



European  
Commission



# Evaluation of Budget Support in Paraguay 2006-2014

## Executive Summary

January 2017

Contract N° EVA 2011/Lot 4  
Specific Contract N° 2014/352418/1

Evaluation carried out on behalf of the European Commission

International  
Cooperation and  
Development



Consortium of  
ADE and COWI  
Consortium leader: ADE s.a  
Contact Person: Edwin Clerckx  
Edwin.Clerckx@ade.eu

**Contract No EVA 2011/Lot 4  
N° 2014/352418/1**

**This evaluation was commissioned by  
the Evaluation Unit of the  
Directorate General for International Cooperation and  
Development (European Commission)**

*The opinions expressed in this document represent the authors' point of view  
which are not necessarily shared by the European Commission  
or by the authorities of the concerned countries.*

*The report has been prepared by*



Registered office:  
Unit 3, Wheatley Business Centre, Old London Rd., Wheatley, Oxford, OX33 1XW,  
United Kingdom  
Company number 6305406  
web: <http://www.fiscus.org.uk>

## Executive Summary

The objective of this evaluation is to assess the contribution of Budget Support to sustainable achievements in the reduction of poverty and inequality in Paraguay. This work is part of an international process to evaluate the effects Budget Support. In common with the other evaluations conducted since 2009, the evaluation applies the OECD-DAC methodological approach.

The three programmes included in the scope of the Paraguay evaluation for the period 2007-2014 are: a General Budget Support operation - the Programme to Support the Targeted Fight Against Poverty (PALFP), and two Sectoral Budget Support operations – the Programme of Support to the Education Sector in Paraguay (PASEP) and the Programme of Support to Public Policy for Social Development (PAPPDS). These operations were agreed between the Government of Paraguay and the European Union and are the subject of the present evaluation. The total disbursements during the period 2007-2014 amounted to 111 million euros, an average of almost 14 million euros per year.

### Main Conclusions of the Evaluation

There has been an improvement in all the outcome and impact indicators on which the budget support operations were targeted: the Paraguayan economy experienced an average GDP growth of 5.1% in the period 2006-2014; the poverty rate declined steadily, from 50% of the population in 2002 to 24% in 2013; extreme poverty followed the same pattern, decreasing from 24% in 2002 to 10% in 2013, while the Gini coefficient decreased from 0.57 to 0.48. The Human Development Index (HDI) improved from 0.648 in 2005 to 0.676 in 2013. The favourable economic environment was certainly the causal factor of primary importance for these developments. However, the increase in social spending and the improvements in the design and implementation of public policies in education and social protection were contributory factors - where budget support had a positive influence.

In the period under evaluation, successive governments increased social spending to an unprecedented extent, primarily in the sectors of education, health and social protection. These increases had a significant influence on the results of the education sector and on the reduction of non-income poverty, that is, on the improvement of social welfare.

Macroeconomic management was prudent and generally effective. Despite the political instability of 2012 and 2013 and the external shocks created by the global financial crisis and the droughts of 2009 and 2012, it was possible to maintain fiscal balance, low public indebtedness, a high level of international reserves and a moderate inflation rate. Sound macroeconomic management had a positive influence on economic growth and on the reduction of income poverty. However, the sustained growth of the Paraguayan economy – and the

Final Report – Executive Summary, January 2016

related poverty reduction - is mainly explained by the rise in international demand for agricultural primary commodities, notably beef and soya beans.

Budget Support funds from the EU alone did not have a significant influence on macroeconomic management, since they represented on average 0.09% of GDP and 0.5% of total spending by the Central Government in the period 2007-2014. However, despite the limited volume of funds, the format chosen by the Government for the management and allocation of the funds from the EU Budget Support programmes had a significant impact on social expenditure and on the implementation of sectoral policies, permitting the protection of priority spending programmes and introducing additional incentives for the fulfilment of the pre-identified policy goals of government (which were captured in the indicators of the Budget Support variable tranches).

The strengthening of public finance management (PFM) was not pronounced enough to have an influence on outcomes and impacts at the national level. Although the strengthening of the PFM system was an important element within the budget support dialogue, there is no evidence, for example, of increased efficiency in the implementation of public investment, which could have had an impact on economic growth. Despite the introduction of improvements in budget formulation procedures and the benefits of incorporating result-based management, these reforms are still incipient and there is no evidence yet of tangible effects on the effectiveness of public spending as a whole.

More notable was the strengthening of the design and implementation of education and social protection policies, in which the influence of Budget Support was significant. This positive evolution has had, in turn, an important influence on the outcomes in the education sector and on the reduction of income and non-income poverty.

### *The relative contribution of the individual inputs of EU Budget Support*

Policy dialogue constitutes the Budget Support input that has achieved the greatest influence. In particular, it has had a significant influence on the strengthening of the design and implementation of policies in the education and social protection sectors. Its influence on the strengthening of Public Finance Management was more moderate; yet, it is notable that, in the absence of the Budget Support, the implementation of the PEFA assessments and the development of the PFM Action Plans would have been undertaken more slowly or not at all. At the same time, the degree of prioritization of the reform actions included in the Action Plans for PFM reform was not adequate and did not take on board the severity of prevailing constraints in the capacity to implement reforms. The Budget Support dialogue had insufficient influence and focus to overcome these shortcomings in the design of reforms.

Technical Assistance (TA) had a moderate impact in strengthening PFM systems and in strengthening the design of policy implementation for the social protection sector. In this

sector, the TA was relevant and of good quality but did not always have a sustainable impact. In the education sector, the TA was relevant but not always timely or of good quality and, as a consequence, its influence was weak.

### *The effectiveness of the EU Budget Support operations*

Regarding the effectiveness of the EU Budget Support operations, there is no doubt that in the education and social protection sectors, EU operations achieved a higher-than-expected impact in relation to their financial weight. With an average contribution of €11 million over 5 years of implementation (equivalent to just over 1% of the annual net education budget), the PASEP proved to be strategic in facilitating an increase the very constrained capital budget. The PALFP and the PAPPDS made possible the allocation of funds for spending programmes and actions complementary to the flagship programmes *Tekoporá*, *Abrazo*, and *Adultos Mayores*, as part of a strategy to introduce a base level<sup>1</sup> of social protection for vulnerable groups.

The policy dialogue between the EU and the Government also played an important role in the development of content of social policies. From its formulation, the logic of the PASEP contributed to the achievement of a change in the working method of the Ministry of Education and Culture (MEC), facilitating the transition from an input-based logic to a more sectoral-planning oriented logic focused on the achievement of specific outcomes prioritized within the sectoral policy. In the case of the Social Protection sector, the use of indicators and variable tranches in the Budget Support operations had an important impact on the internal dialogue within the Government of Paraguay, fostering exchanges between the Ministry of Finance, the Social Policy Unit ('Gabinete Social') and the line Ministries, under whose mandate resided the fulfilment of the indicators chosen for the variable tranches.

The effectiveness of the operations derived directly from the nature of the Budget Support modality. This format introduced positive contributions in terms of ownership, fostering of policy improvements, capacity building, and improved sectoral outcomes, as well as achieving 100% levels of budget execution. The perception of the sector institutions is that Budget Support funds and the policy dialogue have been more effective and efficient than project-based support.

### *The Efficiency of EU Budget Support operations*

Regarding the efficiency of the implementation of Budget Support in Paraguay, there are areas that can be improved and the recommendations of the evaluation team focus precisely on efficiency issues. However, the results obtained reflect a more than adequate level of

---

<sup>1</sup> The "base level" (*'piso básico'*) comprises a set of minimum services that the government guarantees for all the population.

efficiency, especially considering the lack of previous experience of the Government with these modalities of cooperation.

### ***Sustainability of the benefits generated by EU Budget Support operations***

The question of the sustainability of the benefits obtained needs to be considered both in the short and long term. In the short term, the investments funded by the Budget Support operations could easily be sustained by domestic revenue sources, considering that an average GDP growth of 5% would be much more than sufficient to replace the limited volume of the EU Budget Support funds. Moreover, the institutional and policy changes introduced as a result of the Budget Support operations have been assimilated by the public sector and are adequately institutionalized.

In the long term, the diagnosis of the sustainability of education and social protection policies is not as optimistic. The continuous achievement of the Government of Paraguay's goals in the social sectors depends on a significant increase in their funding, which in turn requires an increase in revenue collection with respect to GDP. The total revenues of the central government in relation to GDP amounted to a yearly average of 18% between 2007-2014, of which tax revenues accounted to only 12.3% of GDP. In order to continue to achieve substantive improvements in social welfare, Paraguay will need to accept an increase in the tax burden so as to permit the levels of tax collection necessary to finance such improvements.

## **Recommendations for the future**

To a large extent, EU Budget Support operations in Paraguay have achieved their objectives and demonstrated the usefulness of the modality in this context. There are good reasons to maintain or expand the portfolio of similar operations in the future. However, there are operational aspects that can be improved, which would allow an increase in the efficiency and the effectiveness of Budget Support operations. In order to present these issues as clearly as possible, we present below separate and specific recommendations for the Government of Paraguay and for the European Union:

### ***(i) Recommendations to strengthen the efficiency of the EU Budget Support operations***

There are three operational aspects where we believe that the EU should consider specific changes to strengthen the efficiency of Budget Support in Paraguay:

- The process of contracting and managing Technical Assistance (TA)

TA has been an important component of Budget Support in Paraguay. It has been relatively effective in the cases of the social protection sector and in Public Finance Management (PFM) but less satisfactory in the case of the Education sector. It is important to correct the weaknesses that have arisen in this sector so as to ensure that Technical Assistance is always

relevant, of good quality and of the maximum possible impact. The different TA were made available through various EU framework contracts. For the Ministry of Education and Culture, it has been difficult to take advantage of the Technical Assistance and its results were not entirely satisfactory, mainly due to two reasons: (1) the contracting procedures; and (2) the quality and performance of the experts contracted.

For the upcoming Budget Support operations, we recommend the use of a single contract for all Technical Assistance associated with the Budget Support programme, competitively awarded to a company or a consortium of companies and institutions. This would require a prior and detailed analysis of the TA needs, which would have to be carried out in a collaborative way between the Government institutions involved and the EU. This analysis would allow the preparation of a project document for TA, with terms of reference, which would be the basis for a bid and a public tender. The process would initially be more complex but should be administratively easier over the duration of the programme (usually three years); moreover, it would allow for a deep and joint reflection on the TA needs and would facilitate a more active participation of the beneficiary institutions.

- Scope and Nature of the policy dialogue

The policy dialogue in Paraguay was largely linked to the selection, monitoring and evaluation of the disbursement indicators for the variable tranches. This approach proved to be pragmatic in the context of a first experience of Budget Support, managed by a small delegation of the EU. In most cases, however, the dialogue around indicators seems to have been limited to observing whether or not the targets were met, without entering into a more analytical discussion of the underlying causes of compliance or non-compliance of these. The policy dialogue could have addressed aspects more closely related to the strategic, technical or operational aspects of policy. In addition to accompanying and reinforcing the Government in its strategy, policy dialogue should in principle seek joint, innovative solutions to implementation problems.

We recommend that the EU undertake an analysis of the structure of the dialogue to examine how it could be carried out to make it more strategic and analytical. Among other aspects, this analysis would need to take into account how to strengthen the Delegation's analytical capacity in the specific sectors and in the relevant technical areas. It should also help to protect the Government's level of ownership in the process of defining and monitoring indicators, that has been achieved in the operations assessed here.

- The definition of disbursement indicators for Variable Tranches

Most of the indicators selected for the three evaluated operations were relevant. In addition, the level of appropriation of these indicators by the national institutions responsible for their compliance was extremely high. However, there were some problems with the quality of these indicators – in particular the fact that three of the original indicators of PASEP- Programme of Final Report – Executive Summary, January 2016

Support to the Education Sector in Paraguay - were not measurable, as well as one of the PAPPDS – Programme of Support to Public Policy for Social Development. Moreover, interlocutors of the Ministry of Finance questioned the level of ambition in the definition of the goals – a relevant question given the high compliance rate (around 85%) of the measurable indicators.

It is recommended to prepare a "guidance note for the selection and definition of indicators" to guide these processes in the future. This note should be prepared as a joint effort between the EU Delegation and the Ministry of Finance of Paraguay (possibly with the support of Technical Assistance) to ensure that measurement problems are avoided in the future, while ensuring an appropriate level of ambition in the definition of the targets for variable tranches.

*(ii) Recommendations to the Government of Paraguay to strengthen effectiveness and sustainability of public social policies*

Taking into account the existing financial constraints on the national budget, it is important to ensure the efficiency of social programmes to guarantee that the maximum level of benefits is being achieved with the available resources. We recommend three actions to improve the effectiveness of the social protection programmes:

- A modest increase in the percentage of resources allocated to the coordination and monitoring of the Tekoporá programme: the lack of resources for Tekoporá field staff such as family guides or district / departmental coordinators, is a weakness of the programme. A modest increase in the allocations for training, administration and transportation at the local level could have a significant impact on programme efficiency.
- The establishment of a single register of beneficiaries for all social programmes that includes information on residence characteristics, identification of each person, schooling, employment and income. There is not a single unified registry of an administrative type that permits the identification of the beneficiaries of all social programmes, independently of the institution that manages the benefits concerned. Such a unified registry would also allow for progress with regards to the process of access to identity cards for the beneficiaries of these programmes.
- The introduction of regular independent impact evaluation of quantitative type for social programmes. Regular evaluations (every two years, for example) give an on-going analysis of the programme effectiveness to allow systematic adjustments in the programme design and in operational procedures, always seeking to optimize the impact and to adapt the design to the evolving context.

For the education sector, we recommend three actions to improve the effectiveness of educational programmes:

- The introduction of a programme of measures to improve the budget implementation of the sector in relation to capital investments where execution rates are still too low. According to the Office of the General Comptroller of the Republic, a modification of the regulations is necessary, as well as training of officials responsible for investment management, especially at the district level.
- An increase of the resources for teacher training: an aspect that can clearly be improved and that deeply affects the quality of education is the level of teacher training. Among institutional factors, this is the one that almost unanimously has been highlighted as crucial to explain the poor performance of Paraguayan students. To improve educational quality, it is necessary to substantially increase the resources for teacher education, to expand and update the entire institutional structure dedicated to training and to renew the Training Plan.
- An increase in school lunch coverage, taking some of the funds from the infrastructure component and, where possible, from other sources. The quantitative analysis of the determinants of the educational policy outcomes has highlighted the importance of school lunch for the improvement of enrolment and retention in Basic School Education. Given the (relatively) improved situation of school infrastructures since the

creation of the FONACIDE - National Fund for Public Investment and Development - in 2012, it would be desirable to review the percentage allocations of the FONACIDE funds managed by departments and municipalities, currently fixed at 50% for infrastructure and 30% for school feeding, with the aim of increasing to 50% the percentage for school feeding.

In the medium and long term, the sustainability of public policies will depend on an increase in the tax burden and a strengthening of the quality of public finance management. This evaluation did not analyse the options available to strengthen the tax burden, but a combination of policy measures (to introduce new taxes/ higher rates) and administrative measures to improve the tax collection efficiency would certainly achieve a significant increase in the State's tax revenues as a percentage of GDP.

Moreover, the PEFA evaluations carried out in 2007 and 2010 show a rather weak PFM situation for a country with the per capita income levels of Paraguay. The new PEFA evaluation, due to be published at the end of 2016, is expected to find evidence of improvements in recent years, but undoubtedly, serious weaknesses will remain. To address these weaknesses and arrive at a system comparable to international best practices, a continuous programme of strengthening Public Finance Management will be necessary.