

I. COUNTRY REFORM PROGRESS

The project has gained significant momentum, with authorities openly expressing their appreciation for the technical support received. They have also demonstrated a strong interest in continuing assistance from the IMF's Fiscal Affairs Department (FAD) across all areas of public finance currently being addressed, including revenue administration, tax policy, climate policy, spending policy, and public financial management (PFM).

The involvement of other development partners on the ground, particularly the World Bank and the Inter-American Development Bank (IADB), has been seamlessly integrated into the work plans. Meetings have been held before and during missions with the IADB to avoid overlaps and foster complementarity in our efforts. Internally, the country-centered approach is enhancing synergies between FAD divisions. For instance, in the implementation of a carbon tax, the Climate Policy division is providing capacity development (CD). To ensure the effective administration of the new tax, FAD is also actively engaged. Additionally, FAD will provide CD to review and improve existing exemption programs and special regimes. This effort will be complemented by the development of risk-based compliance improvement plans (CIP), which are included in the revenue administration activities to strengthen the revenue agency.

In terms of spending policy, a mission was conducted to assess the financial sustainability of Paraguay's *Instituto de Provisión Social* (IPS) pension and health funds. Initial feedback has been positive, and the final report is anticipated to be completed by the end of 2024. Regarding PFM, guidance is being provided to the authorities to draft new legislation on public-private partnerships (PPP) and to promote sustainable public investment practices.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: The tax policy component of the project has yet to start. The mission has been confirmed by the Vice Minister of Finance of Paraguay and is currently scheduled to take place in February/March 2025.

Next Steps: A tax policy mission will provide CD to improve tax expenditure estimates. The mission will also appraise the effectiveness of special tax regimes, with the view to amending or abolishing those that are ineffective or redundant to broaden the tax base.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: CD to support customs administration has resumed with a workshop for 41 officials on Compliance Risk Management (CRM) and CIPs. This was crucial for new senior managers who needed clarity on CRM implementation. Hands-on guidance was provided on how to segment importers by size, sector, and risk level. The results were presented to the national director through a business intelligence dashboard which he found very useful. Collaboration with the IADB continues as they work on a loan for modernizing the tax agency. The e-invoicing project is on track, mandatory for most large and medium taxpayers, with 64 percent of value added tax (VAT) transactions processed electronically. While a new organizational structure has identified processes and business owners, KPIs are still under development. The *Dirección Nacional de Ingresos Tributarios* (DNIT) has begun CD activities for the CRM framework and CIP design, but the merger of tax and customs administrations has shifted priorities.

Next Steps: For customs, upcoming missions will focus on: (i) refining the scope of new customs departments; (ii) training on trader segmentation methodologies; (iii) strategies to improve goods clearance efficiency; and (iv) strengthening post-clearance audits. For tax, next missions will target: (i) consolidating e-

invoicing implementation; (ii) developing KPIs for processes and business owners; and (iii) enhancing the CRM framework through a CIP for carbon taxation.

SM I: Spending Module I – Spending Policy

Key Progress in FY25: FAD undertook a CD mission to Paraguay in August 2024 to assess the financial sustainability of the IPS pension and health funds. The mission team met with a wide range of stakeholders and provided the authorities a CD report for their comment. Initial feedback from the authorities is very positive. The report is expected to be finalized by the end of 2024. Follow-up actions will be explored.

Next Steps: The immediate next step is to finalize the CD report on IPS Health and Pension Spending. Following completion of the report, FAD will explore with the authorities whether they are interested in training and workshops on the analysis and implementation. Future CD will focus on civil service wages and pension issues.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY25: The project provided three CD missions this semester and helped the authorities draft a new PPP law, a new decree to green public investment project management and methodologies to assess fiscal risks associated with public companies and climate change.

Next Steps: No mission has been planned for the rest of the fiscal year but the authorities requested additional support to (i) define the legal regulations to implement the new PPP Law; (ii) improve the analysis of fiscal risks related to climate change; and (iii) strengthen the appraisal and section of public investment projects.

III. LOGICAL FRAMEWORK

Country – Paraguay		
RM I: Objective - Improve Tax Policy Design - TPD		Rating - 1
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	1 Not Achieved	The mission to achieve this objective is scheduled to take place in February / March 2025. Authorities are keen on analyzing the special tax regimes with the view of amending or abolishing ineffective or redundant special regimes in order to broaden the tax base.
Improved distributional fairness across taxpayers due to amended tax rates or base	1 Not Achieved	The mission to achieve this objective is scheduled to take place in February / March 2025. Authorities are keen on analyzing the special tax regimes with the view of amending or abolishing ineffective or redundant special regimes in order to broaden the tax base.
RM I: Objective - Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative
Improved transparency and outreach	2 Partially Achieved	The mission to achieve this objective is scheduled to take place in February / March 2025. Authorities have already started refining their tax expenditure estimates.

		They have revised the methodology for the VAT and produced the estimations of VAT expenditures.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	1 Not Achieved	The new organizational structure for the DNIT still requires time to stabilize.
Corporate priorities are better managed through effective risk management	2 Partially Achieved	The DNIT has received some CD activities to help design a CRM framework, which is still in the early stages. The DNIT has also received several CD activities to assist in designing a compliance improvement plan; however, the merger of the tax and customs administrations into a single agency has changed priorities, and this topic has only recently been taken into account.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 2
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	2 Partially Achieved	The e-invoicing system is mandatory for the majority of large and medium taxpayers; however, there is no specific obligation for government bodies.
RM II: Objective - Improved customs administration functions (SDG 17.1) - CAD		Rating - 2
Outcome	Rating	Narrative
Customs control during the clearance process more effectively ensures accuracy of declarations	2 Partially Achieved	A gap analysis was conducted to provide detailed insights to the new management teams regarding the challenges they must address to improve the efficiency of customs clearance. This analysis highlighted the need to: eliminate steps that do not add value; improve the selectivity system; strengthen feedback in the risk system; ensure that officials possess the required technical skills; and create a dashboard of indicators as a basis for measuring performance and decision-making.
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	2 Partially Achieved	The new agency must invest more in strengthening the post-clearance audit function, as it is a key component of a compliance improvement plan. Additionally, improving this function will also help expedite clearance at the borders.
SM I: Objective - Strengthen Expenditure Policy Formulation and Design - EPD		Rating - 3
Outcome	Rating	Narrative
Public pension system sustainability is enhanced while ensuring the adequacy of retirement income	3 Largely Achieved	Provided CD report to authorities for comment. Final report to be provided by the end of calendar year 2024.

Public expenditure is fiscally sustainable and efficient	3 Largely Achieved	Provided CD report to authorities for comments. Final report to be provided by the end of calendar year 2024.
SM II: Objective - Frameworks to Build Sustainable Fiscal Institutions and Frameworks - FIF		Rating - 2
Outcome	Rating	Narrative
Strengthened fiscal policies, frameworks, institutions, and laws	2 Partially Achieved	A recent mission supported the drafting of a revised appraisal manual for public investment projects. This manual still has to be adopted and implemented.
SM II: Objective - Strengthened Budget Management - PBM		Rating - 2
Outcome	Rating	Narrative
Strengthened identification, monitoring, and management of fiscal risks	2 Partially Achieved	Several reforms to the legal framework have been proposed to the authorities but their implementation is still pending. A fiscal risk assessment mission took place in May and indicated possible ways to improve the analysis of fiscal risks associated to climate change and public corporations. However, no fiscal risk report was published this year.
Strengthened annual budget process, and effective allocation	1 Not Achieved	No CD was provided on this field,

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/conditions		
RM I: Droughts caused by El Niño can put pressure on retaining or creating new incentives for the agriculture sector	High	Devise an analytical framework to quantify the costs of new incentives and their potential effectiveness
RM II, SM II: Deterioration of fiscal situation may impact availability of resources to finance reforms.	Low	Careful alignment of reforms with the main priorities of the government. Reforms at the DNIT and Ministry of Finance are underpinned by comprehensive strategic plans, and the project results from the respective governments' strategic decision to reduce non-compliance and modernize its risk management capabilities.
Political Support		
RM I: The new government's desire for reforming special tax regimes eases	Medium	The government is committed to evaluating the existing special regimes as stated in the FCL.
SM I: Pensions and wage bill can be contentious	Very High	Discuss communication plans with authorities
Resource Adequacy		
RM I: Not enough staff or high turnover among staff	Low	Develop a methodological framework to estimate and evaluate tax expenditures that is accessible to new staff
SM II: Insufficient technical capacity on topics related to climate change	Very High	CD activities should include training sessions
Management and Technical Staff Support and Commitment		

Description	Rating	Mitigation Measures
RM I: Staff is not engaged or knowledgeable in tax expenditure quantification and assessments	Low	Previous CD engagements have built foundational blocks
RM II: Continuous rotation of managers and staff undermine the absorptive capacity and provoke permanent discontinuity.	Very High	Encourage authorities to implement administrative reforms that contribute to a more stable staff. Continual/regular high-level engagement and monitoring.
SM I: Pension modelling requires high level capacity and support	Medium	Review technical capacity and support, as needed
Other Risks		
All: Multiple donors are providing technical assistance on merger and CRM topics; as a result gaps or overlaps may arise.	Medium	Take an active role in engaging with other donors to ensure support is well coordinated, especially with the IADB.
RM II: The new government that took office in August 2023 implemented a merger between the tax and customs administrations into a single agency that can slow down and even stop implementation of reforms.	Very High	The FY24 workplan was adapted to help authorities better implement the merger. The postponed activities will resume in FY25 as part of this new project under the GPFP.

V. PROJECT MANAGERS CONTACT INFORMATION

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