

## Increasing Government Effectiveness in Uncertain Times



### Paraguay's Response to the Financial Crisis

#### Overview

In the challenging context of international financial crisis, the Paraguay government managed to simultaneously launch and successfully implement key public sector structural reforms and prepare a sound response to the global downturn. Significant progress was achieved in three key structural areas: oversight of state-owned enterprises (SOEs), which together received 30 percent of government spending; improved tax collections; and strengthened internal controls across the administration. While improving these core aspects of fiscal management, the government was also able to provide greater attention and financial support to social initiatives, such as its cash transfer program. In addition, the Government introduced competitive and transparent processes for recruitment and promotion of civil servants with oversight from the Civil Service Secretariat in several institutions. While achieved on a partial basis, the introduction of these processes represented an important milestone considering Paraguay's history and the program's baseline.

#### Challenge

Paraguay's public sector performance was a key challenge. SOEs were not effectively controlled, generating potential contingent liabilities and inadequate provision of service delivery in critical areas such as water, electricity, and communications. Even after reaching on average 12 percent of GDP between 2004 and 2009, up from 9 percent in the 1990s, central government tax-to-GDP ratios remained among the lowest in the region and could have potentially generated sustainability and liquidity challenges. Internal control and audit effectiveness had been diagnosed as the fundamental challenge of Paraguay's public financial management system. Finally, social spending and public investment levels were low by regional standards.

#### Approach

The project was designed with a view to adapting to country circumstances and ensuring strong national ownership. On the one hand, the design of project components was based on the Government's Reform Agenda and a Crisis Response Plan. At the same time, the sequencing of policy actions and the expected outcomes were realistic and adapted to public sector capacities.

#### Results

More Results 

**5 out of  
11**

ministries have established internal control norms and committee

**83,100**

beneficiaries in 2011 of the coverage of the cash transfer program Tekopora

**US\$100  
million**

The first Paraguay Public Sector Development Policy Loan focused on contributing to the effectiveness and efficiency of the public sector while maintaining a stable macroeconomic policy framework. The program helped to support improvements in several key outcomes areas:

was the IBRD contribution of the project

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- Tax collection rose significantly during the 2008-2010 period, with the tax/GDP ratio increasing 1.6 percentage points from 11.9 percent in 2008 to 13.5 percent in 2010.
- Five out of 11 ministries - representing 70 percent of the overall budget - have established internal control norms and committees, and are using a standardized internal control framework. This improvement was reflected in an upgrade in the Public Expenditures Financial Accountability (PEFA) assessment for internal control and external audit (questions PI-20 and PI-21), where Paraguay moved from D+ in 2008 to C in 2010.
- Audited financial statements for eight of the nine SOEs, which account for 99 percent of overall SOE expenditures, were published in 2009 and 2010.
- The coverage of the cash transfer program Tekopora increased from 13,679 beneficiaries in 2008 to 83,100 beneficiaries in 2011. The percentage of the road network that received periodic maintenance increased from 25 percent in 2008 to 45 percent in 2010.

## Bank Contribution

IBRD contribution of the project was US\$100 million.

## Partners

The implementation of the standardized internal control framework was supported by USAID. Total program costs are approximately US\$30 million through the preparation of an implementation manual and training.

## Moving Forward

The Bank team is currently preparing a second Public Sector Development Policy Loan, which aims to support the Government of Paraguay in implementing and consolidating its reform program to improve the public sector. The loan would focus on three areas of policy reform: i) SOE oversight, ii) Central administration internal financial control, and internal audit, and iii) Tax system.

## Beneficiaries

Improvements in public sector management benefit all citizens through more efficient and transparent central administration, through better public service delivery, and through better quality and access to public information.