

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

September 15, 2014
Report No.: AB7617

Operation Name	ENHANCING FISCAL MANAGEMENT, SOCIAL PROTECTION AND FINANCIAL INCLUSION DPL - DDO
Region	LATIN AMERICA AND CARIBBEAN
Country	Paraguay
Sector	Payments, settlements, and remittance systems (20%); General public administration sector (30%); Central government administration (30%); Microfinance (20%)
Operation ID	P151007
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Paraguay
Implementing Agency	Ministry of Finance
Date PID Prepared	July 23, 2014
Estimated Date of Appraisal	
Estimated Date of Board Approval	October 21, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Over the last decade, Paraguay has improved its economic performance. After almost two decades of economic stagnation and instability, Paraguay's average annual GDP growth rate exceeded 4.5 percent, between 2003 and 2013. As a result, per capita GDP grew by 33 percent in the same period.

The poverty impacts of improved good economic growth and stability performance have intensified in the last three years. Moderate poverty declined sharply in 2003–2013, dropping from 44 percent to 23.8 percent. From 2003–11, extreme poverty had been resilient to increased growth performance, but it accelerated falling by almost half from 18 percent to 10.1 percent in 2011–13. The fall in inequality followed a similar pattern. Improvements have been also observed in non-monetary poverty. Between 2003 and 2013, Paraguay successfully brought down the degree of deprivation to less than 5 percent in terms of access to electricity, educational attainment, and secondary-school enrollments.

II. Proposed Objective(s)

The Program Development Objectives of this operation is to assist the Government of Paraguay's efforts to strengthen sustainability, equity, transparency and efficiency in fiscal

management, to improve the targeting and coverage of social programs and to increase the access to financial services.

The GoPY has prepared its National Development Plan (PND) for the period 2013–18 which spells out its policy agenda to eliminate poverty. By supporting the PND’s cross-cutting areas of equal opportunities and efficient and transparent government the proposed operation will be fully consistent with the forthcoming CPS. This includes reforms designed to: (i) promote responsible macroeconomic management by supporting the establishment of a fiscal framework instrumental to sustainable fiscal policies and enhancing the tax revenue efforts; (ii) improve efficiency in public-service delivery by enabling a transparent budget execution; and (iii) reduce poverty by fostering financial inclusion and improving targeting of social protection programs.

III. Preliminary Description

This operation is structured in three pillars: (i) Public Finance Management; (ii) Social protection; and (iii) Financial Inclusion.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The reform program supported by this operation is expected to have positive direct impacts on poverty and shared prosperity. Measures supporting improvements in the coverage and targeting of social programs are expected to benefit directly the extreme poor while the implementation of the financial inclusion agenda is expected to improve economic opportunities to enable a sustainable boost in shared prosperity.

Tax policy measures are also expected to enhance the progressivity of the tax system and reduce income inequality. The establishment of the agricultural income tax, the increase in the VAT rate applied to the financial sector and agriculture products are expected to enhance equity in the tax system.

Environment Aspects

The specific actions supported under the proposed operation are not likely to have significant positive or negative effects on the state or country's environment, forests, fisheries or other natural resources. The first pillar, Strengthening Public Sector Management, has a primarily administrative nature, therefore policy actions under the first pillar are unlikely to either exacerbate environmental problems or contribute to their remediation. The second pillar, social Protection and Financial Inclusion, encompasses policy actions that are not expected to have implications on environmental sustainability.

V. Tentative Financing

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		100
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	100

VI. Contact Point

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