

I. COUNTRY REFORM PROGRESS

During its first year the Paraguay project, under the Global Public Finance Partnership (GPFP), has supported the objectives of both the IMF's Policy Coordination Instrument (PCI), which was approved in November 2022, and the IMF's Resilience and Sustainability Facility (RSF), approved in December 2023. The authorities are committed to exhausting efficiency gains in tax collections and government spending to secure fiscal consolidation. The main progress in each module of the GPFP project are as follows:

Tax policy: The authorities have made progress in improving their tax expenditures related to value added taxes (VAT) with support from the Inter-American Development Bank (IDB). Additionally, they are keen on reforming the excise tax on fuels to reflect their carbon content. However, there has been no progress on tax policy reforms aimed at broadening the tax base.

Revenue administration: Significant progress has been made in developing analytical tools, including the segmentation of importers by size and risk level, and refining the risk criteria of the selectivity system. This will facilitate the development of tailored Compliance Improvement Plans (CIPs) and reduce physical inspections by up to 50 percent, thereby streamlining trade, reducing costs, and eliminating opportunities for corruption. Furthermore, a draft CIP to address customs undervaluation has been developed and is pending approval, and a roadmap to strengthen the post-clearance audit (PCA) function has been thoroughly refined. The e-invoicing project is on track; it is mandatory for most large and medium taxpayers, and more than 56 percent of Paraguay's VAT is currently declared by taxpayers using e-invoices. While a new organizational structure has identified processes and business owners, key performance indicators (KPIs) are still under development. The Paraguayan Revenue Administration (DNIT) has initiated capacity development (CD) activities to develop a Compliance Risk Management (CRM) framework and CIP designs for major risk areas. However, the advances have not yet been operationalized, indicating that substantial efforts are still required to integrate the DNIT's departments and divisions, and that change management has not received sufficient attention.

Spending policy: CD has been provided to improve the efficiency and fiscal sustainability of the *'Instituto de Previsión Social'* (IPS) Health and Pension spending. Discussions are ongoing with the authorities regarding the provision of additional CD, including follow-up on IPS Health and Pension spending, other pensions, and public sector pay and compensation.

Managing Public Finance: Paraguay has enhanced its legal framework for investment through reforms to its Public-Private Partnership (PPP) law and project appraisal requirements; however, it should continue its efforts to finalize this process. With the support of the RSF, Paraguay has enhanced its analysis of climate change impacts on public finance. Consequently, project appraisals for public investments will now incorporate the necessity of adapting infrastructure to withstand adverse climate events. Additionally, the ministry of finance is developing a tool for a comprehensive assessment of fiscal risks associated with climate change.

Additionally, it is important to highlight CD collaboration within the IMF's Fiscal Affairs Department (FAD) revenue administration and climate policy divisions regarding carbon taxation and CRM. In October 2024, FAD conducted a remote mission to support the implementation of a carbon tax. The mission assessed the current fiscal structure for fuels, proposed a method to integrate the carbon tax into the existing framework, and discussed additional design considerations. The reform's impact on revenue administration, including both compliance costs and compliance risks, was coordinated with a short-term expert (STX) visit that worked on the ground with the DNIT to help develop its CRM framework.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: This module supports the authorities' objective of broadening the tax base while keeping tax rates low. Authorities have made progress. They have produced updated estimates of the tax expenditures arising from the VAT with IDB support.

Next Steps: During the next semester, we will support authorities' efforts to appraise their special tax regimes of free trade zones, "*maquilas*," and Law 60/90 with the aim of costing the forgone revenue from these special regimes and assessing their net benefits.

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 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 IDB continues as they work on a loan for modernizing the tax agency. The e-invoicing project is on track; it is mandatory for most large and medium taxpayers, and more than 56 percent of Paraguay's VAT is currently declared by taxpayers using e-invoices. While a new organizational structure has identified processes and business owners, KPIs are still under development. The DNIT has begun CD activities for the CRM framework and CIP design, but the lack of traction in the merger process has hindered progress.

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 PCAs. For tax, the next missions will focus on: (i) consolidating the implementation of e-invoicing; (ii) developing KPIs for processes and business owners; and (iii) enhancing the CRM framework by developing CIPs for key taxes.

SM I: Spending Module I – Spending Policy

Key Progress in FY25: A CD mission on the efficiency and fiscal sustainability of IPS Health and Pension spending was undertaken in August 2024. A draft report was provided to authorities for comment and the report was finalized in December 2024.

Next Steps: FAD is in discussions with the Paraguay authorities on the next steps for CD in FY26, including on following up on the August 2024 mission on IPS Health and Pension spending, other pensions or public sector pay and compensation.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY25: In May 2024, a mission on fiscal risks equipped authorities with an Excel-based tool to evaluate the short-term impacts of climate events. To maximize the utility of this tool, it is vital for the authorities to source updated data. Additionally, with the support of the GPFP, the country successfully adopted a new law governing PPPs. Furthermore, legal norms have been revised to incorporate a climate change perspective in the appraisal of public investment projects.

Next Steps: The project will concentrate on enhancing public investment. The newly enacted PPP Law necessitates complementary modifications to its implementation decree. Moreover, specific guidelines tailored for the appraisal of small and medium-sized public investment projects will need to be developed.

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	A CD mission to support the analysis and reform of special tax regimes is scheduled for FY26. During the spring meetings, the authorities confirmed their interest in 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	A mission to assess the equity considerations of the special tax regimes is scheduled for FY26. During the Spring Meetings, the authorities confirmed they 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 - 3
Outcome	Rating	Narrative
Improved transparency and outreach	3 Largely Achieved	The authorities have updated their tax expenditure estimates for the VAT with IDB support. An IMF mission is scheduled for FY26 to estimate tax expenditures arising from special tax regimes and assess their net benefits.
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	2 Partially Achieved	The new organizational structure for the DNIT has helped identify the processes and business owners; however, delays in the merger process are hindering progress on key decisions necessary for establishing a solid governance model.
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. Additionally, the DNIT has received several CD activities to assist in designing compliance improvement plans for tax and customs. However, the lack of progress in the merger process has delayed key decisions, including the formalization of the risk management committee.

RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 3
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	3 Largely Achieved	The e-invoicing system is mandatory for the majority of large and medium taxpayers, and starting in January 2026, it will also be mandatory for all government suppliers.
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	Significant progress has been made on the analytical side to improve the customs clearance process; however, much remains to be done. Future challenges include implementing the developed analytical tools, strengthening feedback within the risk system, ensuring officials have the necessary technical skills, maintaining rigorous oversight, and creating a dashboard of indicators for performance measurement and decision-making.
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	2 Partially Achieved	Progress has been made in laying the foundations to establish a PCA department aligned with best practices that help improve compliance. An analytical tool has been developed in collaboration with officials to identify the highest-risk sectors and related importers. In addition, a roadmap has been refined to strengthen PCA procedures. While PCA officials are eager to move forward, they require greater support and involvement from senior management.
SM I: Objective - Strengthen Expenditure Policy Formulation and Design - EPD		Rating - 4
Outcome	Rating	Narrative
Public pension system sustainability is enhanced while ensuring the adequacy of retirement income	4 Fully Achieved	Provided CD report to authorities for comments. Final report provided by the end of calendar year 2024.
Public expenditure is fiscally sustainable and efficient	4 Fully Achieved	Provided CD report to authorities for comments. Final report 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 - 3

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 2024 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	2 Partially Achieved	A public investment projects selection process decree setting including criteria related to climate change was adopted.

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	Discussed communication plans with authorities.
Management and Technical Staff Support and Commitment		
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.	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.

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 would include training sessions.
Other Risks		
All: Multiple donors are providing technical assistance on merger and CRM topics; as a result, gaps or overlaps may arise.	Low	Take an active role in engaging with other donors to ensure that support is well coordinated, particularly with the IDB and, more recently, with the World Bank as part of the Joint Domestic Resource Mobilization Initiative (JDRMI).
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.	High	The FY25 and FY26 workplans were designed to help the authorities better implement the merger and maintain focus on core process management.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
Azael Perez (FADR2) Enrique Rojas (FADR2)	Juan Carlos Benitez (FADT2) Azael Perez (FADR2) Enrique Rojas (FADR2) Nick Carroll (FADEP) Jean-Baptiste Gros (FADM2)	JBenitez@imf.org APerez2@imf.org ERojas@imf.org NCarroll@imf.org JGros@imf.org