

OECD Development Pathways

Multi-dimensional Review of Paraguay

Volume 2. In-depth Analysis and Recommendations

OVERVIEW



Multi-dimensional Review of Paraguay

Volume 2. In-depth Analysis and
Recommendations

**Executive Summary and
Overview**

Executive summary

Having achieved robust economic growth and a remarkable level of macroeconomic stability over the past 15 years, Paraguay has set a course to become not only more prosperous, but also more inclusive by 2030. To fulfil its development ambition, the country will need to overcome the multiple constraints. Specifically, it will need to foster structural transformation to unlock new sources of growth. Paraguay will also need to enhance its capacity to further social development and inclusivity.

Poverty reduction is progressing notably: absolute poverty fell from 12% to 4% between 2010 and 2017, a pace that puts the country on track to eradicate it by 2030. Access to electricity, improved sanitation and the Internet is spreading. Progress in addressing inequalities has been slower: Paraguay's tax and benefit system contributes to poverty reduction but decreases inequality by less than 2%, a low figure by regional and OECD standards.

Putting Paraguay on a more inclusive development path requires coordinated action to increase the capacity of the state to redistribute, to improve the delivery of public services such as health and education, and to sustain efforts to break the intergenerational transmission of poverty and inequality. The ability of the country's social protection system to address vulnerabilities and improve living standards and that of the education and training system to endow citizens with the necessary skills will be critical in delivering this shift in Paraguay's development.

Achieving social protection for all Paraguayans

Despite notable successes, the social protection system in Paraguay is very fragmented and has limited reach. Only 21% of the employed population contributes to social security. Given the high level of informality, Paraguay has expanded social assistance programmes targeting those most in need. It has established a well-targeted cash transfer programme for poor families. A social pension contributes to almost half of Paraguayans over 64 receiving a pension. However, the flagship social assistance programmes cover less than 30% of poor households.

To ensure that all Paraguayans receive adequate social protection, the reach of both social security and social assistance should be expanded. Bringing the self-employed into the social security system is indispensable for the system's sustainability and coherence and requires adjustments to respond to their circumstances. Major social assistance programmes targeting poor families and the elderly need to be significantly scaled up to reach their target populations.

Social protection is provided by a multiplicity of agencies and programmes, which hinders efficiency and limit synergies. To increase the efficiency of public action, Paraguay should establish an integrated social protection system. This will require rethinking the governance of social protection so as to endow it with strong leadership and effective co-ordination

mechanisms. Essential building blocks such as a single registry of beneficiaries, a unified targeting system for social assistance and a dashboard to support planning and monitoring, are already in place and should be strengthened and integrated. The contributory and non-contributory pension systems should be integrated into a single multi-pillar system, and be put under reinforced oversight. In the short term, parametric reforms to certain regimes in the pension system will be necessary to ensure its financial sustainability, enhance its effectiveness and strengthen its progressivity.

Delivering quality healthcare to all requires systemic reform

In the midst of a marked demographic and epidemiological transition, Paraguay faces a double burden in health. Non-communicable diseases are on the rise, while challenges derived from communicable, maternal, neonatal and nutritional conditions persist. Through the development of primary care delivery units and the elimination of user fees, Paraguay has greatly increased access to healthcare. The population with access to skilled healthcare increased from just over half of the population in 2003 to over three quarters in 2016. Conversely, coverage by health insurance has progressed little and remains low, at 26%. Consequently, out-of-pocket expenditures are large and many Paraguayans are confronted with the prospect of impoverishment in the face of health expenses. Further efforts to generalise preventive care, to increase the quality and to ensure continuity of care are needed to effectively increase the health of the majority of Paraguayan citizens.

To deliver quality healthcare to all Paraguayans, the health system needs to overcome its high level of fragmentation and weak stewardship. Social security covers around 20% of the population, and a collection of scattered public and private schemes a further 8%. The rest of the population has access to the national health service of the Ministry of Health. Fragmentation leads to large inequalities in the availability of resources and limits the pooling of funds and risk. A national dialogue is necessary to set the course for a vision of the future of the health system. Building on existing efforts to develop health networks around primary care, Paraguay should establish the conditions for a more integrated health system to emerge, by generalising inter-institutional agreements, moving towards the separation of purchasing and service provision functions, and developing the necessary governance institutions in the health sector. On the funding side, Paraguay should consider ways of channelling out-of-pocket expenditure to mandatory pre-paid regimes. To deliver on its commitment to Universal Health Coverage, the country needs to expand health service and insurance coverage and increase financial protection. The establishment of a well-defined guaranteed health package would contribute to this goal.

Reforming the education and skills system to foster inclusiveness and improve school-to-work transitions

Access to education in Paraguay has expanded markedly and primary education is almost universal. However, challenges remain, in particular in supplying pre-primary education and in increasing completion rates: 10% of 14-year-olds are out of school, rising to 28% for 17-year-olds. Socio-economic status and geographical area remain strong determinants of completing secondary education, perpetuating inequalities. The quality of the education system remains a core challenge, with over a third of students performing at the lowest level of proficiency in national evaluations. Poor learning outcomes and the low relevance of skills taught sustain lacklustre transitions to the labour market, especially for those from disadvantaged backgrounds. Indeed, 80% of those with less than upper secondary

schooling are in informal employment and 6 out of 10 young people from extremely poor households are not employed, in education or training by age 29.

Transforming the education and skills system in Paraguay is vital to foster inclusiveness and access to good quality jobs and to achieve Paraguay's development objectives. The current quest to develop a National Plan for the Transformation of the Education Sector for 2030 reflects both the size of the challenge and the determination to transform the education system into a driver of inclusion. Five key elements should be included in this renewed drive for reform. First, efforts must continue to expand education coverage and foster completion, supporting access in remote areas and among the disadvantaged and implementing policies to favour school retention and completion, avoiding repetition and dropouts. Second, policies to improve learning outcomes must focus on teachers, reshaping their training and career pathways, educational resources and the management of schools. Improving evidence on learning outcomes is critical to inform policy making in this respect. Third, to make education more relevant, the reform of the secondary education curriculum is critical to favour insertion in the labour market and provide a basis for access to higher education. Fourth, moving towards an integrated Technical and Vocational Education and Training system will favour good quality school-to-work transitions, where stakeholder engagement, including educators, private sector and unions, will be critical. Five, policies to improve the match between the demand and supply should strengthen information, training, intermediation and skills anticipation mechanisms.

This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the OECD and can in no way be taken to reflect the views of the European Union.

Chapter 1. Overview and recommendations to meet Paraguay's development ambition

Paraguay has experienced strong growth since the early 2000s and has committed itself to a development path to become more inclusive, efficient and transparent. To achieve sustainable and inclusive development and deliver on its vision to 2030, Paraguay will have to overcome two key challenges: buttressing the sources of economic prosperity by fostering structural transformation, and making development more inclusive. The objective of the Multi-dimensional Country Review of Paraguay is to assist the country in achieving its development objectives. The second volume provides in-depth analysis and policy recommendations in three key areas to better share the benefits of development: education, social protection and health. This chapter provides an overview of the analysis contained in the report, the main conclusions and their implications for development policy in Paraguay. The chapter also discusses possible scenarios for the future and their implications for development prospects and priorities in the country.

Having achieved a remarkable level of macroeconomic stability and overcome the economic and institutional turmoil that plagued the country during the 1990s, Paraguay has set a course to become not only more prosperous, but also more inclusive by 2030. Economic growth has been robust, outpacing the region even in the face of the difficulties of some of its neighbours and major trading partners. Along with the development of flagship social programmes, economic growth has contributed to lifting many Paraguayans out of poverty since the turn of the century. Well-being outcomes have improved in a range of domains, including access to health services or educational attainment.

The country's development path in the past has capitalised on Paraguay's vast natural wealth. Growth has relied on highly productive mechanised agriculture and extensive animal farming. The production of clean electricity from the two binational dams and the revenues that they produce have not only generated income but also provided room for manoeuvre.

A model of development relying on the exploitation of natural wealth presents limitations in terms of inclusivity and sustainability. In Paraguay, where the ownership of factors of production - especially land - is concentrated, reliance on agriculture generates an unequal primary distribution of income. It also leads to inequalities in the spatial distribution of opportunities and strong pressure on environmental resources (OECD, 2018).

Paraguay has set its sights on a brighter future. The country's ambitions for its future are set out in the National Development Plan (PND) to 2030 entitled "Building the Paraguay of 2030". The PND sets a course that involves two key transformations: shifting from an economy based on natural resources towards a knowledge-based economy and from an unequal society towards a society free of extreme poverty that offers equal opportunities to all (National Government of Paraguay, 2014).

The Multi-dimensional Country Review (MDCR) of Paraguay is developed to support Paraguay in achieving its development goals. Volume I of this review (OECD, 2018) provides an assessment of the development process in the country, based on a comparative review across development outcomes. It identifies two key constraints that the country's development faces. On the one hand, there is a need to foster structural transformation to unlock new sources of growth by closing the infrastructure gap, strengthening education and skills, and continuing efforts to strengthen governance. On the other hand, the country needs to increase the capacity of the state to further social development and inclusivity. This requires the country to address informality and the fragmentation of social protection, unlock sources of finance for development and territorialise development policy.

This second volume of the MDCR of Paraguay focuses on three key areas where reforms are needed to increase the inclusivity of the country's development path. It provides an in-depth analysis of the country's performance in social protection, health and education and offers policy recommendations to help the country achieve its ambitious objectives in these areas. The chapter begins by a review of progress achieved in Paraguay towards the Sustainable Development Goals, to which the PND is largely aligned. It then provides a summary of the conclusions and policy recommendations from each of the remaining chapters in the volume.

Progress and challenges in Paraguay's development path

Paraguay has made progress towards the SDGs albeit in some cases at a pace slower than needed to meet the targets

Paraguay has made great progress along certain key dimensions of development but progress has been slower in others. Figure 1.1 depicts progress achieved since 2005 in each of the 17 SDGs with the exception of maritime life. The indicators are chosen to match those of the SDG indicator framework where available, and the targets are set at the national targets where they exist and the international targets when national targets are not set explicitly.

In terms of poverty reduction, both growth in labour incomes and an expansion of poverty reduction programmes have contributed to poverty reduction at a pace that has the country on track to eradicate extreme poverty by 2030. Progress has also been remarkable in closing the remaining gap in access to certain key public services. Access to electricity, which was already high, is nearly universal, and substantial progress has been made in closing the gap in access to improved sanitation. Internet access has also expanded rapidly, increasing opportunities for better public service delivery.

Despite progress in social infrastructure, transport infrastructure remains a significant hurdle as identified by Volume 1 of this review (OECD, 2018). Paraguay has made significant efforts to increase public investment in transport infrastructure, but has not yet succeeded in leveraging private investment. The establishment of a national system for public investment has set the conditions for better project assessment and evaluation and new frameworks for public-private projects have been established in 2013. However, further efforts are necessary for infrastructure projects to fully reflect the development priorities of the country.

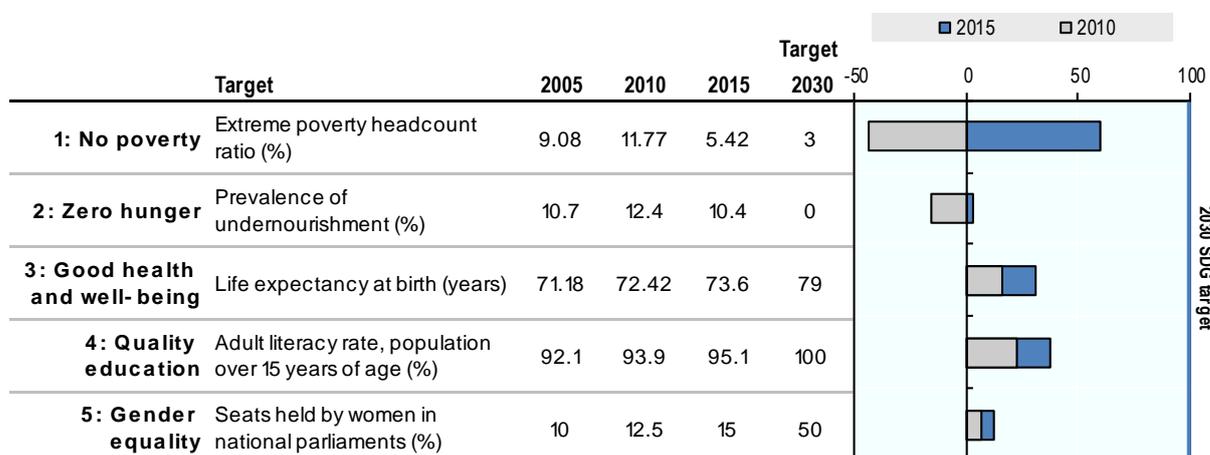
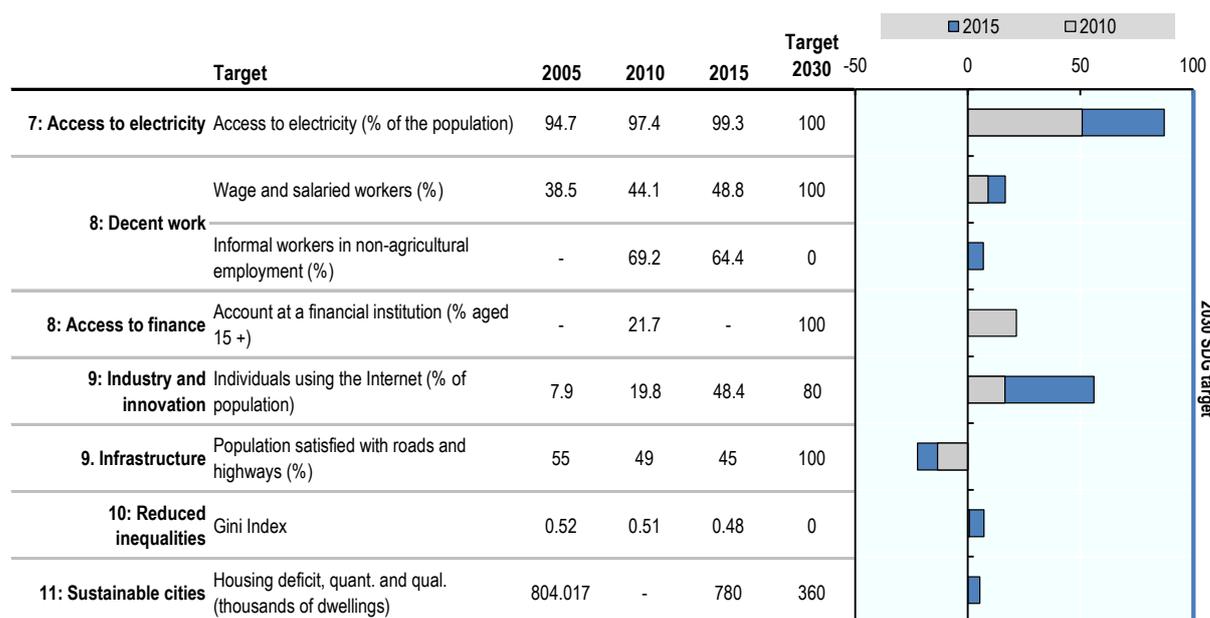
Increasing the inclusivity of the development path remains a major challenge that requires decisive policy action

Across domains, while there has been progress in reducing exclusion, decreasing inequality has been more challenging. Although income inequality has fallen, it remains high relative to the region and OECD countries. Moreover, major drivers of inequality have evolved slowly. This is the case for indicators measuring the quality of employment, including the prevalence of salaried work and informality.

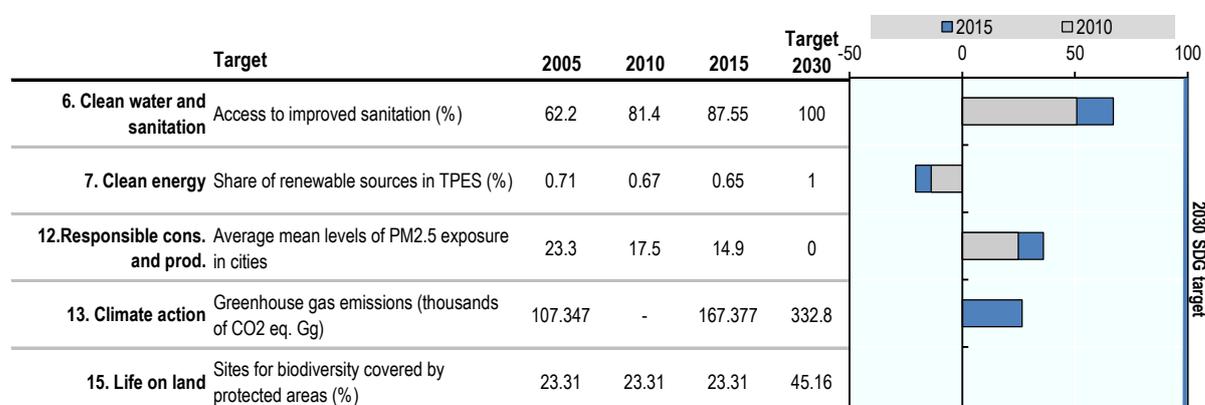
Enabling a more inclusive development path requires addressing inequalities today. Paraguay's tax and benefit system contributes to poverty reduction but only decreases inequality by less than 2 % as measured by the Gini coefficient (OECD, 2018). This places the country among those with the lowest degree of redistribution in the region. In Paraguay, the capacity of the state to redistribute income is well below that of OECD countries. Given its low level of public expenditure, Paraguay could consider reforming both the revenue and the expenditure side of its redistribution capacity. Among OECD countries, most redistribution happens through the spending side. In Paraguay, the reach of key social protection programmes that can have a major effect on income inequality is still far from their objective.

Figure 1.1. Progress across SDG dimensions in Paraguay

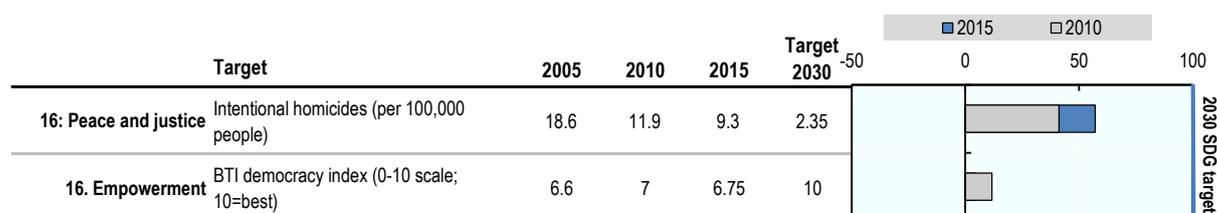
Progress towards the 2030 target (relative to 2005 baseline)

Panel A. People**Panel B. Prosperity**

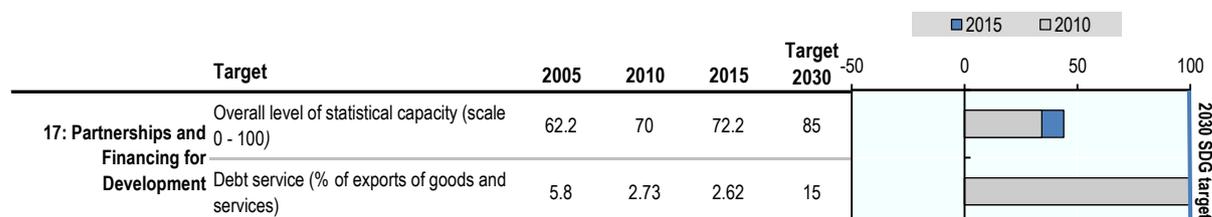
Panel C. Planet



Panel D. Peace and institutions



Panel E. Partnerships and financing



Note: Baseline for informal workers in non-agricultural employment indicator is 2010 instead of 2005. Baseline for access to finance indicator is 0 due to lack of data. Sustainable Cities and communities indicator uses 2002 instead of 2005 and 2012 instead of 2015. Greenhouse gas emissions indicator uses 2012 instead of 2015. Population satisfied with roads and highways indicator uses 2006 instead of 2005. BTI democracy index uses 2006 instead of 2005 and 2016 instead of 2015.

Source: Authors on the basis of official national data when available, and alternatively, international data; DGEEC (2018); United Nations (2018) SDG Indicator system <https://unstats.un.org/sdgs/indicators/database/>; World Bank (2018) Sustainable Energy for all SE4All database <http://databank.worldbank.org/data/reports.aspx?source=Sustainable-Energy-for-All>; DGEEC (various years) Permanent Household Survey; Gallup World Poll (2018); International Energy Agency (2018) database; Global Burden of Disease Collaborative Network (2016) Global Burden of Disease Study; World Bank (2018) World Development Indicators (database) <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>; Stiftung, B. (2008). Bertelsmann Transformation Index 2008. Politische Gestaltung im internationalen Vergleich. Gütersloh, Verlag Bertelsmann Stiftung; Ministerio de Hacienda (2017) Reporte Nacional de Inclusión Financiera 2017.

The provision of public services, and in particular education and health, can make sizeable contributions to reducing inequalities. Educational attainment determines earnings opportunities and in Paraguay is a strong determinant of the quality of jobs that workers have access to. Paraguay is some way away from achieving quality universal basic education, which could not only provide the skills to the knowledge-based economy of tomorrow but also provide opportunities to all Paraguayans.

A more inclusive development path also requires addressing the intergenerational transmission of poverty and inequality. Several of Paraguay's social policies, and in particular the flagship conditional cash transfer programmes, aim to encourage human capital accumulation among disadvantaged populations, by improving their health and education outcomes and thereby expanding their earning possibilities. Improving access to quality health and education on the supply side is a critical component of this strategy.

Achieving social protection for all Paraguayans requires larger investments and a systemic approach.

In recent years, living standards in Paraguay have improved and investing in social policies will allow the country to continue on this path. Income poverty nearly halved after a hike at the turn of the century; yet many Paraguayans remain vulnerable. Indeed, the burgeoning middle class needs support in order to stabilise. Paraguay recognises the important role of social protection for a sustainable growth path in its National Development Strategy 'Paraguay 2030' and its Social Protection Sector Strategy Note.

Despite notable progress, social protection coverage remains insufficient

Paraguay's social protection is still evolving. Social protection reduces poverty and inequality in Paraguay, but less than in other Latin American countries. Not all contingencies are covered and many groups of people are unprotected. Only 24.5% of Paraguayans are covered by social protection – measured by the share of the population that is contributing to social security or receiving a contributory or non-contributory benefit – less than half of the Latin American average. High levels of informality and self-employment limit the reach of social security; in 2016, only 21% of the employed population contribute to social security. In this light, Paraguay expanded its social assistance, targeting the population most in need; yet, less than 30% of poor households receive one of the flagship social assistance programmes targeting children and the elderly.

The contributory pension system needs to reform and to expand. The country's young population allowed Paraguay to maintain a generous pension system for the relatively small older population. However, its fragmentation and demographic changes render the system unsustainable. Only 16% of the population above age 64 receive a contributory pension. Contribution rates and periods are not in line with the generosity of the various pension systems and contributors can obtain a more generous pension than OECD countries at an early age. The net replacement rate of the contributory pension is 40 percentage points higher than the OECD average (103.8% vs. 62.9%). In its current state, the pension schemes are unequal and unsustainable. Contributions to the main pension fund for private sector workers will not suffice to cover pension expenditure as of 2032, and the running deficit of the schemes for non-civilians already accounts for 0.44% of GDP.

Bringing the self-employed into the social security system is indispensable to create a sustainable and coherent social protection system. Although independent workers can voluntarily contribute to the social security pension system since 2013, in its current state

Paraguay's social security system excludes independent workers de facto. Low and irregular income are important impediments for the self-employed to fulfil the contribution requirements. Pension funds do not accept contributions that are based on an income below the minimum wage, and thus exclude 65.7% of own-account workers who earn below the minimum wage in Latin America. The legal minimum social security contributions represent more than 21.5% of income generated every month by a self-employed Paraguayan. For poor workers at the bottom of the income distribution, contributions would even represent 88% of their income, which is higher than the theoretical cost for poor workers in Latin American countries.

The fragmentation of social protection challenges its coverage and governance

Social assistance and social security in Paraguay would benefit from a coherent, co-ordinated and integrated strategy. Currently there is very little interaction or coordination between the two pillars of social protection. Social security providers operate without any major oversight and an incomplete information management system complicates the providers' work. And while social assistance plays an important role in the National Development Plan, it lacks clear leadership. Ever since ministerial co-ordination (via the Social Cabinet) came to a halt the only major mechanism for co-ordination between institutions has been based around the national poverty reduction programme *Sembrando Oportunidades*. While this mechanism has succeeded in linking action across programmes and agencies, its limited scope is not conducive to achieving coordination for the social protection system as a whole. The secretariat of the Social Cabinet has continued building tools for coordination, such as the unified registry of beneficiaries and a social protection matrix which includes budget estimates for social protection programmes until 2023, but has not provided leadership in high-level policy coordination.

Paraguay's ambition to expand social protection coverage needs to be financed. Expanding social protection requires mobilising resources, especially for social assistance. Covering the whole target population of Paraguay's flagship social assistance programmes with current benefit levels and inclusion error would demand at least doubling current expenditure levels to 0.7% of GDP for *Tekoporã* and 1.4% of GDP for *Adulto Mayor*. Therefore, it is crucial to mobilise domestic resources so social protection can be sustainably extended to more Paraguayans. Taxes on income, profits and capital gains are among the lowest in Latin America. As a result, Paraguay's tax-to-GDP ratio is one of the lowest in Latin America and is half the OECD average.

Main recommendations

Expand social security coverage

Developing an integrated strategy to enforce social security contributions is indispensable. Informality amongst wage employees is high and so is the evasion of taxes and social security contributions. If the government is to expand social security coverage these impediments need to be tackled. The state needs to strengthen the financial and human resources allocated to inspection and oversight systems that contribute to combatting evasion. In addition to resources, counselling for employers and assistance in registering employees needs to be provided. As part of a broad strategy, the relevant authorities should also follow up on affiliates who cease to contribute and should support, when possible, their re-integration and draw the necessary conclusions when they stop contributing.

Reducing unintended side effects resulting from the legal requirement on minimum contributions could allow more independent workers to contribute to social security. Low and irregular income, paired with the legal requirement that declared incomes be no lower than the minimum wage, are key constraints for independent workers. Lowering the minimum contribution base to the minimum pension could eliminate the legal barrier many independent workers face. It is equally important to regularly review the level of the minimum wage and whether it represents an impediment to contributing to social security.

The social security system should adjust its contribution collection to independent workers' realities. Independent workers rarely have a stable income, which makes it all but impossible to make a set contribution on a regular basis. Allowing flexible contributions for independent workers, including irregular amounts and frequency, can be a way of adjusting the system to independent workers' realities. To effectively allow flexible contributions, the calculation of pension benefits needs to be based on lifelong earnings. An alternative to flexible contributions is a monotax. A handful of countries expanded the coverage to independent workers by charging a fixed fee determined by presumptive income categories as combined tax and social security contribution. Carefully designed and time-limited subsidies to independent workers' contributions can also increase affiliation of independent workers with low income.

Establish an integrated social protection system

Paraguay's social protection system needs to safeguard against all contingencies. Currently not all contingencies are addressed because of the lack of coordination between social security and social assistance, as well as the lack of provisions to cover certain risks. An integrated social protection system could provide child benefits also for non-poor formal sector workers. And formal employees should be insured against unemployment.

Contributory and non-contributory pensions need to interact and be integrated into a multi-pillar pension system. This integration can be achieved by creating a three pillar system. First, the social assistance programme for the elderly, *Adulto Mayor*, should be transformed into a basic pension within an integrated system. This requires improving the targeting of *Adulto Mayor*, setting a ceiling for the benefit and – most importantly – allowing a combination of contributory and non-contributory pensions to be paid to an individual. To combine contributory and non-contributory pensions, *Adulto Mayor* would have to be reformed in such a way that its benefits decrease for those with higher contributory pension benefits. Second, the state needs to create an integrated mandatory defined benefit pension system. This can be achieved by integrating pension providers into a single statutory social security provider for private and, ideally, public sector workers. Third, workers should have the possibility to top up their mandatory pensions through voluntary savings plans. Closed pension providers could be transformed into occupational savings plans that complement the mandatory defined-benefit pension system.

Paraguay needs to invest more in social protection. If Paraguay's flagship social assistance programmes are to meet the needs of their entire target populations, their budgets will have to be doubled. A careful budget review should help to finance this expansion, and increasing the efficiency of expenditure could lower the necessary extra funds. Substantial resources should be freed up by decreasing the current fragmentation of social assistance programmes that share similar objectives. If social assistance expenditure were to be defined and recorded in compliance with international standards, then comparisons across countries and time could be made.

Improving domestic resource mobilisation is key to financing social protection. Tax revenues need to increase to finance the expansion of social protection. Current tax burdens do not reflect the growing demand for state services. Thus, tax rates and exemptions could be reviewed to secure the financing of the growing demand for social protection and other state services. The fight against tax evasion and improving tax collection should be of equal importance and intensified. These efforts can increase tax revenues without having to substantially increase tax rates and investment incentives. Finance for social assistance would also benefit from earmarked taxes, which is a way to secure financial resources beyond budgetary cycles.

Improve the governance of social protection

Better co-ordination of agencies would improve the delivery and impact of social assistance programmes. Paraguay needs to effectively align targeting mechanisms and facilitate exchange of information between agencies. Key co-ordination instruments such as the unified targeting instrument, the unified database of beneficiaries and the dashboard for monitoring anti-poverty programmes should be further strengthened and integrated. The delivery of programmes and the relationship between citizens and the state would benefit from joint staff on the ground. A joint presence on the ground would make it easier to engage with beneficiaries, make referrals and reduce costs. This horizontal co-ordination requires re-establishing the co-ordination at ministerial level through the Social Cabinet or assigning to another agency the role of system co-ordinator for social protection or more broadly, social policy.

The pension system needs to be regulated and supervised to increase the system's stability and trustworthiness. A supervisory body for pension providers needs to be created to make up for the oversight and regulation gap. This supervisory body should be endowed with the necessary financial and human resources and its impartiality needs to be ensured. Part of the regulation needs to focus on providing clear guidelines for investments, including ceilings for levels of investment by category, and enforcing diversification of investments. In this process, the supervisory body should enforce a standardisation of financial reports submitted to the Ministry of Finance (and other institutions).

The internal governance of pension providers needs to be improved. Many pension providers need to improve and digitalise their registry of contributions. Better registries can reduce administrative costs, speed up the process of determining pension entitlements and serve as the basis for reliable statistics on future obligations. The biggest social security provider for private sector workers should clearly separate the management of its pension and health branches. And the pension provider for public sector workers should become an independent institution.

Establish a more coherent, fair and inclusive pension system

Paraguay should standardise its pension system to increase the system's equity. At present, the various pension schemes' parameters (e.g. contribution rates, pensionable age and replacement rates) vary widely, which leads to inequities. Paraguay should reform its pension system to overcome these inequities. Key measures for an equitable system are unifying retirement ages, the basis for benefit calculation and replacement and accrual rates. All pension benefits should be indexed using the same method.

Strengthening the link between benefits and contributions is essential to ensure the system's sustainability. This link can be strengthened by increasing the number of years used to calculate the pension benefit, regularly revising the benefit level and contribution rates.

Benefit levels should have a ceiling and reflect the decreasing contributor-per-pensioner ratio. The regular revision of contribution rates should be based on actuarial studies, demographic developments, the economic situation, the ratio between pensioners and contributors and the financial soundness of each scheme.

Overcoming fragmentation and accelerating reform can improve the health of Paraguayan citizens

Paraguay faces a double health burden of unresolved and new health challenges

Paraguay has been going through a marked demographic and epidemiological transition. Non-communicable diseases have risen sharply, whereas communicable, maternal, neonatal, nutritional diseases have not decreased as expected. In particular, death rates due to the former have increased by 62.8% between 2000 and 2016, while death rates due to the latter decreased by only 49.4% over the same period. The course of Paraguay's epidemiological transition places a challenging double burden on its health system. In addition to dealing with the simultaneous presence of communicable, maternal, neonatal and nutritional diseases, the system has to deal with the fast-growing burden of non-communicable diseases. Disability and death rates associated to external injuries have been rising in recent decades, mostly due to traffic accidents and interpersonal violence. Between 2000 and 2016, death rates due to external injuries increased by 50.5% (Global Burden of Disease Collaborative Network, 2016).

The epidemiological transition has been accompanied by changes towards sedentary lifestyles and unhealthy dietary habits among the population, deteriorating risk factors and the social determinants of health. In Paraguay, metabolic and behavioural risks are the main contributors to prevalence of non-communicable diseases in Paraguay. Among metabolic risks, the main contributors are high fasting plasma glucose, high blood pressure and high mass index. Among behavioural risks, the main contributors are dietary risks, malnutrition, alcohol and drug use and tobacco.

The health system is fragmented, which limits its capacity and efficiency

Health service delivery is segmented and uncoordinated. The health system in Paraguay consists of the public subsystem, the mixed social security subsystem and the private subsystem. The three subsystems are, for the most part, vertically integrated: they raise revenue, manage funds and deliver service independently. Each of them covers different population groups, mainly based on their employment status and ability to pay. The set of services they provide is not the same and each population segment receives different benefits and quality standards.

A series of reforms failed to transform the health system in a meaningful way. Law 1032, adopted in 1996 was a key milestone in the reform of the health sector in Paraguay. Although there has been progress in its implementation, a number of key governance provisions in the 1996 reform and subsequent reforms face strong opposition. On primary healthcare, the country has introduced reforms to shift from a pyramidal structure to a network model, though these reforms have not yet fully materialized. The fact that the Paraguayan health system is a mixture of models, with different values and with significant vested interests, makes reform difficult without a national consensus on the way forward.

The weak stewardship of the health authority has limited the country's potential in terms of healthcare access and quality. The fragmentation of the health system (with different

modalities for financing, regulation, enrolment, and service delivery) makes stewardship particularly challenging. The regulatory framework and oversight bodies are weak. Information management is inefficient and limits the available evidence base for the formulation of policy and makes continuity of care difficult.

Health financing mechanisms are highly fragmented and insufficient. Health is financed from various funding sources, including public expenditure, contributions to the social security scheme, voluntary advance payments and out-of-pocket expenditure. Revenues for the care of different population groups are held in separate pools, with no potential for cross-subsidy between them. Although past governments have made great efforts to increase public spending on health, funding remains insufficient and inequitable. The health system relies heavily on households' out-of-pocket expenditure.

Despite recent advances, Paraguay faces major challenges to achieve UHC. Universal Health Coverage strives to ensure that all individuals and communities in a country receive the health services they need without suffering financial hardship. Healthcare access and insurance coverage is still limited, especially among the most vulnerable people. Within the poorest deciles, only a minority is covered by any health insurance. Due to the high reliance of the system on out-of-pocket expenditure, many Paraguayans incur catastrophic health expenditures and are exposed to other financial risks. The entitlement to a specific set of health benefits is very restricted and strongly linked with people's ability to pay. In this regard, almost 80% of the population is uninsured and therefore not entitled to a specific and guaranteed set of benefits.

Main recommendations

Reshaping the system to improve healthcare delivery

Better integration and co-ordination is essential for delivering healthcare services and addressing health policy targets. A national dialogue is necessary to reach a broad consensus on the vision for the future of the health system. The government has a duty to establish the required framework conditions to favour the integration of health service delivery across the public and potentially the private system. Such a framework should aim at generalising inter-institutional agreements for the provision of service across public sector entities. Similarly, public procurement of health services and supplies could be made more agile if the right reforms are introduced. In the long run, the country should consider separating purchasing and service provision functions across the health system. This will entail a reform of how health service providers are paid by funding institutions, be they public or private.

The shift of Paraguay's national health system towards integrated networks based on primary healthcare should be strengthened. A fully-implemented networks model could tackle the major challenges posed by health services fragmentation. Furthermore, primary healthcare is essential for ensuring the continuity of care throughout the system. To progress in this area, the system should (i) ensure that Family Health Units have adequate human and financial resources and (ii) increase the pace of expansion of USFs.

The governance of the national health system needs to be improved. Paraguay could strengthen the stewardship role of the Ministry of Health and Social Welfare by providing oversight institutions with the necessary autonomy, financial and human resources. The country should also pursue the implementation of the legal framework for the governance of the national health system. In order to increase the quality of health services, the system needs to consolidate and streamline the legal and regulatory bodies pertaining to the health

sector. To do so, the system should ensure that regulation applies to all relevant actors, inconsistencies are removed and outdated legislation is either updated or abolished.

Greater investment in the development of information systems in health could improve the delivery of better statistical information and support continuity of care. Paraguay needs to continue past efforts to improve the accuracy of vital statistics and unify systems within institutions and where relevant across the public, private and mixed subsystems. Increasing capacity among stewardship bodies could generate health statistics for the entire health system with the support of the National Statistical Office. In order to ensure continuity of care, the country needs to further develop its medical records system both for recording and access purposes.

Ensuring sustainable funding

Diversifying the sources of funding for health would help ensure the sustainability of health financing. The expansion of social insurance can contribute to securing funds, but will need to be complemented by funding through general taxation. Possibilities to be considered in the case of Paraguay include increasing taxes on goods that generate risks or costs for public health, including tobacco and alcohol, and earmarking part of revenues from these taxes for health financing.

Paraguay should consider ways of channelling out-of-pocket expenditure to mandatory pre-payment regimes. This step is critical in sustaining health financing and in moving towards Universal Health Coverage in a way that is fairer and more efficient. Voluntary enrolment leads to self-selection and is ineffective. Making enrolment mandatory is a critical step, but must be accompanied by the design of a contribution system that ensures contributions are paid from the public purse for those unable to pay and appropriate means are available for those with the ability to pay to contribute. A reform is also needed in the contributory systems to better adapt to circumstances of independent workers. Furthermore, the system could also consider offering partly- or fully-subsidised health insurance for those unable to pay (through a means-tested subsidy).

Paraguay could establish a financing mechanisms to cover key contingencies. Certain contingencies are not sufficiently covered by the existing insurance pools and could benefit from a system that channels funds to ensure service provision. The implementation of FONARESS, as a pooled fund for highly complex treatment can go some way to achieve this. In this regard, private insurers and IPS could act as revenue collectors and contribute to the fund, while adjusting their financial provisions for the specific set of conditions to be financed through FONARESS. In the long run, Paraguay could consider options to merge risk pools or create a system that allows for transfers across risk pools.

Ultimately, adequate financing for health will require Paraguay to establish mechanisms to support broader service coverage and pool risk. These mechanisms should ensure that risk and financial flows are pooled, to allow for more efficient allocation of resources across the system. They should also be aligned with the reform of provider payment to generate appropriate incentives for quality care provision, adequate cost management and efficient referral.

Advancing towards Universal Health Coverage

A fundamental way of achieving sustainable Universal Health Coverage is investing more in health promotion and disease prevention. Tackling strategic risk factors is a challenging

but worthwhile investment, as it is often more cost-effective than waiting to treat poor health associated with these behaviours.

Paraguay needs to expand health service and insurance coverage, increase financial protection and ensure the delivery of a well-defined benefit package. In particular, the current coverage of the Family Healthcare Units should be expanded to meet the health needs of the entire population. Adequate financial protection could be ensured by providing universal coverage for costly conditions and treatments and by improving the availability and affordability of medicines. Lastly, in order to advance towards UHC, the country needs to define a set of guaranteed services and/or pathologies that can be provided effectively to the population and deliver on that guarantee.

Reforms in the education and skills system are necessary to foster inclusiveness and access to better jobs

Transforming the education and skills system in Paraguay is vital to foster inclusiveness and better access to good quality jobs. Education and development go hand in hand, and Paraguay's success in achieving its main development objectives, as set out in the National Development Plan 2030, will depend in large part on its capacity to improve the education and skills system. Substantial progress has been made, but reforms are unfinished, as presented in Volume I of the Multidimensional Review of Paraguay.

Access to education has improved but challenges remain to increase equity and ensure better progression within the education system

Access to the education system has expanded markedly, particularly at the primary level, but hurdles persist in pre-primary and secondary education. There are severe limitations in the availability of administrative data but estimations from survey data show that gaps in school attendance are still relevant both in lower secondary (third grade of “educación escolar básica”) and upper secondary (“educación media”). In particular, net attendance ratios for lower secondary education were at 78% in 2015, and at only 57% for upper secondary. Access to pre-primary education (“educación inicial”) is also a pending challenge. Though coverage is relatively large for pre-school (age 5), with a net enrolment rate of 77% in 2012, access to pre-primary education for children ages 0-4 is insufficient. Figures from 2012 present gross enrolment rates in pre-primary education of around 38% in Paraguay, well below the LAC average of 71% for that same year.

Major inequalities persist in access to the education system, particularly at the secondary level; important factors include gender, socioeconomic status, and geographical location. While access to primary education is widespread, income is still a relevant predictor of access to secondary education: 96% of those in the richest quintile were enrolled in this education level in 2015, but only 67.7% of those belonging to the poorest quintile attended secondary education. Likewise, net enrolment rates in urban areas are significantly higher (87% in 2015) than in rural areas (70%), where 91% of the indigenous population lives (DGEEC, 2014). Unequal access to education is likely to perpetuate socioeconomic inequities in the country.

While more students enter the education system in Paraguay today, keeping kids in school and ensuring they graduate is an ongoing challenge. Attendance has improved, but many students start to leave the education system after the age of 11. Indeed, almost 99% of the population was attending school at age 11 in 2016, but 10% of those aged 14 were out of school in 2016. And as many as 14%, 23% and 28% of those aged 15, 16 and 17,

respectively, were not attending school in 2016. Dropouts tend to start during the transition from the second to the third cycle of “educación escolar básica” (i.e. the transition from primary to lower secondary, at the age of around 12). From there, the dropout rate worsens, particularly during the transition from “educación escolar básica” to “educación media” (i.e. the transition from lower secondary to upper secondary, at age 15 approximately) and as students get older. On average, two out of three Paraguayans aged 5-18 who were not attending school in 2016 cited economic issues as the main reason for why they had dropped out of school.

The barriers faced by students with regard to access to the education system and to progress once in it translate into relatively unsatisfactory completion rates, despite progress in recent years. Completion rates reached levels of almost 90% for primary education, but falls to levels of around 68% and 65% in lower-secondary and upper-secondary education respectively, in 2016. Inequalities in completion rates are also significant: only 84.4% of children from the poorest quintile complete primary education, relative to 99.2% of children from the richest quintile.

Learning outcomes remain insufficient, driven by weaknesses in teacher training

Learning outcomes remain insufficient, highlighting the fact that - while schooling has significantly improved - the quality of the education system remains a core challenge. Results from the 2015 evaluation of the *Sistema Nacional de Evaluación del Proceso Educativo* (SNEPE) show that almost a third of students in all the grades where the test is conducted perform at the most basic level of competencies. Relative to the previous SNEPE, which was conducted in 2010, there has been little improvement, and not for all levels. Learning outcomes are lowest in disadvantaged groups or among students in remote areas.

The quality of teaching, probably the single most important factor determining the quality of education, faces various challenges in Paraguay. The number of teachers is relatively high, as shown by the comparatively low ratio of students per teacher, but many of those teachers lack the adequate level of qualification. In fact, in 2012 only 59% of teachers in pre-primary education (“educación inicial”) were qualified to teach at that level. For primary education (first and second cycle of EEB), the picture is significantly brighter: 92% had the required qualifications in 2012 (up from 85% in 2004). Most of the more qualified educators teach at the secondary education level.

The quality of teacher-training systems (Instituciones Formadoras de Docentes) is inadequate yet they are an important factor in providing quality teachers. Poor quality teaching is directly linked to the weaknesses of evaluation mechanisms and the lack of incentives to improve performance. Teachers’ evaluations have been traditionally weak in Paraguay. Evaluations should come with incentives in order to spur an improvement in teacher performance. These incentives have been generally weak, as increases in teachers’ salaries are mostly linked to the accumulation of years of experience, accreditations and training. For teachers seeking quality, ongoing training, the options are limited. This represents an additional barrier to effective teaching and the improvement of performance throughout teachers’ careers. Also, there is little incentive to participate in this type of training, given the way in which the increases in the remuneration scales (“escalafón docente”) are designed. All in all, deficiencies in the design of the teachers’ careers provide little incentive for teachers to improve their performance.

Education and skills can play a major role in enhancing employability prospects and access to good quality jobs in Paraguay. Yet, the transition from the classroom to the workplace still has many hurdles that stand in the way of a successful inclusion in labour markets. In addition to the abovementioned challenges, another fundamental barrier to better employability is the fact that the skills that a candidate has acquired in the classroom often do not match up with what employers are looking for.

School-to-work transitions are hampered by low levels of skills

Transitions from the classroom to the workplace are difficult, with a large share of young people that leave the education system to enter bad quality jobs. More than half of students leave the education system to join inactivity, unemployment or informality. This transition is particularly problematic for the most disadvantaged socioeconomic groups. A significant withdrawal from the education system takes place after age 15, with particularly adverse consequences for low-income households. At age 29, and among youth living in extremely poor households, around 6 out of 10 workers are not employed, nor in the education system or training (NEET); 3 out of 10 are informal workers, and only 1 out of 10 workers has a formal job. In vulnerable households, half of workers at age 29 are either NEET or informal. The picture is somewhat brighter for youth living in middle-class households, where only around 2 out of 10 workers are either NEET or informal at age 29.

Low levels of education and skills are a direct cause of poor school-to-work transitions in Paraguay. In particular, a low-skilled labour force is one of the complex and diverse causes of informality in the country. Informality decreases with the level of education among Paraguayans. While informal work remains above 80% for those with no education or who have completed lower secondary school, it affects around 70% of those who have completed upper secondary school, and only 30% of those who have graduated from an institution of higher education.

Low relevance of skills limits the opportunities to access formal jobs, as illustrated by the major difficulties faced by formal firms to find workers with the skills they need. Around 80% of formal firms in the country claim that they face difficulties to fill their vacancies. This is significantly above the LAC average of 65%, which is already high. The skills that are most difficult to find are mainly related to emotional intelligence, communication skills and critical thinking, all part of a group of generic, soft skills that are scarce among Paraguayan workers. Also, other more specific, technical skills related to budget, financial or computing skills are particularly in demand.

Main recommendations

These challenges suggest the agenda is ambitious and education and skills challenges must be faced with strong political commitment and ambition. The determination to transform Paraguay's education system into a driver of inclusion, economic progress and greater well-being, is reflected in the current quest to develop a National Plan for the Transformation of the Education Sector for 2030. This volume aims to contribute to the definition of this plan, and presents a series of key policy recommendations.

Policies must continue to expand education coverage and foster completion, particularly among most disadvantaged groups. The production of better education statistics is critical to favour policy design, implementation, monitoring and evaluation. Policies to support access in remote areas and across the most disadvantaged socioeconomic groups, particularly in pre-primary and secondary, must be pursued to complete the universalisation of compulsory education. And policies to favour school retention and completion, avoiding

repetition and drop-out, must be at the centre of this strategy given the high dropout rates in Paraguay.

Policies to improve learning outcomes must focus on teachers, educational resources, and the management of schools. In this respect, it is critical to improve evidence on learning outcomes to inform policy-making. One of the core policy challenges to transform education and improve teaching in Paraguay is re-shaping teachers' career pathways. The goal is to attract talent, strengthen incentives to continuously develop and improve teachers' pedagogical skills, and establish a stronger, more systematic system for the evaluation of teachers' performance. This must be complemented by improving the quality of the *Instituciones de Formacion Docente*, which entails better evaluation and accreditation mechanisms.

Policies to make education more relevant must focus on reforming the curriculum of *educación media*, so that it favours labour market insertion and provides a more solid basis for accessing higher education. The curriculum of *educación media* must be oriented towards training students with skills for the 21st century. This should include a mix of occupation-specific skills. Workers in the 21st century must also have a stock of information-processing skills and various “generic” skills, including interpersonal communication skills, self-management skills, and the ability to learn.

Policies to favour good quality school-to-work transitions in Paraguay must move towards a national, integrated Technical and Vocational Education and Training (TVET) system. This should be oriented at improving the quality and relevance of skills provided by the different modalities of TVET training that exist in the country, including both formal and non-formal options. An integrated system must favour the transparency of learning outcomes and the transferability of qualifications, as well as providing clear career pathways. Stakeholder engagement, including educators, private sector and unions, will be critical.

Policies to improve the match between the supply and demand of skills in Paraguay should go beyond the improvement of the relevance of skills. The reach of active labour market policies (ALMPs) must be extended in order to support training and intermediation programmes that favour access to job vacancies. Improving labour market information can be an effective tool to support better education and career choices. And setting up institutional mechanisms such as skills' councils to foster dialogue between educators, private sector and workers can be critical to anticipate and identify skills needs.

Anticipating trends and preparing for future challenges: scenarios for the future of Paraguay

As part of the OECD Multi-dimensional Country Review (MDCR) methodology, a series of workshops are organised throughout the Review. These workshops seek to connect with a diversity of perspectives of Paraguayan society and identify challenges and solutions to inclusive, sustainable development together with local stakeholders and experts.

To ensure that the recommendations in this report not only address current challenges but can withstand shifts in the global economy and in domestic trends, future state scenarios were developed to test the recommendations. These scenarios were used to anticipate how future trends might shape recommendations and, more specifically, how different contexts could affect the incentives and the prioritisation of policy reform or even create new policy trade-offs.

Box 1. Scenarios for the future of Paraguay

Four alternative scenarios with a 2030 horizon were developed as part of the MDCR of Paraguay. They highlight the implications of external and domestic shocks on the context in which Paraguay will pursue its development strategy. The scenarios were developed as part of a series of participatory strategic foresight workshops held in March and December 2017 in Asunción.

The March workshop focused on the identification of priority areas, while the workshop entitled “Scenarios for the future of Paraguay” discussed several alternative future scenarios and their implications for Paraguay. During this workshop, 40 participants including government officials and representatives of the private sector, civil society, and the academia modified the draft scenarios prepared by the OECD team on the basis of the work carried out in the first phase of the MDCR. Participants discussed the implications of the various scenarios for policy, with specific reference to the three main focus areas in the report, namely education and skills, social protection, and health. Four scenarios emerged from this exercise:

Scenario 1: The new super-cycle

The world economy recovers thanks to sustained growth in India, which raises global demand for goods and services. China continues to grow, although at lower rates. The expansion of the global middle class with new consumption and dietary habits generates new demand for certain products, buttressing the global price of meat and livestock inputs, such as soybeans and their derivatives. By 2030, the Paraguayan economy has diversified: exports of automotive components and pharmaceutical products have become significant. Paraguayan essential oils are popular in the large global cities of the United States, Europe and Asia. Paraguay has managed to strengthen its commercial ties with China. People associate Paraguay with quality and traditional knowledge. A new automobile assembly plant is installed in Presidente Franco, near Ciudad Del Este, to serve the Brazilian market. Despite this growing dynamism, the economy suffers from a growing skills gap. The wage gap increases, especially between those who obtained employment in the new sectors and other workers. This growing gap raises concerns about the persistence of inequality

Scenario 2: Villages without youths

The fertility rate falls rapidly, accelerating the demographic transition and the depopulation of rural areas. In rural areas the population ages rapidly as young people migrate to the cities. The budget for transfers to older adults is doubled as they become increasingly isolated. Without access to appropriate skills and opportunities, the young migrate to cities in search of new livelihoods. However, there are multiple barriers to settling in Asunción, which is already saturated, and young people go to secondary cities or further away in the Central department. In these regions, informal settlements grow due to the limitations of zoning regulations. Public services in these new cities are overloaded. Private schools and clinics multiply to serve a wealthy population that escapes the saturation of public services. The state struggles to regulate these new actors.

Scenario 3: The rise of the middle class

In 2030, around half of the population of Paraguay is middle class, even though many still work informally. Extreme poverty has been eradicated, but more than 3 million Paraguayans still live in precarious conditions. The middle class mobilizes to demand better health and education services from the government through protests and increased participation in electoral processes. Citizens also demand better leisure infrastructure and the improvement of other public services. The population also becomes more demanding in the honesty of political leaders and demands more transparent and equitable management of public resources. The government responds by implementing new regulatory measures so that the private sector improves the provision of health and education services. However, private sector prices are not affordable for many Paraguayans. Increased incomes also lead to changes in consumption patterns. Increased consumption generates demand for the services sectors in which the vulnerable classes work. However, certain changes in consumption behaviour create conditions that worsen health outcomes: overweight and obesity continue gaining ground, as do risky leisure activities and traffic accidents.

Scenario 4: The acceleration of climate change

Rains are increasingly unpredictable in the country as a consequence of climate change. The fertility of deforested areas is reduced, which increases the demand for fertilizers to maintain their productivity. Floods increase in winter, while droughts become more frequent and harsher, especially in the Chaco. The harsh conditions in the countryside increase the rural exodus, increasing the population of informal settlements in the cities. In urban areas, more frequent floods expose the failings of urban design, making transport more unpredictable and forcing populations to move to less vulnerable areas. In particular, new settlements have to move away from wetlands that are more vulnerable to the effects of flooding. The greater volatility of exports of agricultural commodities impacts the macroeconomic balance, due to the fact that the entry of foreign currency becomes increasingly uncertain.

This section details four scenarios for Paraguay developed with a time horizon of 2030 and their implications for policy in the country. The scenarios were developed on the basis of trends in the global economy and in Paraguay that have particular bearing on the areas of focus of this report and were developed through the participatory workshops organised in the context of the MDCR.

Scenario 1 “The new super-cycle” presents a favourable external environment and highlights the importance of capitalizing in Paraguay’s advantages, including its natural endowment, its capacity to generate clean electricity and chiefly, its capacity to develop skills for the workforce. This scenario highlights important avenues to ensure that economic prosperity benefits all, in particular through the extension of social protection and health coverage. In this context, developing practical and technical skills that are relevant to the new opportunities is particularly important to ensure fair distribution of the proceeds of economic growth. In a positive environment as described in the scenario, economic prosperity offers avenues for financing the extension of public services. However, this will require efforts to increase the formalisation of the economy and greater control of tax evasion. The scenario also highlights the importance of continued efforts on

the part of Paraguay towards the integration of the country in global networks, through the creation of a global image as well as the development of trade relationships with key new global actors.

Scenario 2 “Villages without youths” highlights two issues in Paraguay’s development path. First, territorial inequalities in economic opportunities and public services remain large today. This calls attention to the need to territorialise policies to support the emergence of local growth poles beyond the large cities of Asunción and Ciudad del Este. This implies an attention to territories’ comparative advantages in terms of their economic development, as well as greater attention to the development of public service provision at the local level. Among other things, the provision of technical and vocational training in areas that are relevant at the local level is an important factor to encourage the development of economic activity where populations reside. Second, internal migration is often perceived as a threat, in particular if it converges in informal and precarious settlements, leading to growing security concerns. In contrast, appropriate urban planning and skills formation policies can transform internal migration into a motor for the economy, by capitalising on agglomeration economies and the young and vibrant workforce.

Scenario 3 “The rise of the middle class” would have implications for policy and politics. A growing and vocal middle class is likely to call for fairer and more transparent governance, through electoral channels but also through other channels, including demonstrations and the use of social media. In this scenario, the challenge of quality in public service provision is posed acutely. Better-off Paraguayans tend to turn to the private sector for health and education provision. The expansion of the middle class would put pressure on health and education systems to deliver greater quality. In this scenario, the capacity of the Paraguayan economy to generate formal employment would be critical not only to sustain the middle class but also to ensure that the public sector can provide appropriate social protection, including health coverage to this segment of the population.

Scenario 4 “The acceleration of climate change” puts emphasis on the need for Paraguay to ensure it is robust to climate change. Improving urban planning and zoning is a key area to ensure that urban areas are prepared. Better quality streets will be able to withstand increased flooding. Climate change is likely to disrupt livelihoods and accelerate internal migration. In turn, without appropriate urban planning policies, internal migration will result in urban sprawl, multiplying health and other risks for the population. Better roads will also be critical to ensure that public services can reach populations if floods become more frequent. The management of feeder roads is already a major issue in some parts of the country, where certain population centres are very difficult to reach when rains are heavy. This problem could become more acute should floods become more frequent. This scenario also highlights the importance of economic diversification, both to reduce the impact of rainfall variability on the economy and to generate employment opportunities for internal migrants.

References

- DGEEC (2018), Encuesta Permanente de Hogares [Permanent Household Survey] (database), Dirección General de Estadísticas, Encuestas y Censos, Fernando de la Mora.
- DGEEC (2017), *Principales Resultados de Pobreza y Distribución del Ingreso*, Dirección General de Estadísticas, Encuestas y Censos, Fernando de la Mora, www.dgeec.gov.py/Publicaciones/Biblioteca/pobreza/Boletin%20de%20pobreza%202017.pdf (accessed on May 2018).
- DGEEC (2015), *Principales Resultados de Pobreza y Distribución del Ingreso*, Dirección General de Estadísticas, Encuestas y Censos, Fernando de la Mora.
- DGEEC (2014), “III Censo Nacional de Población y Viviendas para Pueblos Indígenas” in Censo 2012, Dirección General de Estadísticas, Encuestas y Censos, Fernando de la Mora, www.dgeec.gov.py/Publicaciones/Biblioteca/indigena2012/Pueblos%20indigenas%20en%20el%20Paraguay%20Resultados%20Finales%20de%20Poblacion%20y%20Viviendas%202012.pdf.
- Global Burden of Disease Collaborative Network (2016), Global Burden of Disease Study 2016 (database), Institute for Health Metrics and Evaluation, Seattle.
- National Government of Paraguay (2014), *Plan Nacional de Desarrollo: Construyendo el Paraguay de 2030* [National Development Plan: Building Paraguay in 2030], Asunción, www.stp.gov.py/pnd/wp-content/uploads/2014/12/pnd2030.pdf.
- OECD (2018), *Multi-dimensional Review of Paraguay. Vol I: Initial Assessment*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264301900-en>.

Annex. Policy recommendations by chapter

Chapter 2. Towards Social Protection for all in Paraguay:

1. *Expand social security coverage:*

1.1. *Put in place a strategy to expand coverage of social security.*

- Strengthen inspection and supervision systems to fight evasion.
- Assist employers in registering employees. Associate inspection and supervision with an information campaigns and counselling.
- Follow up on affiliates who cease to contribute. When possible support their re-integration into the system. Analyse and learn from the reasons for ceasing to contribute.
- Approve the strategy to inform the general public of the benefits of social security on a regular basis.

1.2. *Improve incentives for formalisation and social security contributions.*

- Review the minimum wage:
 - Review the level of the minimum wage and introduce a mechanism to determine its future fluctuation, linking it to productivity and prices.
 - Consider taking the minimum pension as minimum earnings for contribution calculation purposes.
- Put a more attractive system for independent workers in place:
 - Allow voluntary contribution to the health system.
 - Allow flexible contributions for independent workers. This may include irregular contributions in terms of amount and frequency.
 - Make contributions payment easier. This could be in form of a monotax or automatic withdrawal (e.g. with utility bills).
 - Consider matching contributions for independent workers with low income.

2. *Reform to establish an integrated social protection system:*

2.1. *Protect against all contingencies:*

- Introduce unemployment insurance.
- Introduce child benefits for non-poor formal sector workers.

2.2. *Review social expenditure:*

- Define social assistance expenditure according to international standards.
- Increase the budget for flagship social assistance programmes.
- Review expenditure of programmes with little impact and high costs due to programme fragmentation.

2.3. *Broaden tax collection:*

- Decrease tax exemptions.
- Improve tax collection and fight evasion.
- Increase tax rates to reflect the growing demand for state services.

- Earmark specific revenues for the financing of social protection.

2.4. Integrate the contributory and non-contributory pensions into a multi-pillar pension system:

- Transform *Adulto Mayor* into a basic pension within an integrated system
 - Improve the targeting of *Adulto Mayor*.
 - Revise the *Adulto Mayor* law to set a fixed benefit value or at least include a ceiling.
 - Allow a combination of contributory and non-contributory pensions. Phase *Adulto Mayor* out with the value of the contributory pension benefits favouring recipients with a meagre pension.
- Create an integrated mandatory, defined benefit pension system.
 - Explore the possibility of establishing a single statutory social security provider for private sector workers to reduce administrative costs and increase economies of scale.
 - Explore the possibility of integrating the social security system for public and private sector workers.
- Create a voluntary savings mechanism.
 - Provide tax incentives for savings plans cashed out at retirement age.
 - Increase trust in private pension funds and private savings plans by closely regulating them.
 - Consider transforming closed pension providers into occupational savings plans.

3. Improve the governance of social protection:

3.1. Improve co-ordination of social assistance programmes and agencies:

- Re-establish the co-ordination at ministerial level through the Social Cabinet or assign to another agency the role of system co-ordinator.
- Facilitate exchange of information between agencies.
- Align targeting mechanisms.
- Have joint staff on the ground to ease the engagement with beneficiaries, referrals and reduce costs.
- Integrate the number of social assistance programmes with similar objectives, especially programmes supporting small entrepreneurs and farms.

3.2. Integrate monitoring and evaluation processes into the design of social assistance programmes and policies to ensure rigorous assessments of results and the identification of potential improvements.

3.3. Supervise and regulate pension providers:

- Create a supervisory body for pension providers:
 - Furnish the supervisory body with the necessary financial and human resources.
 - Ensure impartiality of the supervisory body and auditors by detaching their payment from the audited institution.
- Set guidelines for investments of pension funds:
 - Set ceilings for levels of investment by category.
 - Enforce diversification of investments.

3.4. *Improve the internal governance of pension providers:*

- Digitalise the registry of contributions, contributors and beneficiaries in all pension funds.
- Standardise financial reports submitted to the Ministry of Finance (and other institutions).
- Clearly separate the management of the IPS pension and health branches.
- Revise the law limiting IPS' independence in managing its real estate investments.
- Transform the *Caja Fiscal* into an independent institution.

4. *Establish a more coherent, fair and inclusive pension system*

4.1. *Improve equity in the pension system:*

- Set the retirement age to be the same across all schemes: the retirement age should be periodically revised taking longevity, labour force participation and other socio-economic factors into account. This mechanism should set out the stepwise increase in the retirement age to be predictable for affiliates.
- Unify the basis for benefit calculation (earnings measure), including for independent workers.
- Standardise replacement and accrual rates.
- Ensure all pension benefits are indexed.

4.2. *Strengthen the link between benefits and contributions:*

- Raise number of years used to calculate the pension benefit (earnings measure).
- Set a uniform ceiling for any pension benefit:
 - This ceiling can be a multiple of the minimum wage and should take the financial soundness of the system into consideration.
- Revise the benefit level:
 - Adjust the pension benefit level to reflect the decreasing contributors-per-pensioner ratio.
 - Reduce incentives for early retirement. This can be achieved by significantly reducing benefit levels.
- Adjust contribution rates:
 - Contribution rates should be revised on a regular basis. The revision should be based on actuarial studies, demographic developments, the economic situation, the ratio between pensioners and contributors and the financial soundness of each scheme.
 - Collect contributions on end-of-year bonuses or cease to pay out end-of-year pension benefits. Every benefit payment has to be backed by a contribution.

4.3. *Improve portability:*

- Establish a mechanism to transfer contributions and entitlements between pension providers (as long as the system remains fragmented). This mechanism should grant a single pension, instead of the current procedure of granting partial pensions from all the systems the affiliate contributed to.

Chapter 3. Reforming to foster healthier lives in Paraguay

1. *Establish a vision for the health system able to guarantee Universal Health Coverage with equity.*

2. *Establish framework conditions favouring the integration of health service delivery across the public and potentially the private system:*

- Review existing inter-institutional agreements between public sector entities.
- Establish a framework to generalise the use of inter-institutional agreements for the provision of service across public sector entities.
- Consider a reform to make public procurement of health services and supplies more responsive.
- Consider including civil servants and employees of the state under the social security health service.
- In the long run, separate purchasing and service provision functions across the health system.

3. *Improve the governance of the national health system:*

- Strengthen the stewardship role of the Ministry of Health and Social Welfare by providing oversight institutions with the necessary autonomy, financial and human resources.
- Pursue the implementation of the legal framework for the governance of the national health system.
- Consolidate and streamline the legal and regulatory bodies pertaining to the health sector to:
 - Ensure regulation applies to all relevant actors.
 - Remove inconsistencies.
 - Update or revoke outdated legislation.
- Further invest in the development of information systems in health to deliver better statistical information and support continuity of care:
 - Continue efforts to improve the accuracy of vital statistics.
 - Unify systems within institutions and, where relevant, across the public, private and mixed subsystems.
 - Increase capacity among stewardship bodies to generate health statistics for the entire health system, with the support of the National Statistical Office.
 - Develop the system for recording medical records and accessing them in order to ensure continuity of care.

4. *Ensure sustainable funding for health to support Universal Health Coverage:*

4.1. *Diversify sources of finance for health:*

- Consider increasing taxes on consumption of goods harmful to health (e.g. tobacco, alcoholic beverages) and earmark part of revenues to health finance.

4.2. *Channel out-of-pocket expenditure towards pre-payment schemes:*

- Make enrolment in health insurance mandatory.
- Reform contributory systems for independent workers to better adapt them to their circumstances.

- Offer partly or fully subsidised health insurance for those unable to pay (through a means-tested subsidy).

4.3. Establish a pooled fund to cover key contingencies:

- Implement FONARESS to cover high-complexity treatment for all Paraguayans, and include private and IPS funding in the pool of funds.
- Reform FONARESS to cover a basic comprehensive care package, beyond high-complexity care, as a basis for pooled funding.
- Consider the inclusion of other contingencies (e.g. traffic accidents).

4.4. Reform the provider payment system – in line with the separation of purchasing and service provision – ensuring that the new payment system provides incentives for quality service, cost control, and appropriate referral.

5. Deliver on Universal Health Coverage by expanding health services and insurance coverage, increasing financial protection, and ensuring the delivery of a well-defined benefit package:

- Expand the coverage of USF.
- Ensure adequate financial protection including through:
 - Universal coverage for high-cost conditions and treatments.
 - Improving on the availability and affordability of medicines.
- Define a set of guaranteed services and/or pathologies that can be provided to the population effectively and deliver on that guarantee.
- Build upon the pilot to guarantee a package of services for children and women of childbearing age.

6. Strengthen the orientation of the national health system towards integrated networks based on primary healthcare:

- Strengthen Family Health Units (USF) by providing them with adequate human and financial resources.
- Increase the pace of expansion of USFs to deliver on the objectives of universal coverage.

7. Invest in health promotion and disease prevention:

- A first and fundamental way of achieving a sustainable UHC is to invest more in health promotion and disease prevention.
- Mitigating specific behavioural risk factors is potentially more cost-effective than waiting to treat poor health associated with these behaviours.

Chapter 4. Towards an education and skills system that fosters inclusiveness and employability in Paraguay

1. Policies to support a better education system for all

1.1. Adopt a national pact on education – the PNTE 2030 – built on a consensus reached in a consultative process:

- Set specific targets and milestones for the different areas of action.
- Establish specific financial commitments.
- Mobilise international expertise to learn from best practices.

1.2. Strengthen efforts to expand coverage and foster completion, particularly in pre-primary and secondary, and among the most disadvantaged groups:

- Produce better education statistics to evaluate future challenges, monitor progress, and inform education policy.
 - Use the Registro Unico del Estudiante as a way to centralise student information and favour the production of more reliable, easy-to-manage and comparable data.
 - Overcome the current challenges for the production of basic education metrics regarding access, enrolment, progression and completion.
- Support access in remote areas and across the most disadvantaged socioeconomic groups.
 - Support access to pre-primary education, helping families to overcome main barriers:
 - Economic: strengthen the conditionality of CCT *Tekoporã* with preschool attendance.
 - Geographical: scale-up the non-formal, initial education programme *maestras mochileras*.
 - Raise awareness within communities of the importance of early childhood education:
 - Strengthen the role of the – or establish when non-existent – *Consejos de Niñez y Adolescencia*.
 - Expand the offer of pre-primary education:
 - More and better school and teachers, and developing modalities to address special needs.
 - Consider expanding compulsory education to age 4.
 - Expand coverage in secondary education:
 - Scholarships earmarked for students from disadvantaged groups and/or with special needs.
 - Reinforce “educación media abierta y a distancia”.
 - Strengthen school transport for secondary education in remote areas.
- Policies to favour school retention and completion, avoiding repetition and dropout:
 - Consider a gradual expansion of the school day, starting with a pilot to measure impact on the dropout reduction (and learning outcomes).
 - Develop mechanisms to identify and support students at risk of exclusion, with flexibility in pedagogical methods to support those with greater difficulties.

1.3. Policies to improve learning and the overall quality of the education system:

- Improve evidence on learning outcomes to inform policy-making.

- Strengthen the SNEPE as the main tool for evaluation of student performance, improving its use and the public-availability of results to favour analysis and evidence-based policy-making.
- Improve teaching to achieve better learning outcomes.
 - Re-shape teachers' career pathways to:
 - Attract talent and raise the status of teaching to ensure that the best candidates enter and remain in the profession. This entails rethinking mechanisms for selection, but also incentives (salaries, social recognition, etc.).
 - Strengthen incentives to develop and improve, with a stronger link between rewards and performance.
 - Reinforce and systematise teachers' evaluations, to monitor progress and assess weaknesses to support improvement.
 - Raise quality of the *Instituciones de Formacion Docente*:
 - Initiate the process of accreditation of IFDs, and strengthen ANEAES to guarantee capacity to carry out this task effectively.
 - Improve the quality of both initial and continuing education.

2. Policies to improve access to better quality jobs

2.1. Transform and modernise the curriculum of educación media técnica:

- Reform curricula to prioritise 21st century skills.
- Develop mechanisms to adapt the curriculum of *bachilleratos técnicos* to the fast-changing demands of industry, involving private sector and other stakeholders.
- Provide a mix of technical, job-specific skills with soft and basic skills.

2.2. Strengthen the TVET system:

- Improve the quality of VET: strengthen accreditation efforts of *Institutos Superiores Técnico-Profesionales*.
- Make it more relevant: modernise curriculum and connection with private sector.
- Build VET pathways to support students' transition to the workplace.
- Support VET for adults and establish a system for the recognition of skills acquired in the labour market, to give adults a second chance.

2.3. Improve the match between labour supply and demand:

- Strengthen active labour market policies to favour employability in formal jobs: training and intermediation systems.
- Set up an information system to attract students to sectors with higher demand.
- Consider establishing skills councils in dynamic sectors (e.g. a pilot in some segment of agroindustry) and establishing an observatory to anticipate demand for certain skills. Consider establishing a qualifications framework to facilitate the recognition of skills.

OECD Development Pathways

Multi-dimensional Review of Paraguay Volume 2. In-depth Analysis and Recommendations

OVERVIEW

The *OECD Development Pathways* series helps developing and emerging economies to identify innovative policy solutions to their specific development challenges. Higher levels of well-being and more equitable and sustainable growth cannot be achieved by merely reproducing the experience of industrialised countries. For each of the countries studied, the series proposes options for action in specific policy areas and at the broader strategic level. It identifies the binding constraints to development across all sectors and proposes whole-of-government solutions.

Having achieved robust economic growth and remarkable macroeconomic stability over the past 15 years, Paraguay has set a course to become not only more prosperous, but also more inclusive by 2030. To deliver on its development ambition, the country will have to overcome a number of crosscutting constraints that limit progress towards widely shared improvements in citizen well-being, as identified in Volume 1 of the review. Putting Paraguay on a more inclusive development path requires co-ordinated actions to increase the capacity of the state to redistribute, to improve the delivery of public services, and to break the persistence of poverty and inequality across generations. This report discusses policy actions and priorities in three critical areas to make Paraguay's development more inclusive. It presents in-depth analysis and recommendations to improve the effectiveness of social protection, the delivery of health services, and the formation of skills for all Paraguayans.

www.oecd.org/dev/mdcr.htm



Co-funded by the European
Union