OECD Development Pathways

Multi-dimensional Review of Paraguay

VOLUME 3. FROM ANALYSIS TO ACTION

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Foreword

Economic growth matters, but it is just one facet of development. Policy-makers should focus their attention on ensuring that their country's development path is sustainable and that the lives of their citizens improve. This requires reconciling economic, social and environmental objectives.

OECD Development Pathways is a series that looks at multiple development objectives beyond an exclusive focus on growth. It recognises well-being as part and parcel of development and helps governments identify the main constraints to more equitable and sustainable growth by undertaking a multi-dimensional country review (MDCR). Governments trying to achieve economic, social and environmental objectives need to understand the constraints they face and develop comprehensive and well-sequenced strategies for reform that take into account the complementarities and trade-offs across policies. The MDCR methodology draws on quantitative economic analysis, as well as qualitative approaches including foresight and participatory workshops that involve actors from the private and public sectors, civil society, and academia.

The MDCRs are composed of three distinct phases: *Initial assessment*, *In-depth analysis and recommendations*, and *From analysis to action*. This approach allows for a progressive learning process about the country's specific challenges and opportunities. The Mutual Learning Group for the Multi-dimensional Country Reviews (MLG-MDCR) brings together policy-makers responsible for designing development strategy to support the exchange of experiences on common challenges.

Paraguay initiated two OECD Reviews in 2017 as part of an effort to strengthen its ties with the OECD: a Multi-dimensional Country Review and a Public Governance Review. This report is the third volume of the MDCR of Paraguay. The second volume presented in-depth analysis and detailed policy recommendations to address three key development challenges identified in the first volume of this MDCR: a fragmented social protection system, a health system facing a double burden of communicable and non-communicable disease, and an education system in need of reform. This third volume draws on complementary analysis and the result of an in-country participatory policy dialogue process to identify priority areas for action and present action plans to make reform happen.

This MDCR has been carried out to assist Paraguay in formulating development strategies, and to identify and support the policy reforms needed to achieve further sustainable and inclusive development, in the context of the implementation of its National Development Plan and Paraguay's commitment to the Sustainable Development Goals. The report is primarily aimed at supporting public action by national authorities in Paraguay but is also a means to inform the private sector, civil society and other development actors in their efforts to achieve a brighter future for Paraguayan citizens.

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Abbreviations and acronyms

AIDS	Acquired Immunodeficiency Syndrome
ANDE	Administración Nacional de Electricidad *(National Electricity Administration)*
ANEAES	Agencia Nacional de Evaluación y Acreditación de la Educación Superior *(National Agency for Evaluation and Accreditation of Higher Education)*
ASPIRE	The Atlas of Social Protection Indicators of Resilience and Equity
BCP	Banco Central del Paraguay *(Central Bank of Paraguay)*
BTI	Bertelsmann Stiftung's Transformation Index
CAF	Corporación Andina de Fomento - Banco de Desarrollo de América Latina *(Andean Development Corporation - Development Bank of Latin America)*
CIAT	Centro Interamericano de Administraciones Tributarias *(Inter-American Centre of Tax Administrations)*
CNET	Consejo Nacional de Educación y Trabajo *(National Education and Labour Council)*
DGEEC	Dirección General de Estadística, Encuestas y Censos *(General Directorate for Statistics, Surveys and Censuses)*
DIGIES	Dirección General de Información Estratégica en Salud *(General Directorate for Strategic Health Information)*
DNCP	Dirección Nacional de Contrataciones Públicas *(National Directorate for Public Procurement)*
ECLAC	United Nations' Economic Commission for Latin America and the Caribbean
ENIF	Estrategia Nacional de Inclusión Financiera *(Financial Inclusion National Strategy)*
EPH	Encuesta Permanente de Hogares *(Permanent Household Survey)*
ER	Expected Results
ETESA	Evaluación de Tecnología en Salud *(Health Technology Assessment)*
EUR	Euro (currency)
FA	Framework Agreement

FDI	Foreign Direct Investment
FONACIDE	Fondo Nacional de Inversión Pública y de Desarrollo *(National Fund for Public Investment and Development)*
FONARESS	Fondo Nacional de Recursos Solidarios para la Salud *(National Fund for Health Solidarity Resources)*
FONASA	Fondo Nacional de Salud *(National Health Fund)*
GDP	Gross Domestic Product
GEPF	Government Employees Pension Fund
GES	Garantías Explícitas en Salud (*Explicit Health Guarantees)*
HBP	Health Benefit Package
HIV	Human Immunodeficiency Virus
IBS	Instituto de Bienestar Social (*Social Welfare Institute*)
IDB	Inter-American Development Bank
ILO	International Labour Organization
INAN	Instituto Nacional de Alimentación y Nutrición *(National Institute of Food and Nutrition)*
IPS	Instituto de Previsión Social (*Social Security Institute*)
ISCED	International Standard Classification of Education
LAC	Latin America and the Caribbean
MAG	Ministerio de Agricultura y Ganadería (*Ministry of Agriculture and Livestock)*
MDCR	Multi-dimensional Country Review
MEC	Ministerio de Educacion y Ciencias (*Ministry of Education and Science*)
MH	Ministerio de Hacienda *(Ministry of Finance*)
MIC	Ministerio de Industria y Comercio (*Ministry of Industry and Commerce*)
MITIC	Ministerio de Tecnologías de la Información y Comunicación (*Ministry of Information Techologies and Communication*)
MLG-MDCR	Mutual Learning Group for the Multi-dimensional Country Reviews
MSME	Micro, Small and Medium Enterprises
MSPBS	Ministerio de Salud Publica y Bienestar Social (*Ministry of Public Health and Social Welfare*)
MTESS	Ministerio de Trabajo, Empleo y Seguridad Social (*Ministry of Employment, Labour and Social Security)*

NHQP	National Health Quality Policy
OAS	Organization of American States
OECD	Organisation for Economic Co-operation and Development
PAHO	Pan American Health Organization
PAI	Programa Ampliado de Inmunizaciones (*Expanded Immunization Program*)
PISA	Programme for International Student Assessment
PNTE	Plan Nacional para la Transformación Educativa 2030 (*National Plan for Educational Transformation 2030)*
PPP	Purchasing Power Parity
PRONASIDA	Programa Nacional de Control del SIDA/ITS (*National AIDS/STI Control Programme*)
PYG	Paraguayan Guarani (currency)
REIFOCAL	Registro de Instituciones de Formación y Capacitación Laboral (*Registry of Vocational Training Institutions*)
RETA	Régimen Especial de Trabajadores Autónomos (*Special Regime for Self-Employed Workers*)
RUC	Registro Único de Contribuyentes *(Single Registry of Taxpayers)*
SDG	Sustainable Development Goals
SE4All	Sustainable Energy for All
SENAC	Secretaría Nacional Anticorrupción (*National Anti-Corruption Secretariat*)
SENATIC	Secretaría Nacional de Tecnologías de la Información y Comunicación (*National Secretariat of Information and Communication Technologies)*
SET	Subsecretaría de Estado de Tributación (*Under-Secretariat of State for Taxation*)
SIAF	Sistema Integrado de Administración Financiera (*Integrated Financial Administration System)*
SIIS	Sistema Integrado de Información Social (*Integrated Social Information System)*
SINAFOCAL	Sistema Nacional de Formación y Capacitación Laboral (*National Labour Training System*)
SIP	Sistema Informático Perinatal (*Perinatal Computer System*)
SIREPRO	Sistema Informático de Registro de Profesionales del Paraguay *(Paraguay's Computer Professional Registration System*)

SNEPE	Sistema Nacional de Evaluación del Proceso Educativo *(National System for the Evaluation of Educational Processes)*
SNPP	Servicio Nacional Promoción Profesional *(National Professional Promotion System)*
SPS	Social Protection System
SSIEV	Sub-Sistema Informático de Estadísticas Vitales *(Sub-Computer System of Vital Statistics)*
STP	Secretaría Técnica de Planificación del Desarrollo Económico y Social *(Technical Secretariat for Economic and Social Development Planning)*
TVET	Technical and Vocational Education and Training
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
USD	U.S. Dollar (currency)
USF	Unidades de Salud de la Familia *(Family Healthcare Units)*
UTGS	Unidad Técnica del Gabinete Social (*Technical Unit of the Social Cabinet*)
VAT	Value-Added Tax
WB	World Bank
WHO	World Health Organisation

Executive summary

Paraguay has experienced dynamic development since the early 2000s. Growth has been strong, supported by a solid macroeconomic policy framework, and has enabled the country to reduce extreme poverty from 12% down to 4% between 2010 and 2017. At the same time, the population's well-being improved thanks to better access to electricity, sanitation, education and health. Nevertheless, inequality remains high and persistent and the country's tax and benefit system only decreases inequality by 2%, a low figure by regional and OECD standards.

The country has set itself ambitious development goals: the National Development Plan, adopted in 2014, sets aims for the country to become not only more prosperous but also more inclusive, efficient and transparent by 2030. To achieve those goals, it will have to tackle two major challenges: buttressing sources of sustainable economic prosperity and putting the country on a more inclusive development path. Responding to these challenges will require a broad and vigorous reform agenda.

To put Paraguay on a more inclusive development path, the country will have to tackle three major issues. First, it must redesign its healthcare system to widen its coverage, reduce Paraguayans' vulnerability in the face of health risks and increase the efficiency of the health system. Second, the social protection system needs to overcome its fragmentation and become more effective in delivering the right services and risk management tools to citizens according to their needs. In particular, the pension system requires reforms to increase its coverage and become more equitable and more sustainable. Third, Paraguay has to strengthen the quality and the inclusiveness of its education and training system to generate the skills the economy needs, and provide opportunities to all. By doing so, the country may break the intergenerational transmission of poverty and inequality.

Reforming the Paraguayan health system

The Paraguayan health system faces major challenges to achieve universal health coverage. It faces a double burden of disease that results from the increasing prevalence of non-communicable diseases and unresolved issues in communicable, maternal, neonatal and nutritional conditions. To respond, it needs to secure sustainable funding, ensure it is run more efficiently and strengthen its stewardship. The country has undertaken a series of reforms to modernise the system, laying the foundations for a new approach to health care provision based on primary care. However, it has not significantly altered the foundations of the health system and its fragmentation into multiple subsystems. To kick-start the necessary systemic reform, priority areas for action include:

- Establishing a shared vision of the health system that overcomes the fragmentation of funding and service delivery that characterises the system today;
- Securing sustainable funding for the system, by diversifying sources of funding, shifting from out-of-pocket expenditure towards mechanisms that allow for a greater share of pre-paid funds and for more pooling of funds, at least for key contingencies;

- Reducing fragmentation by integrating service delivery and improving the system of payment to suppliers;
- Making the public procurement of medicines and medical supplies more efficient, to reduce costs and ensure the availability and affordability of medicines and health products;
- Defining a package of health benefits that the state can guarantee for all citizens and that can serve as a basis for better regulation of private providers.

Pension reform as a pillar for the overhaul of the social protection system

Paraguay has made considerable progress in reducing poverty and improving living conditions. To bolster its achievements and continue social development, the country must create a comprehensive social protection system that can improve living conditions for the most vulnerable people, help to include everyone in the country's economic development and provide vital risk-management tools for the whole population. The country has begun implementing a social protection system with a holistic vision, which will respond to the broader governance challenges. The pension system, as the whole of the social protection system, faces challenges of coverage, funding and governance. The system has limited coverage, is highly fragmented and some of its segments are not financially sound. Priority areas for pension system reform include:

- Implementing a strategy to expand coverage as part of a broader formalisation strategy. This strategy should seek to include self-employed workers and excluded categories into the general social security system and improve incentives for registering and contributing. The coverage of the social pension should also continue growing to reach its target population.
- A more sustainable and fairer pension system requires parametric reforms to strengthen the link between benefits and contributions, to homogenise parameters across groups and regimes to improve equity, and to ensure the system's financial soundness.
- Moving towards a more integrated multi-pillar pension system by streamlining pension management, integrating contributory and non-contributory programmes and developing a voluntary pension savings pillar.
- Establishing necessary regulation for pension providers and a supervisory body to enforce these regulations.

Reforming the education system to foster inclusion and employability

Access to education has expanded markedly in recent years, but challenges remain. First, improving coverage and completion rates, especially in pre-primary and secondary education and for certain socio-economic groups. Second, improving the quality of learning outcomes, which involves changing how teacher training and the teaching profession are managed. Third, ensuring that both general and technical training are better matched to the economy's demand. Priority areas for action include:

- Develop a national pact on education that lays the foundation for future reforms;

- Expand education coverage, supporting access in remote areas and among disadvantaged people, expanding pre-primary education, and implementing policies to favour school retention;
- Improve learning and the quality of education by focusing on teachers' training and career paths and improving the measurement of outcomes and performance;
- Modernise curricula based on a national qualifications framework that supports employability and a wider range of training paths;
- Strengthen the technical and vocational education and training (TVET) system, establishing a government institution to co-ordinate all the stakeholders, improving quality-assurance systems and designing job-oriented training paths; and
- Improving the match between supply and demand for skills by improving active labour market policies, providing better information and careers guidance for students, linking training and the production sector, and developing the system for analysing the labour market and anticipating needs.

Chapter 1. Priorities for inclusive development in Paraguay: Summary of multidimensional analysis

Paraguay has experienced strong growth since the 2000s, supported by a solid macroeconomic policy framework. The country has set itself ambitious goals to adopt a development path that is more inclusive, efficient and transparent. To achieve those goals, it will have to tackle major challenges and implement a broad and vigorous reform agenda. The Multi-dimensional Review of Paraguay was carried out to support the country in achieving its development objectives. This chapter explains the process of implementing the Multi-dimensional Review in Paraguay and summarises the main obstacles related to the Sustainable Development Goals (people, prosperity, planet, peace and institutions, and partnerships). It then presents the country's main cross-cutting challenges – namely, moving along a more inclusive development path and laying the foundations for sustainable growth – as well as the main results of the detailed analysis in Volume 2 of this review.

Since the turn of the century and after the country's emergence from an economic and institutional crisis, Paraguay has returned to the path of growth. It has also set ambitious development objectives for 2030, aiming to be a country that is not only more prosperous but also more inclusive, efficient and transparent. The country's overall development policy focuses on this ambition and is embodied in the Paraguay 2030 National Development Plan.

The Multi-dimensional Country Review (MDCR) aims to support Paraguay in achieving its development objectives. Volume 1 of this review (OECD, 2018[1]) assesses five areas of the country's development process: population, prosperity, planet, peace and institutions, and partnership and financing development. Based on comparative analysis, it identifies eight priority lines of action. Volume 2 (OECD, 2018[2]) contains a more in-depth analysis and makes public policy recommendations.

This third volume summarises the main findings of the overall study and proposes specific action plans to address three priority action areas – health, pensions and education – to allow Paraguay to move towards more inclusive development. Using the main results of the previous volumes as its starting point, this chapter sets out an overall framework for priority reforms. The subsequent chapters present the main public policy guidelines on health (Chapter 2), social protection (Chapter 3), and education (Chapter 4), as well as specific action plans on health and pensions. Chapter 5 presents a dashboard of indicators to monitor the performance and implementation of the proposed reforms.

A reader's guide to the Multi-dimensional Review of Paraguay: priority areas and action plans

The purpose of the Multi-dimensional Review of Paraguay is to help the country achieve its development objectives by analysing the main obstacles to development and proposing concrete solutions. Implemented between March 2017 and July 2019, the review consists of three phases and three reports: *Initial assessment* (OECD, 2018[1]), *In-depth analysis and recommendations* (OECD, 2018[2]) and *From analysis to action* (this volume).

To support Paraguay in achieving its development objectives, this MDCR has carried out a sequential prioritisation process culminating in public policy recommendations on social protection, health and education, as well as specific action plans on health and pensions.

The analysis of Paraguay's performance across the five Ps addressed in the Sustainable Development Goals (prosperity, people, planet, peace and institutions, partnerships and financing) in Volume 1 of this study (OECD, 2018[1]) identified 15 obstacles to development, most of which are cross-cutting. Those 15 obstacles are summarised in eight priority fields of action:

- Closing the infrastructure gap
- Increasing financing flows for development
- Implementing a systemic education reform
- Strengthening governance
- Addressing informality and the fragmented social protection system
- Developing public policies with a regional approach
- Updating the capacity of the statistical system

- Strengthening the protection of the environment.

Combined, these obstacles leave the country facing two major challenges: to establish new drivers of sustainable growth and to place the country on a more inclusive development path. To tackle these challenges, whole-of-society strategies will be necessary. Although the national government will play a central role, it will need to harness the strengths of the private sector and civil society to continue attracting investment and fostering productive diversification and to carry out the systemic reforms needed in health, education and social protection. At the same time, the state needs to increase its capacity to lead these reforms by investing more in development, by improving the quality of public spending and by strengthening capacities in terms of the stewardship of public affairs.

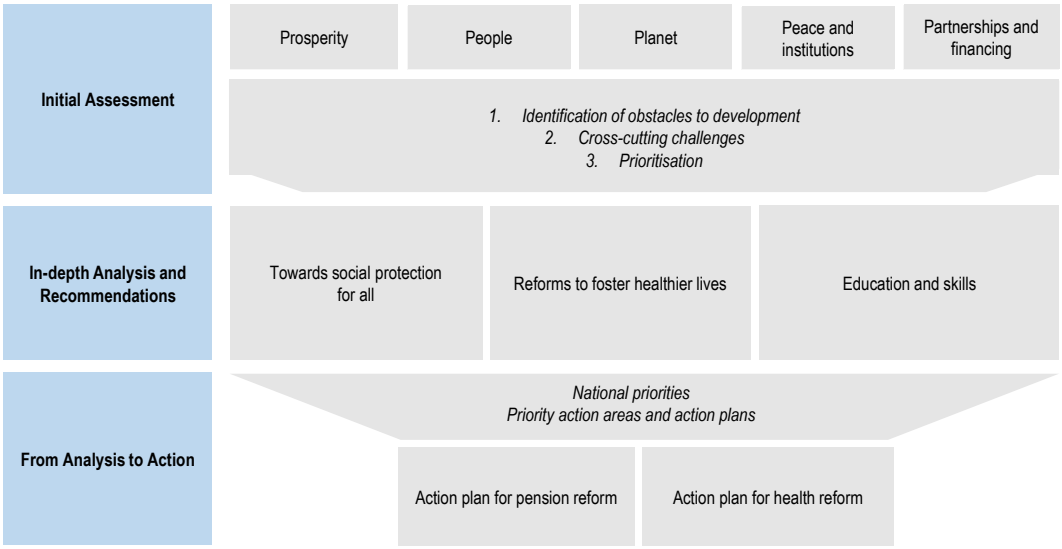
After the completion of Volume 1, the OECD and the Government of Paraguay decided that Volume 2 of the Multi-dimensional Review should focus on key public policies to place the country on a more inclusive development path. In Volume 2 (OECD, 2018[2]), the analysis and public policy recommendations focus on three key areas of social policy:

- Towards social protection for all
- Reforming to foster healthier lives
- Education and skills

The document provides an in-depth analysis of these areas and makes public policy recommendations to move the country towards achieving its development objectives.

Questions related to the capacity of the state were dealt with in detail in a Public Governance Review by the OECD, which began in parallel with the Multi-dimensional Review. The results of the Public Governance Review were published in 2018 (OECD, 2018[3]). The document included recommendations to strengthen the capacity of the Paraguayan state to establish, pilot and implement its National Development Plan. The recommendations included: (i) enhancing the strategic role of Paraguay's centre of government, (ii) improving the link between strategic planning and budgeting, (iii) reinforcing public policies at the regional level, (iv) building a professional and efficient civil service, and (v) developing a more open, transparent, accountable and participatory government.

Figure 1.1. The Multi-dimensional Review of Paraguay



Source: Authors' work.

This third volume focuses on detailing the actions required to address the country's development challenges. It includes chapters on the three topics dealt with in detail in Volume 2. The chapters discuss the Government of Paraguay's priorities and its short- and medium-term plans, provide analysis on key topics identified through consultations with the Government of Paraguay and other stakeholders, as well as indicating the priority action areas that will allow the country to move forward in the direction set out in Volume 2.

It includes detailed action plans for pensions and health, both of which were prioritised in the framework of the Multi-dimensional Review of Paraguay based on the Government of Paraguay's political priorities and the progress of other planning processes, such as the development of the National Plan for Educational Transformation. These action plans were devised using the governmental learning methodology (see Box 1.1), with the participation of a wide range of stakeholders from the public sector, private sector and civil society. The process by which the action plans presented in this volume were drawn up sought to support Paraguay in generating consensus.

Finally, this volume offers a series of indicators to monitor the implementation of the proposed recommendations and action plans. Where the data are available, the indicators are linked to numerical targets and baselines so that they can be used as part of the system for monitoring Paraguay's development policy.

Box 1.1. Public policy workshops as part of the Multi-dimensional Review of Paraguay

The action plans for the Multi-dimensional Review of Paraguay were drawn up in workshops using a form of the governmental learning methodology (Blindenbacher and Nashat, 2010[4]) that was adapted for Multi-dimensional Country Reviews. The methodology uses a series of techniques to encourage knowledge sharing and the willingness to introduce and support reforms in complex situations.

The workshop on *Reforms for better health in Paraguay* was held in Asunción on 14 March 2019 and was attended by representatives from the Ministry of Public Health and Social Welfare (MSPBS), the Ministry of Finance (MH), the Social Security Institute (*Instituto de Previsión Social*, IPS) and the Technical Unit of the Social Cabinet (*Unidad Técnica del Gabinete Social*, UTGS). The specific content of the workshop was determined by the conclusions of a high-level preparatory meeting held on November 2018 and attended by the Minister of Finance, the Minister of Public Health and Social Welfare, the Executive Secretary Minister of the Administrative Unit of the Presidency of the Republic and the President of the Social Security Institute. Attended by 60 people from these organisations, the workshop served to formulate an action plan, which is presented in this volume.

The workshop *The pension system in Paraguay: reform options* was held in Asunción on 28 March 2019 with high-level participation from the sector (the Minister of Labour, Employment and Social Security; the Executive Secretary Minister of the Presidential Management Unit; and representatives of the Ministry of Finance and the Social Security Institute [IPS]), who shared their view of governmental and institutional priorities. Besides civil servants from government agencies, the workshop's participants also included pension fund managers and social partners.

Paraguay's development ambition and the main obstacles it faces

Paraguay must leverage its macroeconomic stability to diversify its economy

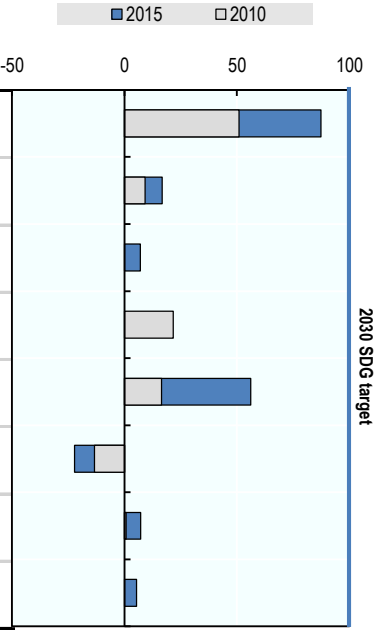
The Paraguayan economy remains among the strongest-growing in the region, but with significant growth volatility due to its reliance on agriculture and livestock as leading economic activities. Despite increased diversification in recent years, over the past few decades, Paraguay's exports have been marked by low levels of diversification and have been concentrated mainly in a small number of products, like soybeans, beef and electricity.

The much-needed economic diversification is making progress. Labour reallocation from agriculture to other sectors, especially manufacturing and services, shows that structural transformation is proceeding at pace. As a result, a number of sectors (livestock, construction, financial services) have seen their shares of value-added grow, while manufacturing has contributed an increasingly larger share to aggregate growth.

Figure 1.2. Progress in the Prosperity dimension of the SDGs

Progress towards the 2030 target (relative to 2005 baseline)

	Target	2005	2010	2015	Target 2030
7: Access to electricity	Access to electricity (% of the population)	94.7	97.4	99.3	100
8: Decent work	Wage and salaried workers (%)	38.5	44.1	48.8	100
	Informal workers in non-agricultural employment (%)	-	69.2	64.4	0
8: Access to finance	Account at a financial institution (% aged 15 +)	-	21.7	-	100
9: Industry and innovation	Individuals using the Internet (% of the population)	7.9	19.8	48.4	80
9. Infrastructure	Population satisfied with roads and highways (%)	55	49	45	100
10: Reduced inequalities	Gini Index	0.52	0.51	0.48	0
11: Sustainable cities	Housing deficit, quant. and qual. (thousands of dwellings)	804.017	-	780	360



Note: The baseline for "informal workers in non-agricultural employment" is 2010 instead of 2005. The baseline for "access to finance" is 0 due to the lack of data. "Sustainable cities and communities" uses 2002 instead of 2005 and 2012 instead of 2015. The "Population satisfied with roads and highways" indicator uses 2006 instead of 2005.
Source: Authors on the basis of official national data when available, and alternatively, international data: DGEEC (2017[5]); United Nations (2018[6]); The World Bank (2018[7]); Gallup (2018[8]); International Energy Agency (2018[9]); The World Bank (2018[10]); and MH (2017[11]).

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Macroeconomic stability, supported by a prudent and institutionalised monetary and macro-fiscal policy, is an excellent asset for the country's development. Monetary policy and the inflation targeting regime have helped to control inflation volatility, with both the explicit target and the tolerance range being gradually adjusted downwards. To support the monetary policy framework, efforts to develop the financial system and the interbank market should be strengthened and liquidity conditions carefully monitored. The introduction of the Fiscal Responsibility Act and the Advisory Fiscal Council represent an important step in terms of fiscal sustainability as part of a broader package of macro-fiscal policy reforms. Implementing the act has been challenging as has been adjusting to the limits it puts to the use of counter-cyclical measures and the constraints it places on public investment.[1] The fiscal framework is sound but tax collection and capital investment should be improved. Despite recent improvements, in particular in tax collection from domestic economic activity, tax collection in Paraguay is still lower than in benchmark countries, mainly due to low tax rates, but also because of evasion and informality. The government has set up a Technical economic tax commission (*Comisión Técnica Económica Tributaria)* that gathers public officials, experts and private sector representatives and which was tasked in November 2018 with providing input to a tax reform bill that seeks to modernise and simplify the country's tax regime. The government has made notable efforts to contain current spending, which is reported to have declined in recent years, allowing

for a slight increase in social spending and government investment. In similar fashion to the technical tax commission, the government has set up an inter-institutional commission to review the efficiency of public expenditure and make proposals to improve it. However, although it is starting to pick up, the level of investment in Paraguay has been considerably lower than in OECD and Latin American countries. Paraguay still faces significant challenges in budgetary execution and management of public investment projects. Any further government efforts to facilitate capital investment would contribute to boosting growth.

Strengthening productivity and competitiveness is also essential for sustaining long-term growth, but several challenges must be faced to achieve this. Despite government efforts and implemented measures, several challenges still remain to boost productivity and competitiveness. Paraguay channels less investment to research and development than benchmark countries, so investment and participation by the private sector in this area should be strengthened. There is also a wide scope to boost productivity by improving the quality of education and reducing skills mismatches, while high-quality infrastructure and connectivity are fundamental to raising productivity levels and improving social inclusion. The institutional and regulatory framework should be set in a way that boosts further competition, so government efforts to reduce the barriers to investment, trade and entrepreneurship are welcome.

Informality poses multiple challenges related to productive development and wealth distribution. First, it helps to sustain less productive segments and limits the potential of sectors that face competition from informal producers or unregulated imports. Second, it supports a dual economy, offering limited opportunities to a large portion of the population. Third, it restricts the potential fiscal and parafiscal revenue, limiting the state's capacity, especially in terms of social protection.

Reducing informal employment and improving the coverage and quality of social services are essential to improve the well-being of Paraguayans

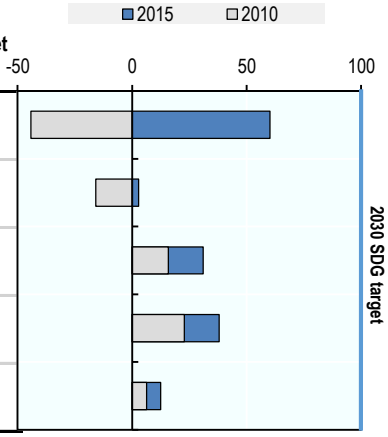
Paraguay's good growth performance has raised incomes, but inequality remains substantial. The recent period of economic growth has raised the living standards of many Paraguayans. Macroeconomic stabilisation has also helped contain poverty by limiting food price inflation. Although poverty has fallen in Paraguay, inequality remains high and is a major concern for citizens. Geographical disparities are a major contributor to that inequality. Rural areas, for instance, have higher monetary deprivation (income poverty) and non-monetary deprivation (poor access to water, sanitation and health insurance).

Fiscal redistribution has little impact on income inequalities, but social programmes like the Tekoporã conditional cash transfers and the *Adulto Mayor* social pensions are visibly reducing monetary poverty, even though the programmes are still too small. In health coverage and housing development, Paraguay has made substantial progress, but the effectiveness of the social protection system is limited because it is fragmented.

Figure 1.3. Progress in the People dimension of the SDGs

Progress towards the 2030 target (relative to 2005 baseline)

	Target	2005	2010	2015	Target 2030
1: No poverty	Extreme poverty headcount ratio (%)	9.1	11.8	5.4	3
2: Zero hunger	Prevalence of undernourishment (%)	10.7	12.4	10.4	0
3: Good health and well-being	Life expectancy at birth (years)	71.2	72.4	73.6	79
4: Quality education	Adult literacy rate, population over 15 years of age (%)	92.1	93.9	95.1	100
5: Gender equality	Seats held by women in national parliaments (%)	10	12.5	15	50



Source: Authors on the basis of official national data when available, and alternatively, international data: DGEEC (2017[5]); United Nations (2018[6]); Gallup (2018[8]); Global Burden of Disease Collaborative Network (2016[12]); and The World Bank (2018[10]).

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Employment outcomes are quantitatively good, but job quality and informality are major challenges. Net job creation over the medium term has been good, overtaking the rapid growth in the working-age population. As a result, unemployment is low and labour-force participation remains stable at levels comparable to benchmark countries. The sector distribution of employment points to a dynamic structural transformation, with the share of agricultural jobs falling by ten percentage points in favour of services and construction. This transformation has led to a steady increase in salaried work in both the public and the private sectors. In spite of these changes, job quality remains an issue for many workers, with almost half earning less than the minimum wage. Informality poses a challenge due to the absence of a suitable social protection regime (pension and health insurance) for self-employed workers. The share of informal employment has fallen by one percentage point per year on average in the past five years, a relatively slow pace given the structural transformation taking place and the prevalence of informality. While employment protection legislation is not particularly stringent, high minimum wages relative to market wages and the social security contribution rules make formalisation expensive for employees.

In education, coverage has expanded, but challenges remain in both early childhood and secondary education and in terms of educational outcomes. Paraguay's adult-education attainment rates are among the lowest of the benchmark countries, with 8.7 years of education on average. The cohorts educated since 1990 have significantly higher attainment rates. Although limitations in statistical capacity hamper the analysis of access to education, survey data suggest that access to primary and lower secondary education is nearly universal, with the exception of indigenous areas, thanks in part to previous education reforms aimed at expanding coverage. Gaps in access to school remain significant for pre-primary education and upper secondary education, and in both cases, gaps between rural and urban areas remain wide. Progress in recent years has been notable in secondary school and especially in tertiary education, where access has grown rapidly. Gross enrolment rates of 35%, however, remain low compared with those of benchmark countries. The quality of

education remains a major challenge. Learners underperform with respect to the expected proficiency described in the national curriculum (as is the case for almost three-quarters of grade 3 students) and with respect to the performance levels of the benchmark countries in the region. The main challenges that the education sector faces are under-trained teaching staff and inadequate infrastructure. The National Fund for Public Investment and Development (*Fondo Nacional de Inversión Pública y de Desarrollo*, FONACIDE), created in 2012, channels royalties from the Itaipú binational plant to education, research and social infrastructure. FONACIDE has been instrumental in sustaining the increase in funding to support education, especially through investment in schools. In spite of a recovery in public expenditure in education and the earmarking of funds for social infrastructure, limited absorption capacity is a constraint on the speed at which these challenges can be overcome.

The efficiency of social-service delivery is limited by the fragmented social protection system and informality. The coverage rate for contributory social security is limited to 22% for the pension system and 29% for health insurance due to the prevalence of informal employment and the contribution rules for self-employed workers. The pension system consists of many different regimes with very little regulation and varying states of financial soundness. The generous provisions of the general regime are in stark contrast to the low coverage and the expansion of the non-contributory pension financed by the general budget. The health system is also fragmented in terms of both its funding and its service delivery. High out-of-pocket payments create obstacles to effective use of health services and reinforce inequalities in people's state of health. Social assistance and income support are also fragmented, with overlapping objectives and differences in targeting methods. However, given the relatively weak impact of transfers on monetary poverty, there is potential for greater effectiveness through institutionally co-ordinated action. To succeed in addressing informality, co-ordination in programme design, implementation and enforcement is a necessity.

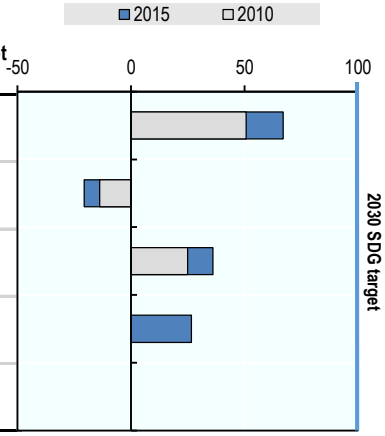
Towards better management of natural resources

Paraguay's geography has given it one of the most biodiverse ecosystems in the world. With access to a large tropical forest and vast water resources, the country provides abundant resources for agriculture and livestock. Thanks to hydropower, Paraguay has one of the cleanest energy mixes in the region, allowing it to maintain low carbon emissions and control its air pollution levels. Total greenhouse emissions are also relatively low. However, the current economic expansion, largely based on the use of land for agriculture and livestock, has put increasing pressure on the country's environmental resources. Deforestation remains one of the most critical issues in terms of environmental sustainability.

Figure 1.4. Progress in the Planet dimension of the SDGs

Progress towards the 2030 target (relative to 2005 baseline)

	Target	2005	2010	2015	Target 2030
6. Clean water and sanitation	Access to improved sanitation (%)	62.2	81.4	87.6	100
7. Clean energy	Share of renewable sources in TPES	0.71	0.67	0.65	1
12.Responsible cons. and prod.	Average mean levels of PM2.5 exposure in cities	23.3	17.5	14.9	0
13. Climate action	Greenhouse gas emissions (thousands of CO^2 eq. Gg)	107	-	167	333
15. Life on land	Sites for biodiversity covered by protected areas (%)	23.3	23.3	23.3	45.2



Note: The "Greenhouse gas emissions" indicator uses 2012 instead of 2015. The "Population satisfied with roads and highways" indicator uses 2006 instead of 2005.
Source: Authors on the basis of official national data when available, and alternatively, international data: DGEEC (2017[5]); United Nations (2018[6]); The World Bank (2018[7]); Gallup (2018[8]); International Energy Agency (2018[9]); and The World Bank (2018[10]).

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Public services, including water, sanitation and waste management, are relatively cheap, but a large part of the population still have limited access, and regional disparities in the quality and distribution of these services persist. The rapid urbanisation process has increased pressure on Asunción and medium-sized cities, and shortages of water and its poor quality are major concerns for the authorities, particularly in urban areas. In rural areas, natural-disaster prevention has gained importance after two recent episodes where agricultural production was affected.

To maintain the current economic momentum and guarantee that it benefits the entire population, Paraguay needs to incorporate the sustainable use of environmental resources and capabilities into its development agenda. There are considerable needs in terms of environmental protection that are not being met. The regulatory framework against deforestation is insufficient and is not being implemented, and more support to strengthen the institutional setting is needed, particularly at the local level. Waste management is another issue of concern, with landfilling being the primary disposal method.

With access to abundant clean hydropower, Paraguay could be at the forefront of environmental policy in the region, promoting renewable energy, building energy-efficient technology, and improving energy utilisation in transport, among other areas. Only 29% of total energy consumption, however, comes from this clean electricity, the bulk coming from fuel and biomass. Transport, which accounts for nearly 90% of Paraguay's greenhouse gas emissions, is one area where improvements could be made, such as through the introduction of electricity-based systems and incentives to reduce biomass consumption in the industry sector. Improving land management and administration will be fundamental to the implementation of a strategic plan for the environment.

Strengthening democracy and moving towards more effective and transparent public management

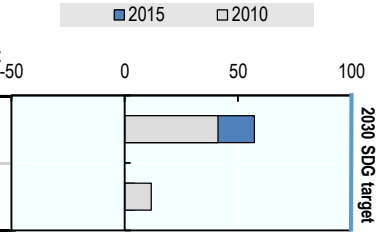
Paraguay's vision for 2030 is that of a state grounded in democracy, solidarity, subsidiary, and transparency that promotes equal opportunities. Governance institutions in the country are still undergoing fundamental transformations. Today, democracy in the country is still in a consolidation phase. Fewer than half of Paraguayans consider democracy to be preferable to any other form of government and fewer than a quarter are satisfied with how democracy works in the country. Satisfaction with democracy almost doubled between 2006 and 2015 in spite of several episodes of political instability, which tested the resilience of the country's democratic institutions. Further strengthening the justice system is crucial for ensuring the rule of law. Issues related to justice are linked to a number of constraints, including the range of functions that the Supreme Court fulfils on top of its core function of administering justice, the relatively small number of judges, and the pervasive influence of entrenched informal institutions that limit judicial independence.

Perceived personal insecurity is comparatively high in Paraguay, although violence is unequally spread and more prevalent in border areas. Homicide rates have fallen considerably in the past years, and homicides are concentrated in a small number of departments in border areas. Despite ongoing efforts, smuggling, drug trafficking, counterfeiting and money laundering continue to take advantage of porous borders and weak law enforcement.

Figure 1.5. Progress in the Peace and Institutions dimension of the SDGs

Progress towards the 2030 target (relative to 2005 baseline)

	Target	2005	2010	2015	Target 2030
16: Peace and justice	Intentional homicides (per 100 000 people)	18.6	11.9	9.3	2.3
16. Empowerment	BTI democracy index (0-10 scale; 10=best)	6.6	7	6.8	10



Note: The 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: United Nations (2018[6]); The World Bank, (2018[10]); and Stiftung Bertelsmann (2008[13]).

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The capacity of government is limited by its relatively small size compared to other countries. Government expenditure reached 25% of GDP in 2015, compared with 34% in LAC countries and 45% in OECD countries. Public employment is also relatively low at 9.8% of total employment compared to 12% in LAC countries and 21% in OECD countries. Strategically planning for the right mix of skills in the civil service in the years to come will help the government meet strategic objectives as well as increase efficiency, responsiveness and quality in service delivery. The government also needs to improve service delivery and maintain a commitment to inclusiveness, transparency and efficiency in order to raise levels of trust in government, which remain low. Ensuring satisfaction with service delivery is a significant challenge for Paraguay.

Paraguay has begun developing a comprehensive and coherent integrity system in which transparency plays a major role, but ensuring the system's effectiveness remains a big challenge. Citizens' perceptions of corruption are higher than in other countries in the region and have changed little in the past ten years. The government has taken a number of initiatives as part of a National Plan for the Prevention of Corruption (*Plan Nacional de Prevención de la Corrupción*). Among them, a key institutional pillar is the creation of a national anti-corruption agency (*Secretaría Nacional Anticorrupción*, SENAC), which has successfully co-ordinated all institutions in the executive branch to establish anti-corruption units and has raised awareness about public-sector integrity issues. Transparency efforts are crucial in the fight against corruption. Paraguay has made determined efforts against corruption in public procurement by making all tendering and procurement information available online and by including a whistle-blowing function on the procurement agency's electronic platform. The mandatory provision of information on the use of public resources, including the remuneration of civil servants, and the law on transparency and access to information adopted in 2014 also underpin the government's strategy for increasing citizen oversight of public affairs. Significant challenges remain, including ensuring there is the political will to follow through on complaints raised (only a small proportion have so far led to administrative or judicial investigation), addressing limitations in the scope of SENAC's action (the organisation focuses on embezzlement but not other forms of corruption), and addressing the absence of a specific provision for whistle-blower protection.

The open-government strategy has spearheaded a whole-of-government approach to promote transparency, empower citizens, fight corruption and harness new technologies for strengthening governance. The action plan for the 2014-16 period was conceived through a participatory approach with 12 government institutions and 9 civil-society organisations. The third action plan for the period 2016-18 strengthened this model of participation and achieved the inclusion of more than 54 public institutions and 62 civil society organisations. The fourth action plan for the 2018-20 period innovated with the extensive use of social networks and brought together more than 60 public institutions and 100 civil society organisations. Progress in the form of legal and institutional reform has been notable and Paraguay ranks fourth among Latin American countries with information in the OECD Index on Open Government Data, tanking above the OECD average. While considerable efforts have been made to enhance openness by making information available, challenges remain to tailor public information to citizens' needs and to strengthen accountability mechanisms.

More resources need to be channelled towards development

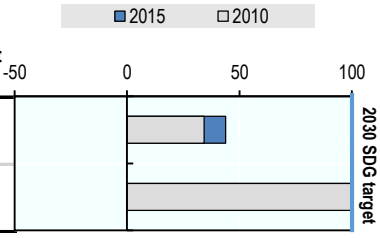
The analysis shows that financing flows for development are relatively limited in Paraguay compared with the benchmarking countries and the OECD. Given the country's prudent fiscal stance and low reliance on public debt, public financing comes mostly from fiscal space. Fiscal space is helped by idiosyncratically high non-tax revenues from the two binational power plants but is constrained by relatively low tax revenues as a result of low tax rates and evasion rates that are above the regional average. The weight of non-discretionary expenditure, which represents almost half of total public expenditure, also limits fiscal space. The country has recently made notable progress on both fronts. Tax revenues have increased and the country has implemented major fiscal reforms, including the progressive implementation of the personal income tax since 2012, the expansion of VAT to the agricultural sector and the introduction of a tax on profits from agricultural activities in 2014. Measures to limit the growth of the public wage bill and to reduce the

weight of non-discretionary expenditure have allowed public investment and capital expenditure to grow at much faster rates than current expenditure.

Figure 1.6. Progress in the Partnerships and financing dimension of the SDGs

Progress towards the 2030 target (relative to 2005 baseline)

	Target	2005	2010	2015	Target 2030
17: Partnerships and Financing for Development	Overall level of statistical capacity (scale 0 - 100)	62.2	70	72.2	85
	Debt service (% of exports of goods and services)	5.8	2.7	2.6	15



Source: Authors on the basis of official national data when available, and alternatively, international data: DGEEC (2017[5]); United Nations (2018[6]); The World Bank (2018[10]) and MH (2017[11]).

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Private development flows, at 5.5% of GDP, are relatively modest compared with public financing flows of 11.8% of GDP. Foreign direct investment (FDI) flows remain modest, at around 1.3% of GDP between 2014 and 2017, but the net flow of FDI has continued to grow in the country, despite the overall downward trend in the region due to national crises in neighbouring countries and the moderation of commodity prices. The recent dynamism in FDI flows has been partially driven by efforts to create an attractive regulatory framework and to attract investment. These measures have contributed to transforming the composition of investment, with a notable increase in the maquila industry, additional diversification in countries of origin, and the development of sectors with greater job creation prospects, such as automotive components.

The stability of the Paraguayan financial system is a major asset for development, but it needs to be further developed and become more inclusive. The banking sector is well capitalised, with sufficient access to sources of deposit financing, and it is highly profitable. Credit growth has accelerated in recent years, with 26% average banking credit growth over the 2005-15 period, and banking credit to the private sector reached 43% in 2015. To better finance development, regulations need to be strengthened for the entire financial sector, not just the banking sector. Moreover, high interest-rate spreads and reliance on short-term finance reflect constraints on the quality and availability of creditor information as well as the reliance on consumption credits. Financial inclusion is still very low and unequal in the country in spite of rapid growth in credit.

Towards a more inclusive and sustainable development path

The multi-dimensional analysis reveals two major cross-cutting challenges for Paraguay's development. Paraguay needs to buttress sources of sustainable growth in the medium term on the one hand, and to place the country on a more inclusive development path on the other hand. Three complementary strategic priorities can be identified from Volume 1 of the Multi-dimensional Review:[2] (i) to create the conditions for a sustainable structural transformation of the economy, (ii) to promote social development, and (iii) to increase the state's capacity to steer the economy and the country's development. Making progress in these three directions will require action in eight priority areas:

1. Closing the infrastructure gap
2. Increasing financing flows for development
3. Implementing a systemic education reform
4. Strengthening governance
5. Developing public policies with a regional approach
6. Updating the capacity of the statistical system
7. Addressing informality and the fragmented social protection system
8. Strengthening environmental protection

The strategic implications of these areas are described in this section. This report focuses on describing concrete actions in a series of specific areas linked to the state's capacity to promote social development.

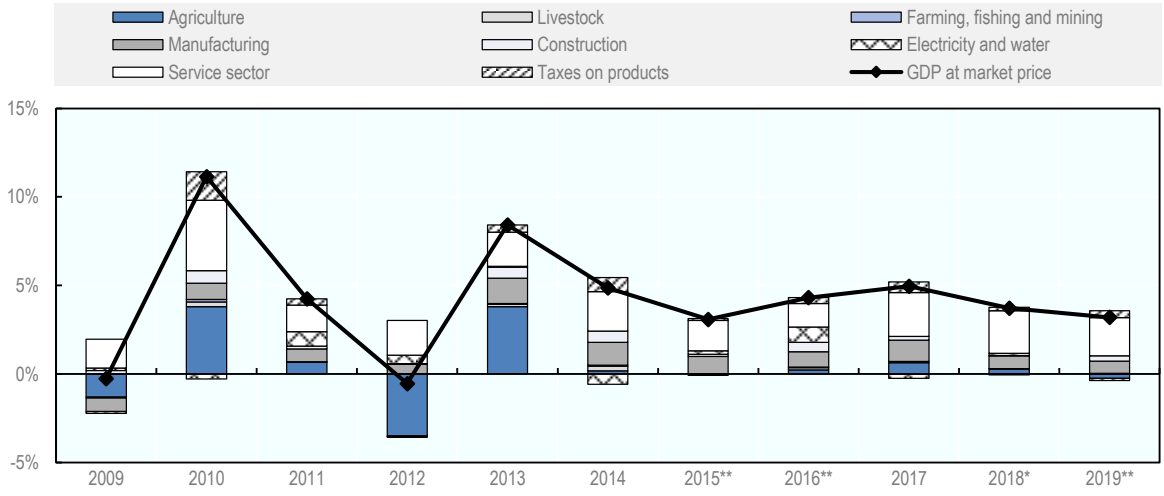
Creating the conditions for a structural transformation of the economy

Paraguay's dependence on agricultural exports is one of the causes of its volatile economic growth and the burden that economic growth has placed on the environment. The rebasing of national accounts to the 2014 base year has adjusted the dial regarding productive diversification. Indeed, economic growth has been propped up by the sustained growth of certain sectors, especially manufacturing, the importance of which was understated in the old series.

Paraguay's export basket remains concentrated in agricultural products, but new sectors are emerging. Soy-based products, meat and cereals accounted for 58% of Paraguayan exports in 2017. In practice, much of the manufacturing activity in the country involves processing agricultural products. Some sectors have recently made breakthroughs, however, especially in the context of the maquila industries, including the production of textiles and motor vehicle parts (especially cabling). These sectors provide an opportunity to attract FDI and develop industrial capacity, but they are very labour-intensive and can relocate easily, so it is important to pursue capacity building in the corresponding value chains.

Figure 1.7. Diversification has allowed the Paraguayan economy to continue growing

Sector contributions to real economic growth (%)

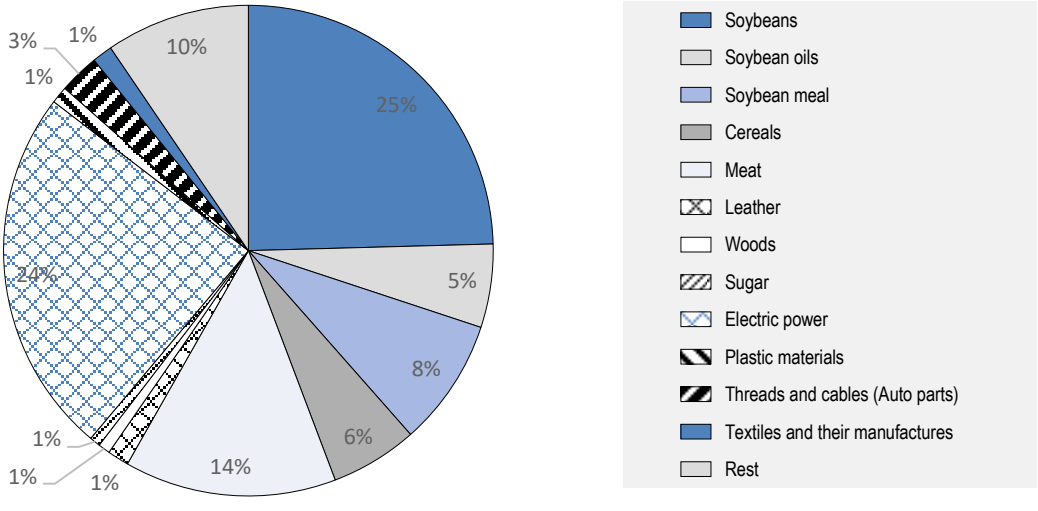


Note: (*) Preliminary data; (**) Projection.
Source: Calculations based on the Statistical annex to the economic report (BCP, 2019[14]).

StatLink http://dx.doi.org/10.1787/888933983395

Figure 1.8. Main Paraguayan exports by product

2017



Source: Statistical annex to the economic report (BCP, 2019[14]).

StatLink http://dx.doi.org/10.1787/888933983414

Carrying out structural transformation requires creating attractive conditions for investment that go beyond the regulatory framework. This means developing infrastructure, developing the financial system to channel resources to the private sector and developing the education system in a way that is better suited to the current and future needs of the

economy. Paraguay has drawn up a regulatory framework to develop infrastructure projects that involve the private sector through turnkey models and public-private partnerships. It has also created a well-developed investment system. Prioritising investment in infrastructure, however, should be more closely linked to economic and social priority objectives.

Promoting social development

Paraguay has made major strides in combating poverty and should continue its efforts while creating the conditions to improve the well-being of the population as a whole. As detailed in the National Development Plan, this means providing high-quality public services that protect citizens' social rights to health, education, housing and decent work.

Good-quality public services can also alleviate inequality by ensuring equal opportunities. To achieve this, the quality of health care during the early years of life and access to pre-primary education are vital, as they reduce the gap associated with socio-economic origin.

This report proposes a series of measures associated with improved provision of education, health and social security. A common feature of these three sectors is that their provision is highly fragmented and gaps exist in terms of the regulatory framework and stewardship. A strategic vision is therefore essential in order to start a reform process that will be effective and peaceful.

Paraguay has begun to roll out an integrated, rights-based social protection system that is gender-sensitive and has a life-cycle approach (see Chapter 3). This significant breakthrough reflects a different understanding of social policy that goes beyond focusing solely on monetary poverty.

Informality poses a major challenge to Paraguay's development, particularly in terms of the country's social development, since it limits the scope of the social security system. Since government resources are directed primarily towards the most vulnerable, the middle classes are largely unprotected against life risks. Informality is also a challenge for productive development since it can impede more efficient use of resources and can even stymie the growth of potentially competitive companies and contribute to normalising evasion and smuggling.

Raising the capacity of the state to steer the economy and development

Since its transition to democracy in 1989, modernisation of the state of Paraguay has tended to take place in episodes when specific institutions were set up with limited mandates. The institutional fragility of certain state agencies and large regulatory voids limit the state's capacity to steer the country's economy and development.

In certain areas, Paraguay needs to create a coherent normative framework supported by a strong institutional setup. Pension providers, for instance, are not regulated or supervised, so the population have limited trust in the system and the economy cannot harness pension savings. Environmental protection has been further strengthened by the decision to convert the Secretariat for the Environment into the Ministry of Environment and Sustainable Development.

The state's capacity is also hindered by corruption and perceived corruption. Regulations on integrity should continue to be developed, strengthened and implemented through SENAC. Although the commitment to transparency has empowered civil society to respond

to cases of corruption and abuse of authority, legislative and judicial bodies have been slower to deal with such cases.

Mobilising domestic resources for development would help the government to better address the challenges that the country faces. Tax revenue accounts for 17.5% of GDP, compared with 22.7% for the Latin America and the Caribbean region and 34.3% for the OECD countries. Given the investment needs, especially for infrastructure, and the social investment needs, which require substantial current expenditure, it is essential to mobilise more domestic resources. This will require a tax reform, with a component limiting exemptions and reducing tax expenditure, and reforms to raise the quality of public expenditure, including rationalising spending in certain areas, such as social protection (see Chapter 3). Private investment also needs to be promoted by creating an environment conducive to productive transformation and redirecting effective incentives for investment from traditional sectors to the knowledge economy that the country would like to move towards.

Developing statistical capacity should be a priority in order to strengthen results-based management. Paraguay should assign and distribute tasks within the national statistical system through a clear policy framework, ensure the professional independence of the statistics authority (the DGEEC), and ensure that the agencies that release statistical information have adequate human and technical resources, in line with the Recommendation of the OECD Council on Good Statistical Practice.

Finally, many areas of public policy do not have territorial declensions. Centralised governance can make it difficult for both line ministries and agencies to generate local solutions and can hinder interministerial solutions. Although local development councils set up under the National Development Plan could help with adapting policies to local conditions, local bodies need to improve their technical capacities.

Implications for the National Development Plan

The Paraguay 2030 National Development Plan recognises three strategic axes: 1. Poverty reduction and social development, 2. Inclusive economic growth, and 3. Paraguay's integration in the world. It also defines four cross-cutting themes: (i) equality of opportunity, (ii) efficient and transparent public management, (iii) territorial development and land management, and (iv) environmental sustainability. The combinations between the three axes and the four strategic lines result in 12 strategies.

The eight priority action areas identified in the Multi-dimensional Review fit squarely into the National Development Plan, although they may merit adjustments in specific areas. For instance, in the National Development Plan, the strategy to promote the value of environmental assets contains a whole series of lines of action for sustainable production but only two goals related to the energy mix. This is an area that should be strengthened from a conceptual viewpoint. Another example is the need to territorialise public policies, which the National Development Plan mentions, but only in the area of production.

In practice, the key objectives of the National Development Plan play an important role in shaping public policies. The budgetary classification was aligned with the structure of the National Development Plan and an aligned results-based budget system was set up. This meant that each budget line is associated with a main objective, thus revealing overlapping programmes such as the institutional fragmentation of anti-poverty measures. The budgetary classification also provides a starting point for results-based management.

The broad strategies of the National Development Plan, however, do not necessarily reflect the strategic orientations of reforms. Each institution's strategic plans and programmatic directions are not systematically aligned with each other or with the National Development Plan (OECD, 2018[3]). Some important cross-cutting initiatives, such as the social protection system and the national formalisation strategy, are not directly accommodated in the National Development Plan, as they have their own transversal logic. The new approach to social protection should be fully reflected in the National Development Plan, which to date had as the single target in the area to make social security universal (an aim that is difficult to achieve if social security is understood as referring to the contributive social protection branches).

The efforts made to align the budget with the National Development Plan make the level of effort across strategies visible, but they do not necessarily contribute to the prioritisation of spending or public action. By attributing each budget line to the National Development Plan objectives and strategies, the government attributes current operating costs to specific elements. For example, public debt service in 2018, was attributed to the competitiveness and innovation strategy. The exercise does, however, reveal the efforts invested in achieving some of the objectives where adjustments are warranted. The cross-cutting line for the environment, for instance, received around 2% of the 2018 budget, and that is including housing production costs and defence logistics costs, among others. Average spending on environmental protection by European Union countries is 0.8% of GDP.

Strategic planning in Paraguay should leave room for drawing up priority programmes with sequential objectives and costed actions. These can be accommodated in the National Development Plan itself or at an intermediate level between the National Development Plan and the annual operating plans. They should also be linked to the medium-term spending plan. This would allow Paraguay to assign real priorities to reform programmes that could transform the country's economy and society.

Public policy orientations for reform in health, social security and education

The second and third phases of the Multi-dimensional Review of Paraguay focus on three key areas to make the country's development path more inclusive: social protection, health and education. Volume 2 provides an in-depth analysis of these key areas and makes a series of public policy recommendations to help the country achieve its objectives in those areas. This third volume presents specific action plans for selected domains within the three key areas.

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

Paraguay has made significant progress in key health outcomes but faces a double burden of disease. In recent years, Paraguay has been increasing healthcare access through primary healthcare units (*Unidades de Salud de la Familia*), but it has a long way to go before the entire population will be covered. The challenge is substantial since Paraguay's epidemiological transition has created a double burden for the health system, with the country facing new challenges, in addition to age-old problems that it has not resolved. This epidemiological transition has been accompanied by changes towards sedentary lifestyles and unhealthy alimentary habits among the population, which has deteriorated risk factors, partly driven by social determinants of health. To rise to the challenge, Paraguay will need to redouble its efforts and strategise to successfully remodel its national health system (OECD, 2018[2]).

The fragmentation of the health system limits its capacity, quality of service and efficiency. Health service delivery is segmented and uncoordinated. The three subsystems are, for the most part, vertically integrated: each of them raises its own revenue, manages its own funds and delivers services independently. Each subsystem covers different segments of the population, mainly based on their employment status and their capacity to pay. They provide different sets of services and each segment of the population receives different benefits and a different standard of quality. Because the system is fragmented in this way, it is very difficult for the Ministry of Public Health and Social Wellbeing (MSPBS) to carry out its stewardship duties. Furthermore, the system's regulatory framework and supervisory bodies are very weak and its information management is inefficient, which limits the available evidence base for the formulation of policy and makes the continuity of care difficult. Funding flows are fragmented and inadequate. Revenues earmarked for different population groups are held in separate pools, with no potential for cross-subsidy between them, so the health system relies heavily on households' out-of-pocket expenditure.

Important challenges remain in the three dimensions of health coverage, namely population coverage, service coverage, and financial coverage (or financial protection). Access to health care is still not universal and insurance coverage is limited, especially among the most vulnerable people. Many Paraguayans incur catastrophic health expenses and expose themselves to other financial risks, mainly due to the system's heavy reliance on out-of-pocket expenses by users. To deliver on its commitment to universal health coverage, the country needs to expand access to health services and insurance coverage and increase financial protection. On the funding side, Paraguay should consider ways of reducing the share of out-of-pocket health expenditure. Establishing a well-defined guaranteed health package would contribute to this goal. Paraguay also needs to develop the tools to ensure the quality of healthcare throughout the system.

To ensure there is sustainable progress in all dimensions, there needs to be a systemic reform based on a shared vision for the future. In particular, a national dialogue is needed to reach agreement on a vision for the future of the Paraguayan health system. Building on existing efforts to develop health networks around primary care, Paraguay should establish the conditions for the emergence of a more integrated health system by making inter-agency agreements the norm, moving towards the separation of stewardship, purchasing and service-provision functions currently within the purview of the MSPBS, and developing the necessary public institutions in the health sector. To achieve universal coverage, the health system needs to secure sustainable funding and ensure it is properly funded and more efficiently run, with stronger stewardship (OECD, 2018[2]).

- ***The health funding strategy must be sustainable and must secure sufficient resources.*** Diversifying the sources of funding and reducing the share of users' out-of-pocket health spending could help ensure the sustainability of health funding. Moreover, pooled funding mechanisms should be established to cover at least the key contingencies. Health cover for civil servants and employees of the state should transition to a social insurance scheme.
- ***Strengthening governance is necessary to steer the health system towards universal coverage.*** To strengthen the stewardship entities, Paraguay needs to strengthen the implementation of the legal framework for the governance of the national health system. It also needs to strengthen and streamline its legal and regulatory bodies. Paraguay needs to invest more in the development, inter-connection and interoperability of information systems for the health system to

deliver better statistical information and to support continuity of care. Furthermore, it needs to define a package of health benefits so that it can progress strategically towards universal coverage.

- ***To improve how the resources are used, the health system needs to become more efficient***. To improve its efficiency, the health system first needs to become less fragmented and to establish payment systems strategically. To make the system more integrated, it is necessary to review existing inter-agency agreements and set up a framework for creating new and better agreements. At the same time, Paraguay needs to design the purchase and procurement of health services strategically, taking into account the incentives generated by payments systems. Implementing strategies for purchasing medicines and programmes to prevent disease and promote health could help to reduce the system's operating costs. At the same time, the government needs to boost efforts to direct the national health system towards integrated networks based on primary health care. In the long run, separating stewardship, purchasing and service provision functions would allow for better-aligned incentives and more pooling of funds and risk.

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

Despite notable progress in fighting poverty, many Paraguayans are not covered by the social protection system. Expanding social spending has made it possible to increase access to primary healthcare, the conditional cash transfer programmes are having a real impact on poverty, and the *Adulto Mayor* (Older Adult) social pension has made it possible for nearly half the over-65 population to collect a pension. However, only 24.5% of Paraguayans are covered by social protection – i.e. they pay into social security or receive a benefit – which is less than half the average for Latin America. The coverage gap affects not only the contributory system, which only 21% of the population contributed to in 2016, but also the non-contributory system: less than 30% of poor households receive transfers from one of the flagship social assistance programmes targeting children and older adults.

Social protection is highly fragmented, which hinders the system's coverage and governance. Non-contributory social assistance is spread across 35 programmes under the responsibility of multiple agencies, including sector-specific ministries and organisations targeting specific groups. The contributory and non-contributory systems are evolving in parallel both strategically and operationally. Past attempts at co-ordination, which focused on anti-poverty actions, had limited scope and success, but they made it possible to create vital tools for co-ordination, such as a single targeting instrument, a beneficiary register and information systems to track results and activities. Nonetheless, there is still a sizeable gap between contributory and non-contributory programmes.

A systemic approach to social protection is needed in order to protect more citizens against multiple life risks and promote their productive inclusion. Paraguay has launched a series of reforms to put in place a social protection system and provide it with the leadership it had lacked. These reforms should allow co-ordination of efforts, both strategically and on the ground. In the medium term, they should also promote rationalisation of the set of social protection programmes, to bolster their effectiveness and efficiency.

The pension system exemplifies the challenges facing the entire social protection system in terms of coverage, funding, fragmentation and governance. Social security covers only a small portion of the population, with very little progress in recent years. This low coverage is partly due to the country's large informal economy and the lack of an effective

strategy for bringing self-employed workers into the system. Funding involves a dual challenge: ensuring stability in a contributory system that is generous despite relatively low contributions and low coverage, and the need for strong government funding to guarantee coverage of vulnerable older adults, in addition to the government funds needed to sustain some segments of the contributory system.

This volume presents an action plan for pension reform with four main priorities:

- Expanding pension coverage. This requires developing a true coverage expansion strategy. This should include groups that are excluded de jure, such as public-sector contract employees, and groups that are excluded de facto, such as self-employed or domestic workers, for whom no existing regimes provide sufficient incentive. On the other hand, this strategy should include incentives for the formalisation of employment and for compliance, simplifying processes, providing information and making enforcement more effective. Lastly, the country needs to expand the social pension to its target population.
- Parametric reforms for a fairer, more sustainable pension system. In their current state, the Paraguayan pension systems are unequal and unsustainable. The country's large young population has allowed Paraguay to maintain a generous pension system for the relatively small older population, with much higher nominal replacement rates than the average for OECD countries, and relatively low contribution rates. To ensure the systems' viability and equalise the effort in terms of workers' savings, it is necessary to unify parameters and strengthen the link between benefits and contributions.
- Better integration of the pension system. In the long term, several pension funds and regimes could merge to limit administrative costs and guarantee equity. Until then, steps should be taken towards a systemic vision of the pension system that takes into account not just the various contributory funds but also all non-contributory pensions, to close coverage gaps without creating adverse incentives.
- Strengthen governance of the pension system. It is necessary to establish a mechanism for seeking consensus, to allow all of the necessary reforms to take place in a calm, responsible way. There is an urgent need for regulation and supervision of all pension providers, which will not only make it possible to ensure high-quality management but also generate resources for development and investment.

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

In recent years, access to education has expanded markedly, and primary education is almost universal. However, challenges remain, in particular in supplying pre-primary education and in increasing completion rates, especially for secondary education. A total of 10% of 14-year-olds do not attend school, and that rises to 28% among 17-year-olds. Socio-economic status and geographical area remain strong determinants of completing secondary education, perpetuating inequalities.

The quality and relevance of the education and skills-training system remain a core challenge. Most students in Paraguay do not attain basic skills. Students' performance varies markedly by socio-economic status, geographical location and language. Dropout, poor learning outcomes and the low relevance of skills learned complicate the transition to

the labour market, especially for those from disadvantaged backgrounds. Eighty per cent of those who do not finish secondary school and work have an informal job and six out of ten young people from households in extreme poverty do not work, study or follow an education at the age of 29.

For Paraguay to foster inclusiveness, create access to good-quality jobs and achieve its social and productive development objectives, it must transform its education and skills system by making progress in a number of key areas. Specifically, it needs to:

- develop a national pact on education that lays the foundation for future reforms;
- expand education coverage, supporting access in remote areas and among disadvantaged people, expanding pre-primary education, and implementing policies to favour school retention, thus avoiding grade repetition and dropouts;
- improve learning and the quality of education by focusing on teachers, redesigning their initial training and career paths and improving the measurement of outcomes and performance while linking it to professional development;
- modernise curricula based on a national qualifications framework designed with input from the production sector to ensure that it is better adapted to the needs of the economy and that it facilitates a wider range of training paths;
- strengthen the technical and vocational education and training (TVET) system, establishing a government institution to co-ordinate all the stakeholders, improving quality-assurance systems and designing job-oriented training paths; and
- improving the match between supply and demand for skills by adopting active labour market policies with greater scope, better information and careers guidance for students, a closer connection between training and the production sector, and a more developed system for analysing the labour market and anticipating needs.

Notes

[1] The fiscal responsibility law fixes a deficit ceiling of 1.5% but escape clauses allow deficits of up to 3% in case of economic recession.

[2] This section divides one of the strategic priorities identified in Volume 1 into two parts, since the first volume of the Multi-dimensional Review uses a single title for guidelines (ii) and (iii).

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Chapter 2. Reforming the Paraguayan health system

The Paraguayan health system is faced with major challenges to achieve universal health coverage. To respond to the double burden of disease among the population, it needs to secure sustainable funding, ensure it is run more efficiently and strengthen its stewardship. The country has undertaken a series of reforms to modernise the system, laying the foundations for a new approach to health care based on primary care. However, it has not significantly altered the foundations of the health system and its fragmentation into multiple subsystems.

The third phase of the Multi-dimensional Review aims to bridge the gap between the recommendations made in Volume 2 of the review and the implementation of those recommendations through a series of participatory activities to generate an action plan and a series of monitoring instruments. A high-level meeting with Paraguayan authorities discussed various aspects of health policy and a potential reform and identified four key areas in which work may begin: (i) securing sustainable funding for the system; (ii) reducing fragmentation by integrating service delivery and improving the system of payment to suppliers; (iii) defining a package of health benefits; and (iv) making the public procurement of medicines and medical supplies more efficient. This chapter also presents a series of conceptual tools with the objective of supporting the government for decision making and restructuring of the health system in these key areas.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The Paraguayan health system is faced with major challenges in achieving universal coverage. Today, the health system is highly fragmented, and it does not have the capacity to meet the double burden of disease in the population. The weight of non-communicable diseases is growing, fuelled by longer lives but also less healthy lifestyles. At the same time, unresolved issues related to communicable, maternal, neonatal and nutritional diseases remain. To rise to the challenge, the Paraguayan health system needs to strengthen its governance, secure sustainable funding and ensure it is run more efficiently (OECD, 2018[1]).

The third phase of the Multi-dimensional Review (MDCR) of Paraguay, *From analysis to action*, is supporting the Paraguayan government as it takes its first steps towards a new health system. The third and final phase of the MDCR aims to bridge the gap between the recommendations made in Volume 2 of the review (OECD, 2018[1]) and the implementation of those recommendations. In a series of participatory activities in the context of phase III of the MDCR, the policy recommendations for the health sector were discussed, and action plans were drawn up as proposed initial actions for reform.

The government identified four policy priorities for the health sector to address in the medium term. Following an in-depth analysis of the health system, the second phase of the MDCR identified a series of policy recommendations with a view to achieving universal health coverage in Paraguay. In the third phase, the OECD team, working with various Paraguayan authorities, identified the most pressing recommendations that the current administration should work on in the medium term, but concluded that, ultimately, the system needed to undergo structural reform. The medium-term work addressing the four key areas identified would lay the foundations for much deeper reforms further down the line. The four key areas in which work may begin are: (i) securing sustainable funding for the system; (ii) reducing fragmentation by integrating service delivery and improving the system of payment to suppliers; (iii) defining a package of health benefits; and (iv) making the public procurement of medicines and medical supplies more efficient.

The discussion on policy priorities for the health sector within the framework of the Multi-dimensional Review of Paraguay pulled together the opinions of a number of stakeholders. The first workshop for phase III, *"Reforms for better health in Paraguay"*, took place in Asunción on 14 March 2019. The workshop's aims were to (i) identify areas of agreement and disagreement among stakeholders on key dimensions for the medium-term health-sector agenda; (ii) support a change in thinking among health-sector stakeholders in order to move towards implementing reforms to the system; and (iii) draw up action plans outlining the steps required to implement priority reforms. The workshop followed the governmental learning methodology (Blindenbacher and Nashat, 2010[2]), which was tailored specifically for multi-dimensional reviews.

The participants included representatives from various key institutions in the health system and high-level authorities of the Government of Paraguay. The carefully selected participants represented the positions of stakeholders in the health reform in Paraguay, especially in drawing up and applying possible reforms, as well as people with accredited knowledge of the health sector in Paraguay. They were accompanied by OECD experts and other international experts with experience in health-sector reforms.

During the workshop, the participants divided themselves into working groups focusing on each of the four key areas defined in conjunction with the government. Each group discussed and defined the main medium- and long-term objectives in Paraguay. They also evaluated the actions, stakeholders and possible timetable for carrying out the reforms or

the necessary changes. The working groups presented the results of the session, which were debated in the plenary and compared with the priorities identified.

Next, this chapter presents a brief recapitulation of the analysis and policy recommendations presented in Volume 2 of the review, as well as a brief summary of the main institutional priorities and policy orientations of the health system at present, including both the actions of the Ministry of Public Health and Social Wellbeing (MSPBS) as of the Institute of Social Security (IPS). Then, the analysis is deepened and some conceptual tools are provided following a restructuring of the recommendations presented in Figure 2.1. In the following sections, the need for long-term structural reform of the Paraguayan health system, the importance of ensuring sufficient and sustainable financing, the need to strengthen the governance of the system, and the importance of achieving a system operate more efficiently are addressed. Throughout these sections, the discussion and the action plans prepared jointly with the government are presented (only for the four recommendations identified as priorities in the medium-term agenda).

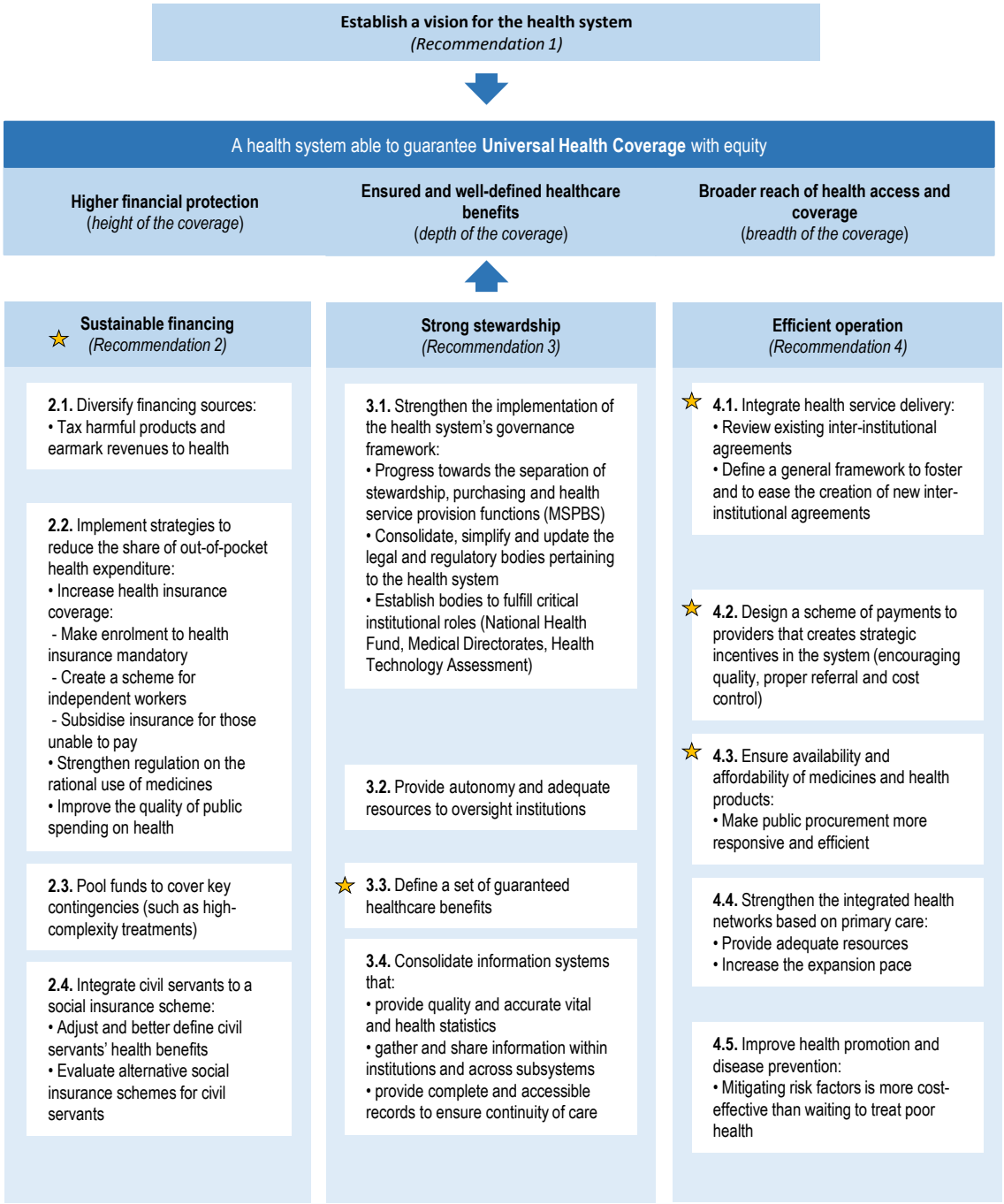
Policy orientations in the health sector in Paraguay

Paraguay has set ambitious goals to improve the health of its citizens. Rising to the challenge faced by its health system, Paraguay has undertaken a series of reforms that have set the stage for a new approach to health care based on primary care. It has also improved the health of its citizens, especially in relation to communicable, maternal, neonatal and nutritional diseases. Its efforts, however, have not significantly altered the foundations of the health system or its fragmentation into multiple subsystems. To achieve its ambitious goals, Paraguay will need to redouble its efforts and strategise to successfully remodel its national health system (OECD, 2018[1]).

The country has made considerable headway in working towards its objectives, but much stronger policy actions are needed to achieve universal coverage. In 2015, the government defined the National Health Policy for 2015–30, and the state portfolio currently addresses seven key lines of action. For its part, the Social Security Institute (*Instituto de Previsión Social*, IPS) has drawn up a series of clear, strategic medium-term objectives (see Box 2.1). However, the efforts in terms of public finance that sustained progress in the period 2005-15 would be difficult to replicate in the current context (see Figure 2.2). Eventually, without significant reform efforts, Paraguay would fall short of achieving universal coverage.

The Multi-dimensional Review of Paraguay has identified a series of strategic policy recommendations for the health sector. Some of those recommendations target short-term changes to be included in the medium-term agenda. Various other recommendations, however, require structural changes to the system and are therefore put forward for the long-term agenda. Nevertheless, if the medium-term agenda were to be successfully implemented, it would lay the foundations for the structural transformations that the country needs in the long run. To achieve universal coverage, the Paraguayan health system must secure sufficient and sustainable sources of funding, strengthen its governance and operate more efficiently and effectively (see Figure 2.1).

Figure 2.1. Policy recommendations for the Paraguayan health system



Note: The recommendations marked with a star were identified as priorities for this phase of the MDCR, in agreement with the Government of Paraguay. Throughout this chapter, these recommendations are analysed in greater depth than the rest.
Source: OECD (2018[1]), *Multi-dimensional Review of Paraguay. Volume 2: In-depth Analysis and Recommendations*.

Box 2.1. Institutional priorities in the health sector in Paraguay

The National Health Policy to 2030 establishes seven lines of action to move towards universal access and coverage. It outlines seven key strategies to move towards universal access and coverage in health care, including (i) strengthening stewardship and governance; (ii) strengthening primary care delivered through integrated networks; (iii) strengthening inter-sectoral and inter-agency actions to address the social determinants of health; (iv) making the health system more efficient by increasing resources, optimising their use and preserving them properly; (v) strengthening healthcare talent management; (vi) developing and strengthening public health at the borders; and (vii) ensuring guarantees regarding the accessibility, safety, efficacy and rational use of medicines, as well as promoting access to health technology and innovation (MSPBS, 2015[3]).

The health services portfolio of the MSPBS has three priority goals that were set by the current administration. As part of the action plan for universal health coverage, the MSPBS has defined three main goals in its current policy agenda: to enhance the integrated and comprehensive health networks (*redes integradas e integrales de salud*), to digitise information systems and to improve the administrative setup.

- *Enhancing the integrated and comprehensive health networks.* This line of action focuses on enhancing primary care. Specifically, it seeks to enhance the country's Family Health Units (*Unidades de Salud de la Familia*). The government's key goals for this line of action are to improve the existing infrastructure, build new infrastructure, improve resources and facilities, improve the care provided, strengthen regulatory centres and human resources, and rearrange the organisational structure.
- *Promoting the digitisation of the health information system.* The current policy agenda identifies technology as a pressing need across the entire health system. The government prioritises action to improve connectivity, adopt telemedicine, improve the capacity of human resources specialised in information and communication technologies, integrate data management systems and allow online administrative tasks and access to information. As part of the initiative to strengthen telemedicine mechanisms, the MSPBS intends to create electronic records that will allow greater efficiency in the provision of health services.
- *Improving the administrative setup.* As it seeks to improve how the system operates, the government's has prioritised measures to improve how medicines are purchased and distributed, increase transparency, strengthen anti-corruption mechanisms, raise its capacity to conduct checks, and tighten standards and regulations.

The MSPBS has identified several priority lines of treatment geared towards Paraguay's disease burden. Currently, these include maternal and child health, chronic non-communicable diseases (especially diabetes and hypertension), cervical and breast cancer, communicable diseases, tropical diseases, HIV, tuberculosis, and sexual and reproductive health.

The Social Security Institute (*Instituto de Previsión Social*, IPS) is carrying out several initiatives in line with the policy recommendations identified by the OECD's Multi-dimensional Review of Paraguay. In particular, the IPS is currently driving several initiatives to support integration in the delivery of services with the MSPBS. The actions

include (i) drawing up a list of minimum services for different levels of care (levels 1, 2 and 3); (ii) selecting the services that will be unified; (iii) setting up a unified information system; (iv) drawing up a list of medicines and supplies associated with the unified services; and (v) setting system-wide prices for health services and compensation models.

The Paraguayan government's current health policy agenda includes several lines of action for the coming years. Through the National Health Policy for 2015-30 and the current portfolio of services of the Ministry of Public Health and Social Welfare (MSBPS), the government is working on several lines of action that address several policy priorities identified by the ministry. Its health agenda focuses mainly on improving governance (recommendation 3) and ensuring that the system is run efficiently (recommendation 4). Additionally, the government has established several priority lines of treatment for the system based on the country's disease burden. The IPS and the MSPBS are currently carrying out several initiatives to integrate their service delivery further (see Box 2.1).

The medium-term policy agenda can lay the foundations for the structural reform that Paraguay needs. Building on existing efforts to develop health networks around primary care, Paraguay should establish the conditions for the emergence of a more integrated health system by making inter-agency agreements the norm, moving towards the separation of stewardship, purchasing and service-provision functions (MSPBS), and developing the necessary public institutions in the health sector. Within the framework of the Multi-dimensional Review of Paraguay, the government identified four key lines of action for its medium-term agenda to allow the country to move towards achieving the health objectives. These lines of action seek to: (i) secure sustainable funding for health care; (ii) make the system run more efficiently and provide integrated service delivery thanks to new and better inter-agency agreements and payment systems; (iii) define a package of health benefits; and (iv) centralise the public procurement of medicines and medical supplies. The work carried out under these lines of action will help lay the foundations for the major transformations of Paraguay needs to implement in the long run.

Delivering quality health services is a global imperative for universal health coverage

Achieving quality health services is possible in all societies, regardless of their income level. Quality healthcare is often perceived as a luxury that only rich countries can afford. However, what building quality health services requires is a culture of transparency, engagement, and openness about results, which are possible in all societies, regardless of their income level. High-quality health services involve the right care, at the right time, responding to the service users' needs and preferences, while minimising harm and resource waste. Quality health care increases the likelihood of desired health outcomes and is consistent with seven measurable characteristics: effectiveness, safety, people-centeredness, timeliness, equity, integration of care and efficiency (WHO/OECD/WB, 2018[4]).

Quality interventions can have a significant impact on specific health services delivered and on the health system at large. Understanding the types of commonly deployed interventions and the knowledge of the evidence regarding their use and effectiveness can allow for more informed choices about which interventions to select in countries. The nature of health care challenges in different health systems across the world is actually quite similar, despite the different contexts of population health needs, financing, and workforce capacity. Whilst priorities may differ – communicable versus non-

communicable disease, care needs of later life versus treatment of mothers and children – the same quality goals are pursued everywhere: (i) reducing harm to patients, (ii) improving clinical effectiveness of the health services delivered, (iii) engaging and empower patients, families and communities, (iv) building systemic capacity for ongoing quality improvement activities, and (v) strengthening governance and accountability (WHO/OECD/WB, 2018[4]).

Paraguay already has defined healthcare quality policy guidelines and must allocate sufficient resources for its effective application. The MSPBS recently defined the National Health Quality Policy (NHQP) 2017 - 2030 (MSPBS/PAHO/WHO, 2017[5]). The NHQP seeks to promote excellence in health care focused on people and their needs, supporting health personnel in the promotion of clinical excellence and also in the adoption of good practices based on the best scientific knowledge available. It has six strategic lines: (i) the stewardship and institutional development, (ii) the quality culture oriented to the development of good practices in health care, (iii) the systematic and permanent improvement of the quality of health care, (iv) the patient safety, (v) the citizen participation in the monitoring of the quality of health care, and (vi) the development of the operational framework to promote the execution and valuation of health quality actions (MSPBS/PAHO/WHO, 2017[5]). Paraguay has taken an important step towards the improvement of health care by defining is NHQP. Sufficient resources, both financial and human, must be allocated for its effective implementation.

Paraguay needs to agree on a vision for its future health system as it works towards a structural reform (recommendation 1)

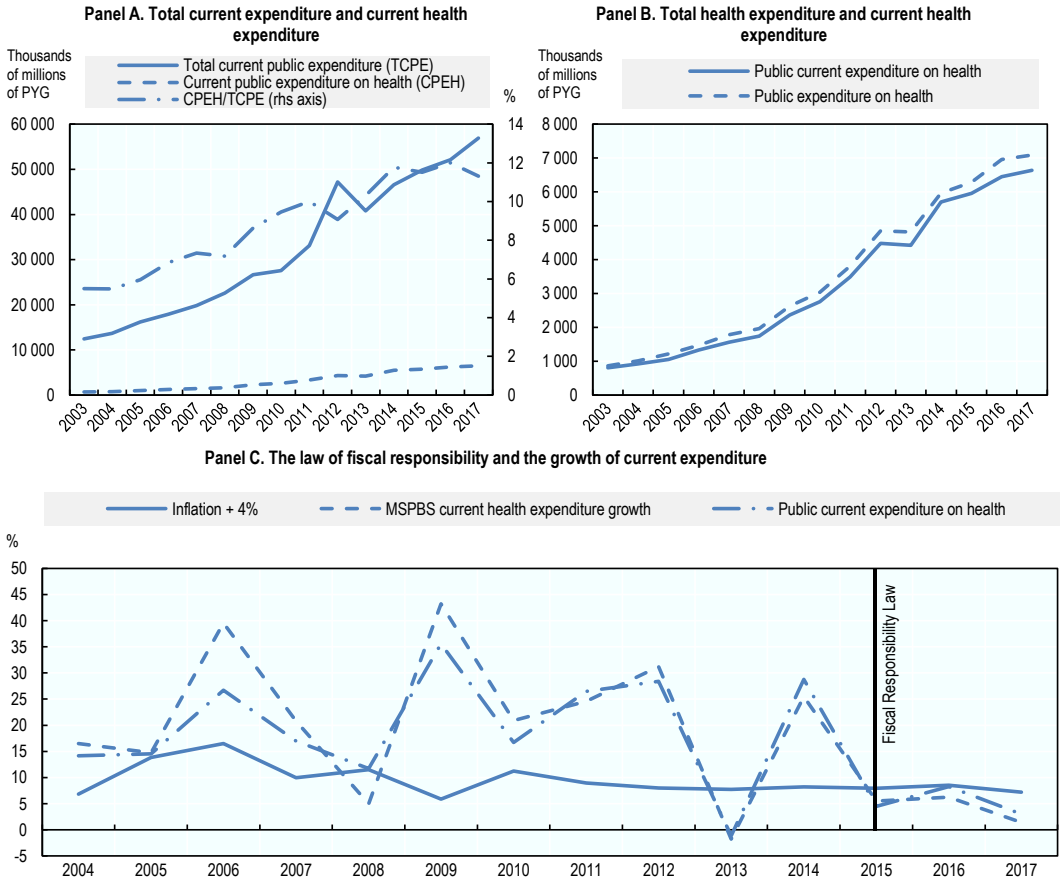
A national dialogue is needed to reach agreement on a vision for the future of the Paraguayan health system. To achieve universal health coverage, Paraguay needs a clear future vision for its health system so that it can implement structural reform. That future vision must be based on an in-depth analysis of the country's needs and unique features. Each country adapts its health model to its own particular needs and situation, so each country has a different model. Various cultural factors, such as a society's values, also influence the most suitable model chosen (WHO, 2010[6]).

A national dialogue is needed to determine the most suitable funding model for Paraguay. Paraguay must choose between an insurance-based model, in which coverage for those unable to pay is subsidised by the public purse, and a national health service, in which all citizens receive a pre-determined package of health benefits. In either model, a unique fund of health resources should be formed and a common package of health services defined for the entire population. In addition, if considered necessary, the various segments that make up the system today can co-exist, in a more integrated fashion, from the administrative, clinical and financial perspectives, where the stewardship of the MSPBS would be central (OECD, 2018[1]).

Increasing resources from the treasury on the same scale that enabled the coverage gains of the last 15 years would not be possible in the current fiscal framework. Since 2003, Paraguay has made major budgetary efforts to support the health sector, with spending increasing from 5.1% of current expenditure in 2003 to 9.4% in 2017. Continuing the increase in health spending at the same rate while improving the system's equity and efficiency would be extremely challenging. The introduction of the Fiscal Responsibility Act, 2015, which states that "*the annual increase in primary current expenditure by the public sector may not exceed the annual rate of inflation plus 4%*" (Republic of Paraguay, 2015[7]), makes it even more difficult for Paraguay to repeat the budgetary efforts of the

past (see Figure 2.2). The Paraguayan government is currently promoting a tax reform bill that, if approved, would provide additional resources to the system (MH, 2019[8]). The additional resources raised by this reform would be allocated to the development of infrastructure and human capital (in particular to social protection, health and education programmes). In any case, the system must be reformed so that the limited resources are used more efficiently and private resources are mobilised through prepayment mechanisms in the form of insurance premiums, fiscal contributions or parafiscal contributions.

Figure 2.2. Repeating the increase in public spending on health that was introduced in the 2000s would be impossible in the current fiscal framework



Note: Panel A: Series are executed budget expenditure excluding investment in physical capital (according to the definition of current expenditure of national health accounts). Current expenditure of local tax revenue by decentralised entities, such as property tax (impuesto inmobiliario), is not included. Panel C: Act No. 5098 on Fiscal Responsibility (Republic of Paraguay, 2015[7]).
Source: Panel A: BOOST database (Ministerio de Hacienda de Paraguay, (2018[9])). Panel B and C: MSPBS (Based on National Health Accounts). Inflation series (Panel C) are from BCP (Central Bank of Paraguay).

StatLink http://dx.doi.org/10.1787/888933983433

Box 2.2. Basic principles to ensure the success of a reform

Implementing a reform is complex and involves considering a wide range of political economy issues, some specific to the country in question, others applicable to any country. A recent OECD analysis examined the political economy of 20 case studies of reforms in ten member countries and assessed the conditions that make reform possible (Tompson, 2009[10]; 2010[11]). Building on earlier OECD work, the analysis suggests a number of basic principles that have proven successful:

1. *Governments need to have an electoral mandate for reform.* Reform "by stealth" has severe limits: unless governments first seek public approval, reforms tend to succeed only when they generate visible short-term benefits, which is almost impossible for far-reaching reforms. While crises can create opportunities for reforms, sustainability is essential for there to be a real impact.
2. *Effective communication by the government is important.* Far-reaching reforms usually require co-ordinated efforts to persuade voters and stakeholders that they are needed, with special emphasis placed on the costs of not reforming. Where the costs of the status quo are opportunity costs, they tend to be politically "invisible", making the challenge to "sell" these reforms all the greater.
3. *Policy design should be underpinned by solid research and analysis.* An objective, evidence-based reform proposal with a sound technical analysis serves both to improve the quality of public policy and to increase the chances that the reform will be adopted. Research that is presented by an impartial, authoritative institution and that inspires confidence across the entire political spectrum can have a definitive effect.
4. *Successful structural reforms often take considerable time to implement.* The more successful reforms in the case studies generally took over two years to adopt, and that does not include the preparation work: in many reform episodes, proposals are debated and studied for years before the authorities actually start formulating specific reforms.
5. *Cohesion of the government is important.* If the government undertaking a reform initiative is not united around the policy, it will send out mixed messages and opponents will exploit the initiative to create greater divisions; defeat is usually the result. The case studies suggest that cohesion matters more than other factors, such as the strength or unity of opposition parties or the government's parliamentary strength.
6. *Government leadership is essential.* Reform progress may be facilitated by frequent discussions involving the government and its social partners (e.g. unions and private groups). However, firmness on the part of the government also seems to be a critical element of success. A co-operative approach is unlikely to succeed unless the government is in a position to reward co-operation by the social partners or to make a credible threat to proceed unilaterally if a concerted approach fails.
7. *The previous condition of the policy intended to be reformed matters.* The most successful reforms of firmly established policies often have been preceded by the "erosion" of the status quo through smaller piecemeal reforms or unsuccessful reform attempts. Where the existing arrangements are well institutionalised and

popular, and there appears to be no imminent danger, reform is far more difficult to propose, explain, "sell" and implement.

8. *Successful reform requires persistence.* Previously blocked, reversed or very limited reforms need not be seen as failures: such experiences may illustrate the unsustainability of the status quo and set the stage for the same reform to be attempted at a later date.

The OECD case studies confirm the conclusions of earlier analytical work with respect to the facilitating effect of crises and sound public finances. Finally, the studies cast some doubt on the often-repeated claim that voters tend to punish reforming governments: the likelihood of subsequent re-election was about the same for those involved in the more and less successful reform episodes.

Source: OECD (2013[12]), *Getting it Right: Strategic Agenda for Reforms in Mexico*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264190320-en.

In the medium term, significant progress can be made in creating a national health system that is more integrated and better co-ordinated. The current situation, in which the health system is fragmented into a prepaid private subsystem, a general budget-based public subsystem, and an insurance-based social security system, is a significant hurdle to ensuring that stewardship is effective, coverage is equitable and the system is run efficiently (OECD, 2018[1]). Independently of the model chosen for the future, Paraguay should work to move towards integrated health provision networks based on primary care as a cost-effective path to universal health coverage (OECD, 2018[1]). The MSPBS and IPS are working towards integrating service provision although experiences have so far been limited in scope. The country should also set the framework conditions that will pave the way for new inter-agency agreements and the unification of care provision at the point of delivery, building on past experiences.

The health funding strategy must be sustainable and must secure sufficient resources (recommendation 2)

Despite ongoing efforts to increase public spending on health, funding remains insufficient and inequitable. Financial flows largely mirror the fragmentation of the health service provision system. Revenues for the care of different population groups are raised through separate systems, including public funding, social security contributions, prepaid health plans, and out-of-pocket expenditure. Funds are held in separate pools, with little or no potential for pooling risk and cross-subsidies across segments. Given that out-of-pocket expenditure represents a primary source of funding, a significant portion of the population in Paraguay is at risk of catastrophic health expenditure (OECD, 2018[1]).

Diversifying the sources of funding for health would help ensure the sustainability of health funding *(recommendation 2.1)*. The expansion of social insurance might 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, especially tobacco and alcohol, and earmarking part of the revenue from these taxes for health funding (OECD, 2018[1]). According to the World Health Organization, "*raising tobacco taxes to more than 75% of the retail price is one of the most effective and cost-effective tobacco control interventions*" (WHO, 2015[13]). In this regard, the Paraguayan government is currently promoting a tax reform (MH,

2019[8]) that includes an increase in taxes on tobacco and alcoholic and sugary beverages. The additional resources raised by this reform would be allocated to the development of infrastructure and human capital (in particular to social protection, health, and education programmes).

Paraguay should consider diverse mechanisms to reduce the share of out-of-pocket expenditure in total health expenditure *(recommendation 2.2)*. This step is critical in sustaining health funding and in moving towards universal health coverage in a way that is fairer and more efficient. Increasing the current levels of insurance coverage is important in this respect. 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. Reform is also needed in the contributory systems to better adapt to the circumstances of independent workers (see Chapter 3). Furthermore, the system could also consider offering partly or fully subsidised health insurance (through a means-tested subsidy) for those unable to pay (OECD, 2018[1]). To reduce out-of-pocket expenses, some other key steps are strengthening regulation on the rational use of medicines, increasing public financing, and the gradual improvement in the quality of public spending on health.

Paraguay should implement funding mechanisms that pool funds to cover key contingencies *(recommendation 2.3)*. The fragmentation of finance pools leads to unequal financing of health needs. Risk pooling ensures equity and protects individuals from the financial risk associated with their healthcare needs (OECD, 2018[1]). A single national fund would allow spreading the financial burden between high and low-risk individuals, and between high and low-income individuals. In Paraguay, certain contingencies are not sufficiently covered by the existing insurance pools (such as highly complex and expensive treatments), resulting in high residual costs for the MSPBS and IPS. In the medium term, a system that pools and channels funds to ensure care for those conditions would be a step in the right direction. One possibility would be the effective implementation of the National Fund of Solidarity Resources for Health (*Fondo Nacional de Recursos Solidarios para la Salud*, FONARESS), as a pooled fund for highly complex treatment that would cover a specific set of conditions for all citizens, along the lines of Chile's experience (see Box 2.3) which would require reforming its statute. In the long run, Paraguay could consider options to merge risk pools or create a system that allows for transfers across risk pools (OECD, 2018[1]).

Civil servants and employees of the state should be gradually incorporated into a social insurance scheme for their health provision *(recommendation 2.4)*. At present, the IPS can only cover civil servants under special regimes, which exist for teachers in the Ministry of Education and Culture and for personnel of the Office of the Public Prosecutor. Most civil servants are currently covered by private insurance. The current system limits fund pooling, which leads to efficiency losses and, potentially, a shortfall in funds for investment. Civil servants could be incorporated in the IPS or in a separate social insurance scheme in the first instance. If incorporated into the IPS, the capacity of the IPS to provide service would have to be significantly expanded, since a significantly larger fraction of the population would be under its responsibility. To that end, the transition could be gradual and be accompanied by the relevant contribution transfers. On the other hand, the health benefits of public officials must be reviewed and clearly defined in order to achieve more austere, efficient and fair spending of health resources.

Box 2.3. Covering high-cost treatments in Chile: the Ricarte Soto Law

Since its introduction in 2015, the Financial Protection Law for High Cost Health Diagnoses and Treatments *(Ley de Protección Financiera para Diagnósticos y Tratamientos de Alto Costo en Salud*), known as the Ricarte Soto Law, provides an economic aid for oncological, immunological and rare or infrequent diseases for all beneficiaries of the country's health systems that have diagnoses and pathologies that strongly impact family budgets. The fund created by this law is financed with direct tax contributions.

This law seeks to avoid the impoverishment of families as a result of the catastrophic expenses in high-cost health treatments. According to the law, the treatment means those medicines, medical devices or foods associated with diseases or health conditions, as well as indispensable services for their diagnostic confirmation and monitoring. These treatments' prices impede affording them and/or cause a severe negative impact on households' incomes. If the treatment exceeds 40% of the average family income, discounting basic subsistence expenses (i.e. catastrophic illnesses), there is coverage.

This law proposed progressive coverage. In the first decree, all high-cost and infrequent treatments financed by the social security system (FONASA) were incorporated, extending financial protection to the beneficiaries of the Armed Forces and private insurers, who did not have access. In 2017, coverage was further expanded to cover a total of 14 illnesses. An estimated 7 104 people received treatment under the law by November 2017. The majority of beneficiaries (81%) are concentrated in three diseases: HER2 gene breast cancer (1 667), refractory rheumatoid arthritis (1 643) and respiratory syncytial virus in premature infants (1 164).

Source: Ministry of Health of Chile (2019[14]), *Law 20.850 "Ricarte Soto"* and OECD (2019[15]), *OECD Reviews of Public Health: Chile: A Healthier Tomorrow*, OECD Publishing, Paris, https://doi.org/10.1787/9789264309593-en.

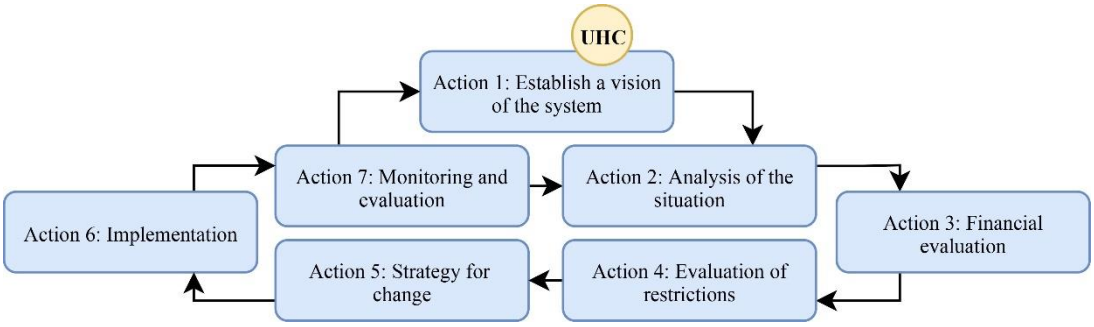
Drawing up a funding strategy

Every country must decide which sources to use and to what extent. Broadly speaking, a health system can be funded by taxes, social insurance, private insurance, or alternative funding mechanisms (i.e. community financing) (Roberts et al., 2003[16]). Each country chooses a combination of these sources, usually based on a series of country-specific features, such as its level of socio-economic development, its fiscal capacity, its policy implementability and its political accountability. The blend used depends, and to a large extent must depend, on each country's social and political values (Roberts et al., 2003[16]).

Each method places a different level of demand on a country's infrastructure and its public and private management capabilities. The relative size of a country's informal economy is undoubtedly a decisive factor, since it affects how much the state can collect through its social security system (Roberts et al., 2003[16]). Implementability is, therefore, another decisive factor, since not all countries have the same capacity to raise money through the different mechanisms. The choice of method is also shaped by the country's socio-economic structure and levels of inequality, since the health system should ideally cover those people who do not have the means to access such services on their own (Roberts et al., 2003[16]).

Paraguay needs to find the combination of funding sources that are best suited to its particular needs. The starting point for most countries looking to adopt universal coverage shows that the sources of income and the way it is managed are fragmented. Far from being considered a limitation, this fragmentation should be seen as a challenge that will make a decisive contribution to universal coverage. Three key population segments define coverage patterns: the poor and vulnerable, the informal sector and the formal sector (Cotlear et al., 2015[17]). Health ministries are generally involved in providing coverage to the first two segments, while compulsory social security models cover the formal sector.

Figure 2.3. The decision-making process for healthcare funding



Source: WHO (2010[6]), *The World Health Report: Health Systems Financing: The Path to Universal Coverage*.

Generally, countries moving towards universal coverage start out by assessing inequality levels and look to improve access for the poorest people. This implies an approach that is tailored to different sectors of the population. Cotlear et al. (2015[17]) show how 24 countries have moved towards universal coverage using one of two main approaches: supply-side or demand-side. The supply-side approach aims to invest in raising and improving capacities and to allocate more resources to inputs to make health care more accessible. The demand-side approach aims to devote resources to activities and services for the most vulnerable sectors of society. The main purpose is to expand public health programmes.

Most countries focus initially on improving access for the poorest people, then on the informal sector (Cotlear et al., 2015[17]). Doing so requires having extra fiscal resources for the poorest people, as well as finding contributory and non-contributory formulas for the informal sector, according to how much tax is collected. In a social-insurance model (contributory), for instance, employers' and employees' contributions are deducted from wages. Non-contributory formulas include co-payments, which are out-of-pocket payments made at the time the service is delivered. Half of the countries in the aforementioned study applied co-payments collected primarily by the suppliers and not placed in a common fund. Although this generated revenue, it meant that the revenue was not redistributed through a pooled fund.

Pooling alleviates the negative effects of fragmentation and contributes to greater equity. If contributory resources are fragmented, costs need to be optimised by gradually integrating funding sources and the management of those sources in order to reduce administrative costs. It is not unusual to find multiple funds for different segments of the population. When universal coverage is considered, the redistributive role of the risk pool is optimal if there is a single fund for the entire population. Paraguay has tried to create a

pool of funds in the past (in particular through Law 1032/96), but in practice, this fund was established only as a financing policy-making body.

Box 2.4. Financing models affect key factors differently

When choosing the right mix of funding mechanisms, policy decision-makers should consider the potential implications on a range of factors, including:

Equity.[1] The funding mechanism directly affects how the cost of medical care is shared out. Countries must, therefore, identify who has the means to bear the financial burden and who will actually bear it. Furthermore, since the way funds are used directly affects how medical care is distributed, it is vital to look at who the beneficiaries will be. Equity criteria should consider both geographic factors (ensuring access in remote regions) and socio-economic factors (ensuring access regardless of income levels).

Risk pooling. The extent to which health risks can be pooled varies greatly depending on the method used to raise funds. With general tax revenue, risks are pooled if the revenue is used to provide health services that are accessible to all or to subsidise high-risk groups. Compulsory social insurance may provide some level of risk pooling, provided that coverage is almost universal. Private insurance only pools health risks within a certain group, such as the staff at a particular company or those with a certain occupation. Finally, out-of-pocket payments by patients offer no shared risk whatsoever.

The economic effects. Each funding mechanism has different levels of impact in terms of deterring or encouraging investment and in terms of the job opportunities available and the labour supply. This affects both the make-up and the strength of economic activity in the short and long term.

Source: Roberts et al., (2003[16]), *Getting health reform right: a guide to improving performance and equity*.

In social insurance systems, the limited room for manoeuvre as a result of the tension between the funding required and the economic impacts means that governments look to top up funding through taxation. In social-insurance systems, contributions are tied to wages, with workers obliged to pay a certain percentage, up to a maximum amount. All workers contribute to the fund based on the same conditions, irrespective of their risk of falling ill. The amount collected from contributions, however, is dependent on demographic, economic and labour developments, and increases in the proportion of income that workers must contribute can affect the competitiveness of the economy. Since contributions also fund pensions (and sometimes unemployment benefits) in addition to health care, tensions develop in the medium term between the various factors that affect the cost of contributions. That is why some social insurance-based systems, such as the one in Spain (see Box 2.5) have needed state contributions or have had to become more dependent on tax revenue.

Box 2.5. Health funding: the case of Spain

In 1986, the General Health Act (*Ley General de Sanidad*) created the National Health System (*Sistema Nacional de Salud*), which was financed by taxes and guaranteed universal coverage. The reform was a landmark moment for health policy in Spain, and it remains in force today, albeit with a few changes.

Decentralising the way health care is run and funded has been crucial. Responsibility for healthcare provision was gradually transferred to the 17 autonomous communities (regions), ending in 2002. The process took place due to political and financial reasons. On the financial side, decentralisation occurred at the same time that general taxation overtook social security as the main source of funding. The evolution of the economy also shaped these changes. The 1993 economic crisis, in particular, had a strong impact on the process, as a result of which, social security contributions gradually lost ground to taxes in terms of their share of the overall health budget. Eliminating social security's contribution to the healthcare budget also freed up funds to cover the rising cost of pensions, which was one of the objectives pursued.

Health care is paid for out of the general budget of the autonomous communities. A reform passed in 2009 gave the autonomous regions greater fiscal capacity and fiscal space. The share that taxes contributed to the budget increased and funding was redistributed towards four specific funds: guaranteed delivery of essential public services, co-operation, competitiveness and fiscal equalisation (*suficiencia*). Today, the autonomous communities are considered to have a great responsibility in executing expenditure but limited space to generate revenue. This situation has created tensions, but efforts at reforming the system have been repeatedly postponed. Due to differences in how each autonomous community is funded, spending per capita across the autonomous communities ranged from EUR 1 110 to EUR 1 669 in 2016, averaging out at EUR 1 332. The autonomous communities fund their healthcare provision from two sources: transfers from the general state budget and revenue from various devolved taxes, in part or in full. Transfers from central government aim to ensure that the same level of service is provided in every autonomous community and are determined on the basis of allocation criteria that distribute resources from several different funds. The second source of funding is from the autonomous communities' own taxes. The administration and collection of certain taxes were transferred entirely to the autonomous communities, giving them the scope to establish and assign credits and allocations according to their own criteria. Each autonomous community can set its own tax rate for the portion of income tax that it receives.

A broad range of benefits is covered by the national health system. In 2006, a list regulated which common benefits were covered, albeit with some benefits defined in greater detail than others. Patient services include public health, primary health care, specialist health care, emergency treatment, pharmaceutical services, prosthetic and orthotic treatment, dietary products and patient transport. In addition to the common services, the autonomous communities can offer additional services, for which they must provide additional funding. In addition to defining the portfolio of services, the regulation also introduces mechanisms to update them over time. This requires an assessment of health technologies to take into account the provision of services in the publicly funded portfolio.

The reforms have created a system in which decisions on funding and how services are organised are highly decentralised. The Ministry of Health, Consumer Affairs and Social Welfare still has a role in co-ordinating the health system as a whole and ensuring that

health care is delivered in an equitable manner in all parts of the country. The central government is also responsible for matters relating to public health, global health and research, as well as for regulating training for physicians. Municipalities and local government are involved in public health policies, the environment and health promotion. The consensus reached in 1986 on the national health system was broad in scope and led to excellent results. Today, however, the system needs to be reviewed for a number of reasons. Although public funding for universal health services was and is a key principle, policy priorities include the need to address equitable access to services properly.

Discussion and action plan: Sustainable funding

During the workshop "*Reforms for better health in Paraguay*", the participants discussed the implication and potential next steps for defining a sustainable financing strategy for the Paraguayan health system. Discussions included:

- *It is urgent and vital to define a vision for the future of the Paraguayan system.* The discussion on funding mechanisms for the system focused on what the most appropriate course would be for the system to follow. The participants stressed the need to determine what proportion of the system would be funded by taxes collected by the Ministry of Finance (with a public health system in mind) and what proportion would be funded by contributions to the social security system collected by the IPS. They also noted that drawing up an action plan was difficult, since it was first necessary to determine what kind of model the country wanted.
- *Participants discussed the possibility of a tax reform, which would require tax morale to be strengthened in the country.* Tax morale is at the heart of state-building and the citizen-state relationship, because it measures taxpayer perceptions and attitudes towards paying and evading taxes (OECD, 2013[18]). The working group on funding health care did reach an agreement on the suitability of taxing the consumption of goods that were harmful to people's health, the purpose being to reduce consumption rather than to raise taxes. Several participants, however, stressed that it would first be necessary to strengthen tax morale to make tax increases more legitimate. Strengthening and clarifying the links between revenue and expenditure, building taxpayer profiles, understanding the informal sector better, increasing the transparency of tax policymaking, modernising tax administration procedures and aligning efforts to avoid negative interactions among the drivers of compliance are some of the key efforts governments can do to improve tax morale and tax compliance in a country (OECD, 2013[18]).
- *Participants also discussed the pertinence of activating funds such as FONARESS.* Some sectors suggested these special funds may generate political conflicts and become a target for the private sector and pharmaceutical companies, which would look to take advantage of the resources built up in the fund. Regulations, therefore, need to be put in place to prevent the fund from becoming a bottomless pit, and there needs to be a committee with the power to authorise using the funds.[2] This could be particularly useful in the case of catastrophic illnesses.

Participants also identified some key actions for the implementation of policy recommendations in this field, as well as the actors involved in the change process. They assigned priority levels to each of the recommendations, according to the needs of the country (see Table 2.1).

Table 2.1. Action plan for securing health funding from sustainable sources

Policy recommendations	Stakeholders	Actions for implementation	Priority
Defining the vision of the Paraguayan health system			
Define a clear vision for the Paraguayan health system	MSPBS Ministry of Finance IPS Presidency	**1.** Conduct an in-depth analysis of the country's specific needs and possible sources of funding **2.** Propose a vision for the system **3.** Organise a participatory process to reach a consensus among the system's stakeholders	1
Diversifying sources of health funding			
Evaluate raising current levels of taxation on goods that are harmful to people's health, such as tobacco and sugar and alcoholic beverages	Ministry of Finance MSPBS National Congress Private sector	1. Manage an increase in taxation on tobacco, alcohol and sugary drinks 2. Study whether it is feasible and desirable to pre-assign to the health sector budget allocations from tax collected[1]	1 (As a public health policy) 3 (As a source of funding)
Implement strategies to reduce out-of-pocket health expenditure			
Make enrolment in health insurance mandatory, *offering mechanisms that are adapted to self-employed workers*	*IPS* *Ministry of Finance* *National Congress*	***1.*** *Look into mechanisms that would allow self-employed workers to join the social security scheme* ***2.*** *Create a legal framework that makes social security compulsory for self-employed workers*	*1*
Reform contributory systems for independent workers to better adapt them to their circumstances	*IPS* *Ministry of Finance* *National Congress*	***1.*** *Identify possible mechanisms for contributions to the IPS that are adapted to the realities of self-employed workers* ***2.*** *Work out the cost of including self-employed workers in the social security scheme (IPS)*	*1*
Offer means-tested subsidies partly or fully covering the cost of health insurance for those unable to pay the full amount	*IPS* *Ministry of Finance* *Ministry of Social Development* *MSPBS*	***1.*** *Implement a system identifying persons subject to state contributions* ***2.*** *Strengthen a system that promotes equity*	*1*
Establishing pooled funds to cover key contingencies			
Evaluate the introduction of pooling and collection to fund high-cost treatments	IPS MSPBS	***1.*** *Implement individual authorisation, better protocols and expert opinions*	

Note: Italics are used for notes made by workshop participants. (1) The Paraguayan government is currently promoting a tax reform (MH, 2019[8]) that includes an increase in taxes on tobacco and alcoholic and sugary beverages. The additional resources raised by this reform are pre-allocated to the development of infrastructure and human capital (in particular to social protection, health and education programmes).
Source: *"Reforms for better health in Paraguay"* workshop.

Strengthening governance is necessary to steer the health system towards universal coverage (recommendation 3)

Competent and effective governance is essential to achieve universal coverage in a health system. Governance seeks to balance the full set of competing interests, influences and demands within a health system. The governing entity must work effectively with other sectors, including the private sector and civil society, to promote and maintain the health of the population. It must also manage international co-operation resources in ways that promote national leadership and ensure those resources contribute to the achievement of agreed policy goals (WHO, 2019[19]). The government is currently making efforts to strengthen the leadership capacity of the MSPBS. The National Health Policy for 2015-30 makes strengthening stewardship and governance the first objective on the policy agenda (see Box 2.1).

Governance includes a series of functions related to managing the system and creating standards. The policies and rules of governance seek to steer the system so that it achieves the aims of the national health policy, which are essential to achieve universal health coverage. The typical functions include maintaining the strategic direction of policy development and implementation; detecting and correcting undesirable trends and market distortions; regulating the behaviour of relevant actors; and establishing effective and transparent accountability mechanisms (WHO, 2019[19]).

In Paraguay, it is crucial to strengthen the stewardship capacity of the MSPBS *(recommendation 3)*. The organisation and functions of the MSPBS are very broad, which can contribute to diluting its leadership. The MSPBS's primary function is to provide stewardship for the national health policy. In practice, however, social welfare and public utilities also fall under its remit. These stem from a holistic view of public health, but in practice result in the MSPBS undertaking functions that overlap with those of other institutions or functions that could be located elsewhere in the executive, allowing the MSPBS to concentrate on the difficult task of managing a fragmented system involving many different organisations. The marked fragmentation of the health system, with different modalities for funding, regulation, enrolment, and service delivery, makes stewardship particularly challenging (OECD, 2018[1]).

To strengthen its governing entities, Paraguay needs to pursue the effective implementation of the governance framework of the health system *(recommendation 3.2)*. Although there is already a legal framework that gives the MSPBS stewardship capacity (i.e. law 1032/96), its implementation and the consolidation of the governing capacity have not been achieved in practice. Efforts should go beyond the legal, to ensure actual implementation of the law. The establishment of bodies to fulfil critical institutional roles, such as the National Health Fund, Medical Directorates, and Health Technology Assessment body, is crucial. Legal and regulatory bodies in the health sector need to be bolstered and streamlined to (i) ensure regulations apply to all relevant actors, (ii) eliminate inconsistencies, and (iii) update or revoke obsolete legislation *(recommendation 3.1)*. The stewardship capacity could also be strengthened through technical and organisational aspects, among others (OECD, 2018[1]).

Separating stewardship, purchasing and health service provision functions (MSPBS) could help to establish a system in which there is more pooling of funds and risk, better accountability and stronger governing capacity *(recommendation 3.1)*. This reform would imply that when a unit provides a service to an individual, it would receive payment from the corresponding system: the public system if the individual is uninsured, or a social or private insurer if the service is covered by insurance. This payment system would also work within institutions, creating tools and incentives for cost control and management. On the other hand, the stewardship capacity is also diminished because the MSPBS undertakes functions of service provision. In the long term, the separation of functions could help the MSPBS to focus on the strengthening of its stewardship capacity.

Supervisory institutions need to be given sufficient autonomy, financial resources and human resources *(recommendation 3.2)*. Supervisory institutions often face budgetary restrictions that limit their effectiveness. In particular, the Superintendence of Health (*Superintendencia de Salud*) has scarce economic and human resources and little autonomy to undertake its role. The oversight that the Superintendence of Health exercises over private and public service providers is weak, resulting in asymmetries in the quality of services provided and arbitrary limits on coverage on the part of certain actors (Giménez Caballero, 2013[20]). In particular, with regards to the regulation capacity over public providers of the system, strengthening the independence from the MSPBS is essential. The

Superintendence must strengthen its capacity to enforce the regulation to all the actors in the system, including both private and public health service providers.

Defining a package of health benefits is essential to move strategically towards progress towards universal coverage *(recommendation 3.3)*. At present, the public subsystem does not have a list of priority medicines and medical supplies that are guaranteed, so rationing is determined by contingent factors, leading to inefficient and non-strategic use of resources. The Paraguayan government has made drawing up a package of health benefits one of its priority policies and began working on such a package during the third phase of the Multi-dimensional Review of Paraguay.

Paraguay needs to invest more in developing information systems for the health system to deliver better statistical information and to support continuity of care *(recommendation 3.4)*. The actions needed include (i) continuing efforts to improve the accuracy of vital statistics; (ii) unifying systems within institutions and, where relevant, across the public, private and mixed subsystems; (iii) improving the capacity of stewardship bodies to generate health statistics for the entire system, with the support of the National Statistical Office (DGEEC); and (iv) developing a system for monitoring medical records and accessing them in order to ensure continuity of care (OECD, 2018[1]). The current portfolio of services of the MSPBS prioritises digitising the health information system, promoting connectivity, offering telemedicine, improving the capacity of staff specialising in information and communication technologies, integrating data management systems and allowing online administrative tasks (see Box 2.1). The development and institutionalisation of population surveys that provide information on the state of health, the burden of diseases and out-of-pocket expenses of Paraguayans is also a fundamental aspect in this regard.

Defining a package of health benefits (recommendation 3.3)

Currently, Paraguay's health system operates predominantly under an implicit rationing scheme. Rationing is an inescapable reality in any country, since health resources are always finite. Nevertheless, it can be done explicitly or implicitly, using either positive or negative lists, or a combination of the two. Under Paraguay's implicit rationing scheme, the health authorities assume neither a commitment nor a clear position on the services provided to the population. The services that reach the population, therefore, depend on contingent and discretionary factors such as the availability of medicines and/or medical supplies at the time that the medical care is provided (IDB, 2014[21]).

Explicit rationing improves resource allocation and social welfare, since it involves strategic prioritisation beforehand. Unlike implicit rationing, an explicit health benefits plan involves significant technical and political effort to define and periodically adapt a set of services (IDB, 2014[21]). Whether a medicine or medical supply is included on excluded on a list normally depends on the country's health goals, allowing resources to be used much more strategically, since medicines and medical supplies that have been deemed essential are prioritised. Countries will face pressures from various stakeholders to implement or adapt a health benefit plan in a certain way. These stakeholders include civil society, health professionals, pharmaceutical companies and patient groups (IDB, 2014[21]). It is important to reach a consensus in defining a package of health benefits.

Differences in the benefits package hinder integration at the point of delivery. The IPS and the Ministry of Health have both drawn up their own lists of the essential drugs that they provide free of cost. They also manage separate stocks, even when service provision is unified through inter-agency agreements. Integrating service will require defining and

unifying benefit packages, ideally by identifying a common basic package that can be gradually extended over time.

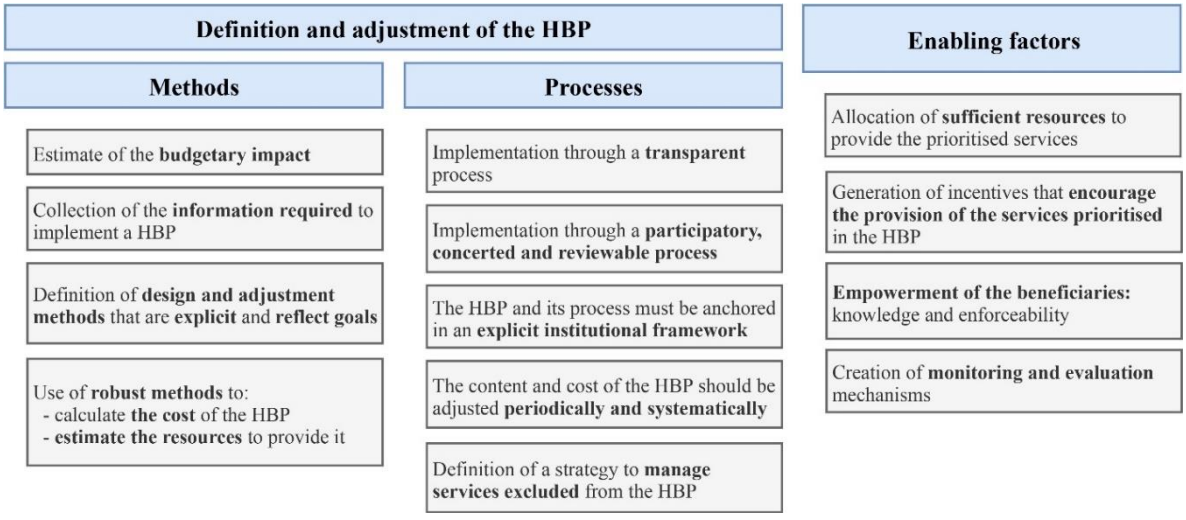
Learning from international experience and adopting best practices could ensure better results in the implementation of a benefit package

Achieving legitimacy throughout the process of implementing a benefits package can ensure it is successful. It is important for the government to ensure that the implementation process is transparent and participatory, so access to information is a key tool. Decisions should be documented and made publicly accessible (OAS, 2013[22]). The way services that are excluded from the package are managed is also decisive. The decision to prioritise or exclude certain drugs and medical supplies must be supported by explicit technical criteria (IDB, 2014[21]) (see Figure 2.4).

The methods for defining and adapting the package should be explicit and transparent. It is essential for the government to have all the information required to define a benefits package. In particular, it needs to know what the cost of providing the services included in the package would be, so that it can calculate their budgetary impact (IDB, 2014[21]) (see Figure 2.4).

Once a benefit package has been defined, it is necessary to ensure that a series of conditions are met that guarantee the package's sustainability and effectiveness. *Enabling factors* ensure that what is prioritised in the benefit plan does not remain a mere statement of services, but instead becomes effective coverage of prioritised services (IDB, 2014[21]). The package needs to have sufficient resources and sustainable sources of funding. In addition, it is important to give publicity to the benefits package both within the health system and among users. Finally, it is important to implement mechanisms for monitoring and evaluating the processes involved in implementing a health benefits package (HBP) to ensure that lessons are learned and future improvements are made (see Figure 2.4). Paraguay should gradually develop its capacity to carry out health technology assessment for decision-making. As the Chilean experience has shown, such a measure has high and positive health and financial impact (see Box 2.6) (Auraaen et al., 2016[23]).

Figure 2.4. Building blocks for best practices in defining a health benefit package



Source: IDB (2014[21]), *Health Benefit Plans in Latin America: A Regional Comparison*.

Box 2.6. Explicit Health Guarantees in Chile

In Chile, the Explicit Health Guarantees (*Garantías Explícitas en Salud*, GES) are a series of legal guarantees regarding certain health benefits. Both the public health insurance scheme, known as the National Health Fund (FONASA) (the social security subsystem), and the private Social Security Institutions (private subsystem) must provide those guarantees to their beneficiaries (Superintendencia de Salud de Chile, 2019[24]). In addition to a list of covered services, the four guarantees introduced are:

- **Access:** mandatory provision of the benefits covered by the GES.
- **Timeliness:** maximum waiting times for the benefits covered by the GES.
- **Quality:** delivery of the health benefits only by health providers that are accredited by the Superintendence of Health.
- **Financial coverage:** a cap on the co-payment made by users equal to 20% of the value determined by the regime's fee schedule, with no co-payments for low-income beneficiaries.

Explicitly guaranteeing certain benefits without explicitly denying others is a politically attractive strategy. Chile's starting point was the total absence of any explicit health priorities and a list of certain medical benefits excluded from the plan. For FONASA, Chile decided to maintain an implicit rationing system for benefits excluded from GES and to prioritise the subset of benefits included in the plan.

Gradually incorporating health problems into GES facilitated the approval and implementation of a health reform. This strategy simplified the funding requirements of a reform, which in turn dampened the fiscal impact and reduced the implementation challenges. In 2005, when GES was introduced, only 25 health problems were included in the list of benefits, but now there are 80 illnesses covered.

GES institutionalised two vital processes used to determine the setup of a Basic Health Package: costing, and identifying social priorities. Chile chose to include only a subset of health problems in GES targeting around 60% of the country's disease burden. It was, therefore, necessary to develop an institutionalised process for identifying social priorities. Before the GES was formulated, there was an extensive public consultation process with expert groups; interest groups; public, municipal and private workers; and the general public. With respect to costs, any modification to the content of the GES must first be subjected to a rigorous actuarial study. In recent years, Health Technology Assessment (ETESA) has been introduced, which has complemented these processes and contributed substantively to decision-making, for example, through effectiveness and cost-effectiveness studies on assessed interventions.

Source: IDB (2014[21]), *Health Benefit Plans in Latin America: A Regional Comparison* and Superintendencia de Salud de Chile (2019[24]).

OECD countries use different approaches to define the range of benefits that are covered and funded collectively. While OECD countries have organised health care coverage in very different ways, most of them have defined, at a central level, a range of benefits covered by residence-based public health systems schemes or compulsory health insurance (Auraaen et al., 2016[23]). This definition is done:

- *Explicitly*, through itemised lists of goods or services covered (e.g. a list of reimbursed medicines or surgical procedures), or *implicitly*, by reference to a broad category of services (e.g. primary care services);
- *Positively*, by referring to what is covered, or *negatively*, assuming that everything which is not explicitly excluded from coverage (broad categories or specific items) is covered.

Each approach is partly influenced by the way the health system is organised in each country. In the OECD countries, positive lists are the norm for pharmaceutical products, but they are not for services (medical procedures and devices) (see Figure 2.5).

Countries with health insurance systems generally use positive lists to define the range of services covered. Countries with single-payer health insurance systems generally use positive lists to define the range of services covered. Countries with multiple health insurers and automatic enrolment (i.e. no choice of insurer) have generally defined a single, uniform package of health benefits. Countries with multiple competing health insurers often define the benefits covered at the national level using positive lists. However, in certain countries with multiple insurers, such as Chile and Mexico, the range of benefits covered is defined by each insurer and varies based on each insurance plan (Auraaen et al., 2016[23]).

All but four OECD countries use positive lists drawn up centrally to determine which medicines are covered. The OECD countries have different ways of organising healthcare coverage, but almost all of them draw up positive lists of pharmaceuticals at the central level. Some of those countries (Austria, Belgium and France, for instance) use positive lists for both inpatient and outpatient care, whereas others (Finland, for instance) use them only for medicines used in outpatient care, with hospitals drawing up their own formularies. Some countries use positive and negative lists simultaneously (Iceland, Italy and Spain, for instance). Spain, for instance, produces a negative list of pharmaceuticals that are of low therapeutic value, referring to drugs which have not proven to have an adequate incremental cost-effectiveness ratio (Auraaen et al., 2016[23]).

All OECD countries have created an explicit process for making decisions on coverage. Most have a two-step process that involves central-government institutions. One organisation assesses and evaluates new technologies and issues recommendations, and another makes the decision on coverage (Le Polain et al., 2010[25]). The evaluation organisations (step 1) often involve a wide range of stakeholders in the process, while the decision-making organisations (step 2) tend to be less inclusive, with the health minister often having the final say on coverage decisions. Some countries only have one organisation responsible not only for the analysis and evaluation but also for making the final decision. Two-thirds of OECD countries have a fully centralised process, since the range of benefits that they cover is determined at the central level. In countries with decentralised health systems, assessment and decision-making take place at different levels (Auraaen et al., 2016[23]).

Figure 2.5. The use of positive and/or negative lists to define benefit packages in the health systems of OECD countries

Main source of basic health care coverage	Country	Pharmaceuticals: Positive list, central level	Pharmaceuticals: Negative list, central level	Pharmaceuticals: Individual payers positive lists	Pharmaceuticals: Individual payers negative lists	Pharmaceuticals: Providers' positive lists	Pharmaceuticals: Benefit basket not defined	Medical procedures: Positive list, central level	Medical procedures: Negative list, central level	Medical procedures: Individual payers positive lists	Medical procedures: Individual payers negative lists	Medical procedures: Providers' positive lists	Medical procedures: Benefit basket not defined
Residence-based health coverage	Australia	●	○	●	○	○	○	●	○	○	○	○	○
	Canada	○	○	●	●	○	○	○	○	●	○	○	○
	Denmark	●	○	○	○	○	○	○	○	○	○	○	●
	Finland	●	○	○	○	○	○	○	○	○	○	○	●
	Iceland	●	●	○	○	●	●	○	○	○	○	○	○
	Ireland	●	○	○	○	○	○	○	○	○	○	○	●
	Italy	●	●	○	○	○	○	●	●	○	○	○	○
	New Zealand	●	○	○	○	○	○	○	○	○	○	●	●
	Norway	●	○	○	○	○	○	○	○	○	○	○	●
	Portugal	●	○	○	○	○	○	○	○	○	○	○	●
	Spain	●	●	○	○	○	○	●	●	●	○	○	○
	Sweden	●	○	○	○	○	○	○	○	○	○	○	●
	UK (England)	○	●	○	○	●	○	○	○	○	○	●	○
Contributory health coverage, single payer	Estonia	●	○	○	○	○	○	●	○	○	○	○	○
	Hungary	●	○	○	○	○	○	○	●	○	○	○	○
	Korea	●	○	○	○	○	○	●	●	○	○	○	○
	Greece	●	○	○	○	○	○	●	○	○	○	○	○
	Luxembourg	●	○	○	○	○	○	●	○	○	○	○	○
	Poland	●	○	○	○	○	○	●	○	○	○	○	○
	Slovenia	●	●	○	○	○	○	●	●	○	○	○	○
	Turkey	●	○	○	○	○	○	●	○	○	○	○	○
Contributory coverage, multiple insurers with automatic affiliation	Austria	●	○	○	○	○	○	●	○	○	○	○	○
	Belgium	●	○	○	○	○	○	●	○	○	○	○	○
	France	●	○	○	○	○	○	●	○	○	○	○	○
	Japan	●	○	○	○	○	○	●	○	○	○	○	○
	Mexico	●	○	○	○	○	●	○	○	●	○	○	●
Contributory coverage, multiple insurers with choice of insurer	Chile	●	○	●	○	○	○	●	○	●	○	○	○
	Czech Rep.	●	○	○	○	○	○	●	●	○	○	○	○
	Germany	○	○	○	○	○	●	○	○	○	○	○	●
	Israel	●	○	○	○	○	○	●	○	○	○	○	○
	Netherlands	●	○	○	○	○	○	●	○	○	○	○	○
	Slovak Republic	●	○	○	○	○	○	●	○	○	○	○	○
	Switzerland	●	○	○	○	○	○	○	●	○	○	○	○
	United States	○	○	●	●	○	○	○	○	●	●	○	○

Source: Auraaen et al. (2016[23]), "How OECD health systems define the range of goods and services to be financed collectively", *OECD Health Working Paper*, OECD Publishing, Paris.

Discussion and action plan: Defining a package of health benefits

During the workshop "*Reforms for better health in Paraguay*", the participants discussed the implications and potential next steps for defining a package of health benefits in Paraguay. Key discussion points included:

- *Paraguay needs an explicit package of health benefits for all Paraguayans.* The MSPBS is currently defining a package of health benefits with a gender and life cycle focus, which leaves some segments of the population without guaranteed benefits. The workshop participants stated that the main priority is to define a package of services with a gender-based and cultural focus in which treatment and provision are effectively guaranteed to the entire population in each point in their life cycle. This package would prioritise the lines of care defined by the MSPBS, based on the draft portfolio of services that the IPS and the MSPBS are currently defining.

The participants also identified some key actions for the implementation of policy recommendations in this field, as well as the actors involved in the change process. They assigned priority levels to each of the recommendations, according to the needs of the country (see Table 2.2).

Table 2.2. Action plan for defining a package of health benefits

Policy recommendations	Stakeholders	Actions for implementation	Priority
Move towards universal health coverage by expanding health services and insurance coverage, increasing financial protection, and ensuring the delivery of a well-defined benefit package			
Define a set of guaranteed services that can be provided to the population effectively. Prioritise lines of care based on the portfolio of services already jointly put together by the MSPBS and the IPS	*IPS* *MSPBS* *Police and military health* *Private sector* *Superintendence of Health* *National University of Asunción*	***1.*** *Form an inter-agency team to analyse and evaluate services for each line of care.* ***2.*** *Conduct studies on the health situation (disease burden, social preferences) for each line of care.* ***3.*** *Review and analyse the current legal framework for the MSPBS and the IPS* ***4.*** *Study the cost of the benefits for those care lines.* ***5.*** *Analyse the basic benefits (already begun by the MSPBS and the IPS) with the other main stakeholders.* ***6.*** *Set the criteria for including or excluding benefits (social, economic, scientific).*	*1*

Note: Italics are used for notes made by workshop participants.
Source: "Reforms for better health in Paraguay" workshop.

To improve how the resources are used, the health system needs to become more efficient (recommendation 4)

At a time when coverage is expanding in terms of the number of people covered and the benefits available, it is essential to deliver services more efficiently. To move towards universal health coverage, incentives and payment systems need to be adapted to the new situation.

Since health funding is limited, a much more efficient system needs to be designed to take full advantage of the resources available *(recommendation 4).* The pace at which health funding has grown in recent decades will not be sustainable in the future. Consequently, in addition to finding new sources of funding, it will be necessary to make the system run more efficiently in order to do more with the same resources. The fragmentation of the health system creates problems for pooling risk and resources and it results in inefficiencies

in the purchase and delivery of health services. The government can promote measures such as more and better inter-agency agreements to integrate the system further in terms of service delivery, thus making better use of the system's installed capacity.

Improving the administrative order and enhancing the integrated and comprehensive health networks are among the current priority objectives of the MSPBS service portfolio. The government's current priority measures are to improve how medicines are purchased and distributed, increase transparency, strengthen anti-corruption mechanisms, raise monitoring and control capacities, and strengthen standards and regulations within the system. The MSPBS is focusing its current efforts on enhancing the integrated and comprehensive health networks, especially primary care. In this regard, the current objectives include improving and expanding infrastructure, improving resources and facilities, improving the care provided, strengthening regulatory centres and human resources, and rearranging the organisational structure (see Box 2.1).

For the system to become more efficient, it needs to become less fragmented and to create payment systems more strategically. The system's high fragmentation is one of the main sources of inefficiencies (OECD, 2018[1]). Inter-agency agreements pave the way for medium-term progress towards more integrated service delivery. It is, therefore, necessary to review existing agreements and set up a framework for creating new and better agreements *(recommendation 4.1)*. Payment systems, procurement and competition (where it exists) can be used to model the behaviour of the various parties involved in a health system. More strategic incentives can be used to model the behaviour of organisations, changing what needs to be done to obtain resources.

The purchase and procurement of health services must be designed strategically, taking into account the incentives generated in each case *(recommendation 4.2)*. Purchasing and procuring health services helps countries advance more quickly towards universal coverage (WHO, 2010[6]). It must be done strategically, however, to ensure that private and public suppliers are given the right incentives to offer efficient, equitable, good-quality services. In this regard, Paraguay needs to re-evaluate its current purchasing and procurement mechanisms to ensure that it creates the most strategic incentives for each case.

High prices for medicines and medical supplies inflate the health system's operating costs. Paraguay does not currently have an established strategy for purchasing medicines and medical supplies centrally or for regulating prices. As a result, it pays high prices for medicines, which not only considerably inflates the system's operating costs, but also directly affects citizens and threatens their financial protection. Implementing strategies for purchasing and regulating medicines and supplies could help to reduce operating costs *(recommendation 4.3)*. The National Health Policy for 2015-30 includes establishing guarantees regarding the accessibility, quality, safety, efficacy and rational use of medicines among the priorities in the health-sector policy agenda (see Box 2.1).

The government needs to boost efforts to direct the national health system towards integrated networks based on primary health care *(recommendation 4.4)*. However, estimations suggest that Paraguay needs around 1 400 Family Health Units (Ríos, 2014[26]), which points to the sizeable gap that needs to be addressed in the coming years. In terms of financial resources, the share of the health budget distributed to regions for primary health care has been almost stagnant. In 2006, it accounted for 26% of the total budget of the MSPBS, but in 2014 it had increased only very slightly to 27% (MH, 2018[9]). First, the Family Health Units (*Unidades de Salud de la Familia*, USF) need to be strengthened by being given adequate human and financial resources. Also, Paraguay needs to step up the pace of expansion of the USFs to deliver on the objectives of universal coverage.

Human-resource policies in the system also need to adapt in terms of regulations and wages. Demand for professionals will need to adapt to supply-side strategies that meet the expected growth in demand, which will put a strain on relations between the public and the private sector. It is important for Paraguay to start closing the gap that exists between the working conditions offered by the public, private and social security health subsectors. Currently, the working conditions on offer in the public sector are clearly inferior to those offered in the private sector, and this difference constitutes one of the main barriers to an integrated system. Likewise, the wage gap between primary healthcare centres and more complex care centres must be narrowed. The National Health Policy for 2015-30 includes strengthening healthcare talent management among the priorities in the health-sector policy agenda (see Box 2.1). The development of a professional career specialised in primary healthcare is paramount in this regard.

Allocating resources to disease prevention and health promotion programmes is more cost-effective than waiting to treat diseases *(recommendation 4.5)*. Investments in public health can improve health outcomes at a relatively low cost (OECD, 2016[27]). One of the key strategies to achieve sustainable universal health coverage is to invest more in health promotion and disease prevention.

Reducing fragmentation through more and better inter-agency agreements (recommendation 4.1)

Establishing inter-agency agreements reduces the level of fragmentation and enables better use of the system's installed capacity. Inter-agency service contracts and agreements can fill gaps in installed service-delivery capacity with infrastructure from other subsystems (Liu et al., 2004[28]). Contracting out health services among subsystems can improve the performance of service delivery by increasing access to underserved populations, improving quality of care, reducing costs, and increasing the productivity and efficiency of the system as a whole (Liu et al., 2004[28]). Reducing the fragmentation of the system will contribute to reducing the asymmetries in the benefits and treatments offered across the different subsystems. This must be well specified in the agreements and contracts and monitored in practice. In addition, contracts can provide a more detailed and flexible set of incentives than a payment system, since they combine the coerciveness of a regulatory scheme with the incentive effects of a payment system (Roberts et al., 2003[16]).

Contracting helps clarify the roles, responsibilities and relationships between purchasers and suppliers. Purchasers are responsible for funding and for the macro-allocation of health resources, while suppliers are responsible for the provision and micro-allocation of health resources. Such agreements allow governments to focus less on service delivery and more on other roles that they are uniquely placed to provide, such as large-scale planning, standard setting, funding and regulation (Liu et al., 2004[28]).

Some health services are easier to contract out than others, which impacts how likely the agreements are to succeed. When a service is contracted out, it is essential to assess (i) whether the quantity and quality of the service can easily be specified or measured; (ii) whether the service can be observed or monitored at a low cost; and (iii) whether it can create competition by allowing new service providers to enter the market (Liu et al., 2004[28]) (see Table 2.3).

Table 2.3. Types of services by their level of contractibility

Types of services	More contractible	Less contractible
Single services vs. multiple services	Single services (e.g. educating a mother to prepare for oral rehydration therapy) and services for the prevention and treatment of single diseases (e.g. HIV/AIDS)	Multiple services dealing with multiple diseases, especially when the services and disease are not specified
Services with a clear or unclear level of need	Services for which the needed quantity can be well defined (e.g., immunisations, cancer screening, antenatal care, growth monitoring)	Services for which the required amount cannot be defined (e.g. outpatient visits and drug therapy for the treatment of hypertension and arthritis)
Services the utilisation of which has or has no close correlation with outcomes	Services for which there is a close association between observable outcomes (e.g. education of a mother to prepare for oral rehydration therapy)	Services for which both actual delivery and the outcome of delivery are difficult to observe
Services for the prevention and treatment of a disease with or without practice guidelines	Services with a clear and standardised protocol for provision (e.g. directly observed treatment for tuberculosis)	Services with no clear and standardised protocol for provision due to either variation in severity or too many acceptable options
Technical complexity of services (simple or complex)	Services that are technically simple are more contractible because of their high contestability	Services that are technically complex are less contractible because of their low contestability

Source: Liu et al. (2004[28]), *Contracting for Primary Health Services: Evidence on Its Effects and Framework for Evaluation*.

The definition of a framework agreement would facilitate the creation of more and better inter-agency agreements in the Paraguayan health system. A framework agreement (FA) is an agreement with one or more health operators for the supply of goods, services and labour force, the purpose of which is to establish the terms governing contracts to be awarded by one or more contracting authorities during a given period, in particular with regard to maximum price, minimum technical specifications and quantities envisaged (OECD, 2014[29]). The establishment of a framework agreement, especially between the MSPBS and the IPS, is a fundamental step to facilitate the integration of the system and generate complementarities that allow increasing the total coverage of the system.

Creating the right incentives through more strategic payment systems (recommendation 4.2)

The system of economic incentives is a fundamental determinant of how organisations and individuals behave in a health system. Payment mechanisms can determine the behaviour of buyers and sellers. Before adjusting payment mechanisms, it is important to consider how they affect the level of financial risk and reward and the distribution of risk and reward between the payer and the supplier, as well as the impact on the supplier's incentives (Roberts et al., 2003[16]).

The payment mechanisms chosen have various effects on different variables in the system. Empirical evidence shows that some of the main factors affecting how the system operates are: 1) the kinds of medical care provided to patients (medical treatment vs. surgical treatment); 2) the types and amounts of drugs prescribed; 3) the quantity of services provided per visit or per day in hospital; 4) the length of stay in hospital; 5) the proportion of inpatients vs. the proportion of outpatients for a given disease; 6) the labelling of diseases and their severity; and 7) the frequency with which patients are referred to specialists and given laboratory tests (Roberts et al., 2003[16]). In particular, supplier incentives influence the selection of healthier patients, the reported number of patients and services, and the reported severity of the disease, irrespective of whether payment is made to the hospital or directly to the health professional (see Table 2.4). The MSPBS is currently introducing a pilot of a pay-for-results system in primary care.

Table 2.4. Financial risks and incentives of the main payment methods

Panel A. Payment to hospitals

Payment mechanism	Basket of paid services	Risk borne by:		Incentives to the supplier for:			
		Payer	Supplier	Increase no. of patients	Decrease no. of services per payment units	Increase reported illness severity	Select healthier patients
Fee for service	Every service item and consultation	All risk borne by payer	No risk borne by supplier	yes	no	yes	no
Case-mix adjusted per admission	Fees vary on case-by-case basis	Risk of no. of cases and case severity classification	Risk of cost of treatment for a given case	yes	yes	yes	yes
Per admission	Each entry	Risk of no. of admissions	Risk of no. of services per admission	yes	yes	no	yes
Per diem	Every patient-day	Risk of number of days to stay	Risk of cost of services within a given day	yes	yes	no	no
Capitation	All services delivered to a person over a given period of time	Amount above the stop-loss ceiling (max. loss for the provider)	All risks borne by supplier up to a given ceiling (stop-loss)	yes	yes	N/A	yes

Panel B. Payment to physicians and health professionals

Payment mechanism	Basket of paid services	Risk borne by:		Incentives to the supplier for:			
		Payer	Supplier	Increase no. of patients treated or registered	Decrease no. of services per units of care	Increase reported illness severity	Select healthier patients
Fee for service	Every element of service and consultation	All risk borne by payer	No risk borne by supplier	yes	no	yes	no
Salary	One week or one month of work	All risks	No risk borne by physician	no	N/A	N/A	no
Salary and bonus	Bonus based on no. of patients	Salary portion	Bonus portion	yes	N/A	N/A	yes
Capitation	All services delivered to a person over a given period of time	Amount above the stop-loss ceiling (max. loss for the supplier)	All risks borne by supplier up to a given ceiling (stop-loss)	yes	N/A	no	yes

Source: Roberts et al. (2003[16]), *Getting health reform right: a guide to improving performance and equity.*

Discussion and action plan: Integration in service delivery and mechanisms for paying suppliers

During the workshop "*Reforms for better health in Paraguay*", the participants discussed the implications and potential next steps for reducing fragmentation, progression towards the integration in service delivery and redesigning the mechanisms for paying suppliers in Paraguay. Key discussion points included:

- *Currently, the best strategy in terms of creating a more integrated system is to do so only at the level of primary care.* Although there are currently inter-institutional agreements at other levels of healthcare, participants considered that integration at the primary care level is a priority. Therefore, they focused their discussion around

integrated service delivery only at the first level of care in the system. They proposed that, during the first stage, it would be much more feasible to integrate primary healthcare between the MSPBS and the IPS. Integration with the private subsystem could happen in the medium/long term, with an emphasis on higher levels of care.

- *Regulatory mechanisms and the role of private medical treatment need to be re-evaluated*. Participants stressed that no regulatory scheme exists for the private subsystem and that no standards are in place regarding the coverage and cost of plans. Very often, the IPS and the MSPBS are forced to provide residual coverage of the private subsector, especially at the second and third levels of care and in the case of high-cost diseases. Participants added that it is important to reconsider whether there should be private health insurance schemes for certain public institutions in the country.
- *Paraguay needs more and better information*. Participants also stressed that, to move towards integration, it is necessary to define a portfolio of basic care and services for citizens, an inventory of installed capacity (both IPS and MSPBS) and a model of the supply and demand of health in the country.
- *Primary care is a priority in the transition towards universal health coverage.* Participants also discussed the role of primary care and inpatient care, in particular on their importance and relative weight. In recent years, the landscape and the boundary between primary and inpatient care have changed rapidly, since several health centres are able to provide both diagnosis and resolution. Moreover, some participants stressed that there should be mechanisms to ensure that private insurance responds at all levels of care, and not primarily in primary care, which is cheaper to operate.
- *At the moment, the foundations can be laid for the future separation of the purchase and delivery of health services*. Regarding the separation of the functions of stewardship and service delivery within the MSPBS, participants argued that for stewardship to be separated from delivery, it is first necessary to define how hospital and health centres will be paid for services provision. It is also necessary to design mechanisms for paying health professionals. Participants proposed that fixed salaries, which do nothing to encourage quality, should be replaced with a system that pays salaries in a way that creates an incentive to provide a good quality service.

Participants identified some key actions for the implementation of policy recommendations in this field, as well as the actors involved in the change process. They also assigned priority levels to each of the recommendations, according to the needs of the country (see Table 2.5). Although the discussion on mechanisms and systems of payments to the provision of health services is quite broad, during the workshop the participants focused their discussion on the payment of salary benefits and working conditions.

Table 2.5. Action plan for progressing towards the integration in service delivery and systems for paying suppliers

Policy recommendations	Stakeholders	Actions for implementation	Priority
Reform the system for paying suppliers			
Design a payment system that offers incentives for quality service, cost control, and appropriate patient referral. ● *It is particularly urgent to re-evaluate the benefits gap between public officials at the IPS and the MSPBS*	*Congress* *Professional guilds* *IPS* *MSPBS*	***1.*** *Harmonise the salary benefits and working conditions of staff at the IPS and the MSPBS. Currently, the two institutions have very different working conditions.* ***2.*** *Standardise guides for enabling infrastructure and standardise profiles for human resources and facilities. Standardisation would make IPS centres and MSPBS centres subject to the same requirements.* ***3.*** *Conduct a regulatory review that allows the same health protocols to be used in both the IPS and the MSPBS.* ***4.*** *Start creating career paths for the national health system.*	*2*
Strengthen the orientation of the national health system towards integrated networks based on primary health care			
Strengthen existing USFs by giving them adequate human and financial resources and increase the pace of their expansion	*Professional guilds* *IPS* *MSPBS* *Universities*	***1.*** *Design a basic portfolio or basket of services for citizens.* ***2.*** *Identify the system's stock and installed capacity in order to carry out an in-depth analysis of the country's supply and demand.* ***3.*** *Strengthen information systems. It is essential to digitise clinical records.* ***4.*** *Conduct a regulatory review of human resources.* ***5.*** *Analyse the role of prepaid primary care (in the long run, private insurance policies would only kick in from the secondary level of care).* ***6.*** *Implement a plan for communication and public participation.*	*1*

Note: Italics are used for notes made by workshop participants.
Source: "*Reforms for better health in Paraguay*" workshop.

Ensuring that medicines are available, affordable and of good quality (recommendation 4.3)

The current procurement mechanisms of medicines and medical supplies affect both their prices and the logistics for their timely distribution. Currently, medicines are purchased in a decentralised manner at very uncompetitive prices. Overpriced medicines in Paraguay affect the sustainability of the system and the financial protections afforded to citizens. Proof of this is that the main cause of catastrophic health expenses in Paraguay is the purchase of medicines (OECD, 2018[1]). Many mechanisms exist to prevent medicines and medical supplies from being expensive, such as centralised purchasing and price regulation. Most notably, centralised public procurement can bring down the price of medicines and medical supplies and improve their effective availability and timeliness at health institutions. With regards to the latter, in fact, health units and hospitals often face drug shortages due to poor logistics management (Monroy Peralta et al., 2011[30]). The logistics for the distribution of medicines and medical supplies also needs to be improved to ensure sufficient and timely supplies in all health care centres. Towards both objectives, progress can be made through the implementation of an effective and centralised system of public purchases of medicines and medical supplies.

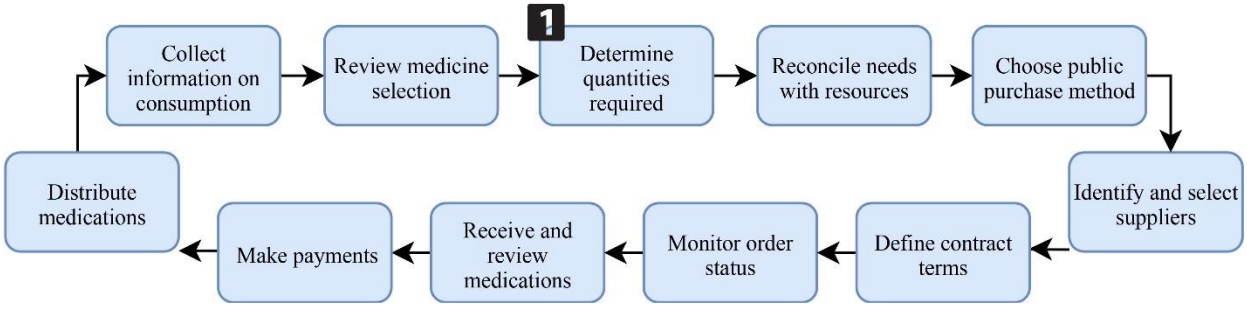
More efficient public procurement of medicines and medical supplies

Public procurement of medicines can help to ensure that essential medicines are available in sufficient quantities, at a reasonable price, and in line with certain quality standards. The centralised procurement of medicines pools together the relatively limited demand of each individual health unit in a country to create a single demand with a better negotiating position. This translates into lower prices and more favourable contractual terms (IDB, 2018[31]). Public procurement can also improve the way a system is organised so that delivery of medicines is more timely, thus avoiding shortages and stock-outs as a result of the failure of individual units to purchase sufficient stock (Management Sciences for Health, Inc., 2012[32]).

The total cost of medicines and medical supplies is comprised of several components, some of which are not obvious. It is important to remember that the prices of medicines are only part of the total cost of purchasing medicines. Other important components are the costs associated with holding stock, hidden costs (e.g. short expiry dates and poor quality), the costs of running the purchasing system, and extra costs incurred due to stock-outs (Management Sciences for Health, Inc., 2012[32]).

A centralised national procurement system must explicitly define the responsibilities of all stakeholders. In practice, an effective public procurement scheme involves a collaborative process between a public procurement office, which is in charge of operations, and technical and policy committees, which are responsible for deciding which medicines to buy, in what quantities and from which suppliers (see Box 2.5). The cycle of public procurement of medicines, which ideally should be standardised and institutionalised, includes almost all the decisions and actions that determine the quantities of medicines purchased, the prices paid and the quality of the medicines received (see Figure 2.6).

Figure 2.6. The public procurement of medicines



Source: Management Sciences for Health, Inc. (2012[32]), *Managing access to medicines and health technologies*.

Box 2.7. Stakeholders and responsibilities in a scheme for the public procurement of medicines

Offices for the public procurement of medicines

An office for the public procurement of medicines can either be part of the government or an independent agency. Such offices are normally responsible for (i) centralising information about the country's medicine needs; (ii) developing a procurement list of medicines to acquire, based on customer demand; (iii) managing the tendering processes; (iv) managing and arranging supply contracts (unless there is a tender board); and (v) monitoring the performance of suppliers and clients.

The power to determine which products to purchase and which suppliers to use should not be centralised in this office. Such decisions should ideally be taken by committees that include representatives from other sectors. If the office operates independently, it is important for its operations to be supervised by a board.

Tender board

The rules of tendering and contract negotiations are generally established by a government tender board. Procurement offices normally draw up a list of requirements and the tender board monitors the tender process. The prime task of the tender board is to make the decision to award contracts. It may have absolute decision-making powers or it may be limited to making recommendations.

Medicine selection committee

The medicine selection committee should include experienced health professionals who evaluate the various pharmaceutical products on the market and select those that are essential to the system. Normally, the committee is led by an experienced physician. The committee reviews requests for medicines to be added to or removed from the procurement list. This committee must have access to current, impartial information on medicines.

Procurement/tender committee

The health system should set up a procurement/tender committee to make final decisions or to make recommendations to the tender board on medicine selection, procurement quantities and supplier selection. It should approve the exact specifications for product description, packaging and labelling, and compliance with quality standards. It should also review information on suppliers and determine which can participate in tenders and which can receive contracts. The committee should include senior government officials and representatives from health system facilities.

Source: Management Sciences for Health, Inc. (2012[32]), *Managing access to medicines and health technologies*.

Discussion and action plan: Public procurement of medicines and medical supplies

During the workshop "*Reforms for better health in Paraguay*", the participants discussed the implications and potential next steps for consolidating mechanisms of public

procurement of medicines and medical supplies in Paraguay. Key discussion points included:

- *In order to make progress in the public procurement of medicines and medical supplies, it is important to draw up a list of essential medicines, especially for the MSPBS*. Workshop attendees also pointed out that the IPS is currently designing a pilot scheme for the procurement of medicines and basic supplies (i.e. gauze, alcohol and gloves).
- *Some participants noted that one of the biggest obstacles to the centralised procurement of medicines and medical supplies is the tender process, which is lengthy and cumbersome, irrespective of the size of the contract.* Other participants, however, said that although the Procurement Act is cumbersome, it is also clear and ensures that tender processes are transparent. The legislation also deals with disputes between the buyer and supplier much more quickly than the justice system.

Participants identified some key actions for the implementation of policy recommendations in this field, as well as the actors involved in the change process. They assigned priority levels to each of the recommendations, according to the needs of the country (see Table 2.6).

Table 2.6. Action plan for improving the public procurement of medicines and medical supplies

Policy recommendations	Stakeholders	Actions for implementation	Priority
Consider a reform to make the public procurement of health services and supplies more responsive			
Implement a small-scale pilot scheme in which medicines and medical supplies are procured centrally. Initially, the programme would be small to ensure its success. In the medium to long term it could then be scaled up to cover the entire country.	*DNCP* *IPS* *MSPBS*	***1.*** *Define a restricted purchase list through an agreement between the IPS and the MSPBS. The list is restricted to guarantee that the medicines are successful and that the suppliers are available to fulfil the orders made.* ***2.*** *Agree on the technical requirements that these medicines and medical supplies must meet (the list should ideally comprise low-complexity or tier-1 medicines).* ***3.*** *Define the quantities required.* ***4.*** *Agree on the requirements to be met by supplier companies.* ***5.*** *Set purchase prices (in line with the price cap regulation).* ***6.*** *Agree on payments (prioritising the MSPBS).* ***7.*** *Draw up follow-up mechanisms.*	*1*
Strengthen mechanisms to protect transparency and combat corruption	*MSPBS* *Health professionals* *Suppliers*	***1.*** *Support the issuing of prescriptions by active ingredient or International Classification of Diseases code (not by brand).* ***2.*** *Implement an information system for prescriptions for the MSPBS (procedures are currently done manually).* ***3.*** *Standardise protocols for prescribing and delivering medicines.*	*2*
Strengthen regulations on price caps (important for the centralised procurement of medicines and medical supplies).	*MSPBS*	***1.*** *Change the current price-regulation system, which is based on production costs, to one based on international benchmarks.*	*3*
Implement a pilot public-private partnership in the medium term in which a private body stores, distributes and delivers medicines and medical supplies.		***1.*** *Identify suppliers that have the capacity to supply the required functions.*	*3*

Note: Italics are used for notes made by workshop participants.
Source: *"Reforms for better health in Paraguay"* workshop.

Notes

[1] When referring to equity, both vertical equity and horizontal equity are included. Vertical equity implies that the individual financial contributions to the system are according to ability to pay: greater resources, higher contributions (e.g. a progressive tax). Horizontal equity implies that health benefits are delivered according to individual needs, regardless of income level, race, gender, place of residence, etc. (Smith et al., 2010[33]).

[2] With respect to this point, Health Technology Assessment would be key. Before there is a committee, it is necessary that a technical team (as highly qualified as possible) can evaluate the different treatments to deliver that information to the decision makers, who will be able to rely on that evidence for their definitions. In addition, the participation of civil society (e.g. groupings of patients) becomes increasingly relevant (Auraaen et al., 2016[23]).

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Chapter 3. Pension system reform as a pillar of the overhaul of social protection in Paraguay

Paraguay has made considerable progress in reducing poverty and improving living conditions. To bolster its achievements and further advance social development, the country must create a comprehensive social protection system that can improve living conditions for the most vulnerable people, foster everyone's inclusion in the country's economic development and provide vital risk-management tools for the whole population. This implies facing the challenges of coverage, funding and governance throughout the social protection system and in each of its facets, especially the pension system. This chapter presents the main conclusions from the Multi-dimensional Review of Paraguay on social protection and puts forward a more specific action plan for pension reform.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

In recent years, Paraguay has improved its citizens' living conditions and standard of living considerably. Income poverty has dropped to nearly half its turn-of-the-century levels. However, poverty and inequality remain high. The integration of many people into the labour market and the modern economy remains challenging. In addition, supportive policies are needed to sustain the emerging middle class (OECD, 2018[1]).

Bolstering achievements and continuing social progress require the country to overhaul social protection thoroughly to change it from a group of programmes into a truly integrated system. Low rates of formal employment (35% in 2015) limit the reach of contributory social security. Expansion of social assistance programmes has made it possible to close part of the coverage gap but has also created a multitude of programmes that, regardless of their individual merit, suffer from a lack of co-ordination that hurts their efficiency.

Paraguay has made a firm commitment to social protection. In early 2019, the country approved the development of a social protection system (SPS). This system co-ordinates all of the state's social protection activities. Is also defines social protection broadly, going beyond the emphasis on poverty reduction of past initiatives.

To create a comprehensive social protection system, the country must overcome four big challenges. First, expanding the entire system's coverage to the whole population, especially to the most vulnerable and to hitherto unprotected populations. Second, ensuring funding for each component of the system by making more resources available for social protection, by improving their use, and through reforms to keep the system's key elements sustainable. Third, taking steps towards truly integrating the policies and programmes of the existing fragmentary system. Last, establish effective governance of social protection through leadership, clear distribution of tasks, and strategic and operational co-ordination.

These challenges apply to the social protection system as a whole and to each specific component. This chapter starts with an overview of the priority areas for action on social protection, based on the recommendations put forward in Volume 2 of the *Multi-dimensional Review of Paraguay* (OECD, 2018[2]). The rest of the chapter details an action plan for pension reform with specific steps to address the main challenges in the specific area of pensions.

Social protection as a key element of inclusive development in Paraguay

In recent years, social policy in Paraguay has focused on addressing poverty and the most extreme forms of deprivation and vulnerability. The National Development Plan for 2030 puts special emphasis on fighting poverty, a key priority in the social development targets, which also include developing high-quality social services and participatory local development, and promoting a suitable, sustainable habitat. This high-priority focus helped establish significant social policy tools, including poverty-reduction programmes such as *Tekoporã* and non-contributory pensions including notably the *Adulto Mayor* (Older Adult) pension.

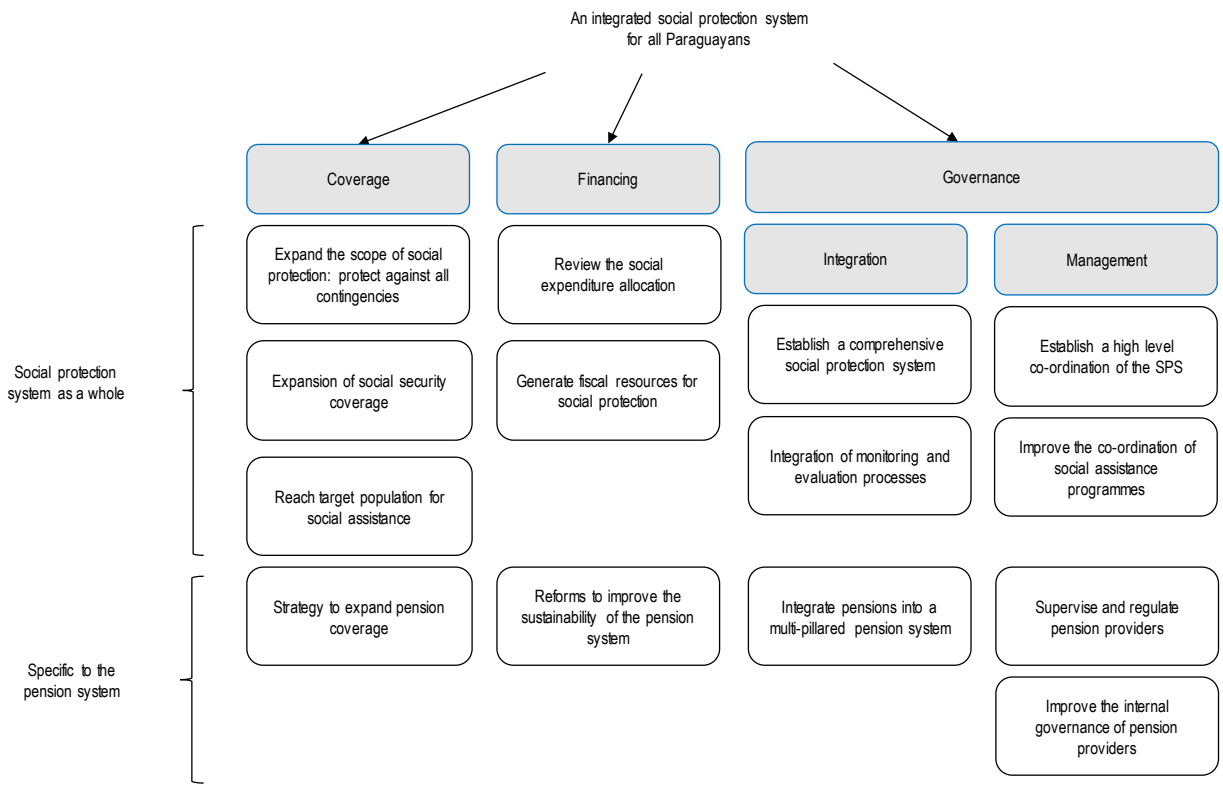
In developing a social protection system (SPS), the country has embraced a broader view of social protection. The country's Social Protection System rests on three pillars: (i) social integration, (ii) labour market and productive integration, and (iii) social welfare. Social integration includes policies that aim to improve basic quality-of-life conditions as well as universal policies such as education and health. Productive integration involves generating income through decent work. Social welfare refers to tools for lifelong risk management and risk reduction. This vision is based on rights guaranteed by the Paraguayan constitution

(health, education, workers' rights, housing, social security) and other regulatory documents.

Diagnosis and priority actions for social protection

Analysis in Volume 2 of this Multi-dimensional Review (OECD, 2018[2]) indicates that Paraguayan social protection as a whole is facing challenges that can be grouped into three broad categories: (i) coverage, (ii) funding and (iii) governance. In governance, one can distinguish between, on the one hand, management of the whole system and of its parts, and on the other hand, integrating this highly fragmented system. These issues apply to every component of the social protection system and to the system as a whole.

Figure 3.1. Major challenges and priority areas of action for social protection in Paraguay

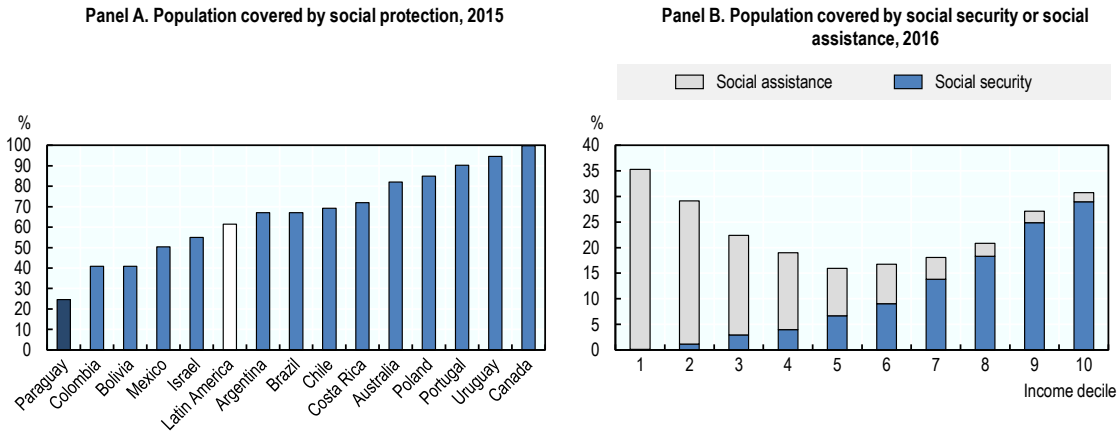


Source: Authors' work.

Coverage is improving, but still insufficient

Social protection does not yet reach all citizens who need it. Social protection programmes cover a quarter of Paraguayans, which is low among countries in Latin America. If the definition is expanded to include anyone whose household receives any type of benefit, the coverage rate is higher (63% according to the World Bank's ASPIRE database). This is mainly because programmes providing school meals (and distributing school supplies) have broad coverage, serving 85% of children in the first through sixth grades (World Bank, 2018[3]).

Figure 3.2. Social protection does not yet cover all Paraguayans



Note: Effective coverage of social protection is measured as the percentage of people actively paying into a social security regime or who receive at least one benefit (from any contributory or non-contributory programme, excluding healthcare benefits). Panel A: 2016 for Paraguay, 2015 or most recent year available for other countries. Panel B: Social assistance includes conditional cash transfers (*Tekoporã*), in-kind benefits (food) and non-contributory pensions (ex gratia pensions, pensions for veterans and their survivors, military personnel or police, and the *Adulto Mayor* pension). Social security comprises contributions to a social security regime and the collection of contributory pensions.
Source: Panel A: Data for Paraguay are based on the Encuesta Permanente de Hogares (Ongoing survey of households) (DGEEC, 2017[4]) and the other countries' data come from (ILO, 2017[5]). Panel B: Authors' calculations based on data from the Encuesta Permanente de Hogares (DGEEC, 2017[4]). See OECD (2018[2]).

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There have been major advances in coverage. The population with effective access to primary healthcare rose from less than half in 2000 to more than 80% in 2016. The creation and expansion of non-contributory programmes such as *Tekoporã* and *Adulto Mayor* have helped narrow the coverage gap considerably, especially among older adults (OECD, 2018[2]).

Despite this progress, major gaps in coverage remain. Less than 30% of households with income below the poverty line receive a cash transfer. Major coverage gaps also exist in the absence of adequate responses to the needs of indigenous peoples, unemployed women and the great majority of workers in precarious conditions (Gabinete Social de la Presidencia de la República de Paraguay, 2018[6]). Moreover, Paraguay achieved coverage expansion largely by developing its targeted non-contributory programmes, but has not developed insurance mechanisms suited to most of the middle-income population, which is unprotected (Figure 3.2).

Social protection also lacks tools to cover certain risks. For instance, Paraguay has no unemployment insurance programme. Extending basic services and protection to vulnerable people involves many challenges and has been prioritised until now. Unemployment insurance schemes can sustain aggregate demand in times of crisis, support workers in managing risk and help them find better jobs. Traditional unemployment insurance schemes based on pooled payroll contributions can be very costly and generate adverse incentives in the presence of informality. Still, options such as individual unemployment savings accounts can help workers manage their unemployment risk and make their job search more effective without heavy government spending (Robalino,

2014[7]). The design of an unemployment benefits scheme should be based on an analysis of the cost to the public purse and the incentives that it would generate in the labour market.

The challenge of increasing and improving funding for social protection

Social spending in Paraguay has increased continually since the early 2000s. Spending on social protection, education and health makes up 63% of budgeted expenditures. Social protection spending increased from 2007 to 2016 for both social security (from 2.7% to 3.6% of GDP) and social assistance (from 0.7% to 1.2% of GDP). This puts Paraguay above the regional average but below countries with more developed social protection systems, such as Argentina, Brazil, Chile and Uruguay.

Even with increased spending, most essential programmes – whether designed to be universal or targeted – are not covering all of their target populations. Targeted programmes such as the *Tekoporã* conditional cash transfer and the *Adulto Mayor* social pension would need to at least double their budgets to reach their intended population (OECD, 2018[2]). Even nearly universal programmes such as school meals lack the resources to reach all children, which leads to rationing by local authorities, not always with transparent criteria (World Bank, 2018[3]).

The country's comparatively low tax revenues partly explain the limited resources for social protection. Paraguay's ratio of tax revenue to GDP is half the average for OECD countries, so it is hard for Paraguay to ensure public funding of all benefits of the welfare state. Low tax rates are one reason for this but the main cause is widespread evasion and informal employment, despite recent progress in these areas.

The country needs to redirect some social spending to key areas of social protection. The various programmes and implementing agencies are not integrated, which has led to high institutional fragmentation. This causes overlaps and increases management costs. In addition, spending sometimes goes to relatively expensive, unfocused programmes, failing to maximise the impact on the most vulnerable individuals.

Governance and management: the great challenge of integrating a highly fragmented system

Social protection in Paraguay is highly fragmented between non-contributory social assistance and contributory social security. Such fragmentation is fairly common in countries with work-related social security and a large informal economy. Separation of funding sources often leads to their separate management. All social protection operations then reproduce this segmentation, which is especially obvious in healthcare (Chapter 2) and the pension system (this chapter).

Social assistance operations are also highly fragmented internally. Not only are there numerous programmes (more than 35), but they are run by a multitude of institutions, including sector-specific ministries (Education, Health, Labour, Agriculture) and agencies focused on specific populations (children, youth, people living in poverty, women). The overlaps among specific populations lead in turn to overlapping programmes.

Past attempts at effective co-ordination among the organisations had a limited scope and limited success. The Social Cabinet brought together sector-specific ministries and specific secretariats but stopped meeting at ministerial level during the previous administration, losing its role in strategic co-ordination. The programmes' strong centralisation also limited co-ordination on the ground. Two bodies were responsible for the co-ordination role: the executive group of the Social Cabinet, led by the Technical Secretary for Planning with

support from a Technical Unit, and the Technical Secretariat for Planning itself, under the co-ordination of the anti-poverty programme *Sembrando Oportunidades* (Sowing Opportunities), which served as an operational co-ordinator but focused on fighting poverty. The Social Cabinet has since been reformed and has recovered a protagonist role.

Co-ordination tools exist but must be strengthened. The large number of programmes led to creation of separate information systems and different targeting mechanisms. Both have been converging in recent years. On the one hand, integrating the beneficiary databases into the SIIS (*Sistema Integrado de Información Social*) integrated database helps move the country towards a single registry of beneficiaries. On the other hand, Paraguay has developed a unified targeting instrument in the form of an information-form card to identify qualified beneficiaries (the "social information card" or *ficha social*) with the option of adding specific modules. This helps to unify the targeting criteria, though its rollout is still underway.

In healthcare and pensions in particular, there are gaps in regulation, governance and oversight. The system's fragmentation makes the stewardship and oversight roles harder. In the health sector (see Chapter 2), it is necessary to strengthen the supervisory agency (the Health superintendence) by pragmatically unifying the oversight criteria for the private and public subsectors. The country also needs to bolster the steering function of the Ministry of Health, which would be easier if the service-provision function were separated from the stewardship and regulation function. Major gaps in the pension system include under-regulation of pension providers, especially for asset management, and the lack of a supervisory authority to ensure compliance with such laws.

Creation of a social protection system is underway

Since late 2018, Paraguay has carried out a set of institutional reforms to install a social protection system. To date, the biggest reform was probably the reorganisation of the Social Cabinet under decree 376 of 2018. It entrusts the Social Cabinet with designing and running the social protection system. Other reforms include turning the housing and social development authorities into full-fledged ministries, which lets them take part in inter-ministerial co-ordination, including the Council of Ministers.

The country has prioritised establishing a social protection system. For example, the decree reorganising the Social Cabinet also made the Ministry of Finance part of that cabinet, supporting the link between the SPS and the budget. It also places co-ordination in the hands of the Executive Secretary of the Presidential Management Unit, a minister responsible for running projects that are priorities of the Office of the President.

In the future, it will be necessary to institutionalise the social protection system in a more durable way. Paraguay has taken major steps towards inter-institutional co-ordination of operations by setting budgetary targets for 2019 and by beginning strategic planning for 2023. However, the SPS itself was established solely through an act of the the Social Cabinet, which makes the system vulnerable to future shifts in social policy.

Institutional consolidation also needs to continue. The law creating the Ministry of Social Development (Law 6139 of 2018) makes this ministry responsible for designing and implementing social development policies and for co-ordinating actions to reduce poverty and improve living conditions of vulnerable people. However, consolidation of the multitude of projects implemented by different institutions has not yet happened. This could be achieved on the ground as a knock-on effect of SPS co-ordination, but could have been accelerated through the ministry's functions and powers. Paraguay must also ensure

co-ordination between its contributory and non-contributory systems, keeping in mind that although the Social Security Institute (IPS) has an administrative role in the SPS, the IPS does not participate in its governance.

An action plan for pension reform in Paraguay

The Paraguayan pension system exemplifies the challenges facing the social protection system as a whole, in terms of coverage, funding, fragmentation and governance. Coverage of the working population is low and has progressed very little in recent years. Funding involves a dual challenge: ensuring stability in a contributory system that is generous despite being supported by relatively low contributions and low coverage, and the need for strong government funding to guarantee coverage of vulnerable older adults, in addition to the government funds needed to sustain some other segments of the contributory system. The system's fragmentation, in turn, translates into unequal distribution of its generosity, causing large disparities in retirement parameters among workers with similar characteristics, and generating high administrative costs. Fragmentation also magnifies the challenge of governing the pension system, seen as both a systemic problem (the need for guidelines on pension fund investments and responsible management) and an individual problem in the management practices of each of the funds that make up the pension system.

Box 3.1. Workshop on "The pension system in Paraguay: Reform options"

The action plan for reform presented in this chapter was developed during a public policy workshop titled "The pension system in Paraguay: reform options", held on 28 March 2019 in Asunción, Paraguay.

The workshop included opening speeches by Paraguayan government representatives that helped identify governmental priorities and contextualise the action plan. Public policy priorities highlighted by the administration's leadership included formalising employment and developing an integrated system for social protection.

The workshop attracted about 40 participants, including civil servants (from the Ministry of Finance; Ministry of Labour, Employment and Social Security; Social Security Institute; the President's Social Cabinet; and the Technical Secretariat for Economic and Social Development Planning), representatives from the labour and management communities, and managers of the various public pension funds that operate in the system.

The workshop followed the "government learning" methodology, adapted for multi-dimensional reviews. Key inputs included the main conclusions of the Multi-dimensional Review of Paraguay on pensions, comparative experiences, and the specific experiences of Spain and South Africa. The workshop examined the proposed recommendations and necessary actions, debating them in four working groups, one for each of the four key areas identified in this chapter: (i) expanding coverage, (ii) equity and reforms, (iii) integration and consistency of the pension system, and (iv) governance.

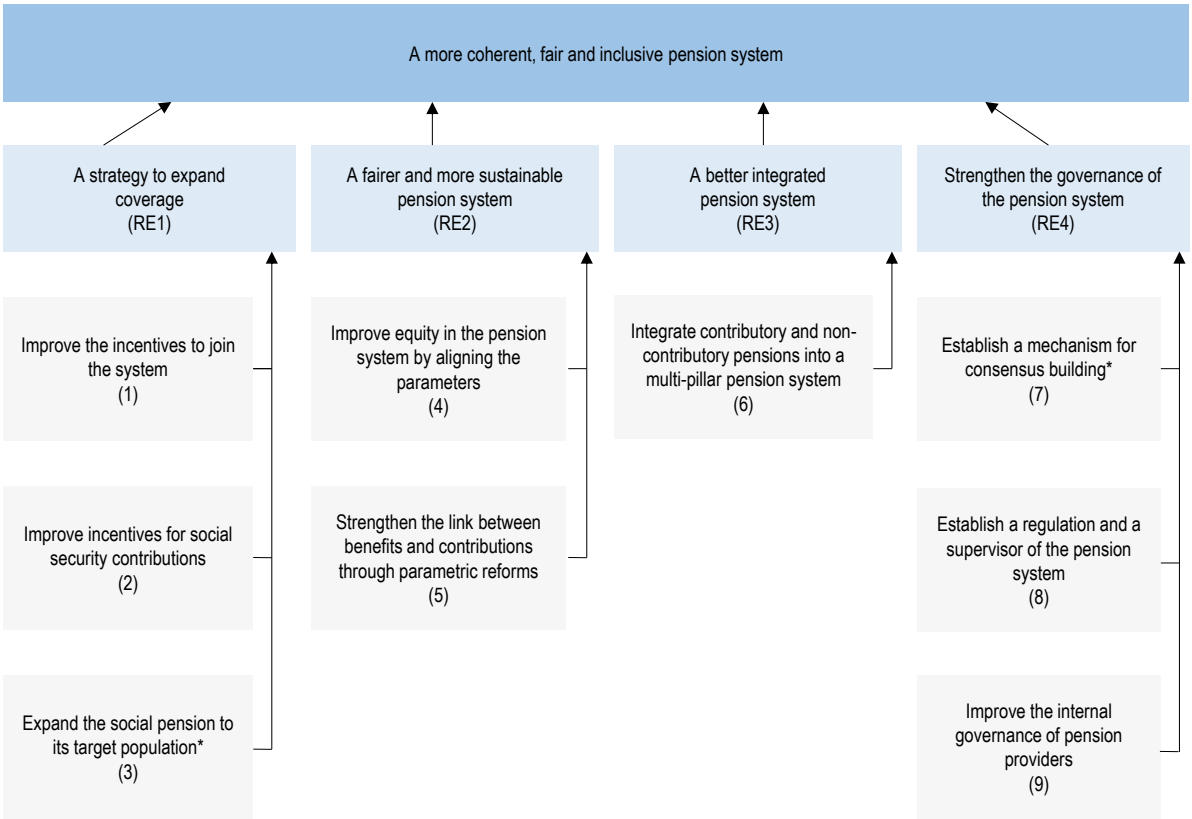
The design of a holistic reform of the pension system will require a process of technical research, economic and legal evaluation by the agencies involved, as well as a broad communication agenda. The specific action plans presented in this chapter suggest specific actions in the short and medium-term and can be used as a key input for developing a systemic reform.

Given these challenges, this section presents an action plan structured into four parts, each of which seeks a specific expected result (ER) (Box 3.1):

- Expand pension coverage, with emphasis on social security
- A fairer, more sustainable contributory pension system
- A more integrated pension system
- A pension system with stronger governance

In each of these areas, the report offers detailed recommendations and a list of actions to bring them about. These action plans were developed by the OECD on the basis of a participatory workshop involving the stakeholders (public sector, social stakeholders, pension fund managers) (Box 3.1). They also include specific points were added from Volume II of the Multi-dimensional Review of Paraguay (OECD, 2018[2]) consistent with the Paraguayan government's planning documents and in support of the priorities identified therein. Notably, they reflect the priorities for the implementation of the *Vamos!* (Let's Go!]) SPS and the Integrated Strategy for the Formalisation of Employment in Paraguay (MTESS, 2018[8]).

Figure 3.3. Priority goals and actions for pension reform



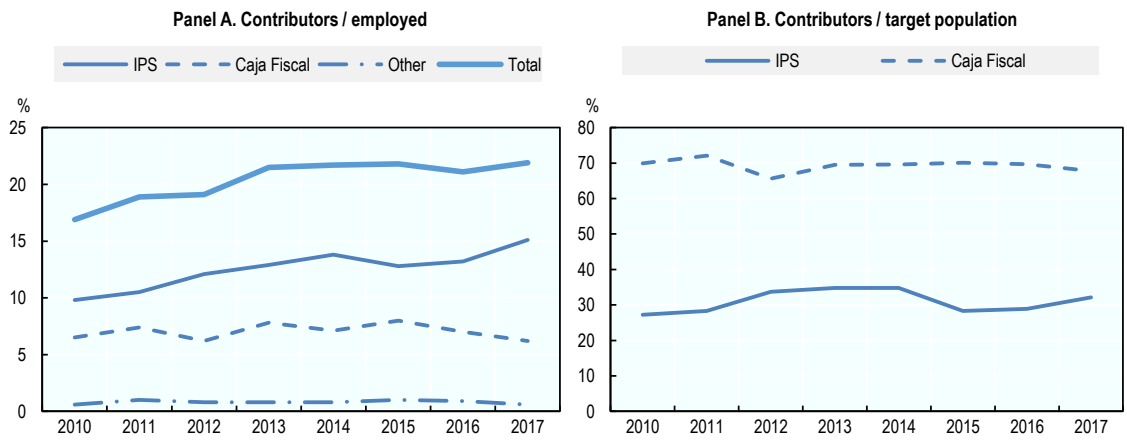
Note: (*) This recommendation was added after the public policy workshop on pensions.

A strategy to expand coverage of the pension system (ER1)

In 2017, 21.8% of the employed population made social security contributions (MTESS, 2017[9]). Among older adults, pensions covered only 46% of the population above age 65, and even that reflects an expansion of non-contributory pensions since the introduction of the *Adulto Mayor* programme, which by 2015 was covering 30% of the older adult population, doubling their coverage rate since the programme's founding. This level of coverage puts Paraguay well below the average for Latin America.

Coverage of the working population has progressed much less than coverage of older adults. From 2010 to 2017, the proportion making contributions to the pension system rose by 5 percentage points, from 16.9% to 21.9%. This increase, however, was concentrated in the early part of the period and has been stagnant since 2013 (Figure 3.4). In fact, this change is mainly due to an increase in formal employment in Paraguay which increased by 10 percentage points from 2005 to 2015 (excluding domestic work). Nonetheless, the coverage rate of pension funds has hardly changed in the public sector (Caja Fiscal) or the private sector (the IPS) relative to their specific target population (Panel B).

Figure 3.4. Coverage of the working population has changed thanks to the increase in formal employment



Source: MTESS (2017[9]), *Boletín Estadístico de Seguridad Social 2017* [Social Security Statistical Bulletin 2017].

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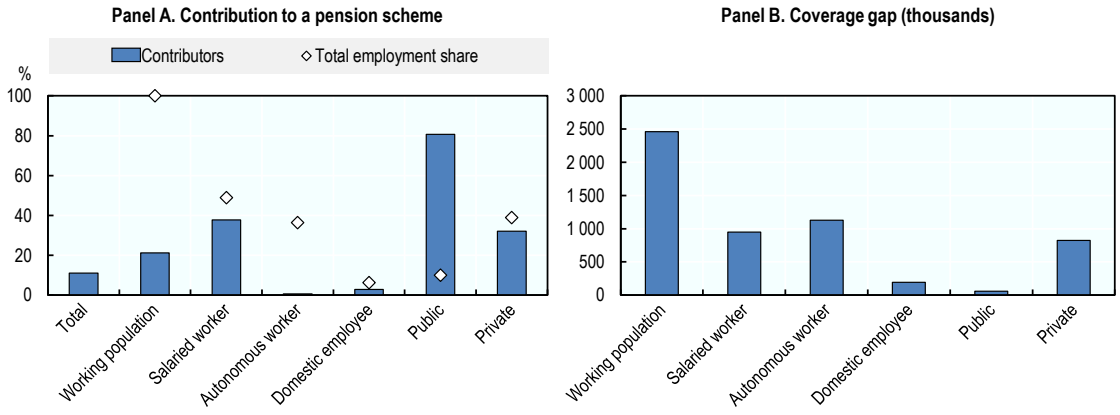
In practice, expanding contributory coverage involves a dual challenge: an effort to cover categories of workers who the system had effectively excluded, and increasing compliance for private-sector employees. Among the excluded categories, the largest group is the self-employed. Although they can contribute voluntarily to the IPS pension regime, only a small percentage do so. In practice, 1.1 million self-employed workers have no pension coverage (Figure 3.5). Excluded categories also include workers hired by the state as service providers (who are not in a permanent dependent employment relationship) who, because they are covered by specific provisions in the Civil Service Law (Law 1626 of 2000) and not by the Labour Code, are under service contracts with no social protection cover. As for private-sector employees, whose IPS contributions are mandatory, the coverage gap remains large, affecting about 950 000 workers in 2016. Action is therefore needed to encourage contributions and provide incentives for compliance.

The first two lines of action for developing a coverage expansion plan overlap with, but go further than, Paraguay's employment formalisation strategy. The Integrated Strategy for the Formalisation of Employment in Paraguay (MTESS, 2018[8]) includes a series of information, inspection and deterrence measures to promote compliance with social security contributions. The strategy defines informal employees based on the definition of the International Labour Organization (ILO), which includes access to social security. However, for self-employed workers, formalisation is only determined by registering as a taxpayer (holding a RUC [Central Registry of Taxpayers] number), as the legislation does not provide for their compulsory affiliation to social security. As a logical consequence, the strategy sets formalisation of wage employment as its main goal. In practice, the Strategy for Formalisation does include steps to encourage self-employed workers to register, but those steps are not necessarily presented as a comprehensive plan to broaden coverage.

Figure 3.5. The dual challenge of the coverage gap

2016



Note: The public- and private-sector workers in Panel A refer to employees.
Source: OECD (2018[2]) and calculations based on MTESS (2017[9]).

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Improve incentives for registration (recommendation 1)

Increasing social security registration among self-employed workers is a vital step towards sustainably narrowing the social protection coverage gap. Currently, self-employed workers can register with social security (the IPS) voluntarily, though they can only access retirement benefits (Law 4933 of 2013). In practice, the regime is unattractive and covers very few workers.

To encourage voluntary registration with the pension system, a more appealing regime needs to be available. Adding other benefits could be decisive since workers place more value on short-term benefits (OECD, 2018[2]). This could include short-term financial benefits (maternity leave, sick leave, etc.) as well as health coverage.

Regulating and possibly expanding the social regime for micro-entrepreneurs should be a priority. Establishing the social regime for micro-entrepreneurs could increase their registration rates, but it should be opened to other categories. Law 5741 of 2016 (National

Congress of Paraguay, 2016[10]) creates a special benefits regime for micro-entrepreneurs, who can access all IPS benefits as long as their business has annual sales revenue of less than PYG 500 million (Paraguayan guaraníes), in other words about 20 annualised minimum wages. Based on available information, the regime established by Law 5741 has not yet been implemented. Note, too, that this law creates a set of obstacles to its own use, such as the need to register in advance as a micro-enterprise with the Ministry of Industry. It also offers a rather less advantageous regime than the general regime (for instance, it calculates the pension regulatory base over 10 years, compared to 3 in the general regime[1]) despite having the same contribution rate. Lastly, the regulations will need to clarify calculation of self-employed workers' contributions, since the law bases it on employees' reported salaries. Moreover, regulations would have to clarify the calculation of contributions for self-employed workers, which are set on the basis of declared wages by law.

Making contributions more flexible could be key to encouraging enrolment in pension schemes by self-employed workers, whose income is not only lower but more sporadic. Adding this type of leeway is characteristic of regimes designed to incorporate self-employed workers, especially those in sectors with irregular or seasonal income (Hu and Stewart, 2009[11]). There could also be monetary incentives for contributions, but they have to be designed with caution to avoid producing differentials that could discourage wage employment in favour of self-employment. It is also important to anticipate the government spending involved. In Costa Rica, the state contributes 0.8% of an employee's salary to the employee's social contribution and a much larger amount of the social contribution of self-employed workers, exceeding 11% for low-income self-employed workers. This contribution largely explains why Costa Rica has the region's lowest rates of informal self-employment (OECD, 2017[12]). An alternative is to offer temporary discounts on self-employed workers' contributions. For example, in Spain, the Special Regime for Self-Employed Workers (RETA) offers newly registered self-employed workers a discounted contribution level (commonly called the "flat rate"[2]). This discount decreases over time and disappears after two years (three years for workers under age 30).

Successful examples of incorporating self-employed workers into the social security system include adoption of simplified monotax (*monotributo*) regimes for small taxpayers in the region. In Argentina, the monotax regime covers both tax obligations and pension contributions for the workers who sign up for it. In 2013, five years after it was put in place, the simplified regime covered 2.7 million contributors, in other words, nearly a quarter of all workers. In general, the monotax regimes in the region have shown a marked ability to bring workers into the fiscal and pension system (Cetrángolo et al., 2014[13]). Regarding pensions, though, note that monotax regimes generate fairly modest tax revenues while granting entitlements. In practice, this means generating a liability for the pension system that must be offset by government funding.

The Integrated Strategy for the Formalisation of Employment suggests a design for a monotax proposal, which this chapter's action plan reiterates. This proposal should explicitly identify the regime to which the monotax would provide access and explicitly quantify the necessary infusion of government funds, based on existing actuarial studies.

Another key aspect of expanding coverage is to incorporate categories excluded from the pension system. One priority is to include in a mandatory social security scheme contract workers of the public sector, through their inclusion to the civil servants regime (*Caja Fiscal*), or to IPS in the case of public institutions that contribute to the general regime.

They add up to about 36 000 workers, that is almost 17% of total salaried workers of the public sector, and they remain currently outside the scope of social security.

When adding new categories of workers to the social security system, certain public policy principles must be respected. Bringing in workers with nonstandard occupations or employment relationships (i.e. other than open-ended formal employment) often involves creating special regimes. A recent OECD analysis of these workers' special regimes and coverage (OECD, 2018[14]) highlights four lessons: (i) contribution rates should be as homogeneous as possible between one form of employment and another, (ii) voluntary registration systems do not work well for atypical working relationships, (iii) benefit portability should be guaranteed when changing jobs or changing job status, and (iv) it is necessary to ensure the security of workers with flexible work schedules (by guaranteeing a minimum number of hours or through guaranteed minimum income and bonus pay).

The minimum contribution level is one obstacle to expanding social security coverage, both for categories currently covered and for potential new regimes. The minimum wage in Paraguay is fairly high relative to the population's work-related income. It is more than 80% of average pay, while in the average OECD country it is less than 40% of average pay (OECD, 2018[1]). Aside from perhaps revising the method for determining the minimum wage, one option would be to consider using another parameter as the minimum contribution base, whose level and evolution could be unlinked from the minimum wage to encourage lower-income workers to participate. For instance, in Panama, the minimum Social Security Fund pension is used as the minimum contribution base. Since it is below the minimum wage, using this base does not impose a high proportional cost on low-income workers. In almost all countries in the region, including Paraguay, the theoretical cost of formalising lower-income workers is higher than for more affluent workers (OECD/IDB/CIAT, 2016[15]). The Ministry of Labour, Employment and Social Security (MTESS) and the IPS should analyse the feasibility of this proposal for coverage of financial benefits (under, for example, the regimes in Law 4933) that can be indexed to the new parameter.

Improve incentives for social security contributions (recommendation 2)

Effective expansion of coverage also requires clear incentives for making these contributions. This requires action in four specific areas: (i) more effective and better co-ordinated enforcement, (ii) making it easier to register and to pay contributions, (iii) a strategy to raise employers', employees' and the public's awareness of the importance of paying contributions regularly, and (iv) an analysis of contribution histories making it possible to develop strategies to bring workers back into the system.

Strengthening enforcement will require providing it with sufficient resources and stronger processes. With fewer than two inspectors per 100 000 workers, Paraguay is below the average for the region (just under four) and for OECD countries (seven) (Alaimo et al., 2015[16]). A key tool for enhancing enforcement is the use of interconnected data from the various government agencies. Using a unique personal identifier (such as the national ID number) in both the IPS database and the MTESS register of workers and employers could be a first step towards linking the two databases. Argentina and Brazil have made progress in this regard, though there is still further work to be done. Linking the information to data from the tax administration agency is also necessary, since companies have incentives to declare employee pay, as this reduces their tax base.

Processes have been simplified further by eliminating the registration fee and opening an online registration system. This change will need careful monitoring, since the two-month

moratorium on fines adopted in late 2018 (Decree 553/18) may have had a favourable effect on the registration of companies. It is also necessary to continue efforts to simplify and, if possible, unify procedures. This is especially important for social security (IPS) registrations, but there are also multiple registers in other areas which are not sufficiently interconnected (for example, in the Ministry of Industry and Commerce for access to MSME benefits, in the Ministry of Childhood and Youth for registration of workers under 18 years old, etc.).

Third, it is necessary to implement a communication strategy about rights and responsibilities. This strategy is partly related to the work of labour inspections: the inspection itself should include supplying information and accompanying the fulfilment of compliance in a way suited to the businesses' circumstances, which requires updating the inspection manuals. For example, the manual could set a deadline for correcting certain specific compliance issues among the more vulnerable categories of businesses, such as micro and small enterprises. On the other hand, a broader information strategy, modelled on that of the Financial Inclusion National Strategy (ENIF) could bring information to businesses, workers as well as schools about rights and responsibilities related to work and social security. Note that most formal employees who fail to pay into social security do so at their employer's request or as a condition of employment, so it is necessary to strengthen workers' ability to defend their rights.

Expand social pension coverage to its target population (recommendation 3)

The social assistance programme for vulnerable older adults is an entitlement of Paraguayans living in poverty, established by Law 3728 of 2009. This benefit, commonly known as the *Adulto Mayor* pension, has gone a long way towards reducing the level and severity of poverty and towards reducing inequality (OECD (2018[1]), (2018[2])). However, nearly ten years after the law was enacted, the programme's coverage remains limited: in 2016 less than a third (28%) of older adults in the households from the two poorest deciles were receiving programme benefits (OECD, 2018[2]).

To ensure coverage of its target population, the *Adulto Mayor* programme would need a significantly larger budget. The programme's 2019 budget totals 0.5% of projected GDP. Ensuring universal coverage would require increasing this budget to 1% to 1.5% of GDP, depending whether one assumes perfect targeting or the current levels of inclusion errors. The Ministry of Finance, who administers the programme, is working on both fronts: on the one hand, it is improving the programme's targeting performance, and on the other hand, it has supported the programme's growth, carrying it from 94 000 beneficiaries in 2013 to 193 000 in 2019.

Integrating the social protection system could bolster effective targeting of the social pension. Note, however, that because the benefit level is tied to the minimum wage, it is relatively high compared to the income of the population as a whole.

Making parametric adjustments for a fairer, more sustainable pension system (ER2)

The challenge of funding the pension system has two distinct but interrelated aspects. First, the contributory system's main regimes are generous compared to those of other countries. Actual contribution levels to the main regimes are lower than those of most OECD countries, while the 100% replacement rates for full retirement in the main regimes are higher than those of OECD countries and the region as a whole (OECD, 2018[2]). These parameters result in actuarial deficits for most of the pension funds. Also, some regimes

have current deficits. Such is the case of the Caja Fiscal's teachers' regime, whose deficit is covered by current surpluses from other civil regimes in the Caja Fiscal. It is also the case of non-civilian regimes, whose deficit is covered by contributions from the public purse.

Moreover, the pension system's generosity is unevenly distributed. Given the multiplicity of regimes and pension funds, there are major parametric differences among workers. These differences in replacement rates, accrual rates and terms of retirement tend to generate social unrest, since they are not necessarily justified by each group's working conditions. While the Interfund law (*Ley Intercajas*) establishes a mechanism to promote worker mobility, parametric differences may penalise a worker who transfers from a pension fund with lower seniority requirements to one with higher requirements.

The demographic situation in Paraguay is favourable to the pension system, but parametric reforms will be easier if they are pursued now. The country's population is young, with 48% under age 25 according to national estimates. United Nations population projections predict that the dependency ratio will continue to decrease until the year 2045. Bear in mind, though, that if parametric reforms were to apply only to people just entering the system, they would take 30 years to phase in and would therefore take full effect in precisely that decade.

Strengthen the link between benefits and contributions through parametric reforms (recommendation 4)

The design of a parametric reform should be based on comprehensive actuarial studies built on shared assumptions. These, in turn, especially require homogeneous demographic projections, particularly mortality tables, for the insured population.

Taken together, a pension system's parameters should guarantee the system's sustainability, and in the case of Paraguay, the sustainability of each of the pension funds and regimes. Therefore, the necessary adjustments to the retirement age, the regulatory base and benefit levels require specific actuarial studies and an inclusive, well-informed debate involving the stakeholders. The discussion of this matter during the policy workshop held in phase III of the Multi-dimensional Review of Paraguay, did not therefore propose specific values for most of these parameters.

One priority is to establish a regular review of the regimes' actuarial health and the current demographics. This would be a basis for proposing the necessary adjustments to the retirement age and other parameters. For instance, in South Africa, actuarial analyses are performed at most every three years and any regimes or funds that show a deficit must submit a corrective plan (within three months). In practice, when the government employees' pension regime cannot cover all of its liabilities plus the future liabilities that would be accumulated over the next two years, the actuarial report proposes increased employer contributions to cover at least 90% of future liabilities (Republic of South Africa, 1996[17]) and can recommend other measures. In other countries, the reports leave it to the state to choose how to remedy the deficit, whether through parametric changes or through government funding.

Regarding the retirement age, note that the 2003 parametric reform of the Caja Fiscal (Law 2345, the Caja Fiscal Reform and Sustainability Act) set the retirement age at 62 for employees in the public administration and magistrates, and that life expectancy at birth has increased by 2.4 years since then. At the same time, other regimes, including public regimes, still set the retirement age at 60 or lower.

The parametric reform should include extending the reference period used in establishing the calculation basis. The period considered in the calculation basis has been extended for several special regimes. It is 120 months for the private-sector teachers' regime governed by Law 4370/11 and is 5 years for most of the Caja Fiscal regimes (Law 2345/03). The 36-month period for the IPS general regime generates a set of incentives to underreport earnings and can penalise those workers for whom job placement is more difficult towards the end of their working lives (Molinas et al., 2015[18]). Given the periods established in special regimes, an extension to 120 months seems feasible in the short term and would be technically possible as the necessary information is digitised within the IPS.

Implementation of parametric reforms should be gradual and should not affect workers who cannot adjust their work patterns or their contribution patterns to ensure a suitable retirement. Participants in the pension policy workshop underlined that reforms should not apply to workers close to retirement. In practice, enacting reforms only for new entrants would involve a very long phase-in period for the reforms (about 30 years). However, for reforms such as extending the calculation basis period to 10 years, a phase-in of the same duration would make it possible to adapt workers' pension-related behaviours and would have a much greater impact on the system's actuarial health.

Improve equity in the pension system by aligning parameters (recommendation 5)

There are big differences among the parameters of different pension regimes, resulting in differences in their generosity. These have operational implications, such as the ability to limit incentives for labour mobility.

The differentials are also problematic from an equity standpoint, especially for state-guaranteed regimes. From the point of view of their funding, public regimes are explicitly or implicitly guaranteed by the state. This is obvious in the case of the Caja Fiscal, for which government funds cover the current deficit of regimes that carry deficits (as is the case of the Non-Civil contributory regime).[3] For IPS regimes, the state has never made good on its contribution as defined in the charter, and this gives rise to an implicit guarantee as this contribution could be demanded in case of a deficit.

Progressing towards unifying the different regimes' pension parameters would make it possible to reduce the fragmentation's potential negative impact on the labour market. In fact, though the years of contributions can count towards accrual of entitlements, changing to another pension fund can lead to less favourable results for some workers.

On the other hand, the convergence of parameters is a prerequisite for a smoother transition to an integrated system (see ER3). With differing parameters, a transition to an integrated system involves, in practice, a long phase-in during which only people newly entering the system are channelled into the integrated system – generally state employees who are joining the general regime. The alternative would involve large transfers of government funds from the state to the pension system (Palacios and Whitehouse, 2006[19]).

Harmonising the parameters of public and private pension funds could occur through regulatory reform, but also through the funds' own response to a solvency requirement. Taking the South African model, pension funds could be required to either show a positive actuarial balance or proceed with the necessary parametric adjustments.

In seeking to standardise pension funds' parameters, the country should allow for differences justified by the needs of groups that have objectively different circumstances. About half of the countries in Latin America allow for differences in retirement ages for men and women. In practice, most OECD countries have eliminated different retirement

ages for men and women (OECD, 2017[20]). Given their more fragmented careers, an earlier pension for women worsens the retirement asset gap between men and women. Conversely, most OECD countries compensate women for time devoted to caregiving tasks by subsidising contributions made during maternity leave, which, together with redistributive aspects of the contributory system, helps narrow the retirement gender gap caused by caregiving tasks (OECD, 2015[21]).

The proliferation of special retirement arrangements is not generally justified by technical criteria. For example, in many cases, there is a historical justification but no technical justification for arrangements that let certain categories of workers retire early or with shorter contribution histories. First, such arrangements help distort the labour market, since riskier or harder jobs should compensate the worker with wage premiums. Second, early pensions may not be the best way to support workers who can still work (in which case retraining support would be more beneficial) or who can no longer work (in which case more generous disability benefits should be considered). Third, if additional pension benefits are deemed necessary, it is important to verify that the amount is fair in light of the person's career and the nature of the job (Zaidi and Whitehouse, 2009[22]).

Working towards integration of the pension system (ER3)

The fragmentation of the pension system generates inequality and inefficiency in the system and in the labour market. On the one hand, workers in different systems obtain more or less generous benefits despite depending explicitly or implicitly on public resources. The most conspicuous inequality is among workers who retire with replacement rates much higher than international averages and workers who, having contributed for fewer than the 15 years needed to obtain entitlements, are excluded not only from retirement benefits but also from health coverage, even if they have paid in for ten years[4] (OECD, 2018[2]). On the other hand, fragmentation leads to the creation of relatively small pension funds, which may involve high administrative costs.

Integrating the pension system is consistent with the logic of creating a social protection system. The systemic vision underlying the *Vamos!* SPS involves dealing with the pension system as a whole (Gabinete Social de la Presidencia de la República del Paraguay, 2019[23]). Note, however, that non-contributory benefits are part of pillar 1 (Social inclusion) of the SPS, while contributory benefits are part of pillar 3 (Social welfare). That said, although the IPS does not seat in the Social Cabinet, it is one of the institutions contributing to pillar 3 and is part of the inter-institutional technical team defined for monitoring pillar 3 – along with the MTESS, the Ministry of Health and Social Welfare (MSPBS) and the Ministry of Finance (MH).

Integrate the contributory and non-contributory pensions into one multi-pillar pension system (recommendation 6)

Under the OECD typology (OECD, 2005[24]), the three pillars of Paraguay's pension system are fragmented both internally and among themselves. This raises concerns about equity. This can also inadvertently create coverage gaps among citizens who do not fit into any of the programmes. Additionally, it generates perverse incentives: for instance, the lack of developed programmes for a supplementary voluntary savings pillar could encourage higher-earning workers to limit their pension savings if higher contributions would not increase their retirement assets.

The redistributive pillar, designed to alleviate poverty among older adults, has two distinct components in practice. On the one hand, the *Adulto Mayor* programme, which offers a

benefit equal to one-fourth of the minimum wage for older adults living in poverty (as measured by a multi-dimensional test), is funded by the government. On the other, the contributory minimum pension for IPS beneficiaries, equal to a third of the minimum wage, is funded with resources from the contributory system.

The mandatory contributory pillar is fragmented between civil servants (Caja Fiscal) and private-sector workers (the IPS), with a multitude of special regimes within each subsystem. It also includes most of the independent pension funds, though the ANDE (Administración Nacional de Electricidad [National Electricity Administration]) and Itaipú funds' regimes may be said to combine elements of the second pillar (contributory) and a third pillar (supplementary).

Building an integrated system might involve creating a single pension administration or at least the absorption of several fund management entities. This proposal, supported by the participants in the public policy workshop on pensions, could be phased in by closing the public programmes to new entrants but maintaining their separate management until those retirees or funds no longer exist. In practice, this separation would mean transferring part of the liability to the new regime (or to the general regime), the size of which would need to be quantified.

Besides possibly merging the management of the various pension regimes, progress could be made towards a more integrated system by analysing the complementarity of the different elements that make up the pension system, both within each pillar and across pillars. A key element of this integration is determining the contingent liabilities incorporated into each of the regimes, especially the public regimes.

The second key element is to integrate the contributory and non-contributory systems. This could include joint administration of the two elements, though the distinctive capacity needed in the non-contributory pillar to support vulnerable older adults should be preserved, as they involve a comprehensive approach to their circumstances in harmony with other first-pillar SPS programmes. Under the current system, however, workers who never qualify for retirement are completely excluded from the contributory system for both pensions and healthcare. Therefore, for workers unsure whether they will have a long enough contribution history, there is no incentive to contribute. Adjusting the contributory and non-contributory pension parameters could enable these workers to obtain a reduced pension supplemented by a non-contributory component. Because it would be part of the IPS, the final pension would have to comply with the legally defined minimum pension, though with less government funding than the current approach.

The second aspect of integrating the contributory and non-contributory pillars is the mechanism for funding the IPS contributory minimum. At present, this benefit has no explicit funding source, and it therefore involves a mechanism for redistributing funds among IPS contributors. However, these contributors include workers who will not qualify to receive a pension. There should be a detailed study of those receiving a minimum pension benefit and of its distributive impact. The lowest retirement pension, corresponding to the minimum proportional pension, amounts to 60% of the average of the last 36 months of declared wages. The minimum pension applies when this is below 33% of the minimum wage. Therefore, in practice, the minimum pension serves to correct very low benefits due to eroded regulatory bases more than as a redistribution mechanism between those with large and small pension entitlements In general, a benefit such as the minimum pension could be considered a non-contributory benefit. For instance, Spain has a similar mechanism (the *complemento a mínimos*, a supplement to the minimum pension) to

complement retirement assets deemed too low, funded by the treasury (Hernández de Cos, Jimeno and Ramos, 2017[25]).

Lastly, Paraguay could develop the voluntary retirement savings system as a mechanism to promote savings among higher-income categories. Because these categories are near the ceilings for the pay-as-you-go system, they have limited incentives to contribute to the system. Moreover, there is no ceiling on contributions, which lowers the incentives for voluntary retirement savings for those with high incomes. A retirement savings system can make it possible to channel resources in the financial system towards productive investments by encouraging the use of long-term instruments. The existing occupation-specific programmes could be part of this system, through either voluntary or compulsory sign-up within the framework of the employer.

Strengthening governance of the pension system (ER4)

The fragmentation of Paraguay's pension system is reflected in regulations that are, in turn, fragmented and flawed. The different regimes and pension funds are governed by separate laws, many of them out of date, rooted in thinking that is at odds with technical considerations and opinions. Additionally, the pension system lacks necessary regulations regarding the principles of pension fund management and oversight. In the past, this shortcoming has resulted in large losses of assets, and in other cases, in insufficient returns.

In part, this fragmentation comes from a lack of a basic political consensus on the principles the pension system should respect. The handling of the pension superintendence bill in 2018 exemplifies how easily political stances polarised the debate, making it impossible to adopt despite support from both the outgoing and incoming administrations during the political transition.

Establish a mechanism for seeking consensus among pension system stakeholders (recommendation 7)

Therefore, seeking areas of political consensus should be prioritised when working to improve governance of the pension system. Note that this approach was not one of the proposals in Volume II of this study, but it was a recurring request from the stakeholders who participated in the pension policy workshop, in the discussion about necessary oversight and the discussion of parametric reforms.

Paraguay should determine the most appropriate way to establish these spaces for dialogue, which should in any case include buy-in by the Legislative Branch, given the way recent reforms have played out. In Spain, the *Toledo Pact*, signed between the political parties in 1995, made it possible to shield the social protection system from partisan wrangling and channel it into calm political debate, with the necessary technical support within Congress. This pact made it possible to reach broad consensus on the need for ongoing adjustments to the system amid changing circumstances. It also made it possible to generate the consensus needed for large-scale reforms such as the funding principles, setting up a reserve fund and integrating different regimes (Ministerio de Trabajo e Inmigración de España, n.d.[26]).

Establish regulations and a regulatory body for the pension system (recommendation 8)

Paraguay should draft regulations on the use of pension funds. This would help ensure that pension savings are managed using the necessary standards of prudence and performance.

At the same time, it would make it possible to channel resources into productive areas of the economy. The need for such regulations has been widely accepted by the executive branch and is supported by multiple multilateral institutions. Beyond the accepted need to regulate, these regulations should adopt risk-based oversight in accordance with the OECD Core Principles of Private Pension Regulation (2016). Specific investment guidelines (such as ceilings per asset category) could be defined after a debate that looks at international experiences and regulations, as well as current practices in Paraguay.

Within investment regulations, it would be important to assess the IPS's regulations and investment strategy. Underdeveloped capital markets and the restrictions on international investment have produced a risk of leaving too large a percentage of assets in demand deposits or short-term deposits, putting assets at risk in case of a banking crisis and risking very low yields.

Besides establishing regulations, Paraguay should establish a supervisory body for pension providers. There is broad consensus on the need for a supervisory body, the need for it to be impartial and administratively and financially independent, and the need for transparency guidelines. However, some elements are still open to debate in defining the governance of the supervisory body and the best way to organise audits, sanctions and any necessary receivership.

Improve the internal governance of pension providers (recommendation 9)

Pension management firms' administrative capacity and governance should continue to be strengthened. This means continuing the process of digitising records, which is vital to effective implementation of the Interfund law and for effective risk management. It also means generating actuarial reports at regularly scheduled intervals. This would require strengthening the training of qualified staff in the country.

Regarding the IPS, despite the separation of pension and healthcare funds, their joint management generates some risks that should be eliminated. In order to separate the funding sources for the IPS's different functions more strictly, these sources must be identified for each type of benefit. This means not just distinguishing between short- and long-term benefits but also establishing explicit funding mechanisms for certain benefits, such as cover for occupational risks.

Action plan summary table

Table 3.1. A strategy to expand coverage

Policy recommendations	Stakeholders	Actions for implementation
Improve incentives for formalisation (1)		
Offer a more appealing system for self-employed workers.	MTESS IPS	- Propose changes in the social regime for self-employed workers: • Analyse expansion of benefits available to self-employed workers (currently pension only). • Review examples from other countries. • Make contribution options more flexible. - Develop a *monotax* proposal - Discuss mandatory coverage
Bring excluded categories into social security	IPS/Caja Fiscal MTESS Congress MH	Public-sector employees
Consider the minimum pension as minimum income when calculating contributions	MH MTESS All Pension Funds	Launch a discussion to define a minimum contribution base parameter other than the minimum wage.
Improve incentives for social security contributions (2)		
Strengthen the inspection and oversight system to fight evasion	IPS MTESS MH MITIC MIC	Strengthen and interconnect information systems: • Interconnect information. • Strengthen administrative records. • Cross-link data. Strengthen inspection teams and processes: • Assess the inspection process to improve it. • Strengthen the inspection team. • Training and fair compensation of inspectors. • Communication, improvement plans.
Help employers register their employees.	MTESS IPS	Online registration of companies. Merge *Obrero Patronal* registration between the IPS and the MTESS.
Link inspection and oversight with informational and advisory campaigns	MTESS IPS	Strengthen communication and the availability of information about the changes, progress of processes, submission methods, etc.
Approve a strategy for informing the public about the benefits of making regular social security contributions	MTESS IPS MITIC MEC	Design a strategy that includes: • Training for companies. • Training in schools (adding social security topics to school curricula) • Comprehensive training on issues around the benefits of social security.
Follow up with participants who stop making contributions. Whenever possible, emphasise reintegrating them into the system. Analyse and learn about why people stop making contributions.	MTESS IPS MH All Pension Funds	Work on the quality of administrative records. More specific analyses of registrations and deregistrations, job transitions
Expand social pension coverage among its target population (3)		
Expand coverage of the *Adulto Mayor* programme among its target population	MH	Bring older adults living in poverty into the *Adulto Mayor* programme. Ensure medium-term funding of the programme. Revise the targeting criteria

Table 3.2. Action plan for a fairer and more sustainable pension system

Policy recommendation	Stakeholders	Actions for implementation
Strengthen the link between benefits and contributions (4)		
Establish a mechanism to review the retirement age	All pension funds MTESS MH	Review periodically (every 3 years) based on actuarial studies. To that end, the available information should be verified (mortality tables). Perform a solid statistical study, obtain actual bases, and if none are available, obtain data from other countries.
Set a uniform ceiling for any pension benefit	All pension funds MTESS MH	Draft a proposal based on the retirement age mechanism
Raise number of years used to calculate the pension benefit	All pension funds MTESS MH	The increase must be gradual, progressive and predictable. The proposal is to eventually use the ten best years of contributions.
Review the benefit level	All pension funds MTESS MH Social sectors	The goal is to phase in unification based on a cohort newly entering the system.
Adjust contribution rates	All pension funds MTESS MH	Actuarial analysis should do a study for a new model of new contributors. This should be reviewed periodically every 5 years or as required by economic events.
Establish a ceiling for contributions	All pension funds MTESS	Elaborate a proposal to limit the maximum contribution so as to incentivise private savings
Improve equity in the pension system (5)		
Standardise the retirement age and the benefit calculation base.	All pension funds MTESS	Harmonise the retirement age among all pension funds. They will need support to determine the parameters. Clarify the role of the supplementary fund.
Standardise replacement and accrual rates	All pension funds MTESS	Differentiation among the funds: The *Caja Fiscal* is very different and it would be useful to standardise. Analyse the adjustment of replacement rates on the basis of actuarial studies of each fund.
Ensure all pension benefits are indexed	MTESS	

Table 3.3. A more integrated pension system

Policy recommendation	Stakeholders	Actions for implementation
Integrate the contributory and non-contributory pensions into one multi-pillar pension system		
Create an integrated pension system with a defined programme of benefits and obligations with equality from one sector to another	MTESS IPS MH Administration of the pension funds	• Develop a proposal for streamlining pension system management bodies: - Consider registering new participants under this unified regime - Consider retaining the existing funds as a legacy or supplementary regime. • Separate the management of the health and pension regimes. • Within the unified regime, establish solutions for different situations through: - Minimum and maximum contributions - Standardised benefits
Integrating contributory and non-contributory programmes into a single system	MTESS IPS MH	• Develop a proposal for integrating the contributory and non-contributory programmes under a single government agency • Develop an actuarial study to determine the cost of government contributions to the contributory system in order to: - Bring recipients of non-contributory pensions into the contributory system - Bring workers who will not reach the contribution threshold into the contributory system • Adjust parameters and manuals for non-contributory pensions to allow a combination of contributory and non-contributory pensions to promote pension savings among workers who will not reach the contribution threshold.
Develop a voluntary retirement savings system	MH IPS MTESS	Analyse the potential impact of a cap on IPS contributions that would let workers put the excess into other pension funds

Table 3.4. Strengthening governance of the pension system

Policy recommendation	Stakeholders	Actions for implementation
Establish a mechanism for seeking consensus among pension system stakeholders (7)		
Generate a broad agreement among political parties, business owners and workers	Political parties MTESS MH Trade unions Social Cabinet	• Establish working groups to reach agreements in principle on the management of pension funds • Topics could include parametric reforms or at least seeking agreements on their goals (generosity or sufficiency of the pension system, sustainability)
Oversee and regulate pension providers (8)		

Establish a supervisory body for pension providers	Legislative branch
	MTESS
	MH
	Central Bank of Paraguay (BCP)
		• Define the creation of the supervisory body in national regulations:
		  ○ The supervisory body should be external
		  ○ The supervision should take place within the national government
		• Communicate the proposed regulations through a broad national dialogue that includes the state, business associations and workers

Furnish the supervisory body with sufficient financial and human resources	MH	• Design and establish an organisational structure consistent with the regulatory body's duties • Allocate a budget as part of the state budget
Ensure impartiality of the supervisory body and the auditors by separating their pay from the audited institution.	Legislative branch MTESS MH BCP	• Set necessary guidelines on transparency, impartiality and commitment to disseminating information • Separate the functions of auditing and sanctions or receivership.
Set guidelines for managing pension funds' assets and liabilities: - Investment guidelines with actuarial criteria - Ceilings for levels of investment by category - Prudence concept - Diversification principle	Pension funds IPS MH MTESS BCP	• Hold a debate on investment guidelines based on practices in Paraguay and international regulations • Incorporate principles such as actuarial criterion for investments, asset management consistent with liabilities, the prudence concept and the diversification principle. • Examine the use of IPS pension funds and their investment guidelines.
Improve the internal governance of pension providers (9)		
Digitise the registry of contributions, contributors and beneficiaries in all pension funds	Management firms	• Homogeneous internal systems. • Actions among the entities, organisation for projects and their implementation.
Standardise financial reports submitted to the Ministry of Finance and other institutions	Management Firms MTESS	• Generate financial reports in actuarial form. • Include actuarial training in order to have qualified technical staff. • Establish the frequency of reforms
Clearly separate the management of the IPS's pension and health functions	IPS MSPBS	• Analyse the funding of the various IPS benefits to identify necessary funding flows. • Hold a debate to seek consensus on the organisational model for social security • Evaluate the possibility of separating healthcare from pensions.
Transform the Caja Fiscal into an independent institution	MH	• Analyse the measure once oversight has been established.

Notes

[1] This is not to say that the regulatory base should be set at 3 years. Indeed, this report recommends that it be extended at least to 10 years for other regimes, including the general regime of IPS.

[2] RETA contributors choose their contribution base within a range defined by regulations, depending on their working circumstances rather than their actual income. For many of them, the discounts and contributions are therefore calculated according to the minimum contribution base.

[3] In the case of the deficit of the regime for public sector teachers, the deficit is covered by surpluses in other civil regimes in the same fund.

[4] Ten years is the average number of contributions reported by people over 65 who ever paid into the IPS but who receive no pension, according to data from the Encuesta Longitudinal de Protección Social (*Longitudinal Survey of Social Protection*) (see OECD (2018[2])).

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Chapter 4. Priority areas for action in education and skills formation

This chapter brings together the main recommendations and priority areas of action for the education and skills system based on the analysis in Volume 2 of the Multi-dimensional Review of Paraguay. The country has made substantial advances in several facets of the education system. The education and skills system faces three major challenges: improving coverage and completion rates, especially in pre-primary and secondary education and for certain socio-economic groups; improving the quality of learning outcomes, which involves changing how teacher training and teaching careers are managed; and ensuring that both general and technical training are better matched to the economy's demand.

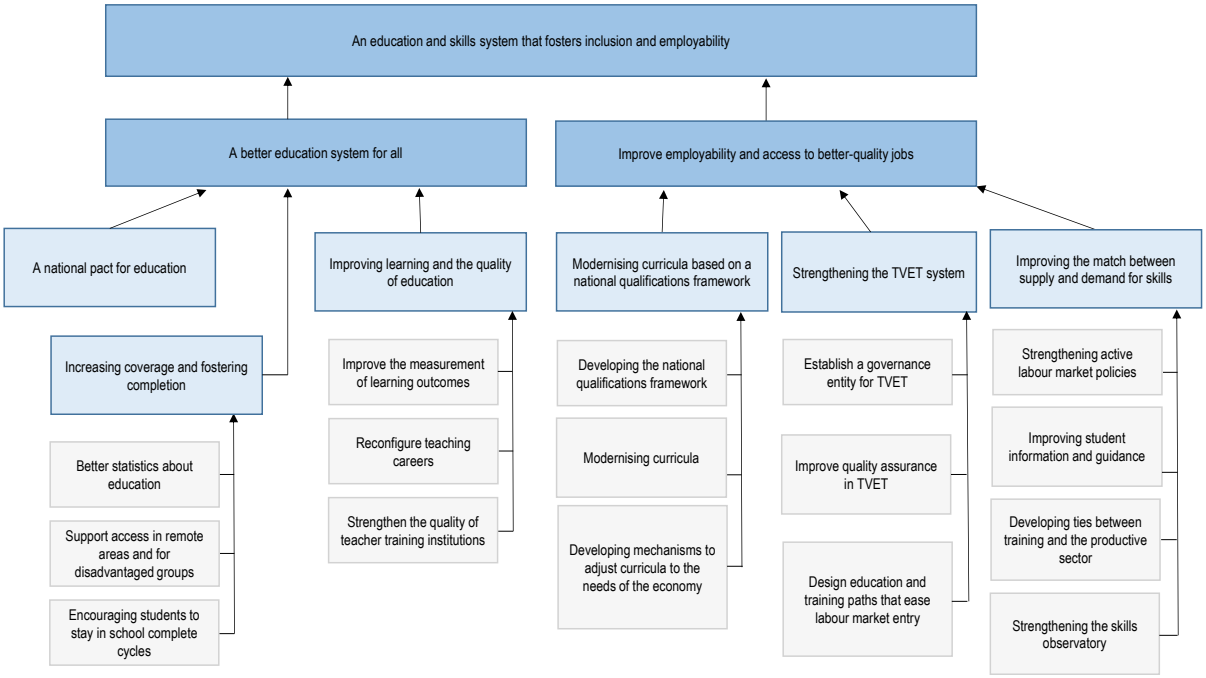
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Transforming the education and skills system in Paraguay is vital to promoting inclusiveness and access to better-quality jobs, and to achieving Paraguay's development objectives. The low rates of school completion (especially secondary school) among the more disadvantaged socio-economic groups sustain the high levels of inequality in the country. In terms of growth, the necessary diversification of the economy needs workers with 21st-century technical and human skills.

Volume 2 of this Multi-dimensional Review of Paraguay (OECD, 2018[1]) analyses the performance of the education and skills system. It identifies three main challenges. First, persistent obstacles to universal access to education, especially at the pre-primary and the secondary level, and progression and completion rates that remain unsatisfactory. Second, learning outcomes are unsatisfactory, even though Paraguay has enough teachers. Third, judging by outcomes in the labour market, the transition from school to work is problematic due to the dropout rate and the low relevance of the acquired skills.

Paraguay is giving new impetus to educational reform by formulating an educational action plan for the administration's term of office (MEC, 2019[2]) and by preparing a National Plan for Educational Transformation with a medium-term horizon of 2030. In this context, this chapter takes up the main recommendations on education and skills training from the Multi-dimensional Review (summarised in Figure 4.1), highlighting priority areas of action as an input for the process of designing reforms for the education system and vocational education.

Figure 4.1. Priority areas of action in education and skills training



Source: Authors' work.

Policies to help create a better education system for all

Main challenges in the field of education

In recent years, access to education has expanded markedly, and primary education is almost universal. However, challenges remain, in particular in supplying early childhood education and in increasing completion rates. A total of 10% of 14-year-olds do not attend school, and that rises to 28% among 17-year-olds (OECD, 2018[1]). Socio-economic status and geographical location remain strong determinants of completing secondary education, which perpetuates inequalities.

The quality of the education system remains a core challenge. Currently, over a third of students perform at the lowest skill level in national evaluations. Most students in Paraguay do not attain basic skills (i.e. skill level 2 in the PISA-D tests). Students' performance varies markedly by socio-economic status, geographical location and language, while there are no substantial differences between male and female students.

The skills taught have low relevance, which complicates the transition to the labour market. This transition is even more complicated for people from disadvantaged backgrounds. Indeed, 80% of those who do not complete upper secondary schooling are in informal employment and six out of ten young people from extremely poor households[1] are neither working nor in an educational or training programme by age 29.

Priorities of the Ministry of Education and Science

The Ministry of Education and Science (MEC) formulated its 2018-23 Educational Action Plan in early 2019. It is structured around three complementary lines of action:

1. Ensuring equal access opportunities and guaranteeing the conditions needed for timely completion by students of different educational levels and modalities
2. Quality of education in all educational levels and modalities
3. Managing educational policy in ways that are participatory, efficient, effective and co-ordinated between levels.

The Educational Action Plan encompasses many of the proposals in this review in the area of education. Among the points that this report emphasises, the Educational Action Plan rightly attaches importance to teachers' training and professional career paths, which are vital to improving management and the quality of educational outcomes.

There are three areas the Educational Action Plan embraces but which deserve greater detail. They are the development and use of assessment capacity, strengthening ties between performance and reward in teachers' careers, and strengthening links beyond the education system with other skills-training institutions (especially the Ministry of Labour, Employment and Social Security within the National Education and Labour Council and through the National Vocational Education and Training System [SINAFOCAL] and the National Service for Professional Promotion [SNPP]) as well as the production sector, in the context of the overhaul of technical education.

A pact for education

The ongoing efforts to develop a National Plan for Educational Transformation for 2030 reflect 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:

- ***Coverage and completion.*** It is necessary to continue the measures designed to expand education coverage and promote school completion, supporting access to school in remote areas and among disadvantaged people, and implementing policies to favour school retention and completion, avoiding grade repetition and dropouts.
- ***Quality of education.*** The quality of educational outcomes is vitally important for transforming recent efforts in terms of educational inputs into skills for tomorrow's citizens.
- ***Teacher training and quality.*** Policies to improve learning outcomes must focus on teachers, reshaping their training and career pathways, as well as educational resources and school management. Such policy-making will require better empirical data on learning outcomes.
- ***Relevance of skills to the labour market.*** Reforming the secondary education curriculum to favour integration into the labour market and provide a basis for access to higher education will make education more relevant. An integrated technical and vocational education and training (TVET) system will favour quality school-to-work transitions, in which participation by stakeholders – including educators, the private sector and unions – will be critical.
- ***Adjusting the educational offer to the demand of the labour market.*** Policies to improve the match between the demand and supply should strengthen information, training, intermediation and skills-anticipation mechanisms.

Paraguay needs to adopt a national pact on education built on a consensus reached in a consultative process. The Ministry of Finance, the Ministry of Education and Science, and the Technical Secretariat for Planning (STP) are currently engaged in a joint effort to design an ambitious National Plan for Educational Transformation (PNTE) with a time horizon of 2030. To start realising its ambitious goals, the Paraguayan education system needs to define targets and milestones for the different areas of action, and must clearly establish the necessary financial commitments and look to other countries' experiences to learn best practices.

Expanding coverage and promoting school completion, particularly in pre-primary and secondary education and among the most vulnerable groups

Generating better statistical data about education

One priority for evaluating future challenges, monitoring progress and informing education policy is the generation of more and better statistical data about education. Until now, the data on enrolment rates (and, by extension, the number of non-enrolled boys and girls) have been considered unreliable. The Central Register of Students (*Registro Único del Estudiante*) can be used to centralise student information and favour the production of more reliable, easy-to-manage and comparable data. It will also be necessary to overcome the current challenges for developing education metrics regarding access, enrolment, progression and school completion (OECD, 2018[1]).

Expanding access to early childhood education

It is necessary to raise community awareness of the importance of early childhood education. Paraguay could strengthen the Councils on Childhood and Adolescence as a public awareness strategy and could establish them in places where none exist. Indeed, having received pre-primary education raises PISA scores by the equivalent of one additional year of secondary schooling, according to the results of Latin American and Caribbean (LAC) countries participating in PISA 2012 (OECD/CAF/ECLAC, 2014[3]).

Access to pre-primary education could be improved by helping families overcome the main economic and geographical barriers. To address economic barriers, the government could make the *Tekoporã* conditional cash transfers more strongly conditional on preschool attendance. That way, beneficiaries would receive those transfers only if they ensure minors' school attendance. Regarding geographical barriers, it would be useful to scale up the non-formal initial education programme *Maestras Mochileras* (Backpacking teachers). In addition, the pre-primary educational offer should be expanded through more and better schools and teachers, and by developing modalities to meet special needs.

Supporting access in remote areas and for disadvantaged groups

Paraguay has a range of strategies to improve access to secondary education. Major inequalities persist in access to the education system, particularly at the secondary level. These gaps are mainly related to factors such as gender, socio-economic status, and geographical location (OECD, 2018[1]). Paraguay could improve coverage of secondary education through strategies such as (i) scholarships for students from disadvantaged groups or with special needs, (ii) introducing mechanisms to offer open secondary schools and distance-learning secondary schools, and (iii) school transport for secondary education in remote areas.

Encouraging students to stay in school and complete education cycles

It is necessary to promote policies to encourage students to stay in school and complete their studies, avoiding grade repetitions and dropouts. In Paraguay, 22.9% of students repeated at least one grade in primary or secondary school. Repeating grades is more common among male students (26.5%) than among female students (19.3%). Socio-economic and cultural factors play a role: while 28.3% of disadvantaged students repeated at least one grade in primary or secondary school, the figure drops to 10.9% among other students. Among students with a native language other than Spanish, the figure rises to 30.3% (PISA-D). The government should implement a gradual expansion of the school day, starting with a pilot to measure its impact on dropout reduction (and learning outcomes).

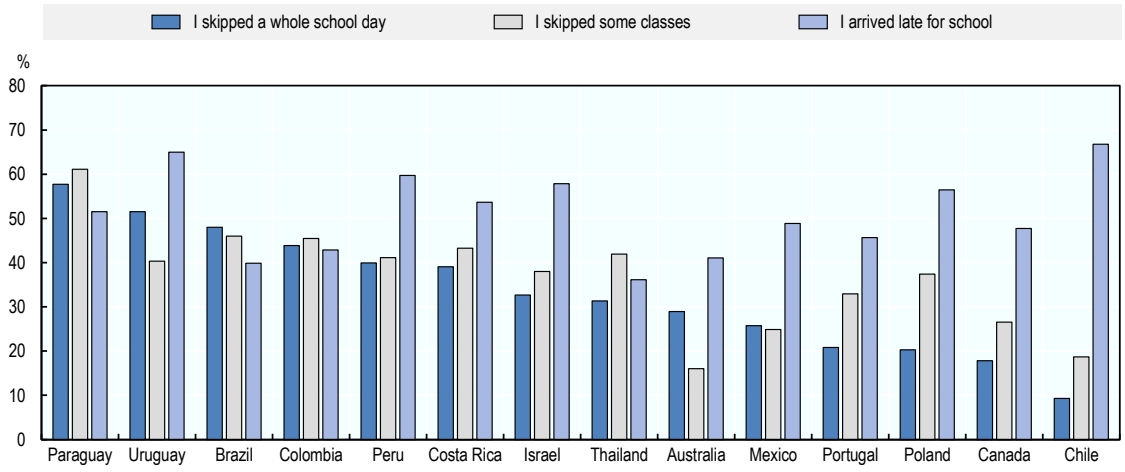
Mechanisms should also be developed to identify and support students at risk of exclusion, with flexibility in pedagogical methods to support those with greater difficulties. Paraguay has an adequate number of teachers, so specific resources could be dedicated to supporting struggling students so they will not have to repeat grades, as the educational outcomes from repeated grades are inconclusive.

Schools should put mechanisms in place to reduce the high rates of absenteeism and tardiness. In Paraguay, more than half of 15-year-old students reported being late to class one or more times in the previous two weeks; 61% of them said they had missed at least one class on days when they were in school; and 58% of the students acknowledged having missed an entire day of school in the previous two weeks (see Figure 4.2).

Besides ensuring access, it is necessary to improve the quality of education in remote areas and among the most disadvantaged socio-economic groups. In Paraguay, students' performance varies mainly based on their geographical location, their socio-economic condition and their language, while there are no substantial differences between male and female students (see Figure 4.3). While 80.2% of socio-economically disadvantaged students do not achieve basic reading proficiency, this figure drops to 42.3% among other students (see Figure 4.3 Panel B).

Figure 4.2. School absenteeism and tardiness

Percentage of students reporting that the following happened at least once in the two weeks before the PISA test.



Source: (OECD, 2018[4]), PISA for Development database.

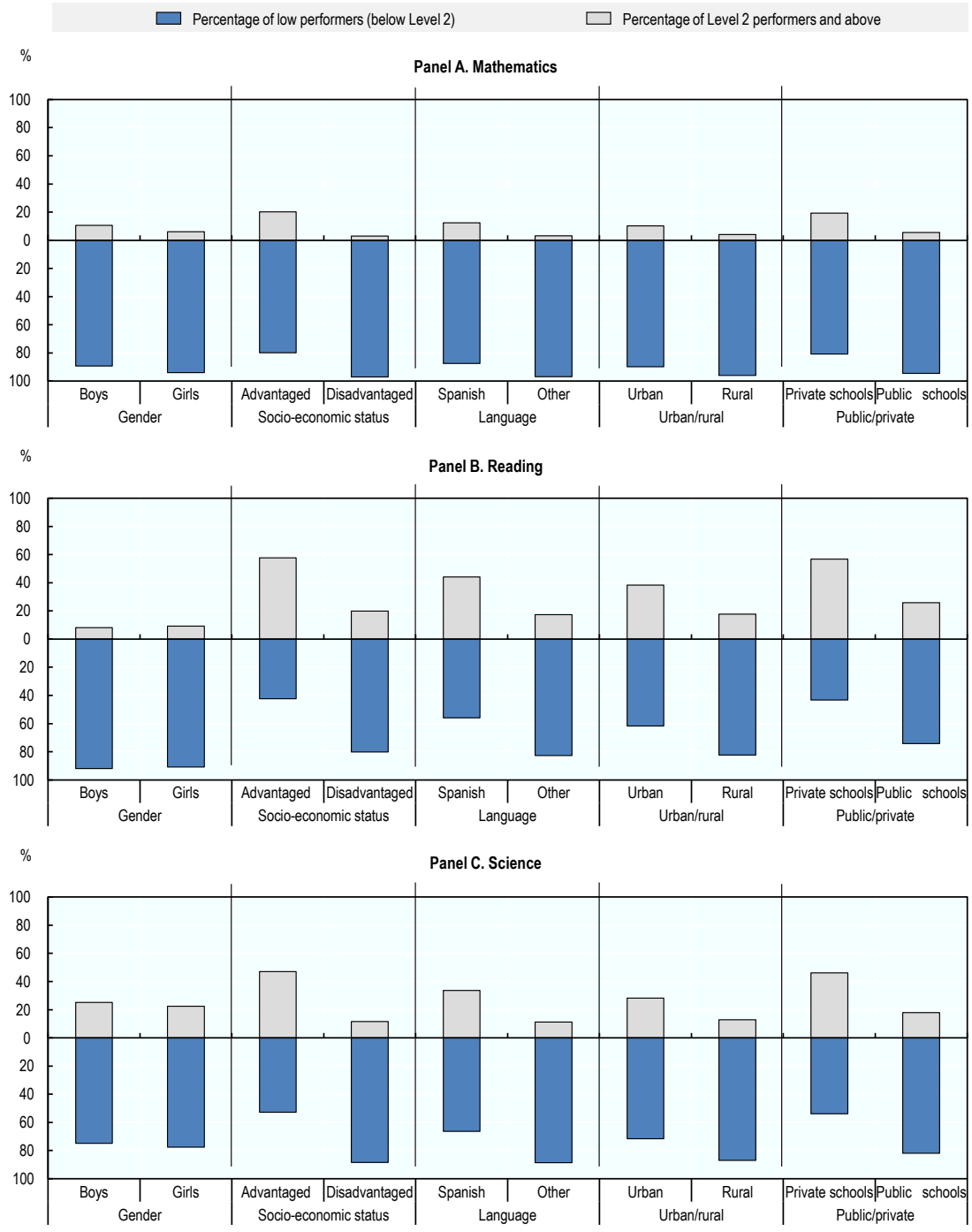
StatLink http://dx.doi.org/10.1787/888933983509

Improving learning and the overall quality of the education system

Besides confronting the coverage challenge, an effort is needed to improve the quality of learning. At present, most students in Paraguay do not attain basic proficiency levels in mathematics, reading and science (see Figure 4.4). The PISA for Development results place Paraguay towards the bottom of the comparison group, but they can also help identify priorities for strengthening quality.

It is necessary to improve empirical evidence on learning outcomes to inform policy-making. There is highly valuable data from the educational census tests administered by the National Educational Process Evaluation System (SNEPE). It is necessary to strengthen SNEPE as the main tool for evaluating student performance. The use of SNEPE should be improved and its results should be made public to favour analysis and evidence-based policy-making. Continuing to use PISA will also make it possible to track changes and to leverage international comparisons, identifying approaches that could inspire reforms.

Figure 4.3. Performance varies mainly by geographical location, socio-economic condition and language, while there are no substantial gender disparities

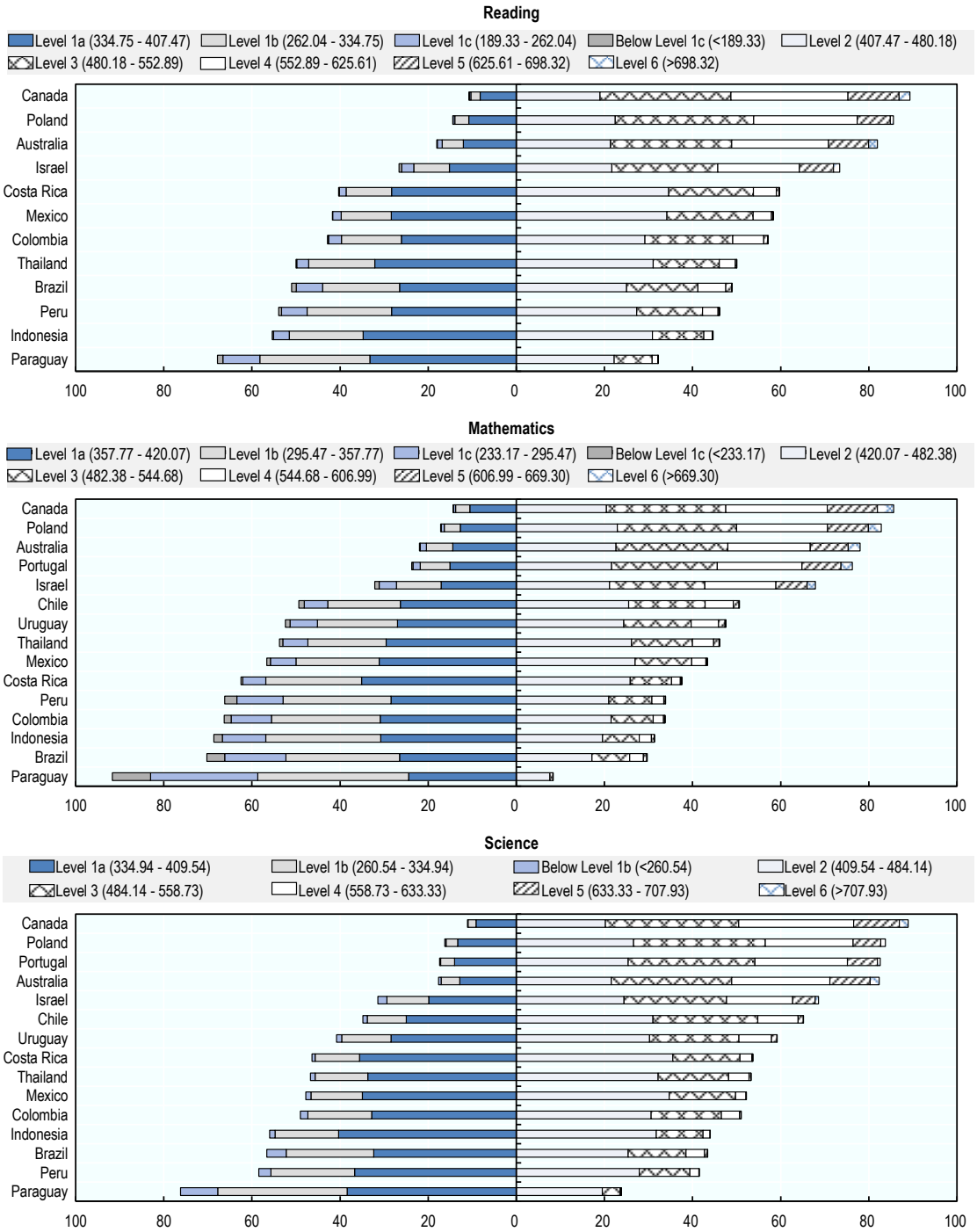


Source: OECD (2018[4]), PISA for Development database.

StatLink http://dx.doi.org/10.1787/888933983528

Figure 4.4. Most students in Paraguay do not attain basic proficiency levels

Percentage of students at each proficiency level, 2015



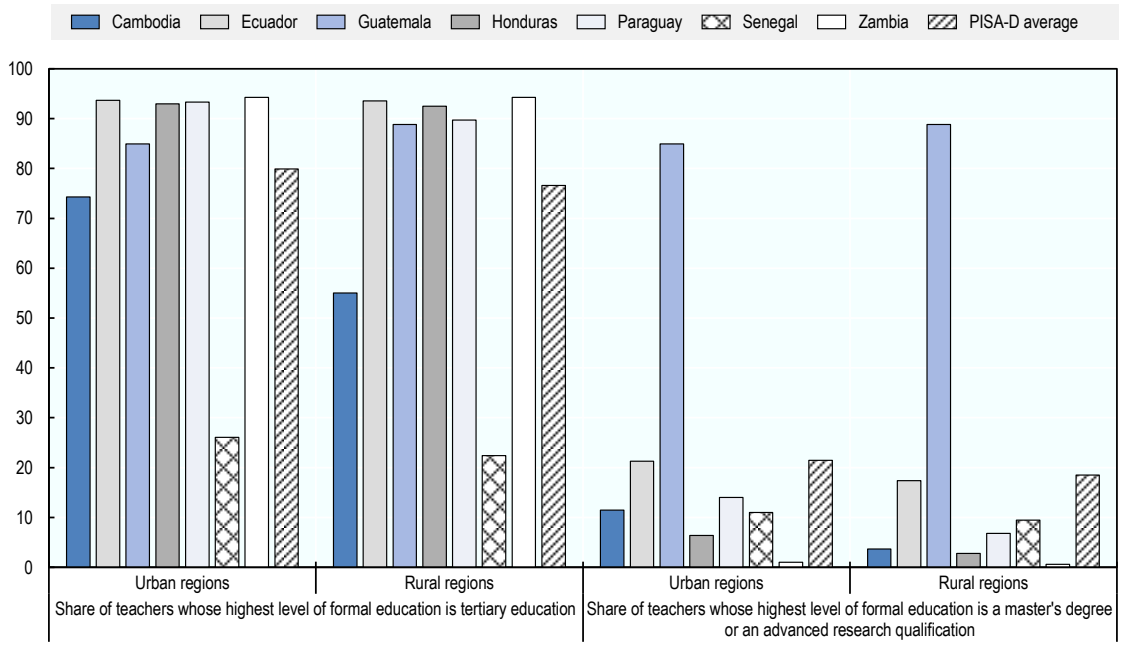
Note: Level 2 (basic proficiency) reflects students who have the minimum skills to participate effectively and productively in their life as students, workers and citizens.
Source: PISA database 2015 and PISA for Development database (OECD, 2018[4]).

StatLink http://dx.doi.org/10.1787/888933983547

Improving educational outcomes requires improving the quality of teaching. The first step is to reshape teachers' career pathways. It is necessary 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.). Additionally, incentives for development and improvement should be strengthened, with a stronger link between performance and reward, using the performance measurement mechanisms that are being put in place. Lastly, it is necessary to strengthen and systematise teachers' evaluations, to monitor progress, identify limitations and overcome them.

The other priority is to raise the quality of the Teacher Training Institutions (IFDs) to improve the quality of teaching. A process should begin for accrediting IFDs and strengthening the National Agency for the Evaluation and Accreditation of Higher Education (ANEAES), to guarantee its ability to perform these tasks effectively. This improved teacher training should apply to both initial training and continuing professional education.

Figure 4.5. Teachers' educational level according to PISA for Development



Source: PISA for Development database (OECD, 2018[4]).

StatLink http://dx.doi.org/10.1787/888933983566

Improving employability and access to better-quality jobs

Besides keeping young people in school longer, it is imperative to prepare them to be the workers and citizens of tomorrow. Integration into the labour market is a key indicator for the relevance of learned skills, albeit it is not the only one. In Paraguay, given the relatively high dropout rates, vocational training is a task for both the formal school system and for the initial and continuing vocational training systems, each of which can bolster the skills of different population segments.

People transition from school to the labour market relatively early in Paraguay. Despite recent improvements, school dropout rates remain high, especially once students begin secondary school at age 15. Most people aged 15 to 18 who do not attend school justify dropping out by citing a need to work and a lack of resources at home (OECD, 2018[1]).

Young Paraguayans have difficulties transitioning from school to the labour market. The unemployment rate among young people aged 15 to 24 was 14.6% in 2018, 3.7 times the rate among people over 25 (3.9% according to the ILO (2019[5])), an unemployment differential comparable to that of other Latin American countries but higher than the worldwide differential, in which youth unemployment is three times that of the adult population (ILO, 2018[6]). These transitions are especially hard for women, 40% of whom have no work after leaving school and more than 35% of whom are unemployed (OECD, 2018[1]).

The dropout rate contrasts with the downward trend in returns to secondary education. The decrease in returns to secondary education is common throughout Latin America and is explained first by demand factors (i.e. change in the demand for qualified workers) and second by supply factors (i.e. the increased percentage of the population getting secondary education). However, at the individual level, it involves a lower return rate among young people, whose opportunity cost for continuing their education is high. Therefore, actions to keep young people in the education and training system should be supplemented by actions to make the training offer more attractive, with emphasis on promoting young people's employability.

Technical and vocational education and training (TVET) has grown considerably in Paraguay. From 2004 to 2012, enrolment in vocational upper secondary programmes (the technical baccalaureate) grew by nearly 40% (MEC, 2014[7]). Around 25% of high school students are enrolled in technical secondary education; this represents a lower percentage than the OECD average (44%, (OECD, 2018[8])) but the increase is notable.

The fragmentation of TVET in Paraguay is an obstacle to improving its outcomes and generating institutionalised progress. There are a multitude of public and private professional-training providers. The main players are the Ministry of Education and the Ministry of Labour, Employment and Social Security (MTESS). The Ministry of Education offers formal TVET in secondary schools, but also a set of non-formal programmes that include vocational training options. The MTESS, in turn, offers courses through the National Professional Promotion Service (SNPP) and manages the private supply of training through SINAFOCAL. However, it also offers advanced technical training. Other ministries also offer training programmes, especially the Ministry of Agriculture and Livestock Farming.

Because of institutional fragmentation, there is room to improve the use of vocational training resources. It is not easy to identify the resources dedicated to TVET in this country since the MEC budget does not have a separate line item for technical training. Paraguay devotes 0.12% of GDP to vocational training through SINAFOCAL and the SNPP, close to the average for OECD countries (0.14% in 2016). Thanks to a payroll-based employer contribution to finance training, there are resources for this type of skills training. However, vocational training has not benefitted from the increased resources for education implemented through the National Fund for Development and Public Investment (FONACIDE).

Modernising curricula based on a national qualifications framework

A national qualifications system is a key tool for creating a clearer, more relevant vocational training system. Such a system makes it possible to identify the skills needed based on homogeneous qualification levels and families of professions. From there, skill-based training modules can be designed. Moreover, it also makes it possible to develop mechanisms to recognise abilities acquired in different educational formats or through job experience, thus keeping vocational training from being a dead-end or from being perceived as one. Lastly, in a fragmented system such as Paraguay's, it helps clarify the supply of training options as a whole.

Paraguay has taken major steps towards developing a national qualifications system. It has created a list of 23 occupation groups, and descriptors of the five qualification levels in the framework (Ojeda Cano, Álvarez and Jiménez Yegros, 2018[9]). From there, work has begun to complete the catalogue of occupational profiles and develop curricula (in three prioritised occupation groups). These advances took place thanks to the creation of inter-ministerial teams from the MEC and MTESS, and with support from international co-operation projects, especially the European Union's EUROsociAL programme.

Completion and institutionalisation of the national qualifications system should be prioritised within the country's educational initiatives. To date, progress has been slow. As a result, a number of curricular modules have been developed but not implemented, which puts them at risk of becoming obsolete. The delays in designing and formalising the qualifications system are partly due to the institutional weakness of the vocational education and training system as a whole. However, the qualifications system itself could make it possible to solve some problems arising from institutional fragmentation. Completion of the occupational profiles catalogue is part of the 2018-23 Educational Action Plan. An inter-institutional effort should be made, perhaps supported by a coalition of donors and international technical counterparts to give the decisive push.

It is necessary to reform curricula to prioritise 21st-century skills. This should be a priority, especially, for the technical and vocational segments – for technical secondary education within the formal education system and in non-university post-secondary education, as well as vocational education. Such training should instil up-to-date technical skills but also find the right balance between specific skills and transversal and basic skills. Many of the skills employers say they cannot find are soft and behavioural skills. Developing dual training programmes can help develop this balance. In dual training programmes, students spend a large share of their time in workplace-based learning. Workplace-based learning eases school-to-work transitions and can allow for greater efficiency in the use of resources for TVET (OECD, 2014[10]).

The curriculum for technical baccalaureates should be tailored to industries' changing demands by involving the private sector and other stakeholders. In practice, the production sector should be more directly involved in curriculum planning and in the work carried out to formulate the national qualifications framework.

Strengthening the technical and vocational education and training system

The government should establish a governance body for technical and vocational education and training. The National Education and Labour Council (CNET), created by the new charter of the Ministry of Education should be convened, and its members appointed by executive branch decree. This would provide strategic support to the joint work that the MEC and MTESS have been doing for several years, particularly on the national

qualifications system. By including social partners (trade unions and employers' organisations), the CNET framework would also give more impetus and relevance to this ongoing work.

A more solid legal base would strengthen the contribution of the CNET's creation to the task of integrating the MEC's and MTESS's technical and vocational training functions. In the current circumstances, there may be overlaps between CNET and SINAFOCAL in terms of the strategic direction of the technical and vocational training system. Nonetheless, the mission of SINAFOCAL, as defined in Law 1652 of 2000, is much narrower, as its target population does not include students receiving initial training. Therefore, instituting the CNET in a law on technical and vocational education and training could clarify the distribution of powers among TVET bodies in Paraguay and give CNET enough autonomy.

CNET should have sufficient human resources for its mission. It should include a specific secretariat with duly compensated full-time specialised professionals. So far, the need to make human resources from the MEC and MTESS available to an inter-ministerial technical unit has enabled progress in the qualifications framework. That approach, however, does not seem sustainable as there is no mechanism to ensure that it has enough resources and capacity to carry out its function.

The need to structure TVET actions among multiple ministries is a challenge faced by many countries, including many OECD countries. A key element of such co-ordination is to consider all training activities part of a single skills-training system in which each agency has a well-defined role. This means eliminating duplication: in many countries, such as Singapore, vocational training and university-based academic training are in the hands of different authorities. This co-ordination also involves making the assessment system uniform to ensure that two people who are qualified for the same profile have comparable skills (even if acquired in a different way) (OECD, 2011[11]).

Box 4.1. Building an effective system for technical and vocational education and training

Countries currently follow different governance models for TVET policy. While some countries' governments put TVET in the hands of the Ministry of Education (e.g. Russia and Turkey), other countries entrust its oversight to the Ministry of Labour (e.g. Malawi and Tunisia). Countries such as India and Burkina Faso have a ministry devoted exclusively to TVET policy, while others have a TVET-focused government agency in charge, such as Jamaica and the Philippines. By contrast, France and Bangladesh have a co-ordinating council on a higher level than the relevant organisations, while in Korea and Canada, TVET policy is divided between the relevant ministries (UNESCO/ILO, 2018[12]).

Each governance model is valid and reflects the structure of the national government of each country; it would be complicated to judge a model as being more or less successful. There are, however, a series of actions that any country could take to improve inter-ministerial co-ordination for better TVET and employment outcomes (UNESCO/ILO, 2018[12]). All countries should regularly verify that their TVET policy governance system meets these nine criteria:

1. Responsibility must be backed by authority, so that the organisation in charge can enforce measures instead of relying on the goodwill of the other parties involved.

2. There should be clarity about the system's function and purpose, with all stakeholders sharing a single vision and understanding the other stakeholders' contribution to achieving it.
3. The nature and thrust of the co-ordination mechanisms must be effective and be recognised by all parties involved.
4. Cultural influences should also be kept in mind so that governance systems adapt to them rather than entering into conflict with them.
5. Responsibility should be based on influence over funding, allowing the ministry or agency in charge of TVET to influence the actions of other ministries. TVET funding should be used to support policy priorities, so it is channelled into areas of greatest need, whether geographical or sectoral or to correct social inequality.
6. TVET should be part of an integrated human-resource development system with separate but clear pathways for learners to follow, supporting achievement of economic and social development targets.
7. Operational efficiency should not be based on additional ad hoc co-ordination measures. This means that co-ordination in the TVET system should be robust enough to withstand sudden crises and a growth or change in demand.
8. Employers' role has a positive impact on co-ordination and governance, which bolsters the programmes' quality and relevance, improves graduates' outcomes in terms of vocational readiness and employment, and reduces skills shortages and hard-to-fill vacancies.
9. There is evidence that training providers function well at the local level, with solid lines of communication and co-ordination with the national government and employers.

Source: UNESCO/ILO (2018[12]), *Taking a whole of government approach to skills development*, United Nations Educational, Scientific and Cultural Organization and International Labour Organization, www.ilo.org/wcmsp5/groups/public/---ed_emp/---ifp_skills/documents/publication/wcms_647362.pdf.

Paraguay needs to ensure the quality of vocational training and education. To achieve this, it must strengthen the accreditation process for Higher Technical and Vocational Institutes and for work training and education institutes. In vocational training, the recent implementation of the National Register of Vocational Education and Training Institutions (REIFOCAL) supplies an important tool. It should be strengthened so that it can register a larger proportion of technical and vocational training suppliers. Note, too, that the requirements SINAFOCAL imposes on private service providers should also be applicable to the SNPP.

A better-integrated TVET system should facilitate a diversity of training paths that ease students' transition to employment and strengthen the link to the labour market for continuing education. This requires inter-institutional agreements for recognition of certified qualifications, allowing passageways between systems, including between the TVET system and secondary and university academic education. This way, students who enter the workforce early to meet their families' needs can later complete their education, if necessary, in formal educational institutions.

Improving the match between supply and demand for skills

Facilitating transitions into the workforce requires strengthening active labour market policies to support the process of connecting with the labour market, supporting more effective guidance mechanisms that give more information to students and workers, bolstering links with the production sector, improving data creation and analysis about the labour market, and improving the anticipation of needs.

Active labour market policies and the Public Employment Service (SPE) can facilitate a better transition from school to work. To achieve this, the SPE must be more relevant, with a greater local presence and more personalised service, including guidance.

The state can contribute to a better match between training and the labour market by analysing the dynamics of the labour market. An analysis of the skills that the market demands and of the competences of the people left out of the job market (an employability map) may help better define skills-training policy.

It is also necessary to improve the information and guidance mechanisms for students. Providing students with information on educational and professional career paths may help them to make informed decisions about their field of study and future career. Including information about labour-market outcomes may help reduce prejudices about technical and vocational training. One approach is to develop a survey of graduates (of both the formal and non-formal system) to gather data about their job situation. Spain is expanding its survey of university graduates to TVET graduates with this aim. The possibility of lifelong learning and late initial training, which recognises previously acquired knowledge, can help incentivise training options with faster transitions into the labour market.

The MTESS's Labour Market and Occupational Observatories (the latter housed in SINAFOCAL) should be strengthened to anticipate the demand for skills in a more comprehensive way. The Occupational Observatory has begun this anticipatory work using qualitative methods (interviews) and unrepresentative surveys. The labour observatory is also analysing the labour market based on national surveys (the Ongoing Survey of Households [EPH]). A recent OECD analysis (OECD, 2016[13]) underscores the variety of exercises that exist. Systems for anticipating needs vary considerably between countries, but it is considered good practice to use a combination of quantitative and qualitative methods. Quantitative approaches may include skills-demand projections (based on macroeconomic projection models with a relatively long time horizon, from five to ten years). Qualitative approaches, in addition to ad hoc surveys, may include structured strategic foresight methods to keep the results from focusing on marginal mismatches (OECD, 2016[13]). It is also necessary to monitor vocational training graduates, to analyse the improvement in their skills, income or productivity, so as to improve public policies accordingly.

Participation by workers and the production sector, as well as a direct relationship between the data generated and public policy, are two key ingredients to successful needs-anticipation exercises (OECD, 2016[13]). Currently, the SNPP has sector-specific working groups but needs to improve data collection methods and the incentives to the private sector. The main benefits to the production sectors generally come from the results' influence on policies regarding both initial and continuing training. Some countries have skills councils that help draft training policies. In some cases, such as the United Kingdom, these councils may also play an instrumental role in setting up apprenticeship systems, designing and sizing the offer based on circumstances in the industry, and helping to match businesses with apprentices (OECD, 2016[13]). This mechanism offers companies a

potential very direct benefit, aside from the benefit associated with their indirect participation.

The needs-anticipation exercises should also include other parts of the administration. The Ministry of Industry and Commerce, for instance, has the ability to collect information on the labour market's needs more specifically than the labour observatory, which bases its analyses on the EPH. It can also collect information regarding the skills needs of prospective international investors. Other government agencies should have an increased participation in these exercises, either as contributors or to help guarantee the nationwide comparability of the information produced. These might include other sector-specific ministries (especially the MAG) as well as the statistical authority (the DGEEC) and the Central Bank of Paraguay (for formulating macroeconomic projections).

Notes

[1] "Extreme poor" is used in this phrase following the World Bank classification and refers to individuals belonging to household with a daily per capita income below USD 2.50 in purchasing power parity (see OECD (2018[1]) for details).

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Chapter 5. A scorecard for monitoring implementation of the policy recommendations

This chapter offers a scorecard containing a series of indicators for monitoring progress on the implementation of the proposed reforms on social protection, health, and education and skills. First, it presents the methodology behind the scorecard; then, it presents the targets that Paraguay should achieve for each indicator by 2030.

Paraguay has set the measure of success of its 2030 development agenda at the achievement of the Sustainable Development Goals, with due priority to certain key areas that require extra government intervention, given the specific situation in the country. Paraguay has set itself the goal of being a country that is competitive, has high levels of social development, is connected and open to the world, is environmentally and economically sustainable, has high levels of legal security and public safety, attends to the needs of indigenous peoples, fosters an active role by women, and has democratic and transparent state institutions that promote equal opportunity (Republic of Paraguay, 2014[1]).

Tools to monitor the implementation of public policies can help Paraguay to achieve the goals it has set in terms of inclusive growth and well-being. This chapter offers a series of monitoring indicators to improve the Paraguayan government's capacity to monitor its progress towards the development goals. The proposed indicators are closely related to the policy recommendations made during all stages of the Multi-dimensional Review of Paraguay, especially Volume 2 (OECD, 2018[2]) and in this report, and have been validated by the Paraguayan administration. The indicators give an overview of progress towards the goals of (i) a social protection system for all, (ii) a health system that encourages healthier lifestyles, and (iii) an education system and skills that promote inclusion and employability.

By setting specific objectives and regularly monitoring achievements, the scorecard contributes to the transparency of the Paraguayan government's work. Allowing citizens and stakeholders to monitor the progress of the development agenda in this way is essential to ensure there is a balanced social contract. Furthermore, using more and better accountability tools improves the public administration's capacity and fosters civic participation. To achieve these aims, the scorecard needs recent, high-quality data that are properly disaggregated.

The scorecard offers indicators for achievement of the Sustainable Development Goals for 2030

For each of the thematic areas analysed in the Multi-dimensional Review of Paraguay (social protection; health; and education and skills), the scorecard presents a series of primary and secondary indicators, as well as targets for 2030 for each indicator. The primary indicators measure the overall progress in each of the three policy areas, while the secondary indicators are a more precise measure of the extent to which the expected results of the proposed reforms have been achieved.

For each indicator, the scorecard presents some historical values to show the progress made and specifies at least one of three alternative targets to be achieved by 2030. The scorecard combines data from international sources with local data and surveys. Three criteria were used to set the 2030 targets:

1. Generally, the targets were set using a methodology that compared Paraguay's performance with that of countries with a similar income per capita. The benchmarking countries used to calculate the targets using regression analysis included lower middle-income, upper middle-income and upper middle-income countries (see Box 5.1).
2. A superscript "*n*" denotes targets that reflect the national objectives specified in the Paraguay 2030 National Development Plan (Republic of Paraguay, 2014[1]), institutional targets or targets agreed with the government throughout the process of this review.

3. A superscript "*a*" denotes alternative targets calculated as the average of the figure for the last year available among the group of upper middle-income and high-income countries.

Box 5.1. The standard methodology used to calculate the 2030 targets

The first methodology uses a three-step procedure:

1. First, the target gross domestic product (GDP) per capita for 2030 was calculated using the 2017 GDP per capita (USD 8 827) and the constant annual GDP growth rate (6.8%), as specified in the 2030 National Development Plan (Republic of Paraguay, 2014[1]). The result was a 2030 target GDP per capita of USD 15 995.
2. Next, for each indicator, regression analysis was performed using the GDP per capita of each country in the sample, except for high-income, upper middle-income and lower middle-income countries with an atypical GDP per capita, which were excluded from the analysis. The calculations are based on the value of the indicator in 2017 or the latest available year. In each regression equation, the dependent variable is the indicator in question for country *i* in 2017 (or the latest available year), and the independent variable is the GDP per capita of country *i* in 2017 (or the latest available year):

$$indicator_{ii,2017} = \alpha + \beta * GDP\ per\ capita_{ii,2017} \quad (1)$$

3. For each indicator and the estimated respective coefficients, the 2030 targets for Paraguay are derived. In particular, the estimated intercept (which captures the average characteristics of the group of benchmarking countries) is added to the product of the estimated GDP per capita coefficient (as calculated in step 2) and the long-term target GDP per capita (as calculated in step 1):

$$indicator_{Paraguay,2030} = \hat{\alpha} + \hat{\beta} * 15\,995 \quad (2)$$

The targets presented in the scorecard should be interpreted with caution. Specific sampling areas for each of the sources, for instance, could distort the estimates. Furthermore, in the first methodology, the way equations 1 and 2 model the relationship between the indicators and the GDP per capita may fail to capture non-linearity, thus introducing other specification errors.

The estimates do not take into account possible future shocks and global trends, which could accelerate or slow down changes in certain indicators, further distorting the estimates. Nevertheless, the scorecard gives an overview of the trend that Paraguay needs to follow to achieve inclusive and sustainable growth over the long term. The target values should therefore be interpreted in the light of historical values, rather than based only on changes from one year to the next.

Table 5.1. General indicators for economic performance and statistical capacity

	2010	2011	2012	2013	2014	2015	2016	2017	2030 Target	Source
GDP per capita, PPP (constant 2011 international USD)	7 290	7 505	7 312	8 227	8 502	8 639	8 871	8 827	15 995	World Bank
GDP growth rate	-	-	-1.2	14.0	4.7	3.0	4.0	4.3	6.8 n	Central Bank of Paraguay
Extreme poverty rate	-	-	7.38	5.69	5.47	5.42	5.73	4.41	3 n	DGEEC, EPH 2012-17
Overall statistical capacity (scale: 0–100)	70.0	70.0	70.0	71.1	71.1	72.2	70.0	67.8	85.0 n	World Bank
Online queries and procedures (% of total procedures available)	-	-	-	0	0.9	5	5.2	5.4	100 n	SENATIC

Note: The statistical capacity indicator is a composite score that assesses the capacity of a country's statistical system. The indicator is based on a diagnostic framework that evaluates the methodology used as well as the source, periodicity and timeliness of the data. The overall statistical capacity is calculated as the simple average of the three area scores on a scale of 0 to 100.

Reforming to foster healthier lives in Paraguay

To increase its chances of achieving universal health coverage, Paraguay's health system requires systemic reform and a future vision. Maintaining the pace of growth of health funding while increasing the equity and efficiency of the service is a major challenge. The fragmentation of the health system into prepaid private, general budget-based public and insurance-based social security systems is a significant hurdle to ensure effective stewardship and efficient allocation of resources in the system. A national dialogue could determine what model the country chooses, in particular in terms of its financing – whether an insurance-based model in which coverage for those unable to pay is subsidised, preferably explicitly, by the public purse, or a national health service model in which a basic package of health services is provided for free to all citizens. In both cases, it is possible for the various segments that make up the system today to co-exist, but in a much more integrated fashion.

The Paraguayan health system is faced with major challenges in achieving universal coverage. To respond to the double burden of diseases among the population, it needs to secure sustainable funding, ensure it is run more efficiently and strengthen its stewardship (OECD, 2018[2]). The country has undertaken a series of reforms to modernise the system, laying the foundations for a new approach to health care based on primary care. However, it has not significantly altered the foundations of the health system and its fragmentation into multiple subsystems.

A series of primary indicators (general) and secondary indicators (to follow the policy recommendations of Volume 2 of the MDCR) were strategically identified. This compilation of indicators is included with the objective of providing a tool for monitoring progress towards the development objectives of Paraguay in the area of health (see Table 5.2 and Table 5.3).

Table 5.2. Primary health indicators

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2030 Target	Source
Access to healthcare (%) [1]	71.94	-	69.30	74	80	81	75	71	80.1 [n]	DGEEC, EPH 2010-17
Population with health insurance coverage (%) [2]	22.68	24.73	26.01	27.8	28.08	28.03	25.93	26.8	30.3 [n]	DGEEC, EPH 2010-17
Life expectancy at birth, total (years)	72.4	72.7	72.9	73.1	73.4	73.6	73.8	74.0	75.13 [n]	DGEEC, Projection of the National Population, urban and rural areas, by sex and age, 2000-25
Maternal mortality rate (per 100 000 live births)	100.8	88.8	84.9	96.3	63.9	81.8	86.4	67.3	≤70 [n]	MSPBS 2012-17
Births in health facilities (*"institutional births"*) (%)	94.4	-	-	-	-	-	-	97.9	99	MSPBS
Neonatal mortality rate (per 1 000 live births)	11.7	11.2	10.7	10.6	10.4	9.7	9.5	8.9	8.2 [n]	MSPBS 2012-17
Children mortality rate (per 1 000 live births)	-	-	14.7	14.6	14.5	14.2	13.7	-	12 [n]	MSPBS 2012-16
Mortality rate due to diabetes mellitus	27.8	26.7	28.4	32.7	32.3	34.5	37	31.3	23.1 [n]	MSPBS IBS 2017
Mortality rate due to diseases of the circulatory system	114.3	109.1	104.6	108.4	98.3	106.6	120	113.2	71.4 [n]	MSPBS IBS 2017
Mortality rate due to malignant breast tumour in women (per 100 000 pop.)	8.5	10.6	9.3	9.7	10.1	10.2	10.9	11.3	6.8 [n]	MSPBS IBS 2017
Mortality rate due to malignant cervical tumour in women (per 100 000 pop.)	7.5	8.2	7.7	8.3	7.9	8.8	8.5	10.6	5.9 [n]	MSPBS IBS 2017
Mortality rate due to land transport accidents (per 100 000 pop.)	19.6	19.0	18.0	18.2	16.8	17.1	17.5	17.2	8.6 [n]	MSPBS/DIGIES/DES (SSIEV)
Incidence of tuberculosis (per 100 000 pop.)	33.7	34.1	34.3	30.5	33.8	34.9	36.7	37	0 [n]	MSPBS IBS 2017
Registered number of new HIV diagnoses (per 1 000 inhabitants)	-	-	-	-	-	0.2	0.21	0.21	0 [n]	MSPYBS - PRONASIDA

Table 5.3. Secondary or follow-up indicators to the health policy recommendations

Recommendation	Indicator(s)	2010	2017	2030 Target	Source
Recommendation 1: Establish a vision for the health system					
1.1. Define a vision for the health system	Approval of a consensus document on the vision for the system	-	-	Doc. approved	-
Recommendation 2: Sustainable funding					
2.1. Diversify financing sources	Current expenditure on health (% of GDP)	2.1	3.0	5.0 [n]	MSPBS
	Taxes on tobacco (excise + VAT) (% of the sale value) [1]	26	28 (2018)	75	MSPBS
2.2. Implement strategies to reduce out-of-pocket health expenditure:	Out-of-pocket payments (% of current expenditure on health)	46	44	38	MSPBS
	Population with health insurance coverage (%) [2]	22.7	25.9		DGEEC, EPH 2010-16
2.3. Pool funds to cover key contingencies (such as high-cost treatments)	Households from the poorest decile that incur catastrophic expenses (% of total households) [3]	-	7 (2014)	0	DGEEC, EPH 2014
2.4. Integrate civil servants to a social insurance scheme	Civil servants included in the social insurance scheme (%)	-	-		
Recommendation 3: Strong governance					
3.1. Strengthen the implementation of the health system's governance framework	New organisation chart	-		Ministerial resolution	MSPBS
3.2. Give supervisory institutions sufficient autonomy and resources	Number of medical, legal and accounting audits carried out annually by the Superintendence of Health	-	-	-	Superintendence of Health
	Budget of the Superintendence of Health	-	-	-	MSPBS
3.4. Define a set of guaranteed health benefits	Implementation of a health benefits package	-	-	Ministerial Resolution	MSPBS
3.5. Consolidate integrated information systems	Integrity of birth registration (%)	63	66	76.5	MSPBS/SSIEV
	Integrity of the register of deaths with information on the cause of death (%)	28.2	37.1	55.6	MSPBS/SSIEV
	Unified information systems	-	Ambulatory, cardiovascular and odontology care	Vital statistics, SIP Plus, TB, SICIAP, non-transmissible, transmissible, INAN, road safety, internal and primary care, telemedicine, SIREPRO, intensive therapy beds, PRONASIDA, PAI and gender info.	MSPBS/DIGIES
	Medical centres and hospitals with systems for monitoring medical records (%)	-	3	60	MSPBS/DIGIES

Recommendation	Indicator(s)	2010	2017	2030 Target	Source
	Recommendation 4: Efficiently run services				
4.1. Progress towards the integration of health services provision	Institutions in the public and social security subsystem with inter-agency agreements in force (%)	-	-	-	MSPBS/IPS
4.2. Design a system for paying suppliers that creates strategic incentives in the system	Number of suppliers incorporated into the payment by results scheme	-	-	-	MSPBS
4.3. Ensure that medicines and health products are available and affordable	Implementation of a new model for the supply of supplies and medicines	-	-	-	MSPBS
	Implementation of electronic invoices to the supplier	-	-	-	-
	Number of high-cost drugs purchased under the centralised purchasing model	-	0	20	MSPBS
4.4. Strengthen the integrated health networks for primary care	Number of Primary Healcare Units (*Unidades de Salud de la Familia*, "USF")	-	804	1 500	MSPBS
	Hospital beds (per 1 000 people)	1.3	1.3 (2011)	3.1	WHO
	Physicians (per 1 000 people)	-	1.3 (2012)	1.8	WHO Global Health Workforce Statistics, OECD and country data
	Nurses and midwifes (per 1 000 people)	-	1 (2012)	4.1	WHO Global Health Workforce Statistics, OECD and country data
4.5. Invest in health promotion and disease prevention	Skilled attendants at birth (% of total births)	95.6	95.5 (2016)	98.1 [a]	UNICEF, State of the World's Children
	Pregnant women receiving prenatal care (%)	-	85.3	95 [n]	MSPBS

Note: (1) The tobacco tax was modified by Decree 159/18 (Republic of Paraguay, 2018[3]), which set a tax rate of 18% on tobacco-related products. The values presented include the sum of taxes on tobacco (excise + VAT). According to the World Health Organization, "*raising tobacco taxes to more than 75% of the retail price is one of the most effective and cost-effective tobacco control interventions*" (WHO, 2015[4]). (2) Includes IPS and other insurance. (3) Currently, there are no official data from the Ministry of Health and Social Welfare (MSPBS) on catastrophic health expenditures (CHE) in Paraguay. Since it is not calculated by any official body, the incidence of catastrophic health expenditures was calculated for this report, using data from the EPH 2014 (DGEEC, 2014[5]), as the proportion of households that spend more than 30% of their income.

Moving towards social protection for all in Paraguay

Paraguay should standardise its pension system to increase the system's equity. At present, the various pension plans' parameters (e.g. contribution rates, retirement age and replacement rates) vary widely, which leads to inequality. Paraguay should reform its pension system to overcome these inequalities. Key steps towards an equitable system include unifying the retirement ages, the benefit calculation base and the replacement and accrual rates. All retirement pensions would be updated using the same method.

Strengthening the link between benefits and contributions is essential to ensure the system's sustainability. This link can be reinforced by increasing the number of years used to calculate the retirement pension and by regularly reviewing the benefit level and contribution rates. Benefit levels should have a ceiling and reflect the decreasing contributor-per-pensioner ratio. The periodic review 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 pension plan.

A series of primary indicators (general) and secondary indicators (to follow the policy recommendations of Volume 2 of the MDCR) were strategically identified. This compilation of indicators is included with the objective of providing a tool for monitoring progress towards the development objectives of Paraguay in the area of social protection (see Table 5.4 and Table 5.5).

Table 5.4. Main social protection indicators

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2030 Target	Source/ comments
Self-employed workers, total (% of total employment) [1]	47.3	46.6	47.7	44.6	43.7	43.8	44.2	44.3	37.1	ILOSTAT database
Vulnerable employment, total (% of total employment) [1]	42	41.4	42	38.2	37.2	38.7	39.1	39.2	33.4	ILOSTAT database
Share of youth not in education, employment or training, total (% of youth population)	33.1	34.7	39.2	36.1	38.8	35.5	37.7	18.1	20.7 14.1 [a]	ILOSTAT database

Note: (1) ILO modelled estimate.

Table 5.5. Secondary or monitoring indicators for social protection policy recommendations

Policy recommendation	Indicator	2010	2017	2030 Target	Source/ comments
Recommendation 1: A pension system with expanded coverage					
1.1. Start implementing a strategy to expand coverage	Population with social security (%)	40.4 (2012)	43.4	100 [n]	DGEEC, EPH 2012-17
	Coverage of social protection and labour programmes (% of population)	54.2	-	75.2 [a]	ASPIRE (World Bank)
1.2. Improve incentives for formalising employment and for social security contributions	Informal employment (% of total non-agricultural employment)	69.8	65.4	43.5	ILOSTAT
	Formal establishments (%)	40.2 (2012)	46.9	100 [n]	DGEEC, EPH 2012-17
	Wage and salaried workers, total (% of total employment) [1]	52.7	55.7	62.9	ILOSTAT
	Active contributors to an old-age contributory scheme as a percentage of the labour force	18.9 (2011)	-	47.1	ILOSTAT
	Active contributors to an old-age contributory scheme as a percentage of the working-age population	13.5 (2011)	-	33.6	ILOSTAT
Recommendation 2: A fairer and more sustainable pension system					
2.1. Improve equity in the pension system by aligning parameters	Tax burden (tax revenue/GDP)	12.7 (2012)	13.1	18	SET
2.2. Strengthen the link between benefits and contributions through parametric reforms	-	-	-	-	-
Recommendation 3: A better integrated pension system					
3.1. Integrate the contributory and non-contributory pensions into one multi-pillar pension system	-	-	-	-	-
Recommendation 4: Strengthen governance of the pension system					
4.1. Establish regulations and a supervisory body for the pension system	Inspectors per 10 000 employed persons	0.1	0.1 (2015)	0.7	ILOSTAT database

Note: (1) Modelled ILO estimate

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

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 Paraguay 2030 National Development Plan, will depend largely on its capacity to improve the education and skills system.

Substantial progress has been made, but further reforms are needed, as set out in Volumes 1 and 2, of the Multi-dimensional Review of Paraguay, namely:

- ***Coverage and funding:*** Policies must continue to expand education coverage and foster completion of studies, particularly among the most disadvantaged groups.

- ***Quality of education:*** Policies to improve learning outcomes must focus on teachers, educational resources and the management of schools.
- ***Relevant teaching:*** Policies to make education more relevant must focus on reforming the curriculum of upper secondary education (*educación media*) so that it favours labour-market insertion and provides a more solid basis for accessing higher education.
- ***Education for employment:*** 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.
- ***Skills supply and demand:*** Policies to improve the match between the supply and demand of skills in Paraguay should not be limited to improving the relevance of skills.

A series of primary indicators (general) and secondary indicators (to follow the policy recommendations of Volume 2 of the MDCR) were strategically identified. This compilation of indicators is included with the objective of providing a tool for monitoring progress towards the development objectives of Paraguay in the area of education (see Table 5.6 and Table 5.7).

Table 5.6. Primary-education indicators

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2030 Target	Source/ comments
Government expenditure on education, total (% of government expenditure)	18.8	23.3	19.6	-	-	-	-	-	15.5 16.5[a]	UNESCO Institute for Statistics
Government expenditure on education, total (% of GDP)	3.8	5	5	-	-	-	-	-	4.9	UNESCO Institute for Statistics
Adult literacy rate, population 15+ years (%)	-	-	94.2	95.1	95	95.6	94.7	94.2	100[n]	DGEEC, EPH 2012-17
Average years of study, population 20-35 years	-	-	7.8	8.42	8.69	8.72	8.49	8.8	17[n]	DGEEC, EPH 2012-17
Average years of schooling (ISCED 1 or higher), population over 25, both sexes	8.2	8.6	8.5	9	9	8.4	-	-	9.4	UNESCO Institute for Statistics
Students achieving basic skills in reading (%)	-	-	-	-	-	32.2	-	-	79.9*	PISA-D OECD (Level 2 or higher)
Students achieving basic skills in mathematics (%)	-	-	-	-	-	8.3	-	-	76.6*	PISA-D OECD (Level 2 or higher)
Students achieving basic skills in science (%)	-	-	-	-	-	23.8	-	-	78.8*	PISA-D OECD (Level 2 or higher)
Population age 25+ with completed lower - secondary education (%)	-	-	-	-	46.7	48.1	-	-	66.9	UNESCO Institute for Statistics
Population age 25+ with completed upper secondary education (%)	-	-	-	-	36.6	38.1	-	-	52.2	UNESCO Institute for Statistics

Note: (*) These targets are the OECD averages in 2015.

Table 5.7. Secondary or follow-up indicators to the education policy recommendations

Recommendation	Indicator	2010	2017	2030 Target	Source
1. Move towards a better education system for all					
1.1. Adopt the PNTE 2030 national pact on education, based on a consultative process: ● Set specific targets and milestones for the areas of action ● Establish financial commitments ● Mobilise international expertise	-	-	-	-	-
1.2. Expand coverage and foster completion, particularly in pre-primary and secondary, and among the most disadvantaged groups: ● Produce better statistics to evaluate challenges, monitor progress, and inform policy ● Support access in remote areas and across the most disadvantaged socio-economic groups ● Policies to favour school retention and completion, avoiding repetition and dropout	School enrolment rate for 3-year-olds	5.2 (2012)	8.8 (2016)	70 [n]	MEC 2012-16
	School attendance rate, 5-year-olds	70 (2012)	75.8	100 [n]	DGEEC, EPH 2012-17
	School attendance rate, 6–14 year-olds	96.6 (2012)	97.4	100 [n]	DGEEC, EPH 2012-17
	Average school-attendance rate	77.9 (2012)	78.9	92 [n]	DGEEC, EPH 2012-17
	Net intake rate in grade 1 (% of official school-age population)	73.1	70 (2012)	76.5 [a]	UNESCO, UIS
	Vulnerable population with tertiary education	35 955 (2012)	40 158	251 685 [n]	DGEEC, EPH 2012-17
	Net enrolment rate in indigenous primary education	66.6 (2012)	80.1 (2014)	100 [n]	Indigenous Census 2012–14
	Literacy in the indigenous population (age 15+)	62.4 (2012)	70.9 (2016)	100 [n]	Indigenous Census
	School enrolment, pre-primary (% gross)	39.6	37.7 (2012)	70 [n]	UNESCO Institute for Statistics
	School enrolment, primary (% net)	89	88.5 (2012)	100 [n]	UNESCO Institute for Statistics
	School enrolment, secondary (% net)	61.5	66.5 (2012)	92 [n]	UNESCO Institute for Statistics
	Progression to secondary school (%)	93	94.5 (2011)	98.9 [a]	UNESCO Institute for Statistics
	Proportion of students at the end of primary education achieving at least a minimum proficiency level in reading, both sexes (%)	-	70.9 (2013)	80.5	UNESCO Institute for Statistics
	Proportion of students at the end of primary education achieving at least a minimum proficiency level in mathematics, both sexes (%)	-	70.2 (2013)	80	UNESCO Institute for Statistics

Recommendation	Indicator	2010	2017	2030 Target	Source
1.3. Policies to improve learning and the overall quality of the education system: ● Improve evidence on learning outcomes to inform policy making ● Improve teaching to achieve better learning outcomes	Pupil–teacher ratio, pre-primary	-	24.1 (2012)	17.5	UNESCO Institute for Statistics
	Pupil–teacher ratio, lower secondary	-	19.1 (2012)	16.9	UNESCO Institute for Statistics
	Pupil–teacher ratio, upper secondary	-	17.6 (2012)	15.5	UNESCO Institute for Statistics
	Trained teachers in pre-primary education (% of total teachers)	-	91.9 (2012)	76.4 81.4 [a]	UNESCO Institute for Statistics
	Trained teachers in lower secondary education (% of total teachers)	-	85.9 (2012)	78.6 80.5 [a]	UNESCO Institute for Statistics
	Trained teachers in upper secondary education (% of total teachers)	-	75.4 (2012)	80.8 78.3 [a]	UNESCO Institute for Statistics
2. Improving education for access to better-quality jobs					
2.1. Modernise the upper secondary curriculum: ● Prioritise 21st century skills ● Develop mechanisms tailored to the industry's changing demands by involving the private sector and other stakeholders ● Develop technical skills and soft and basic skills for the workplace	-	-	-	-	-
2.2. Strengthen the TVET system: ● Strengthen the accreditation process for Higher Technical and Vocational Institutes to improve the quality of education ● Modernise the curriculum to make it more relevant and connected with the private sector ● Build vocational education and training pathways to support students' transition to the workplace ● Support education for adults and establish a system for the recognition of skills acquired in the labour market	Proportion of 15–24 year-olds enrolled in vocational education, both sexes (%)	4.2	5.4 (2012)	6.9 9.3 [a]	UNESCO Institute for Statistics
2.3. Improve the match between labour supply and demand through: ● Active labour-market policies to favour employability in formal jobs: training and intermediation systems ● Information systems to attract students to sectors with higher demand ● Skills councils in dynamic sectors (e.g. agroindustry) and an observatory for skills demand	Companies that claim to have had difficulty filling vacancies, despite having candidates for the position (%)	-	81.8	-	Manpower

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OECD Development Pathways

Multi-dimensional Review of Paraguay

VOLUME 3. FROM ANALYSIS TO ACTION

Paraguay has set itself ambitious development goals for 2030. To achieve them, it will have to tackle two major challenges: buttressing sources of sustainable economic prosperity and putting the country on a more inclusive development path. Progressing towards a more inclusive society will require a broad and vigorous reform agenda. First, the country's healthcare system requires systemic reform to widen its coverage, reduce Paraguayans' vulnerability in the face of health risks and increase the efficiency of health service provision. Second, the social protection system needs to overcome its fragmentation and become more effective in delivering the right services and risk management tools to citizens according to their needs. In particular, the pension system requires reforms to increase its coverage and become more equitable and more sustainable. Third, the quality and the inclusiveness of its education and training system need to be strengthened to generate the skills the economy needs, and provide opportunities to all. Based on the analysis and recommendations undertaken in Volumes 1 and 2 of this Multi-dimensional country review, this report identifies key areas for action and presents targeted action plans to kick-start reform. The report also provides a dashboard of monitoring indicators to support the reform agenda in the country.

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