



Approach Paper

Paraguay 2009-2013

Country Program Evaluation





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CONTENTS

PREFACE

I.	INTRODUCTION.....	1
II.	COUNTRY PROGRAM BACKGROUND, 2009-2013	1
III.	THE IDB, ITS STRATEGY, AND ITS PROGRAMMING IN PARAGUAY (2009-2013).....	3
IV.	EVALUATION QUESTIONS.....	5
	A. Relevance	5
	B. Implementation and effectiveness	6
	C. Sustainability.....	6
V.	METHODOLOGY	7
VI.	TEAM AND TIMELINE	7

ABBREVIATIONS

CEDLAS	Centro de Estudios Distributivos Laborales y Sociales [Center for Distributive, Labor and Social Studies]
CPD	Country program document
CPE	Country program evaluation
DGEEC	Dirección General de Estadísticas, Encuestas y Censos [Bureau of Statistics, Surveys, and the Census]
FONACIDE	Fondo Nacional de Inversión Pública y Desarrollo [National Fund for Public Investment and Development]
IMF	International Monetary Fund
OVE	Office of Evaluation and Oversight
SPD	Office of Strategic Planning and Development Effectiveness

PREFACE

The Board of Executive Directors has requested on different occasions a review of the content of country program evaluations (CPEs). In response, as a pilot test, the Office of Evaluation and Oversight (OVE) will make some adjustments to the CPEs to be presented in 2013, namely those for: the Dominican Republic, Paraguay, and Barbados. The emphasis placed on each adjustment will depend on its relevance to the country context:

- OVE will seek to more closely link discussion of the country context to the evaluation of the program's relevance.
- The CPE will cover the entire Bank program with the country for the evaluation period, including sovereign guaranteed and non-sovereign guaranteed loans, together with nonreimbursable activities, such as technical cooperation and knowledge products.
- The effectiveness analysis will include not only the results of the Bank's program at the sector level, but will also look at crosscutting issues. Those matters, depending on the circumstances in each country, could include the suitability and use of lending instruments and knowledge products; support for the strengthening and use of country systems (fiduciary, safeguards, monitoring and evaluation); and the quality of self-assessment systems and portfolio monitoring.
- As part of the effectiveness evaluation, the CPE will include an analysis of factors that impacted program implementation and other efficiency-related issues.
- OVE will aim to provide a forward-looking approach, identifying how positive and negative lessons from the past can contribute to formulation of the country program and strategy in the future.

OVE thanks in advance the Board of Executive Directors and other stakeholders for their comments and reactions.

I. INTRODUCTION

- 1.1 This approach paper defines the scope and content of the Paraguay country program evaluation (CPE) for the period 2009-2013. This is the third time the Office of Evaluation and Oversight (OVE) has provided an independent look at the Bank's program with Paraguay. OVE's first report (document RE-294, June 2004) covered the 1991-2002 period, which was marked by democratic transition and the prolonged financial crisis the country experienced from 1995 to 2002. The second evaluation covered the 2003-2008 period, which was characterized by major reforms that helped Paraguay emerge from the crisis and embark on a period of sustained economic growth, based on sound fiscal performance and strongly driven by the external sector (document RE-356, August 2009). The current evaluation covers the 2009-2013 period, which saw an intensification of the agricultural export model and showed early signs of new opportunities, challenges, and vulnerabilities.
- 1.2 According to the OVE protocol for country program evaluation, as updated in 2008 (document RE-348-3), the main goal of a CPE is to "provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance" (paragraph 2). In addition to facilitating accountability, these evaluations seek to identify lessons learned that could improve the Bank's program in the future (paragraph 3).
- 1.3 In 2009, Bank Management developed a new model for country strategy papers, to provide the Bank with an effective tool for sharpening country focus and ensuring the flexibility envisaged during the realignment process. In this connection, new guidelines were drafted that "recast the Country Strategy emphasizing the need for programming that is results focused, risk based, and uses a programmatic and flexible approach to respond to country priorities" (page 1). Beyond these general principles, the most significant practical impacts of the new country strategy were (i) the de facto separation of country strategy formulation and country programming, (ii) the new emphasis given to sector notes, and (iii) inclusion of a results matrix with indicators.

II. COUNTRY PROGRAM BACKGROUND, 2009-2013

- 2.1 The Republic of Paraguay is a predominantly agricultural country located in South America's Southern Cone.¹ It is the only member country of the Bank other than Bolivia to lack a direct outlet to the sea, although it does have ocean access via the Paraguay-Paraná river system. Its economy is relatively small and poor: its GDP per capita in 2009 (based on purchasing power parity) was about US\$4,200, the fifth lowest in the region.² Its two main export commodities are soy (and soy products) and meat. Together, they accounted for 62% of Paraguay's exports in 2009, and the "soy" header alone accounted for 24%.³ In 2009 Paraguay was facing major social challenges. In addition to having the eighth lowest Human Development Index ranking in the region, Paraguay has very uneven income

distribution compared to other countries of the region and is one of the most unequal countries in terms of land distribution.⁴

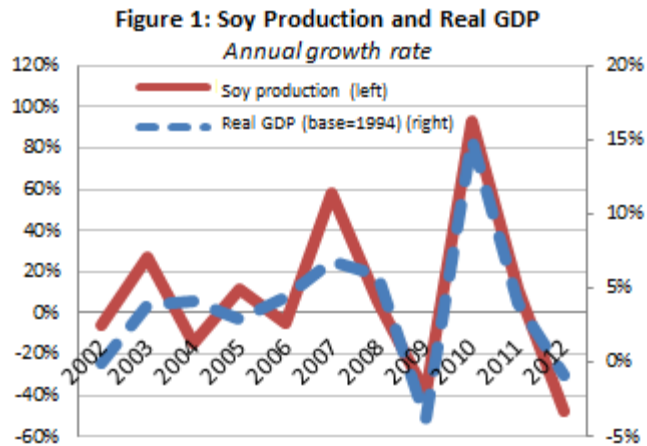
2.2 The start of the review period (2009-2010) was marked by two key events: the emergent global financial crisis and the change in ruling party. On the political front, in 2008 a coalition led by Fernando Lugo and supported by the second-largest party in terms of votes (the Liberal Party) won the election, bringing about the first change in political party since 1947. Despite these changes,

economic policy maintained a certain continuity, among other reasons due to the appointment of the same Finance Minister who oversaw the emergence from the crisis (2003-2005) under the previous administration. This policy continuity was even maintained after the Paraguayan Congress removed President Lugo from office and the Finance Minister was replaced.⁵

2.3 Paraguay's economic policy continuity can be understood in light of the growth in the country since 2003, which stands in contrast to the virtual stagnation of previous periods: GDP per capita rose 33% from 2003 to 2011 (3% annual average) after having contracted by nearly 20% from 1981 to 2003 (-1% annual average).⁶ The foundation for this economic growth was a sound fiscal stance, coupled with a strong external sector.

2.4 Despite average growth since 2003, recent trends in GDP and agricultural output are revealing an early vulnerability in the development model (see Figure 1), namely its strong dependence on a handful of commodities. This makes the economy particularly vulnerable to climate shocks (such as those that caused the recessions in 2009 and 2012) and, potentially, to market shocks.⁷

2.5 A second weakness underlying the agricultural export development model has to do with its very nature. Historically, but especially since the soy boom of the early 2000s, Paraguay's economic development has been driven by a dynamic agricultural sector that is natural-resource and capital intensive but does not create many jobs.⁸ Owing to the significant economies of scale to be gained, production tends to be concentrated on large extensions of land, leading to potential conflict with traditional forms of peasant production and organization.⁹ Also, the agriculture sector is relatively isolated, with only tenuous links to the rest of the economy.¹⁰ Lastly, the agriculture sector tends to contribute proportionally less to tax receipts, benefiting from a vertically and horizontally imbalanced tax structure.¹¹



- 2.6 These characteristics likely explain why this development model has not succeeded in reducing poverty and inequality. In fact, after decreasing steadily during the post-stabilization period (2005-2008), poverty levels have remained around 32%-35%, with only a slight downward trend.¹² More worrisome still is extreme poverty, which has remained relatively constant since 2005 and continues to be primarily rural.¹³ The trend for inequality is similar. The Gini coefficient is not only high, but has been holding steady at more than 0.5, with no signs of improving.¹⁴ Although open unemployment is not overly high, the share of jobs in the informal economy (65%) and underemployment are major concerns.
- 2.7 Despite these challenges, Paraguay has a number of opportunities. It has abundant natural and human resources, including highly strategic aquifer, mineral, and energy resources. Of particular importance is its unique position in terms of energy: the country's installed power capacity (8,000 megawatts) is four times peak consumption, and all the energy it produces is renewable (hydropower). The hydroelectric plants also help to finance government spending and investment, generating transfers to the public sector on the order of 2.6% of GDP. The eastern part of the country is located on top of the Guaraní aquifer—one of the world's main drinking water reserves, which ensures Paraguay's access to this strategic resource into the future. Furthermore, the country's significant mining potential (oil, gold, titanium) is currently being explored. Since Paraguay is undergoing demographic transition, a future opportunity also lies in the “demographic dividend” resulting from having a growing young, working-age population, assuming that these young people are able to find work.¹⁵
- 2.8 A key economic opportunity is also afforded by the increasing availability of resources for financing Paraguay's development. First, a new fund has been created to finance infrastructure investments in education, health care, and science and technology and to enhance the lines of credit of second-tier public banking (FONACIDE).¹⁶ Second, in 2013 the Paraguayan government took its first steps toward tapping the financial capital markets by successfully floating a US\$500 million sovereign bond with which it plans to finance infrastructure projects. Lastly, the Paraguayan Congress is considering a new public-private partnership law that could increase the stream of private investment toward infrastructure projects. In sum, Paraguay currently finds itself at a favorable juncture that could become a tipping point in its economic development.

III. THE IDB, ITS STRATEGY, AND ITS PROGRAMMING IN PARAGUAY (2009-2013)

- 3.1 With its loan portfolio, the IDB is Paraguay's main development partner, accounting for half of the country's external debt and 80% of its multilateral debt.¹⁷ This relationship has remained stable in the past, but Paraguay's recent foray into global markets will likely reduce the Bank's relative importance in the future. The Bank is engaged in nearly every sector, though its portfolio is concentrated in

- infrastructure (51% of approvals from 2009 to 2012), programmatic operations (25%), and support to second-tier public banking (13%).
- 3.2 The previous CPE, for 2003-2008, already identified several of the challenges for an economy based on agricultural commodity exports (paragraph 5.1). As for the Bank, the report notes that “[t]he Bank’s engagement with Paraguay continues to resemble the findings of the previous CPE,” among them an ambitious, dispersed program lacking focus; the need to seek broader consensus with key actors in the country who are vital to the Bank’s work, particularly the Congress and civil society; and the mismatch between the volume of approvals and the country’s actual delivery capacity.
- 3.3 The 2009-2013 country strategy is a relatively short 11-page document (excluding the final table and annexes). The main component of the strategy consists of the summary of sector technical notes (6 pages) and a list of potential areas of intervention for the Bank (see Table I). This is followed by a discussion of the country’s financing needs and the potential IDB program (2 pages), and brief mentions of the use of country systems and coordination with other donors.¹⁸ The approvals scenario was on the order of US\$1 billion, weighted slightly toward the front end of the period (46% in 2009-2010). In addition to the strategy itself, the document includes four annexes and 18 electronic links. A total of five sector notes (social sector, energy, transportation, water and sanitation, democratic governance, agriculture) and numerous technical documents on specific topics (growth diagnostic, development of the Chaco region, etc.) were also prepared.¹⁹
- 3.4 From 2010 to 2013, Management also produced annual programming reports (CPDs) either as stand-alone documents (document GN-2541-3 in 2010) or as an annex to the Bank’s Operational Program Reports (documents GN-2617, GN-2661-4, and GN-2696 for 2011, 2012, and 2013, respectively).

Table 1. Summary of 2009-2013 Country Strategy

Sector	Possible areas of action and objectives for the Bank	No. of actions (*)	Other objectives/actions mentioned
Transportation	Increase serviceability of roads (3.3)	10	Port infrastructure, navigability, urban transit
Water and sanitation and solid waste	Need for broader water and sanitation coverage in rural and urban areas (3.5)	5	Solid waste
Agriculture and tourism	Improve land tenure and the efficiency of public spending in the agriculture sector (3.8)	5	Tourism
Energy	Investments in transmission and distribution (3.10)	5	Biofuels, renewable energy
Climate change	Reduce additional vulnerability in the agriculture sector	2	Biofuels, renewable energy
Health care	Primary/preventive health care in rural areas (3.12)	1	Conditional cash transfer program

Table 1. Summary of 2009-2013 Country Strategy

Education	Quality and equity in primary education, coverage and quality at other (preschool, secondary, university) levels (3.13)	9	Vocational education, university accreditation, scientific research, school-to-labor-market transition
Institutional	Lack of public management capacity (3.15)	8	Increase tax burden, efficiency of public expenditure, statistical systems, security, regional integration
Financial	Deepen the financial sector	4	Support second-tier banking, reform of first-tier banking
Municipal and urban development	Decentralization, urban renewal of downtown Asunción, support for housing	3	
Total – All sectors		52	

(*) Includes all actions, including those unrelated to the main objective.

Source: OVE, based on document GN-2541-1.

IV. EVALUATION QUESTIONS

- 4.1 The current CPE will assess whether the program implemented by the Bank during the 2009-2013 period was the right one given the context of the country's characteristics and its challenges, needs, and objectives as spelled out in the government's development programs. Specifically, criteria on relevance, implementation and effectiveness, and sustainability will be used.

A. Relevance

- 4.2 Relevance (or pertinence) “refers to the degree to which the design and objectives of the Bank strategy and program of assistance were consistent with the needs of the country and with the government's development plans and priorities” (document RE-348-3). Some important questions in analyzing the program's relevance would be:

- (i) How consistent was the program implemented by the Bank in Paraguay with the country's development needs and strategies—both de jure and de facto strategies?
- (ii) How consistent was the Bank's program with the country strategy paper (document GN-2541-1), the programming documents, and the sector technical notes?
- (iii) To what extent were the Bank's operations designed so as to be consistent with the country's capacities and constraints (e.g. political economy, delivery capacity)?
- (iv) To what extent did the Bank anticipate Paraguay's new development challenges, or, in other words, what was the Bank's positioning in the country with regard to Paraguay's strategic challenges?

- (v) Have the instruments used by the Bank been appropriate, given the country's characteristics? In particular, is the use of the preinvestment facility (PROPEF) relevant given the country context? And performance-driven loans?
- (vi) To what extent did the Bank foster synergies, both internal and external, to facilitate meeting the proposed development objectives? Specifically, to what extent did the Bank seek to leverage resources from the private sector and from other international donors for its programs? To what extent did it help coordinate these objectives with the various international donors and internal divisions within the Bank itself?

B. Implementation and effectiveness

4.3 The analysis of program implementation examines the characteristics of program execution, including some questions about its efficiency. In turn, "effectiveness refers to the extent to which the assistance instruments achieved the intentions and objectives set. Outcomes are assessed in a CPE with respect to program objectives at different levels: across similar lending and non-lending projects; within key sectors and/or thematic thrusts; and at broader institutional, macroeconomic, and socioeconomic levels" (document RE-348-2, p. 8). The evaluation will aim to answer the following questions:

- (i) What progress are operations making in terms of outputs and outcomes? Is the degree of progress in institutional strengthening operations similar to that in infrastructure projects?
- (ii) What is the Bank's value added in the search for and implementation of solutions to the challenges facing the country?
- (iii) What externalities (if any) has the Bank's work produced?
- (iv) To what extent has the Bank ensured the efficacy of its operations through the identification and timely mitigation of risks? What were the preparation and execution times and costs of operations in Paraguay, and where were the main bottlenecks?
- (v) What were the main causes of these bottlenecks, and what steps did the Bank take to mitigate them? What were the outcomes?
- (vi) What role have the different departments of the Bank played, particularly the Country Office in Paraguay, to ensure the most cost-effective execution of the country program.

C. Sustainability

4.4 "Sustainability refers to the likelihood that actual and anticipated results will be resilient to risks beyond the program period" (document RE-348-2, page 9). The evaluation will seek to answer the following questions:

- (i) What is the likelihood that the Bank's interventions will be sustainable?
- (ii) To what extent did the Bank anticipate sustainability challenges? Did it attempt to mitigate them?

V. METHODOLOGY

- 5.1 To answer these questions, the evaluation will use various sources of information. These include interviews with key informants, including current and former management staff, project managers for Bank projects, Bank sector specialists, other international cooperation agencies (particularly the Japan International Cooperation Agency and the World Bank), IDB project beneficiaries, and members of academia and civil society who are familiar with Paraguay's development challenges. All the Bank's internal oversight and evaluation documents will be used as information sources, albeit subject to validation by OVE.
- 5.2 OVE will complement the interviews and document review with a statistical analysis of the Bank's administrative databases. Databases used in the past include the following: administrative budget (BUDGET), project preparation (OPUS), contractual conditions (OPMAS), procurement (PRISM), use of staff time (TRS), staff performance evaluation (E-performance), financial transactions (LMS), and Bank monitoring and evaluation systems (e.g. PPMR/PMR). The statistical processing of these databases will depend on the quality of the data and could include a regression analysis or comparison of synthetic portfolios to evaluate efficiency.

VI. TEAM AND TIMELINE

- 6.1 The country program evaluation will be performed by a team consisting of Juan Manuel Puerta, María Elena Corrales, Oliver Azuara, Miguel Soldano, Diego Vera, and Lucía Martín. It will necessitate ongoing dialogue with the Bank's Management, particularly with its Country Office in Paraguay. It will therefore involve two missions to the country, for the main purposes of: (i) identifying the key facets of the Bank-country relationship, (ii) gathering data and validating document analyses, and (iii) visiting specific projects to speak with executing agencies and beneficiaries.
- 6.2 Lastly, according to the protocol for country program evaluation, "[t]he results of a CPE should be provided at a time in which the government is willing to make strategic decisions about the use of external assistance." In practice, timely consultation involves the "goal of having a draft report available for consideration by country authorities within the first two months of a new administration." According to the election calendar, the Republic of Paraguay's new government will take office on 15 August 2013. OVE will attempt to align the required consultations with the new Government of Paraguay (September-October 2013)

with the scheduled date for presentation of the new country strategy with Paraguay for 2014-2018 to the Board of Executive Directors (December 2013).

6.3 The suggested timeline for the evaluation is therefore as follows:

- March: First visit to Paraguay.
- April: Approach paper prepared.
[21 April: Elections in Paraguay]
- May: Approach paper delivered to the Office of the Secretary for distribution.
- June: Second mission to Paraguay for project visits.
- July-August: First draft for OVE internal discussion.
[15 August: Change of government in Paraguay]
- September: Draft shared and presented to Management. Draft forwarded to the Government of Paraguay for its consideration.
- October: Final document submitted to the Office of the Secretary.
- November: Presentation to the Programming Committee of the Board.
- December: Presentation of the country strategy with Paraguay to the Board.

End notes

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- ¹ According to preliminary 2012 Census data, 33% of the population lives in rural areas (59% and 41%, respectively, in Bureau of Statistics, Surveys, and the Census (DGEEC) projections based on the 2002 Census). Moreover, in 2009, nearly 20% of the country's value added was from the agricultural sector—the second highest of all the Bank's borrowing member countries. Agriculture also employs between one fourth and one third of the population—again one of the highest levels among the Bank's borrowing member countries. See WDI, Series: Employment in Agriculture (% of total employment) and Agriculture (% of total value added).
- ² After Haiti, Honduras, Nicaragua, and Guyana. As explained later, however, GDP per capita has risen at a quick pace in recent years. In 2011 (the last year for which there are data in the series) Paraguay passed Bolivia and Guatemala to become the seventh poorest country. Furthermore, some estimates place Paraguay's GDP even higher (with underreporting on the order of 20% to 50% of total GDP), taking into account the informal economy and including the Itaipú and Yacyretá binational power plants. See Wagner Weber, "El Sinceramiento de la Economía Paraguaya" [Coming Clean about the Paraguayan Economy], *El Lector*, 2005. See also: [Link](#).
- ³ We use 2009 to reflect the situation in the country at the starting point for the country strategy 2009-2013. However, since there was a drought that year, 2009 underestimates the importance of soy exports. In comparison, in 2011, exports of meat and soy (including soy products) represented 68%, with soy alone accounting for 41% of exports.
- ⁴ See: Cruces, Guillermo and Leonardo Gasparini. "Políticas Sociales para la Reducción de la Desigualdad y la Pobreza en América Latina y el Caribe. Diagnóstico, Propuesta y Proyecciones en Base a la Experiencia Reciente" [Social Policies for Reducing Inequality and Poverty in Latin America and the Caribbean. Diagnostic Assessment, Proposal, and Projections based on Recent Experience]. Center for Distributive, Labor and Social Studies (CEDLAS), Working paper 142, March 2013. On inequality in land distribution, see: Galeano, Luis. "Dinámica del mercado de la tierra en América Latina y el Caribe: El caso de Paraguay" [Land Market Dynamics in Latin America and the Caribbean: The Case of Paraguay]. Santiago: FAO. [Link](#).
- ⁵ In his swearing-in speech, the new Minister of Finance appointed in 2012 confirmed the general course of economic policy. See the swearing-in speech of the Minister of Finance, 26 June 2012: [Link](#).
- ⁶ According to the World Bank's World Development Indicators: GDP per capita based on purchasing power parity (constant 2005 international dollars).
- ⁷ In 2009 and 2012, severe droughts brought about significant declines in soy production, which plunged from 6.3 million tons in 2008 to just 3.8 million in 2009, and again from 8.3 million in 2011 to just 4.6 million in 2012. The 2009 and 2012 drops in soy output dragged down GDP by 3.8% and 0.87%, respectively. This was compounded by the outbreak of foot-and-mouth disease in 2011, which led to the suspension of exports of Paraguayan meat to Chile and Peru.
- ⁸ On this point see Donald Richards, "Estancamiento Económico y Modelo Exportador en Paraguay, Un Análisis de Series de Tiempo" [Economic Stagnation and the Export Model in Paraguay, A Time Series Analysis], in Fernando Masi and Dionisio Borda, *op. cit.*, pp. 112-144. The author finds a strong correlation between the concentration of exports and urban unemployment.
- ⁹ According to the Agricultural Census, 89% of soy production takes place on farms with more than 100 hectares and 48% takes place on farms with more than 1,000 hectares. While the average cotton farm has 1.24 hectares of cultivated area and produces 1.2 tons, the average soy farm has 89 hectares and produces 227 tons. See Agricultural Census, Vol. 1, Table 24.

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- ¹⁰ This hypothesis is explored econometrically as part of the Article IV consultations of 2011 (see International Monetary Fund, Paraguay: Selected Issues, 2011 Article IV Consultation, IMF Country Report 11/239, Chapter 1, Paraguay—Potential Output Growth and Spillovers from Agriculture.) The report notes, “VAR results suggest little spillovers from the agricultural sector to the rest of the economy, with the construction sector responding more significantly to changes in agricultural output.” A 10% increase in agricultural output causes a 2% increase in construction, but the effect quickly vanishes, i.e. it does not generate other linkages. The effect on the industrial sector is entirely nonexistent. The report finds that “[a]lthough there is a somewhat mild increase in the output of the services sector, the effect is not very significant.”
- ¹¹ In particular, “[d]espite accounting for over 20 percent of GDP, the agriculture sector’s share of tax revenues is negligible,” See IMF, Article IV report, 2012: [Link](#).
- ¹² As reported in the World Bank’s World Development Indicators. Gains in poverty reduction were seen mainly in rural areas, with rural poverty declining from 55% to 49% between 2004 and 2008, and to 44.8% in 2011. Meanwhile, urban poverty dropped from 35% to 25% between 2005 and 2008, but eased only to 24% by 2011. There are two possible explanations for this trend: First, the expansion of coverage of social programs from 2009-2011 occurred mainly in rural areas. Second, there is a perception of the urbanization of poverty, because the recent economic boom is linked to the production of commodities (e.g. soy) that have capital-intensive production technology and, unlike traditional peasant production (cotton, cassava, etc.), do not have rural job creation capacity. The 2008-2013 CPE already noted the trend toward the “urbanization” of poverty, which was just beginning at the time. See document RE-356, paragraphs 1.21 (footnote 45) and 1.22.
- ¹³ See Socio-Economic Database for Latin America and the Caribbean (CEDLAS and World Bank), based on national statistics.
- ¹⁴ According to household surveys conducted by the DGEEC, the Gini coefficient remained constant: 0.52 in 2006 and 0.51 in 2010. [Link](#)
- ¹⁵ See Economic Commission for Latin America and the Caribbean, 2008, Demographic Change and its Influence on Development in Latin America and the Caribbean. [Link](#).
- ¹⁶ The Fondo Nacional de Inversión Pública y Desarrollo [National Fund for Public Investment and Development] (FONACIDE) is funded with extra resources resulting from the increased price for power transferred to Brazil—some US\$240 million per year.
- ¹⁷ At the end of 2012, approximately 80% of the public debt was external (US\$2.1 billion of US\$2.3 billion), and two thirds of external debt (US\$1.4 billion) was with multilaterals ([Link](#)). Sovereign guaranteed debt with the IDB stood at US\$1.099 billion (see Finance Department, [Finance Dashboard](#)), i.e., 50% of Paraguay’s external debt and nearly 80% of its multilateral debt.
- ¹⁸ The 11 pages of the country strategy paper are rounded out by the document’s first two pages, which contain an introduction and a succinct review of the Bank’s operations in Paraguay.
- ¹⁹ In his summary of the country strategy, the chairperson of the Programming Committee highlighted that “[t]he strategy reflects an important continuity in the Bank’s work in Paraguay, where the majority of multilateral financing (81%) comes from the Bank, and is the product of the quality of the dialogue that led to a major convergence between the government’s economic and social development objectives and the Bank’s strategic priorities in infrastructure, climate change, social sectors, and poverty reduction, as well as institutional capacity” (document GN-2541-2).