



# **HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT**

## **PARAGUAY**

Public Investment Management Assessment –  
PIMA and Climate PIMA

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### **Summary Technical Assistance Report** Fiscal Affairs Department

**Paraguay: Public Investment Management Assessment – PIMA and Climate PIMA**  
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**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** An IMF team conducted a Public Investment Management Assessment including the module on Climate Change in Paraguay. The team identified strengths related to the recent reforms in the National Public Investment System (SNIP) and several weaknesses along the investment cycle that affect its efficiency. It identified ten high-priority recommendations that could improve PIM processes.

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## Background

At the request of the Ministry of Finance (MOF) of Paraguay, a team from the IMF's Fiscal Affairs Department (FAD) conducted a Public Investment Management Assessment (PIMA) and Climate-PIMA during November 27-December 15, 2024, including a series of virtual meetings. The evaluation identified opportunities to improve the public investment management (PIM) system in terms of the strength of the institutional framework and its effectiveness, which if implemented would increase spending efficiency and therefore economic growth.

## Summary of Findings

The public investment cycle in Paraguay has strengths, but also significant weaknesses in the institutional and effectiveness domains. Overall, Paraguay scores better in institutional design than effectiveness. It is estimated that the efficiency gap in infrastructure investment in the country amounts to 60 percent, well above the average of regional comparators. In this context, reforming the investment process and aligning it with international best practices would increase the stock and quality of economic and social infrastructure. To achieve it, procedural changes are needed in the various phases of the investment cycle, with a focus on the key actors responsible for implementing infrastructure projects.

Among the overall strengths of the current investment system, stands out the effort made in recent years to improve the transparency on the procurement system, the methodology for assessing the projects pipeline and the budgetary mechanisms to regulate capital virements. In a similar way strengths are found in every stage of the investment cycle: i) at the planning stage, the feasibility assessments made by the Public Investment National System (SNIP), although the existing methodologies need to be updated to include climate change (CC) aspects; ii) at the allocation stage, the easy identification of the spending for maintenance and the reliable procedures to backup budget execution; and iii) at the implementation stage, the procurement institutional framework, although effectiveness suffers from a real oversight.

However, there are substantive challenges, among which the following stand out:

- Sectoral plans are incomplete and do not always include investment projects, their costs, and development objectives.
- Absence of control on the multiannual expenditures that hinders the budget allocation to ongoing projects and creates incentives to underestimate the cost of new projects during the budget allocation phase.
- Lack of a centralized supervision function for the portfolio of public investment projects and limited monitoring at the level of individual projects.
- Information and technology systems related to public investment are fragmented.
- Lack of consistency among fiscal policy documents that prevent identification and analysis of deviations of main fiscal aggregates.
- The SNIP does not have a methodology for project selection and prioritization to ensure inclusion of fully prepared and duly aligned projects with the national development plan in the annual budget.

Climate risks and natural disasters represent a growing threat to Paraguay infrastructure, creating additional challenges for the country's PIM. Despite Paraguay's firm commitment for the inclusion of CC considerations in the PIM processes, these are still at an incipient stage. Some positive aspects are worth highlighting, such as the congruence between the CC policy and the national development plan, the existence of guidelines for the preparation of adaptation plans, and the content of the fiscal risk statement that incorporates the risks associated with CC for public infrastructure assets. The main institutional weaknesses from this perspective are:

- Sectorial plans don't systematically include mitigation and adaptation to CC.
- Lack of identification of CC spending within budgetary documentation and ex-ante financial mechanisms to mitigate fiscal risks from natural disasters.
- Absent of ex-ante funding mechanisms focused on managing the exposure of infrastructure to CC risks.
- Need to build the capacity and resources of the ministry of Environment and Development (MADES).

## Summary of Recommendations

Looking ahead, to achieve further infrastructure development while integrating a consideration to climate change, continuous enhancements to PIM are necessary. Ten high-priority actions are identified for implementation over the medium term:

- Developing sectorial plans that include comprehensive information on infrastructure projects, allowing a formulation of consistent medium-term-planning including CC considerations.
- Improving the identification of main fiscal aggregates and analyze their deviations.
- Develop a methodology to select and prioritize new investment project to be included in the annual budget.
- Aligning multi-year commitments of investment projects and their disbursement schedule with multi-year ceilings, avoiding the incorporation of new projects into the annual budget in cases of lack of fiscal space.
- Ensuring that budget allocations of ongoing projects include the full cost and are consistent with their respective physical progress schedules to avoid cost overruns, execution delays, and arrears.
- Include CC tagging in the budget including information at a sectorial level.
- Improving the supervision and monitoring of public investment during the implementation stage, both at the level of individual projects and the projects portfolio, and implementing feedback mechanisms that allow for a continuous improvement of the SNIP
- Including budgetary items conditioned on the occurrence of natural disasters and evaluating contingent credit options focused on damages to public infrastructure.
- Developing interfaces between SNIP, SIAF and SICP that automate verifications and enhance project tracking and monitoring.
- SNIP should prepare a training plan for its employees and other entities and develop a good training program on one or more of the following areas: PPPs, CC, Projects Audit and Ex-post Evaluations.