focus on long-term structural issues and building ownership for reforms and be broadened to include contact with political leaders and civil society.

Bank Assistance 1952–84: Sectoral Lessons and Outcomes

1. The Bank's seven operations in the **agricultural sector** took place in a context of rapid expansion of land under cultivation, deforestation and of conflict, (or at least failure to identify conflicting interests between large landholders and small farmers, colonists and indigenous populations). Lending generally followed a rural development model, combining credit, infrastructure and social services. The early projects, (typified by the 1974 Small Farmer Credit and Rural Development project and the Second Rural Development project of 1977¹²) were designed to provide farmers living in public settlement colonies in the Eastern Region with credit, roads, education, health facilities and land titling. These projects achieved most of their physical goals. However implementation was less than satisfactory—activities were not integrated into a coherent program, agencies were uncertain about their responsibilities, extension efforts did not have a clear message, there were delays in processing land titles and loans did not reach targeted small farmers.

2. The next generation of agricultural projects¹³ also targeted colonies in the Eastern Region and followed the same general rural development model. Implementation was slow because of delays in meeting effectiveness conditions, inadequate counterpart funding and delays resulting from the general suspension of disbursement. Significant progress was not made until 1987. Almost all the physical targets were eventually met or surpassed. However, a significant proportion of the loans went to large farmers and half the medium-term credit went for forest clearing with negative environmental implications. The projects were over ambitious with too many objectives and components (some contradictory, such as simultaneously conserving forests while expanding production through land clearance). Beneficiaries were not clearly identified and the projects failed to achieve forest and soil management objectives or to improve the incomes of small holders.

3. Several important lessons emerged from the Bank's involvement in the agricultural sector. First, institutions have to be strengthened and inter-ministerial coordination improved. Second, a greater investment in public sector research and extension is needed, with programs more attuned to the needs of small farmers, (who did not tend to benefit from Bank investments). Third, the development of small farmer groups for provision of services (input supply, saving mobilization, product processing and marketing) should be promoted. Finally, and perhaps most importantly, increased attention has to be given to environmental issues; the model of extensive agricultural development pursued by Paraguay is unlikely to be sustainable

4. From 1969–84 the Bank approved seven livestock development projects. Credit was provided through the Fondo Ganadero (FG, Livestock Fund) of the Central Bank for pasture development, water supply, infrastructure, etc. There were few institution building or policy objectives included in these operations and attempts to target smaller farmers were generally unsuccessful. By the time of the Fourth livestock project in 1974, the Bank insisted that the FG

¹² C03470–PA and L14180–PA respectively.

¹³ Caazapa Area Development Project (L2087–PA of January 1982) and the Eje Norte Rural Development project (L2141–PA of May 1982).

target smaller farmers. FG did not support this approach. Because of continued philosophical differences, deterioration of FG's financial position and its deficient evaluation and supervision of subloans, it was decided that the Seventh Livestock Development Project would be the last of the series. The rationale for Bank involvement in this sector was weak. The sector is dominated by an elite group of ranchers. According to the UK Department for International Development (cited by the *Economist Intelligence Report*), in 1993 58 percent of the Paraguayan herd was owned by 1 percent of the producers. It seems clear that financing would have been readily available to this group without Bank support. Projects in both the livestock and agriculture sectors may have inadvertently increased social and economic inequities by directing scarce resources meant for small holders to larger ranchers and farmers.

5. The seven **highway projects** (the first in 1962 and the last in 1983) aimed to expand the national highway network and improve transport sector management. The physical objectives of the projects were accomplished. However technical assistance efforts failed to create an institutional base for sectoral planning and road maintenance largely because the Ministry was poorly organized, extremely hierarchical and had few qualified personnel. The ICR for the Seventh Highway project (L21400-PA of May 1982) concluded that the sector planning and management component fell far short of its objectives. Project shortcomings were most disturbing because they occurred in areas in which the Bank had been providing abundant assistance for over 20 years.

6. Bank experience with lending for education has been more encouraging. The five **education projects** were generally successful in accomplishing both their physical and institution building objectives. The success of education projects has been attributed to the experienced PIU, government commitment and community participation. The two **rural water supply projects** (approved in 1977 and 1981) were also more successful and have been referred to elsewhere in the Bank as models of good practice. Although the projects took much longer to complete than planned, they accomplished their physical objectives and established a well-functioning institutional structure for rural water supply. The key to the success of these projects has been community participation in the organization, maintenance and financing of water systems and community willingness to implement tariff levels sufficient to cover operating costs and debt service. The success of these projects is even more notable because it occurred at a time when community participation was not as heavily emphasized by the Bank (or other donors) as it is today. Bank involvement in pre-investment and industrial credit was less than satisfactory. The two **pre-investment projects**¹⁴ failed to change existing practices of project preparation or generate a strong project pipeline. The two **Industrial Credit Projects**¹⁵ failed to restore the viability of the National Development Bank.

7. In sum, with the exception of a few bright spots in education and rural water supply, the Bank's experience with lending operations from 1952-84 was not satisfactory. Implementation was slow. Projects were plagued by institutional weaknesses, counterpart-funding problems and, for projects implemented in the second half of the 1980s, a halt in disbursements. While most of the physical objectives of projects were eventually achieved, institution-building objectives proved much more elusive.

¹⁴ C06870-PA of 1975 and L17800 of 1979.

¹⁵ C06870-PA of 1975 and L17800 of 1979.

Performance of Current Portfolio

1. **The Land Use Rationalization Project** (L3445–PA, US\$29 million) of March 1992, was the first operation approved after resumption of lending. It was designed as a first step in changing agricultural strategy from the unplanned and uncontrolled incorporation of land into agricultural production in the Eastern Region to environmentally sound intensification of production and protection of natural resources. This step required improving the Government's knowledge base and its technical capacity for management of natural resources. The key part of the project was creating a multipurpose cadastre for the eastern region and part of the Chaco and establishing a Geographical Information Service as a basis for land use classification.
2. Project implementation has been slow due to procurement problems and weak project management. Its closing date was extended twice by 18 months in order to carry out a pilot rural cadastre in Alto Parana and Itapua for 2.3 million ha instead of the original target of over 24 million ha. Even with the two extensions and the reduced target of rural cadastre, the pilot cadastre will not be fully completed at the time of closing on June 30, 2000. This is eight years after the board approval and seven years after effectiveness, with delays due mainly to the poor quality of final products, delays in contracting a firm for supervision and lack of technical supervision by the project.
3. **A Third Rural Water Supply Project** (L35910–PA, US\$23 million) was approved in September 1992. It financed construction of a water supply system for 250,000 people and technical assistance to SENASA. The project successfully followed the same community participation model as the two previous projects. At completion of this project, there were 300 community organizations providing safe water to 500,000 residents of small rural communities.
4. **The Eighth Highway Project** (L326850–PA for US\$65 million approved in December 1993) was designed to restore the policy dialogue and reinstate operations in the transport sector after a seven-year hiatus. The loan is financing road improvements and rehabilitation, a pilot unpaved road stabilization program, and consulting services. The civil works component focuses on upgrading road access to ports and improving roads into and around Asuncion. This project also supports a new approach to doing business with MOPC. Rather than building in-house technical capacity, it intends to strengthen MOPC's management capacity so it can effectively use services provided by consultants and contractors. Institutional strengthening of MOPC will involve establishment of a strategic planning unit, reassigning responsibilities for human resource management, and launching a pilot for contracting out maintenance.
5. Project implementation was delayed and suffered from substantial cost overruns caused by poor engineering design. The Government agreed to finance cost overruns with counterpart funds instead of dropping any of civil works. The closing date was extended once by 18 months to December 31, 2000. Most of construction works are proceeding in line with the schedule except two works which will be completed by the Government with counterpart funds after the closing. Studies for strengthening MOPC have been completed. It remains to be seen whether the institutional improvements supported by this project are adopted by the Government.

6. The **Natural Resources Management Project** (Loan 37080-PA for US\$50 million) was approved in February 1994 and made effective July 1995, 17 months after Board approval. It and the Land Use Rationalization project were originally conceived as a single project but a decision was made during preparation to split them. The project is designed to change the way the Ministry of Agriculture operates and establish an institutional framework to address the long-term problems of agriculture and resource use in project area. Functions of public sector agencies would be decentralized in Regional Project Execution units with responsibility for natural resource management. The project is to finance agricultural development, including research, technical assistance to producers and their organizations, support for indigenous communities (including acquisition and regularization of titles and technical assistance), technical assistance to newly created agricultural institutions and pilot agricultural credit to support production and resource conservation efforts. The loan was amended in November 1996 to finance a pilot for sustainable rural investment.

7. The overall performance of the project is disappointing. While it was designed to operate in 50 micro catchment areas, so far only a few area development plans have been prepared. The project was designed to decentralize the Ministry of Agriculture and related institutions but nothing had been accomplished by the mid-term review. There have been nine ministers during the life of this project, resulting in little continuity or institutional memory. The project has been rated unsatisfactory since May 1998. Based on the mid-term review in December 1998, the project has been restructuring to de-emphasize decentralization of the Ministry services and focus on building cooperation among beneficiaries, the public sector, NGOs and local governments. Project activities will be concentrated on a reduced number of micro catchments and will expand and improve integration of the rural investment pilot with the rest of the project

8. The **Private Sector Development Project** (L37740/50-PA for US\$50 million) was approved in July 1994. It was a quasi-policy based operation to support ongoing legislative reform and strengthen regulation of the banking system and Superintendency of Banks. The Loan Agreement provided for Government adherence to the financial sector reform program (spelled out in a Policy Letter to the Bank). A review would be carried out after half the amount of the loan had been committed, or 18 months, whichever came first. New commitments would be conditioned on a positive assessment.

9. The project turned out to be a case of too little too late. The financial system began to unfold within months of the effectiveness of this operation. The project has therefore been a problem because of high arrears in the portfolios of participating banks. Disbursements were halted in late 1997 and the US\$15 million undisbursed balance was made available to finance an El Nino reconstruction assistance program including repair of damage to bridges, roads and schools. Execution of the El Nino component was delayed by delays in obtaining congressional approval of the amendment, political instability and associated frequent changes in project management, lengthy procurement process and lack of counterpart funds. There were four Ministers of Interior in the short life of this project. At the time of mid-term review in January 2000, 22% of the restructured loan had been disbursed and 58% committed. Despite the initial slow start, the project is presently rated satisfactory

10. The **Asuncion Sewerage Project** (Loan 38420-PA for US\$46.5 million), approved in February 1995, was the first urban water and sewerage project. It was designed to increase coverage of the Asuncion sewerage system and mitigate the environmental impact on the Paraguay River by financing 50,000 new house connections and construction of sewerage systems and treatment. It was also supposed to foster a supportive environment for private sector, which is already actively involved in provision of water supply in Asuncion: (200 independent producers serve a population of about 400,000 people). CORPOSANA's financial position is weak because of the high level of unaccounted for water (40 percent compared to less than 20 percent in well-run systems). This is due the fact that only 60 percent of users are metered and meter reading and billing are inadequate. In addition, water tariffs have been too low to cover operating costs and debt service requirements. The program supported by the loan included targets and up-front actions to improve CORPOSANA's finances.

11. However, progress was unsatisfactory. Physical implementation has been slow, the project was several years behind schedule and the operational and financial situation of CORPOSANA did not show any tangible improvement. As a result of the lack of institutional, financial, and operational improvements, the Bank, in early 1999, initiated a process of suspension, cancellation and restructuring of the loan. In January 2000, the project was restructured to support private sector participation in the water and telecommunication sectors with a cancellation of US\$15 million. This was predicated on the Government's program to privatize these two key enterprises. Since then the required legislation has been approved by the senate and has now been sent to the house for approval.

12. The **Secondary Education Improvement** (L39140-PA for US\$24.5 million approved in September 1995) supports the Government's initiative to improve the quality, efficiency and coverage of secondary education and the Ministry of Education's capacity for information-based decision making. It finances (a) improvements in education statistics required for better sector management; (b) provision of textbooks, education materials and curricular support; (c) training for teachers and school managers; and (d) rehabilitation and expansion of classrooms with co-financing of parents associations; and (e) a small pilot of school-based innovation. Although counterpart funds and administrative changes following the elections have been problematic, project implementation is on track. The project benefited from systematic incorporation of the lessons gained in previous education projects in Paraguay, notably the importance of efficient, well-staffed project units with direct access to the Minister of Education. This, however, had to be rebuilt after the hiatus in lending. Preparation under a PPF and PRHD grant from the Japanese Government allowed for advance staffing of key positions in the Project Coordination Unit, including training in procurement and disbursement.

13. The **Maternal Health and Child Development Project** (L40860/70-PA for US\$21.8 million approved in Sept 1996) was the first Bank health sector project in Paraguay. The project finances targeted interventions to improve primary health care in areas with high poverty incidence. It covers six poor, under-served departments in northeastern Paraguay and provides a predefined set of health interventions, including reproductive health. It finances improved infrastructure, medical equipment and supplies, health education, and training of community workers.

14. The major risks identified at appraisal were the poor implementation capacity of the Ministry of Health, poor programming of counterpart resources and administrative barriers. The project is, in fact, experiencing significant delays in procuring key medical equipment and supplies. The core of the problem is interference in procurement decisions, changes in project management, poor management capacity, and lack of counterpart funds.

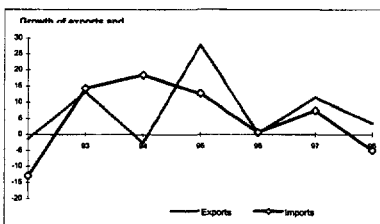
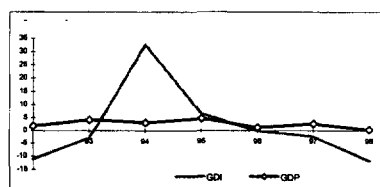
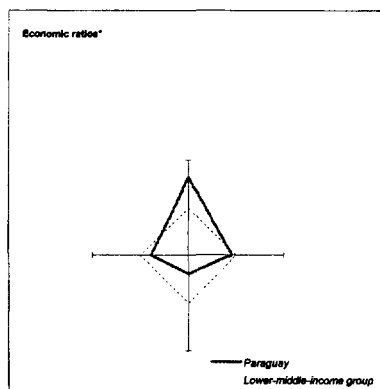
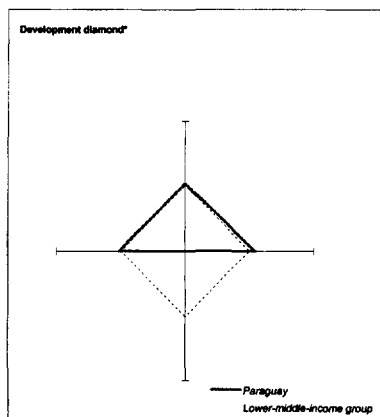
15. A **Fourth Rural Water and Sanitation**, (L42220-PA for US\$40 million) was approved in August 1997 and became effective in September 1998. It is a follow-up to the successful rural water projects executed by SENASA with whom the Bank has a twenty-year relationship. The long delay in effectiveness reflects the 10 months required to obtain congressional approval and delays in submitting the operational manual. The project would provide 340,000 people with water and another 140,000 with sewage disposal in poorer communities. Disbursement has been slow, with only 5% of funds disbursed after 18 months of implementation. SENASA has serious deficiencies in accounting and financial management which need to be addressed.

Annex 3: Statistical Information

- Table 1. Paraguay at a Glance
- Table 2. Paraguay: Gender Profile
- Table 3. Paraguay – Social Indicators
- Table 4. Paraguay – Key Economic Indicators, 1988–97
- Table 5. Paraguay: ESW List (1991–99)
- Table 6. Paraguay: OED Summary, FY91–FY99
- Table 7. OED Ratings, Disbursement by Sector, FY91–FY99
- Table 8a. Paraguay: World Bank Project Ratings, FY92–FY99 (sorted by sector)
- Table 8b. Paraguay: World Bank Project Ratings, FY69–FY99 (sorted by sector)
- Table 9. Paraguay: Active Projects Portfolio
- Table 10. Paraguay: Public Expenditure in Social Sectors
- Table 11. Bank Management for Paraguay: 1990–99
- Table 12. Paraguay: Comparative Lending Costs for Selected Countries, FY90–FY99

Table 1. Paraguay at a Glance

POVERTY and SOCIAL	Paraguay	Latin America & Carib.	Lower-middle-income	
	1998			
Population, mid-year (millions)	5.2	502	908	
GNP per capita (Atlas method, US\$)	1,760	3,940	1,710	
GNP (Atlas method, US\$ billions)	9.2	1,977	1,553	
Average annual growth, 1992-98				
Population (%)	2.5	1.6	1.1	
Labor force (%)	3.0	2.3	1.5	
Most recent estimates (latest year available, 1992-98)				
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	55	75	58	
Life expectancy at birth (years)	70	70	68	
Infant mortality (per 1,000 live births)	23	32	38	
Child malnutrition (% of children under 5)	..	8	..	
Access to safe water (% of population)	39	75	..	
Illiteracy (% of population age 15+)	8	13	14	
Gross primary enrollment (% of school-age population)	112	113	103	
Male	113	..	..
Female	110	..	..
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1977	1987	1997	1998
GDP (US\$ billions)	2.1	3.7	9.6	8.6
Gross domestic investment/GDP	24.7	25.1	23.6	21.0
Exports of goods and services/GDP	19.5	26.4	43.5	45.4
Gross domestic savings/GDP	21.7	16.5	15.5	16.7
Gross national savings/GDP	22.3	15.7	16.6	..
Current account balance/GDP	-2.8	-8.9	-5.1	-2.9
Interest payments/GDP	0.6	2.5	0.7	1.0
Total debt/GDP	21.6	67.6	21.5	..
Total debt service/exports	10.2	22.0	5.0	..
Present value of debt/GDP	..	..	19.6	..
Present value of debt/exports	..	..	40.9	..
	1977-87	1988-98	1997	1998
(average annual growth)				
GDP	4.1	3.0	2.8	0.3
GNP per capita	0.8	-0.2	-0.2	-2.1
Exports of goods and services	5.3	9.0	11.5	3.6
STRUCTURE of the ECONOMY				
	1977	1987	1997	1998
(% of GDP)				
Agriculture	34.1	27.3	24.5	24.8
Industry	23.1	22.5	25.9	21.7
Manufacturing	17.1	16.2	15.3	15.4
Services	42.8	50.1	49.7	53.5
Private consumption	72.1	76.4	74.1	72.8
General government consumption	6.2	7.1	10.5	10.5
Imports of goods and services	22.4	34.9	51.6	49.8
	1977-87	1988-98	1997	1998
(average annual growth)				
Agriculture	3.7	2.7	4.8	1.7
Industry	2.6	4.1	0.9	1.3
Manufacturing	3.3	1.3	-0.2	1.0
Services	5.0	2.5	2.3	-1.0
Private consumption	4.7	5.0	3.6	-1.3
General government consumption	0.6	9.9	4.0	-2.8
Gross domestic investment	1.7	3.8	-2.4	-11.8
Imports of goods and services	2.7	13.7	7.4	-4.9
Gross national product	3.8	2.5	2.4	0.2



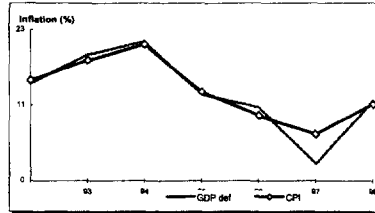
Source: Development Economics SIMA system, On-the-fly Tables: AAG (Database: GDF & WDI central)

Note: This table has not been cleared for official use.

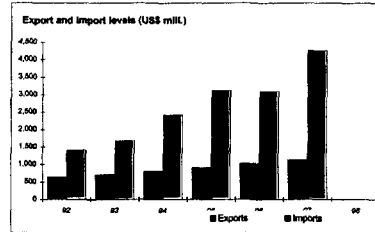
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

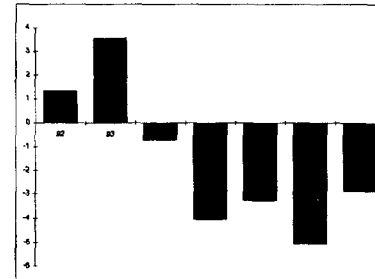
	1977	1987	1997	1998
Domestic prices				
(% change)				
Consumer prices	9.3	21.8	7.0	11.5
Implicit GDP deflator	11.0	30.3	2.5	11.9
Government finance				
(% of GDP)				
Current revenue	11.9	10.1	..	..
Current budget balance	3.6	2.9	..	..
Overall surplus/deficit	0.6	0.0	..	..

**TRADE**

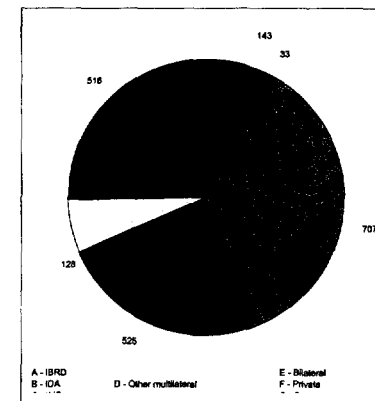
	1977	1987	1997	1998
(US\$ millions)				
Total exports (fob)	279	353	1,141	..
Food	150	192	816	..
Agricultural raw materials	97	124	146	..
Fuels	1	0	1	..
Ores and metals	..	1	5	..
Manufactures	31	36	173	..
Total imports (cif)	308	595	4,267	..
Food	37	55	..	..
Agricultural raw materials	1	1	..	..
Fuels	62	143	..	..
Ores and metals	4	5	..	..
Manufactures	204	389	..	..

**BALANCE of PAYMENTS**

	1977	1987	1997	1998
(US\$ millions)				
Exports of goods and services	390	1,036	4,343	3,894
Imports of goods and services	432	1,304	4,960	4,269
Resource balance	-42	-267	-617	-375
Net income	-18	-93	87	69
Net current transfers	1	27	47	58
Current account balance	-59	-334	-483	-248
Financing items (net)	169	347	267	149
Changes in net reserves	-110	-13	216	99
Memo:				
Reserves including gold (US\$ millions)	269	514	796	784
Conversion rate (DEC, local/US\$)	126.0	668.0	2,191.0	2,740.3

**EXTERNAL DEBT and RESOURCE FLOWS**

	1977	1987	1997	1998
(US\$ millions)				
Total debt outstanding and disbursed	453	2,522	2,052	..
IBRD	28	372	143	..
IDA	34	44	33	..
Total debt service	43	239	228	..
IBRD	3	65	36	0
IDA	0	1	2	0
Composition of net resource flows				
Official grants	2	15	20	..
Official creditors	67	60	187	..
Private creditors	26	35	23	-19
Foreign direct investment	22	5	250	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	38	0	40	0
Disbursements	12	19	41	0
Principal repayments	1	37	28	0
Net flows	11	-18	14	0
Interest payments	2	30	11	0
Net transfers	9	-48	3	0



Source: Development Economics SIMA system, On-the-fly Tables; AAG (Database: GDF & WDI central).
Note: This table has not been cleared for official use.

Table 2. PARAGUAY – Gender Profile

GENDER PROFILE

Paraguay

IDA Only Country

GNP per Capita 1997 \$1,920

Bank Avrg Annual Disbursement 1990-1997 (US\$ million) 17.9

Bank Avrg. Per Capita Annual Disbursement 1990-1997 \$4.0

Selected Social Indicators (latest available since 1990)

Fertility rate, total (births per woman) 4

Maternal Mortality Rate per 100,000 live births 160

Malnutrition prevalence (% of children under 5) 4

Literacy GAP - M/F 3

Gross Primary Enrollment Ratio GAP - M/F 0

Child Mortality Rate Difference - F/M

% of population with access to Safe Water 39

% of population with access to Sanitation 32

% of population with access to Primary Health Care

HUMAN DEVELOPMENT REPORT INDICATORS (1997)

Human Development Index (HDI) 0.729

HDI Ranking (Out of 143 countries) 73

Gender Development Index (GDI) 0.717

GDI Ranking (Out of 143 countries) 74

Selected Economic Indicators

Percentage distribution of labour force by sector, each sex, 1990 Labor force, female (% of total) 30

	FEMALE	MALE
Agriculture	8	11
Industry	20	35
Service	72	54

Male Unemployment as % of Male Labor Force 8

Female Unemployment as % of Female Labor Force 9

Women Representation in Parliament as at 1 January 1997

Women's Representation (% total seats Lower House) 8

Gender in the Constitution

Article 27 Use of the Mass Communication Media,

5) Publications will be regulated by law to better protect the rights of children, youths, illiterates, consumers, and women.

Article 48 Equal Rights for Men and Women

Men and women have equal civil, political, social, and cultural rights. The State will create conditions conducive to, and will create adequate mechanisms for, making this equality true and effective by removing those obstacles that could prevent or curtail this equality as well as by promoting women's participation in every sector of national life.

Article 89 The Work of Women

Workers of both sexes have the same labor rights and obligations, but maternity will be subject to special protection and will include health care services and the appropriate leave, which will not be less than 12 weeks. A woman may not be removed from her work during pregnancy or during her maternity leave.

A law will establish a system of paternity leave.

Article 115 The Bases for Agrarian Reform and Rural Development

9) Support for peasant women, especially for those who are heads of families

Article 117 Political Rights

Citizens of either sex have the right to participate in public matters, directly or through their representatives, in accordance with the provisions of the Constitution and the law. The access of women to public functions will be promoted.

Table 3. Paraguay Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1992-97	Latin America & Caribbean	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	2.7	3.6	5.1	493.9	2,282.9
Growth rate (% annual average)	2.5	3.0	2.1	1.4	0.9
Urban population (% of population)	39.0	45.0	53.8	74.2	42.4
Total fertility rate (births per woman)	5.7	5.3	3.8	2.7	2.2
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNP per capita (US\$)	600	1,170	2,000	3,940	1,230
Consumer price index (1995=100)	3	13	117	123	116
Food price index (1995=100)	..	12	111	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	59.1	..	..
Lowest quintile (% of income or consumption)	..	..	2.3	..	..
Highest quintile (% of income or consumption)	..	..	62.4	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	1.8	2.8	2.6
Education (% of GNP)	1.6	1.5	3.9	3.7	5.1
Social security and welfare (% of GDP)	2.1	2.6	2.1	7.4	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	83	90	91	91	99
Male	..	90	91	..	..
Female	..	89	91	..	..
Access to safe water					
<i>(% of population)</i>					
Total	13	23	39	75	78
Urban	25	49	70	83	..
Rural	5	8	6	36	..
Immunization rate					
<i>(% under 12 months)</i>					
Measles	..	46	61	93	93
DPT	..	54	82	82	93
Child malnutrition (% under 5 years)	..	..	..	8	17
Life expectancy at birth					
<i>(years)</i>					
Total	66	67	70	70	69
Male	64	65	68	66	67
Female	68	69	72	73	71
Mortality					
Infant (per thousand live births)	53	49	23	32	36
Under 5 (per thousand live births)	76	61	28	41	44
Adult (15-59)					
Male (per 1,000 population)	211	198	185	189	200
Female (per 1,000 population)	157	144	124	116	142
Maternal (per 100,000 live births)	..	380	192	..	..

Source: 1999 World Development Indicators CD-ROM, World Bank

Table 4. Paraguay - Key Economic Indicators, 1988-97

Indicator											Comparator Countries						
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Paraguay	LCA	Bolivia	Columbia	Ecuador	Peru	Uruguay
											Average	Average	Average	Average	Average	Average	Average
GDP growth (annual %)	6.4	5.8	3.1	2.5	1.8	4.1	3.1	4.7	1.3	3.5	3.6	2.8	4.0	4.0	3.6	1.7	3.1
GNP per capita growth (annual %)	4.7	4.0	0.4	-7.4	0.4	0.6	-1.5	2.0	-1.5	7.4	0.9	0.9	4.5	2.1	1.6	0.5	2.5
GNP per capita, Atlas method (current US\$)	1110.0	1140.0	1190.0	1240.0	1400.0	1500.0	1550.0	1740.0	1880.0	2000.0	1475.0	2892.0	885.0	1512.0	1232.0	1698.0	3974.0
GNP per Capita, PPP(current international \$)	3170.0	3300.0	3350.0	3190.0	3350.0	3450.0	3460.0	3630.0	3610.0	3860.0	3437.0	6287.0	2422.0	5599.0	4147.0	3650.0	7390.0
Population growth (annual%)	3.1	3.1	3.1	3.0	2.8	2.7	2.6	2.4	2.6	2.6	2.8	1.8	2.3	1.9	2.2	1.8	0.7
Agriculture, value added (% of GDP)	29.6	29.6	27.8	26.6	24.5	24.5	23.7	23.7	23.7	22.6	25.6	8.3	16.7	14.3	12.9	7.5	10.1
Manufacturing, value added (% of GDP)	16.8	17.0	17.3	17.0	17.0	16.5	15.7			14.2	16.3	23.5	17.8	19.4	21.2	23.9	22.4
Services, etc., value added (% of GDP)	48.2	47.3	49.1	50.6	52.4	52.7	54.2	54.2	54.2	55.5	51.8	56.4	53.0	51.9	50.1	56.5	60.0
Exports of goods and services (% of GDP)	34.4	35.7	33.2	19.6	17.9	20.2	18.5	21.3	20.7	21.9	24.3	14.4	21.1	17.2	29.7	11.7	22.7
Imports of goods and services (% of GDP)	36.9	32.0	39.5	25.6	22.0	24.0	26.1	26.5	25.8	24.3	28.3	14.0	26.5	16.7	27.7	14.2	20.7
International tourism, receipts (% of total exports)	8.0	8.0	8.0	28.0	18.4	15.8	18.3	21.6	18.3	17.5	16.2	8.9	11.1	6.2	5.6	6.1	15.4
Current account balance (% of GDP)	-2.1	5.8	-3.2	-5.3	1.3	3.6	-0.7	-4.1	-3.3	-4.7	-1.3	..	-6.0	-1.8	-4.1	-5.6	-0.4
Resource balance (% of GDP)	-2.5	3.7	-6.2	-6.0	-4.0	-3.8	-7.6	-5.3	-5.2	-2.5	-3.9	-0.3	-5.4	0.5	2.0	-2.5	1.9
Agriculture, value added (annual % growth)	12.1	7.7	2.2	-0.6	0.1	5.6	-0.6	8.1	2.5	3.5	4.0	2.2	..	2.3	3.9	3.1	3.2
Manufacturing, value added (annual % growth)											..	1.3	..	2.2	2.1	0.4	0.0
Services, etc., value added (annual % growth)	4.0	5.1	4.2	4.5	2.7	4.3	5.4	3.7	0.2	3.5	3.8	3.2	..	5.3	3.1	1.6	4.3
Exports of goods and services (annual % growth)	38.3	8.0	19.6	18.3	-1.3	13.2	-2.6	27.9	0.5	2.0	12.4	8.4	8.7	7.8	8.5	6.1	9.0
Aid (% of GNP)	1.9	2.1	1.1	2.4	1.7	2.1	1.4	1.7	1.1	1.2	1.7	0.4	10.8	0.3	1.7	1.2	0.5
Aid (% of gross domestic investment)	7.9	9.0	4.8	10.3	7.8	10.4	6.8	7.2	4.7	5.3	7.4	2.1	69.8	1.4	7.8	5.7	4.1
Aid per capita (current US\$)	19.2	22.9	13.6	34.2	23.5	30.5	22.3	31.0	20.5	24.0	24.2	13.2	86.9	4.2	19.5	19.2	20.8
Money and quasi money (M2) as % of GDP	14.9	14.8	16.4	19.2	23.2	24.5	24.7	25.7	27.3	27.6	21.8	..	31.3	18.5	21.3	14.1	39.5
Money and quasi money growth (annual %)	11.4	60.7	52.5	48.0	36.2	27.7	24.3	21.6	18.2	9.2	31.0	..	29.5	31.9	53.1	944.8	61.9
Inflation, consumer prices (annual %)	22.6	26.4	38.2	24.2	15.2	18.2	20.6	13.4	9.8	7.0	19.6	..	12.6	24.7	43.6	1213.4	61.5
Domestic credit provided by banking sector (% of GDP)	16.6	15.0	14.9	17.9	29.6	31.4	29.8	27.4	28.2	25.5	23.6	59.1	43.1	38.0	31.1	13.6	46.6
Gross domestic savings (% of GDP)	21.9	27.5	16.6	17.1	16.7	15.8	12.2	18.0	17.3	20.3	18.3	21.2	9.8	20.4	21.9	18.7	14.8
Gross domestic investment (% of GDP)	24.4	23.8	22.9	23.1	20.8	19.5	19.8	23.3	22.5	22.8	22.3	20.8	15.2	19.8	19.9	21.2	12.9
Gross international reserves in months of imports	2.5	3.7	3.7	4.6	2.5	2.2	2.9	2.3	2.0	1.9	2.8	4.3	5.3	6.1	3.3	6.7	6.2
Private investment (% of GDI)	70.3	70.3	91.3	88.8	87.1	85.4	84.3	81.7	83.4	82.0	82.5	80.1	42.8	58.3	80.1	81.7	68.6
Total debt service (% of exports of goods and services)	21.4	9.0	16.3	12.1	23.0	7.8	6.2	5.7	5.0	5.0	11.2	29.1	35.4	37.6	29.3	23.1	24.8
Overall budget deficit, including grants (% of GDP)	0.7	2.4	2.9	-0.2	0.8	1.2					1.2	-4.2	-1.8	0.2	0.8	-2.0	-1.0
Expenditure, total (% of GDP)	8.9	8.9	9.4	12.0	13.5	13.0					11.8	24.7	19.6	13.5	15.1	15.1	29.7
Current revenue, excluding grants (% of GDP)	9.7	11.4	12.3	11.8	14.4	14.1					13.0	19.7	15.1	13.8	15.8	12.5	28.6
Tax revenue (% of GDP)	8.5	8.8	9.2	9.0	10.0	9.1					9.1	..	10.5	12.0	14.8	11.3	26.9
Trade (% of GDP)	71.3	67.7	72.7	45.2	39.9	44.2	44.7	47.8	46.5	46.2	52.6	28.4	47.7	33.9	57.3	25.9	43.4
Foreign direct investment, net inflows (% of GDI)	0.9	1.2	6.3	5.8	10.2	8.3	11.6	8.8	10.1	10.8	7.4	7.0	16.1	11.6	10.2	9.0	3.5
Illiteracy rate, adult total (% of people aged 15 and above)			9.7					8.1		7.5	9.2	14.4	20.3	10.0	11.1	13.6	3.3
Immunization, DPT (% of children under 12 months)	56.0	61.0	79.0	79.0	85.0	79.0	84.0	79.0	80.0	82.0	76.4	75.8	66.9	83.8	72.6	81.5	90.4
Life expectancy at birth, total (years)			68.1		68.5					69.7	68.5	68.4	59.1	69.5	68.7	66.5	72.9
Mortality rate, infant (per 1,000 live births)			31.4		27.0					23.0	27.9	38.4	76.5	27.5	41.4	50.1	19.9
Safe water (% of population with access)	33.0							39.0			34.8	78.1	57.2	84.3	58.3	60.4	85.8
Sanitation (% of population with access)	58.0							32.0			45.0	67.4	35.5	60.0	54.7	48.3	73.6
School enrollment, primary (% gross)	103.9	104.7	105.4	106.4	106.6	109.9	108.7	110.7	111.7		108.0	108.5	94.1	106.2	122.2	119.4	108.1
Population density (people per sq km)	10.0	10.3	10.6	10.9	11.3	11.6	11.9	12.2	12.5		11.4	22.8	6.4	35.0	39.1	17.6	18.1
Urban population (% of total)	47.2	48.0	48.7	49.4	50.2	50.9	51.7	52.4	53.1	53.8	50.5	72.2	58.0	71.3	57.0	69.9	89.6

Source: WDI, 1998

Table 5. Paraguay: ESW List (1991-99)			
Report Title	Date	Report #	Economic or Sector Report
Economic Reports			
Country Economic Memorandum	10/15/1991	9147	ER
Public Expenditure Review: The Social Sectors	6/16/1992	10193	ER
Country Economic Memorandum	6/29/1994	11723	ER
The Role of the State	4/26/1996	15044	ER
Country Economic Memorandum: Macroeconomic Policies to Reactivate Growth	3/5/1999	18392	ER
Sector Reports			
Mercosur and Paraguay's Growth Prospects	1/28/1993	10902	SR
Poverty and the Social Sectors in Paraguay: A Poverty Assessment	6/29/1994	12293	SR
Agricultural Sector Review	8/2/1995	12123	SR

Source: ImageBank, World Bank, December 1999.

Table 6. Paraguay : OED SUMMARY				
FY91-FY99				
I. TOTAL PROJECTS APPROVED				
	<u>Number</u>	<u>Percent</u>	<u>Net. Comm. \$m</u>	<u>Percent</u>
	<u>FY91-99</u>	<u>FY91-99</u>	<u>FY91-99</u>	<u>FY91-99</u>
Adjustment Loans	0	0%	0	0%
Investment Loans	9	100%	349.8	100%
Total	9	100%	349.8	100%
II. TOTAL PROJECTS EVALUATED				
OED OUTCOME RATINGS *				
<i>Satisfactory Outcome</i>				
Adjustment Loans	0	0%	0	0%
Investment Loans	3	50%	51	35%
Total	3	50%	51	35%
LAC	270	75%	29204	80%
Bank-wide	1357	68%	112510	77%
OED SUSTAINABILITY RATINGS *				
<i>Likely Sustainability</i>				
Adjustment Loans	0	0%	0	0%
Investment Loans	2	33%	28	19%
Total	2	33%	28	19%
LAC	204	57%	24245	66%
Bank-wide	933	47%	87224	59%
OED INSTITUTIONAL DEVELOPMENT RATINGS *				
<i>Substantial ID</i>				
Adjustment Loans	0	0%	0	0%
Investment Loans	3	50%	54	37%
Total	3	50%	54	37%
LAC	143	40%	16752	47%
Bank-wide	645	33%	54590	38%
NET DISCONNECT FOR Paraguay **				
	<u>Number of projects since FY89</u>	<u>ARPP % Sat</u>	<u>OED % Sat</u>	<u>Net disc. at Exit</u>
Paraguay	6	100%	50%	50
LAC	412	86%	75%	11
Bank-wide	2184	81%	68%	13
OED AGGREGATE PROJECT PERFORMANCE INDICATOR (APPI) ***				
	<u>90-94</u>	<u>95-98</u>	<u>90-98</u>	
Paraguay	6.2	6.0	6.1	
LAC	6.4	7.0	6.7	
Bank-wide	6.3	6.5	6.4	
PSR RATINGS OF ONGOING PROJECTS ****				
	<u>Number</u>	<u>Percent</u>	<u>Net. Comm. \$m</u>	<u>Percent</u>
<i>Development Objectives Satisfactory</i>				
Adjustment Loans	..	..	..	..
Investment Loans	4	50%	158.5	49%
Total	4	50%	158.5	49%
LAC	282	93%	25845.4	94%
Bank-wide	1326	90%	104747.8	90%
<i>Implementation Progress Satisfactory</i>				
Adjustment Loans	..	..	..	..
Investment Loans	4	50%	158.5	49%
Total	4	50%	158.5	49%
LAC	276	91%	24746.8	90%
Bank-wide	1268	86%	27563	85%
Footnotes:				
* OED ratings as of November 30, 1999				
** The net disconnect is the difference between ARPP (Annual Review Portfolio Performance) % SAT at exit versus OED % SAT outcome. For LAC and Bank-wide, the net disconnect is for FY90-97 (ARPP Review).				
*** By ARPP Exit FY				
**** ARPP ratings for ongoing projects as of December 15, 1999				

Table 7. OED Ratings, Disbursement by Sector, FY91-FY99							
	<i>Disbursement</i>	<i>Outcome</i>		<i>Sustainability</i>		<i>ID Impact</i>	
	<i>\$ millions</i>	<i>\$ millions</i>	<i>% satis.</i>	<i>\$ millions</i>	<i>% likely</i>	<i>\$ millions</i>	<i>% substan.</i>
Transportation	46.0	0.0	0%	0	0%	0	0%
Agriculture	73.0	23.7	32%	0	0%	49.22	67%
Education	4.6	4.6	100%	4.6	100%	4.6	100%
Water Supply and Sanitation	23.0	23.0	100%	23	100%	0	0%
Total/Average	146.6	51.3	35%	28	19%	54	37%

Source: World Bank, OED.

Table 8a. Paraguay: World Bank Project Ratings, FY92- FY99 (sorted by sector)

PROJECT DESCRIPTION					OED RATINGS				QAG	SUPERVISION	
Project ID	Project Name	Net Commit. (US\$M)	Approval date	ARPP exit FY	Outcome	Sustain.	ID impact	Quality at Entry	At Risk Rating	Latest DO Ratings	Latest IP Ratings
Agriculture											
7911	Land use rationalization	29	3/17/1992						Non-risk	S	S
7926	Asuncion sewerage	46.5	2/14/1995						Actual	U	U
Education											
7923	Secondary education improvement	24.5	9/14/1995						Non-risk	S	S
Population, Health and Nutrition											
7927	M.HLTH/CHD.DV.	21.8	9/5/1996						Actual	U	U
Environment											
7918	NTL RES MGMT I	50	2/22/1994						Actual	U	U
Private Sector Development											
7917	PRVT SCTR DEVT/EI Nino	50	7/5/1994						Actual	S	S
Transportation											
7913	Highways VIII	65	12/21/1993						Non-risk	S	S
Water Supply & Sanitation											
7920	Water Supply	22.9	9/10/1992	1998	M Sat	Lik	Negl	Sat			
39983	Rural sanitation	40	8/28/1997						Actual	S	S

Source: OED Database.

Table 8b - Paraguay: World Bank Project Ratings, FY69-FY99 (sorted by sector)

Table 8b - Paraguay: World Bank Project Ratings, FY69-FY99 (sorted by sector)											
PROJECT DESCRIPTION					OED RATINGS				QAG	SUPERVISION	
Project ID	Project Name	Net Commit. (US\$M)	Approval date	ARPP exit FY	Outcome	Sustain.	ID impact	Quality at Entry	At Risk Rating	Latest DO Ratings	Latest IP Ratings
Agriculture											
7855	Third livestock project	32.0	6/17/1969		Sat						
7858	Small farmer credit and rural development project	21.9	8/6/1974	1981	Sat						
7859	Fourth livestock credit project	20.0	8/6/1974		Sat						
7863	Second rural development project	38.2	5/10/1977	1985	Sat						
7868	Livestock and agricultural development project	38.7	3/22/1979	1985	Sat						
7872	Sixth livestock development project	29.2	4/30/1981	1985	Sat						
7875	Caazapa Area Development	44.6	1/28/1982	1994	Unsat	Unc	Mod				
7876	Eje Norte Rural Development	26.9	5/11/1982	1992	Sat						
7878	Agricultural credit project	55.9	6/7/1983	1988	Unsat	Unl	Negl				
7879	Seventh livestock development project	31.5	1/3/1984	1991	Sat						
7911	Land use rationalization	29	3/17/1992						Non-risk	S	S
7926	Asuncion sewerage	46.5	2/14/1995						Actual	U	U
Education											
7857	Education project	12.5	12/12/1972		Sat						
7861	Vocational training project	7.4	5/4/1976	1981	Sat	Lik	Substan				
7865	Education 3	20.9	12/7/1976	1982	Unsat	Unc	Mod				
7873	Rural Primary Education	20.5	5/12/1981	1989	Sat						
7880	Second vocational training project	6.1	1/3/1984	1993	Sat						
7923	Secondary education improvement	24.5	9/14/1995						Non-risk	S	S
Population, Health and Nutrition											
7927	M.HLTH/CHD.DV.	21.8	9/5/1996						Actual	U	U
Environment											
7918	NTL RES MGMT I	50	2/22/1994						Actual	U	U
Private Sector Development											
7917	PRVT SCTR DEVT/EI Nino	50	7/5/1994						Actual	S	S
Finance											
7864	Industrial credit project	16.8	5/10/1977	1984	Unsat	Unc	Negl				
7870	Industrial credit and regional development proj.	27.4	6/5/1980	1987	Sat	Unc	Substan				

Table 8b. Paraguay: World Bank Project Ratings, FY69- FY99 (sorted by sector) (cont.)

PROJECT DESCRIPTION					OED RATINGS				QAG	SUPERVISION	
Project ID	Project Name	Net Commit. (US\$M)	Approval date	ARPP exit FY	Outcome	Sustain.	ID impact	Quality at Entry	At Risk Rating	Latest DO Ratings	Latest IP Ratings
Multisector											
7871	Second preinvestment studies project	2.8	12/13/1979	1987	Unsat	Unl	Negl				
Public Sector Management											
7862	Preinvestment studies project	7.4	8/21/1975	1983	Sat						
Transportation											
7853	Second road project	9.8	3/31/1966		Sat	Lik	Substan				
7856	Second highway maintenance project	20.3	1/6/1970		Sat	Lik	Substan				
7860	Fourth highway project	29.0	12/10/1974	1980	M Unsat	Unc	Substan	Highly UnSat			
7866	Fifth highway project	54.1	3/7/1978	1983	Unsat	Unc	Substan	UnSat			
7869	Sixth highway project	55.3	6/21/1979	1985	Unsat	Unc	Mod				
7877	Seventh highway project	66.8	5/11/1982	1991	Sat	Lik	Mod				
7913	Highways VIII	65	12/21/1993						Non-risk	S	S
Water Supply & Sanitation											
7867	Rural water supply project	9.8	12/13/1977	1983	Sat	Unc	Negl				
7874	Second rural water supply and sanitation project	17.4	6/16/1981	1989	Sat	Lik	Substan	Sat			
7920	Water Supply	22.9	9/10/1992	1998	M Sat	Lik	Negl	Sat			
39983	Rural sanitation	40	8/28/1997						Non-risk	S	S
GRAND TOTAL		1033.0									

Source: OED Database

Table 9. Paraguay: Active Projects Portfolio

Project (SPN)	Name of the project	Sector	Sector Group	DO	IP	Net Commit. Amt. (\$m)	Projects at Risk (%)	Actual Problem Projects (%)	Actual Problem Projects (#)	% IP Problem	% DO Problem	Potential Problem Projects (%)	Potential Problem Projects (#)	Commit at Risk (%)	Commit at Risk (\$m)	Realism Index (%)	Proactivity Index (%)
P007926	Asuncion Sewerage	Sewerage	Water Supply & Santr	u	u	32	100	100	1	100	100	0	0	100	32	100	100
P007913	Highways VIII	Highways	Transportation	s	s	65	0	0	0	0	0	0	0	0	0	---	---
P007911	Land Use Rationlztm	Natural Res Mgmt	Environment	s	s	29	0	0	0	0	0	0	0	0	0	---	---
P007927	M.Hlth/Chd.Dv.	Targeted Health	Popultr, Hlth & Nutn	u	u	22	100	100	1	100	100	0	0	100	22	100	---
P007918	Ntl Res Mgmt I	Natural Res Mgmt	Environment	u	u	50	100	100	1	100	100	0	0	100	50	100	0
P007917	Prvt Sctr Devt/El Nino	Urban Transport	Transportation	s	s	50	100	0	0	0	0	100	1	100	50	0	---
P039983	Rural Sanitation	Rural Water Sup/Sani	Water Supply & Santr	s	s	40	100	0	0	0	0	100	1	100	40	0	---
P007923	Second. Ed Imprv	Secondary Education	Education	s	s	25	0	0	0	0	0	0	0	0	0	---	---

Project (SPN)	Average Project Age (yrs)	Average Effectiveness Lag (mos)	% EFF DLY	% CNTP FND	% ENV PRB	% LONG HIST	% FINC COV	% LGL COV	% MGT PROB	% SLOW DISB	% PROC PROB	% MCRO MGT	% RSKY CTRY	% RSKY SCTR	% GLDN FLAG
P007926	5.3	8	0	100	0	0	100	100	100	100	0	100	100	0	0
P007913	6.4	7	0	0	0	0	0	0	0	0	0	100	100	0	0
P007911	8.2	14	0	0	0	0	0	0	0	0	0	100	100	0	0
P007927	3.7	5	0	100	0	0	0	0	0	0	0	100	100	100	0
P007918	6.3	17	0	0	0	100	0	0	100	0	0	100	100	0	0
P007917	5.9	7	0	0	0	100	0	0	0	0	0	100	100	0	0
P039983	2.7	12	100	0	0	0	0	0	0	0	0	100	100	0	0
P007923	4.7	5	0	0	0	0	0	0	0	0	0	100	100	0	0

Source: Business Warehouse, Project Supervision Details, as of May 22, 2000.

Table 10. Paraguay: Public Expenditure in Social Sectors

	<i>Paraguay</i>	<i>LAC</i>	<i>Bolivia</i>	<i>Columbia</i>	<i>Ecuador</i>	<i>Peru</i>	<i>Uruguay</i>
Education as a % of GNP (1996)*	3.9	3.9	4.9	4.1	3.5	2.9	3.3
Health as a % of GDP (1990-97) **	1.8	2.6	3.8	2.9	2.0	2.2	1.9

* Source: 1999, SIMA, World Bank.

** Source: 1999 World Development Indicators CD-ROM, World Bank.

Table 11. Bank Management for Paraguay: 1990-99				
<i>Year</i>	<i>Vice President</i>	<i>Country Director</i>	<i>Country Operations Division Chief</i>	<i>Resident Representative</i>
1990	S. Shahid Husain	Pieter P. Bottelier	Suman K. Bery	n.a.
1991	S. Shahid Husain	Pieter P. Bottelier	Suman K. Bery	n.a.
1992	S. Shahid Husain	Ping-Cheung Loh	Suman K. Bery	n.a.
1993	S. Shahid Husain	Ping-Cheung Loh	Suman K. Bery	n.a.
1994	Shahid Javed Burki	Gobind T. Nankani	Paul M. Meo	n.a.
1995	Shahid Javed Burki	Gobind T. Nankani	Paul M. Meo	n.a.
1996	Shahid Javed Burki	Gobind T. Nankani	Danny Leipziger	n.a.
1997	Shahid Javed Burki	Gobind T. Nankani	John M. Underwood	n.a.
1998	Shahid Javed Burki	Isabel Guerrero	n.a.	Peter M. Hansen
1999	Shahid Javed Burki	Isabel Guerrero	n.a.	Peter M. Hansen

Table 12. Paraguay: Comparative Lending Costs for Selected Countries, FY90-FY99

	Total Costs*	\$m No. of projects	Average total costs \$'000 per project	Net Commitment** \$m	Total costs \$ per \$1000 of net commitment
Bankwide	2452	2446	1002	230175	11
LAC	408	454	899	48880	8
Paraguay	9	9	1000	351	26
Bolivia	27	34	794	1110	24
Ecuador	19	22	864	1125	17
Peru	20	25	800	3437	6
Uruguay	8	13	615	722	11

Source: PBD database.

* The amount of total costs includes lending completion, supervision, scheduled and unscheduled ESW, and dropped projects costs.

** The amount of net commitment is for projects approved in 1990-1999.



Ministerio de Hacienda

Asunción, 12 de julio de 2000

S.S.E.E.I. N° 200

SEÑOR

Dr. OVIDIO OTAZÚ, ASESOR DEL DIRECTOR EJECUTIVO POR PARAGUAY
BANCO MUNDIAL.

PRESENTE:

Tengo el agrado de dirigirme a Ud. con relación al documento denominado "Evaluación de la Asistencia del Banco Mundial al Paraguay (CAE)", en su versión inglesa.

Sobre el particular, solicito a usted se sirva considerar, en próximas ocasiones, la remisión de similares documentaciones en su versión castellana incluyendo algunas primarias sugerencias técnicas como representante oficial de nuestro país ante dicho organismo multilateral.

Asimismo, esta repartición ministerial ha analizado pormenorizadamente dicha documentación no observando reparos que formular sobre el mismo, por tal motivo presto mi conformidad para su procesamiento por dicho organismo multilateral.

Hago propicia la ocasión para saludarlo con mi mayor estima y consideración



 DR. DANILLO ROMERO ORTIZ
 VICEMINISTRO
 DE ECONOMÍA E INTEGRACIÓN
 GOBERNADOR SUPLENTE ANTE EL BANCO MUNDIAL

MANAGEMENT ACTION RECORD

<i>OED Recommendations</i>	<i>Management Response</i>
<p data-bbox="215 442 643 474"><i>Paraguay Country Assistance Evaluation</i></p> <p data-bbox="215 521 812 761">The stance adopted by the Bank since the 1997 CAS has been basically appropriate in view of the poor performance of Bank projects and the Government's lack of commitment to reform. OED supports ongoing efforts to restructure or cancel current loans and recommends that in the next CAS management consider reducing the resources dedicated to Paraguay further, pending a clearer signal of Government interest in reform.</p> <p data-bbox="215 921 795 1102">The Bank presence could continue through selective analytic and advisory activities (including continued support to anti-corruption, poverty assessment or PRS activities). Policy dialogue efforts should continue to focus on long-term structural issues and be broadened to include contact with political leaders and civil society.</p>	<p data-bbox="837 521 1365 853">Management concurs with the basic thrust of the OED recommendations on the Bank's stance on the future program for Paraguay. A major effort has been underway to improve the performance of the on-going portfolio which is bearing fruit. In addition, management has taken steps to reduce the administrative costs of the Paraguay program by downsizing the field office. At present, the plan is to prepare the next CAS in FY02 by which time we expect to have clearer indications of the Government's commitment to reform.</p> <p data-bbox="837 921 1377 1187">Management also concurs with this recommendation and has been providing selective assistance, for example, WBI's anti-corruption program, and has embarked on a poverty assessment. At the same time, we are directing advice and technical assistance (via restructured on-going loans and the Bank's AAA) to develop further the Government's nascent reforms, particularly Reform of the State and privatization of public enterprises.</p>