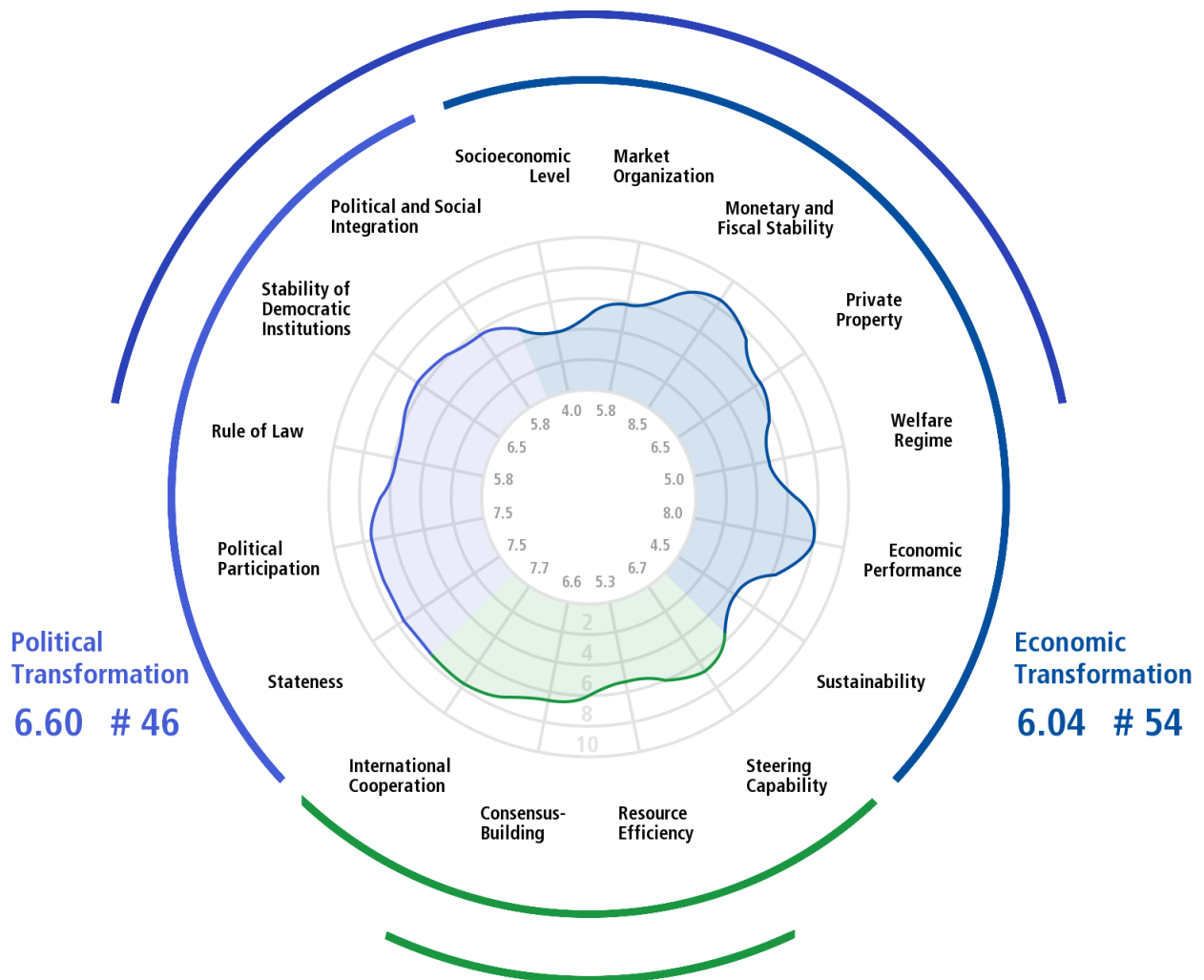


Paraguay

Status Index

6.32 # 46

on 1-10 scale out of 137



Political Transformation
6.60 # 46

Economic Transformation
6.04 # 54

Governance Index

5.85 # 36

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	7.0	HDI	0.724	GDP p.c., PPP \$	13571
Pop. growth ¹	% p.a.	1.3	HDI rank of 189	98	Gini Index	48.8
Life expectancy	years	74.0	UN Education Index	0.634	Poverty ³	% 5.6
Urban population	%	61.6	Gender inequality ²	0.482	Aid per capita \$	20.8

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The April 2013 general elections brought the Colorado Party back to power. In August 2013, Horacio Cartes assumed the presidency and Paraguay returned to a democratic routine. The positive evaluation of the electoral process abroad and the unambiguous result cleared the way for a reintegration of the new Paraguayan government into Mercosur and UNASUR.

President Cartes' government (2013–2018) defined a comprehensive reform agenda. The main objectives of his government at the beginning included regaining fiscal stability, improving the infrastructure by engaging the private sector in public investment, more social investment and a resolute suppression of the rural insurgency of the Paraguayan People's Army (EPP). With its National Development Plan 2014 to 2030, the government defined some long-term objectives for Paraguay.

At the beginning, President Cartes was quite successful at obtaining the necessary legislative support from Congress to initiate his agenda. He received broader authority to deploy the military in the fight against the EPP. Congress approved a fiscal responsibility law, and a public-private partnership framework bill to facilitate and encourage infrastructure investments. Moreover, he introduced a new law for agribusiness to pay increased taxes.

However, Cartes' government lost steam in the middle of his term, making little progress with regard to its self-declared objectives (such as the planned public-private-partnership infrastructure investments). Moreover, resistance from within the government party has become stronger, occasionally blocking government initiatives.

Despite the commitment of new resources to the fight against the Paraguayan People's Army (EPP), a guerrilla organization operating in the country's northern regions, the government has been unable to defeat the group. Moreover, the incidence of violence related to drug-trafficking has increased, with government forces unable to control the violence in some areas of the country.

Corruption has remained prevalent within the state; the government of President Cartes did not advance in the fight against corruption.

In April 2018, the Colorado Party again won the presidential election. The new president, Mario Abdo Benítez, took over the presidency in August 2018. It is expected that the new government will follow the same lines as the preceding Colorado governments: the conservation of macroeconomic stability, low taxes (especially for agribusinesses), financing infrastructure projects and the fiscal deficit with sovereign bonds, and a conservative agenda of promoting family values (against gender equality and same sex marriages).

The new president will be confronted with similar challenges as his predecessor. Governing and lawmaking will be complicated by the fact that the governing party and the most important opposition party are both composed of competing factions, which leads to cross-party alliances, shifting voting coalitions and political blockades. Former President Cartes will continue to exercise some influence within the Colorado Party. While the Colorados have a majority in the Chamber of Deputies, the government does not have a majority in the Senate.

History and Characteristics of Transformation

Following elite power struggles, Paraguay's democratic transition began in 1989 after 35 years of dictatorship under General Alfredo Stroessner. The transition to democracy was characterized by extensive continuity among the elites in politics and the bureaucracy (public administration, military and judiciary) tied together in the still-governing Colorado Party. The era of Presidents Rodríguez (1989–1993) and Wasmosy (1993–1998) was characterized by political instability and turmoil, and by the powerful role of the military. In 1996, a putsch by General Lino Oviedo, the commander-in-chief under President Wasmosy, failed. On March 28, 1999, President Raúl Cubas Grau – elected in 1989 and considered to be the puppet of General Oviedo – resigned to avoid impeachment for his alleged role in the March 23, 1999 murder of Vice President Luis María Argaña. After mass protests, especially by young Paraguayans, resulting in deaths and injuries, Cubas and Oviedo eventually left the country (for Argentina and Brazil, respectively), seeking political asylum.

After the resignation of President Cubas, the head of the Chamber of Senators, Luis Ángel González Macchi, was sworn in as the new president for the remainder of the term. In August 2003, Nicanor Duarte Frutos of the Colorado Party – elected in April of that year – assumed office. Despite high approval rates, however, Duarte's structural-reform push dissipated over the course of his term and politics refocused on power struggles within the Colorado Party and on President Duarte's re-election plans, thus reviving the political opposition and civil society organizations. Fernando Lugo, bishop emeritus of San Pedro, emerged as the leader of the opposition movement and was nominated as the candidate of the Patriotic Alliance for Change (Alianza Patriótica para el Cambio, APC).

On April 20, 2008, after 61 years of Colorado Party domination, Fernando Lugo won the presidential election, but his APC failed to win a majority in Congress. Most of the legal initiatives of President Lugo in the area of social politics were blocked. His coalition was internally divided, and some factions often voted with the opposition, but he successfully renegotiated the Itaipú Treaty with Brazil in July 2009. The following years were marked by strategic maneuvering both within the government and in the opposition with regard to the 2013 general election. President Lugo's support base was further weakened after the eviction of landless farmers from a property occupied in the department of Canindeyú ended with a shootout that killed six police officers and 11 farmers.

While political discontent increased, the Liberal Party initiated impeachment proceedings against President Lugo. On June 21, 2012, the Chamber of Deputies voted overwhelmingly (76-1) to proceed with the impeachment. The next day, the Senate voted to remove Lugo from office with a vote of 39 to 4. Surprisingly, there was not much public protest in the streets against the impeachment. As stipulated in the constitution, Vice President Federico Franco was sworn in for the rest of the presidential term ending in August 2013. The Mercosur and Union of South American Nations (UNASUR) countries interpreted the impeachment as an "institutional coup" and suspended the new Paraguayan government from both organizations.

The general elections on April 14, 2013 brought the Colorado Party back to power. Horacio Cartes, a successful and rich businessman, who had joined the Colorado Party only in 2009, won the election with 45.8% of the vote. The positive evaluation of the electoral process abroad and the unambiguous result cleared the way for a reintegration of the new Paraguayan government into Mercosur and UNASUR. President Cartes squandered much of his political capital in 2016 and 2017, trying to modify the constitution to make his re-election possible, which provoked massive political protests and conflicts between and within political parties. Demonstrators set the Congress building on fire and a member of the Liberal Party was assassinated by the police. In the end, President Cartes had to renounce his re-election bid. One of his major opponents within the party, Senator Mario Abdo Benítez, the son of the long-time personal secretary of General Alfredo Stroessner, won the presidential election in April 2018 in a close race against the candidate of an alliance between the Radical Liberal Party and the leftist Frente Guasú.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

In principle, the state maintains a monopoly on the use of force nationally. However, especially in border areas and in the northeastern region, the Chaco, the state presence is weaker. Large areas of the country are sparsely populated; border controls as well as airspace controls are few.

In the tri-border area where Paraguay, Argentina and Brazil meet, near the border city of Ciudad del Este and in the department of Amambay around its capital, Pedro Juan Caballero, state institutions have failed to curb arms smuggling, drug-trafficking and illegal immigration. The public security situation has deteriorated in some parts of these regions, with police forces unable to control violence related to drug-trafficking organizations. The First Capital Command (Primeiro Comando da Capital, PCC), which according to Insight Crime is Brazil's largest and best-organized criminal organization and controls drug-trafficking routes between Brazil, Bolivia and Paraguay, is also active here, fighting for control with the Comando Vermelho (CV). In the Amambay department in 2016, the homicide rate was 93 deaths per 100,000 inhabitants, much higher than the national average of 11 homicides per 100,000 inhabitants. Police forces are easily outgunned by Brazilian criminal groups. This has been demonstrated in various assaults and killings by these groups in Pedro Juan Caballero, Ciudad del Este and even Asunción.

The government of the United States sees Paraguay as a center for money-laundering, due to deficiencies in interagency cooperation and the lack of effective control and enforcement capacities. While more drugs were seized and illicit crops eradicated in 2017 (U.S. International Narcotics Control Strategy Report 2018), Paraguay is still one of the principal producers of marijuana in South America, a significant transit country for drugs (cocaine) and has also become a processing location for cocaine.

For a number of years, the Paraguayan People's Army (EPP) has carried out attacks in the countryside (with isolated acts in Asunción). The group has attacked military

Question
Score

Monopoly on the
use of force

6

'06 '20 10

7 6 1

1

and police outposts and patrols, private-security guards, and ranchers; has kidnapped landowners in order to obtain ransom funds; and has carried out attacks with explosives. The EPP is also strongly suspected of taking part in drug-trafficking of both cocaine and marijuana and probably shields peasants cultivating marijuana. While the EPP poses no real threat to the state or government as a whole, its existence reveals the ineffectiveness of state and local security forces. Despite an increase in military and police resources, the Cartes administration did not make discernable progress in fighting the EPP.

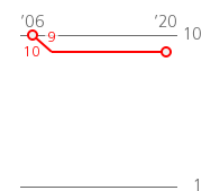
All citizens enjoy civil rights protections in theory. In practice, however, indigenous groups' rights are often neglected by the government. This is partly because indigenous groups are small (around 120,000 people or 2% of the population, comprising 19 ethnicities and five linguistic groups) and partly because they are poorly organized. Property interests of the indigenous peoples are not adequately protected and many have been displaced from ancestral lands. Mestizos, or citizens of mixed racial background, make up 95% of the population. The constitution recognizes Paraguay as a multicultural, bilingual country, with Guaraní and Spanish as the official languages. Some 40% of Paraguay's non-indigenous population speaks monolingual Guaraní, 27% is monolingual in Spanish, and 30% is bilingual Guaraní and Spanish. However, bilingualism is not sufficiently accommodated in the school system.

There is a significant population of Brazilians in the border area (the so-called *Brasiguayos*), with estimates of between 300,000 and 600,000 people. Many are landowners in possession of large parcels of arable land used for soybean production (about 14% of all farms with more than 1,000 hectares are owned by Brazilians; 9% by other foreigners). The loyalty of such landowners lies more with Brazil than with the Paraguayan state, and the Brazilian government defends its interests against expropriation and expulsion. The possession of large tracts of land by foreigners adds a special dimension to the conflict over land in Paraguay. In a nutshell, apart from the few state conflicts based on issues of social exclusion, the nation-state is widely accepted.

Church and state are separate, according the constitution. However, as a pressure group, the Catholic Church has considerable influence on certain subjects discussed in bills introduced by Congress, such as abortion, divorce or gay marriage. The Catholic Church is also constantly voicing its concern about corruption, social inequality and poverty, as well as of the system of justice in Paraguay. Around 88% to 90% of the population is Roman Catholic (around 50% say they practice their religion; 2013), with another 6% to 8% belonging to evangelical Protestant denominations (2013 *Latinobarómetro*; 2002 Census). Other religious groups constitute less than 4% of the population. An estimated 135,000 to 150,000 people, concentrated in remote areas of the central Chaco and some eastern regions, are members of the Mennonite Church.

State identity

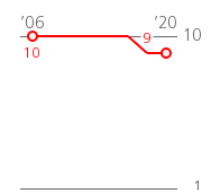
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1

No interference of religious dogmas

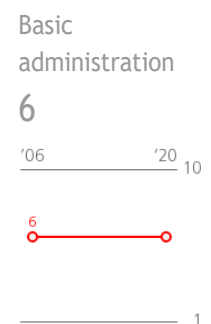
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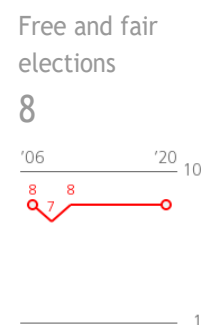
Some religious groups have expressed concern that the government disproportionately supports Catholic schools and does not pay many of the teachers working in registered non-Catholic religious schools. Labor unions and human rights organizations report favoritism by Mennonite employers in hiring indigenous laborers who have converted to the Mennonite faith over those who have not.

The state maintains a functioning basic infrastructure throughout most of the country, including staffing administrative institutions, hiring officials, administering justice as well as making and implementing government policies. However, corruption and the political colonization of the administration have affected the functioning of the state. The courts and law enforcement are heavily compromised because of structural corruption. As well, there is a low state presence in the San Pedro, Amambay and Chaco Regions. The administration of basic infrastructure such as roads, water services, education and health care generally functions but is flawed in some rural areas. On the northeast and southwest frontiers of Paraguay, for instance, people have to go to Brazil and Argentina for health care and education for their children. Access to running water is close to 90%. Nevertheless, nearly half of the population lacks access to safe drinking water. Connectivity to sewage systems is low, even in urban areas (18%). Only 2% of wastewater is treated.



2 | Political Participation

The general elections on April 22, 2018, which were won by the Colorado Party's presidential candidate, were carried out correctly, and no party was excluded or discriminated against. The EU electoral observation mission did not register any complaints regarding systematically biased actions on the part of the electoral administration with respect to any relevant aspect of the electoral process. The actions of the Supreme Electoral Court were judged technically efficient and politically balanced. In contrast, decisions by some lower electoral tribunals have been politically biased. Small parties do not consider the electoral administration to be independent, as minority parties are excluded from positions of responsibility. The EU mission's report mentioned that indigenous voters had been hindered from participating on election day.



Media outlets of various kinds covered the electoral campaign in a free and active manner. Before the election, the media published public opinion polls, which forecast a landslide victory for the Colorado Party candidate. In the end, he won by a slight majority (46.4% against 42.7%). It is not clear whether the opinion polls influenced the election results or electoral participation (which was quite low). The Organization of American States (OAS) electoral monitoring mission criticized the fact that, though forbidden by law, the results of exit polls were diffused while voting was still taking place.

Parties that comprise the whole political spectrum from right to left participated. Both freedom of assembly and freedom of expression were ensured. Turnout in the 2018 presidential election was quite low by Paraguayan standards (61.25%, compared with 68.2% in 2013 and 65.5% in 2008). This may reflect political indifference and growing discontent with political parties that nominated candidates accused of corruption and influence trafficking. Before the election, Congress approved a law to make it more difficult to strip members of parliament of their immunity (and mandate). In addition, patronage and political dependencies (particularly in the civil service and the Supreme Electoral Court) influence the election process. Vote-buying, extortion and irregularities are still practiced both in political parties' internal elections and national elections.

Limited control of campaign finances gives advantages to candidates with major economic resources. While financing of elections and parties is regulated and controlled by law, the electoral authorities do not have the administrative capacity to monitor and confirm the information parties provide. Financing of internal elections (primaries) is still unregulated.

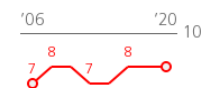
Democratically elected representatives have the power to govern, and the influence of veto powers, especially the military, has declined. The military is plainly subordinated to civilian government control.

Even so, due to the mobilization power and economic influence of landowners, land reform and the taxation of agricultural exports have been repeatedly blocked before such plans could be seriously debated in Congress. Landowners (especially soybean producers and cattle ranchers) have enough power to avoid taxes altogether, or to evade those they are obliged by law to pay. Economic growth in Paraguay is based to a high degree on agribusiness. Tax revenues have not increased at the same pace as GDP, an indication of significant tax evasion in rural regions. Many politicians are themselves cattle ranchers and landowners. Others have entangled interests with landowners and receive significant financial support from them for their political campaigns.

In addition, other business sectors have been able to persuade Congress and the executive to enact laws expanding VAT and corporate-income tax exemptions. The country has a low overall rate of taxation (9.3% of GDP in 2018), which is clear evidence of economic pressure groups' veto power. The Brazilian government occasionally meddles in the internal affairs of Paraguay to defend the interests of its citizens (mostly landowners) who live within Paraguay's border areas.

Effective power to govern

8



1

The freedoms of association and assembly are guaranteed by the constitution. Independent political and civil society groups are generally allowed to form.

However, there are legal and bureaucratic barriers to union organization due to a high minimum membership requirement. Private sector employers oppose the formation of unions. Laws that prohibit discrimination against unions are not always enforced. Rights violations and anti-union practices remain commonplace, both in the private and public sectors. Labor legislation does not promote trade union activities. The government does not always respect unions' freedom of association and right to collective bargaining. The level of unionization is around 11% of the formal labor force.

Farmers have largely organized around the land problem in Paraguay and they have lately demanded a more comprehensive agrarian policy for smallholders. The main organization is the Federación Nacional Campesina (FNC). The Liga Nacional de Carperos is of recent formation and without the weight of the FNC. However, in total, only 4% of workers are covered by collective bargaining.

Social discontent has led to various demonstrations (by students and small farmers, for example) and strikes. In general, these mobilizations and citizen protests have been tolerated and not subject to repressive action.

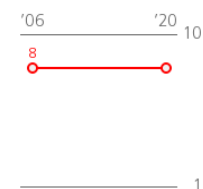
Freedoms of opinion and of the press are constitutionally guaranteed and, in general, citizens can express their opinions freely. But government restrictions on press freedom are not only exercised through traditional means. For instance, the government can restrict advertising by government companies and others to those newspapers, radio and TV stations that are uncritical of its political and economic performance. These restrictions are hardly publicized, but the owners of mass media outlets know about them.

In 2014, a freedom-of-information law was introduced, requiring public institutions (including Congress) to divulge information (for example, related to salaries and contracts). Investigative journalists have used the new law to uncover corruption networks.

There is a pluralistic media sector, including private and public radio and TV broadcasters. Generally, media pluralism is threatened by the consolidation of ownership and by the influence that political parties and economic interest groups exert on the media. There are no legal limits on media concentration, the degree of which has increased in recent years. Four media groups dominate the market, with one group linked directly to ex-President Cartes. The National Telecommunications Commission (CONATEL), which grants and denies broadcasting licenses, is not autonomous.

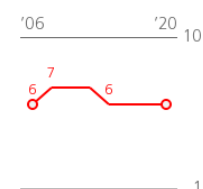
Association /
assembly rights

8



Freedom of
expression

6



News manipulation and fake news are not only phenomena confined to social media networks. In Paraguay, newspapers (printed and digital), radio and TV stations can be easily manipulated to favor special interests.

Journalists critical of the government are sometimes physically threatened. Some reporters have even been killed, especially when they focus on corruption or organized crime (particularly in remote border areas). Reporters have also been threatened by the EPP. Moreover, many journalists work under unstable labor and contract conditions. During the protests against President Cartes' plans for re-election on March 31 and April 1, 2017, 23 journalists were attacked by the police. Two journalists were accused by the government of inciting violence.

The government does not restrict internet access or content. About 61% of the population has access to the internet (2017). In the 2016 Latinobarómetro survey, 32% of Paraguayans (compared to the Latin American mean of 21%) declared that the internet was their principal source for political information. In 2018 Latinobarómetro survey, 42% of Paraguayans declared that they do not use social media (much higher than the Latin American mean of 28% and one of the highest percentages in the region).

3 | Rule of Law

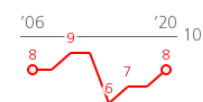
Paraguay has enshrined the separation of powers and mutual checks and balances in its constitution. These checks and balances function particularly well when the president does not have a majority in Congress. The Supreme Court may also act independently, even though judges are selected according to political criteria and quotas; newly elected presidents have repeatedly attempted to change the composition of the Supreme Court. In terms of judicial power, judges in the lower and upper courts are constantly threatened with impeachment by Congress, which has the constitutional power to do initiate impeachment proceedings.

In comparison with the constitutional attributes of other Latin American presidents, the Paraguayan president is not strong. While President Cartes sought to consolidate presidential powers, for example, with regard to the nomination of ministers and control over the budget, he had to adjust his policy to take account of congressional majorities. Congress can make all types of changes to the national budget, without formally estimating state income and revenues. This practice has led to irresponsible policies regarding state expenditures to the extent that ministers in the executive branch negotiate their budgets directly with Congress instead of with the Ministry of Finance.

The judiciary, as the third branch of government, is a weak countervailing power (see indicator 3.2).

Separation of powers

8



On the whole, the judiciary is the subject of as well as an actor in recurring power struggles merely at the margins of the rule of law, sometimes fostered by ambiguities of the constitution itself.

Undue external influence compromises the judiciary's independence, as interested parties – including the government and members of parliament – attempt to influence investigations and pressure judges and prosecutors. Judicial disciplinary review processes are often politicized. This was illustrated by the case of 11 farmers involved in a deadly clash between farmers and police in Curuguaty in 2012, in which six police officers and 11 farmers were killed. The legal procedures against the farmers were marked by violations of due process and criticized by human rights organizations, which brought the case before the Inter-American Commission of Human Rights. In July 2016, they were given prison sentences ranging between four and 30 years, connected to their responsibility for the deaths of the six police officers. Finally, in July 2018, the Supreme Court overturned the sentence of lower courts and acquitted the farmers. The judges agreed that that the trial had failed to prove them guilty. A month later, the Paraguayan prosecutor general filed a disciplinary case against the three Supreme Court judges who had acquitted the farmers. The U.N. Special Rapporteur on the independence of judges and lawyers criticized the planned prosecution of the judges because it undermined the independence of the judiciary.

Significant political interference is evident within the Judicial Council (Consejo de la Magistratura), which evaluates nominations of judges and submits nominees' names to Congress and the executive and is also involved in the impeachment of judges. Impeachment motions were active against seven Supreme Court judges in 2016. Two of these motions had been pending since 2014. Finally, one of the accused judges was deposed by the Senate in November 2018 (30 Senators voted in favor, 7 abstained and 8 were absent).

In 2018, the Judicial Independence Index of the World Economic Forum ranked Paraguay 136 out of 140 countries with value of 1.9 (1 = not independent at all; 7 = entirely independent), which is lower than the values for 2017 (2.1) and 2016 (2.2).

In August 2017, the Paraguayan Congress approved a law to implement the Rome Statute of the International Criminal Court and to ensure cooperation with the ICC.

Independent
judiciary

5

'06 _____ '20 10

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Corruption is still a central feature in state and administrative culture; many of the state's resources are distributed based on patronage networks. The Global Competitiveness Report 2017 to 2018 lists corruption (18.4%) as the most problematic factor for doing business in Paraguay, while inefficiencies in the government bureaucracy are ranked third (12.5%). The Global Competitiveness Index 2018 ranks Paraguay 14 (out of 140 countries) with regard to budget transparency and 113rd with regard to incidence of corruption.

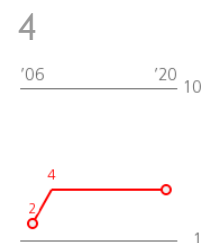
In the 2018 Latinobarómetro Survey, for 13% of the Paraguayans (Latin American average 10%), corruption was the country's most important problem; 61% (Latin American average 65%) alleged that corruption had increased a lot or quite a lot compared to the previous year. The highest percentage in Latin America, 65%, (average 50%) suspected that the president and his staff were involved in acts of corruption, while 68% (Latin American average 51%) believed this to be true for members of Congress and 62% (Latin American average 43%) for judges.

Officeholders who break the law and engage in corruption are not prosecuted adequately. The resulting impunity is closely related to high levels of structural corruption, which include the judiciary and the infiltration of the political and judicial system by organized crime (especially drug-trafficking groups). At the level of political leadership, corrupt officials have been prosecuted in isolated cases, but they often take advantage of legal and procedural loopholes or they can count on political connections. The vast majority of suspected cases of political corruption are not prosecuted. However, corruption charges have also been used politically, creating a significant difference between actually prosecuted cases of corruption and accusations in the mass media.

Nevertheless, there were some spectacular cases in 2018 against corrupt politicians and public office holders. In January 2018, local newspapers exposed a corruption ring that included high-ranking politicians and judges. A senator was impeached (he was the head of the jury for the prosecution of the magistrates). Another resigned and a deputy was stripped of his immunity. However, the impeached senator was re-elected in April 2018 on the Colorado Party list. Massive protests forced him to resign and to face a judicial investigation. Another senator and a member of the new elected parliament also had to resign. The ex-president of the Instituto Paraguayo del Indígena (Indi) was sentenced 10 years in prison for embezzlement of funds. The attorney general (appointed by President Cartes) was forced to resign in January 2018; he was later accused of illegal enrichment.

The new government created a National Secretariat for Seized and Confiscated Goods.

Prosecution of office abuse



Civil liberties are largely secure. There are no political prisoners. Deficiencies in the rule of law result from the prolonged duration of proceedings and investigations. Criminal cases typically spend several years in court. In a case much criticized by human rights organizations, six peasants accused of participating in a guerilla group's kidnapping and murder of the daughter of an ex-president spent over 11 years in pre-trial detention. In July 2017, 78% of prisoners were awaiting trials and sentencing. Harsh and sometimes life-threatening conditions in the country's overcrowded prisons have repeatedly sparked criticism. The Ministry of Justice reported in August 2017 that the country's 18 penitentiaries housed 37% more inmates than their capacity allowed. There are repeated reports of excesses by the security forces, including torture, illegal arrests and extralegal executions.

On March 31, 2017, police shot a protester in the headquarters of the Liberal Party during protests against an initiative by various senators to approve a public referendum for a constitutional amendment to allow re-election of President Cartes. The U.N. Committee Against Torture declared the killing of the protester an extrajudicial execution.

The government's human rights bodies are not efficient, do not coordinate and do not consult human rights NGOs. In 2017, former Human Rights Ombudsman Manuel Páez Monges was accused of misusing funds. His office had been mostly inactive during his term (2001–2016).

Human rights defenders working to promote small farmers' rights have been harassed and threatened. There were irregularities in the judicial proceedings against 11 imprisoned farmers related to the violent incidents that led to the impeachment of Fernando Lugo.

Human rights organizations claim that the fight against the EPP has been militarized and that human rights have not been sufficiently respected. They demanded the disbandment of the Joint Task Force.

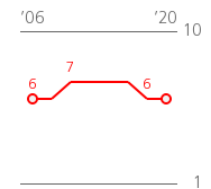
Whereas an increasing number of laws and international treaties protect the rights of indigenous people, they have not always been sufficiently respected. Decisions of the Inter-American Human Rights Court in favor of indigenous communities have been executed only after great delays. Some rulings from 2005 and 2006 have still not been executed.

Freedom House criticizes the system of *criadazgo*, in which children from poor families work without pay for families with high incomes who agree provide care for them, because it often involves mistreatment of minors.

No laws explicitly prohibit discrimination against LGBTI people with regard to employment, housing, access to education or health care. Such discrimination, including social discrimination, occurs frequently. NGOs report police harassment and discrimination against LGBTI people.

Civil rights

6



4 | Stability of Democratic Institutions

Democratic institutions perform their functions, but frictions can arise in the interplay between the president and the legislature. Paraguay's Congress has wide-reaching authority. The Paraguayan president has fewer constitutional powers than most other Latin American presidents. Governance and lawmaking are complicated by the fact that the governing party and the most important opposition party are both composed of competing factions, which leads to cross-party alliances, shifting voting coalitions and political blockades.

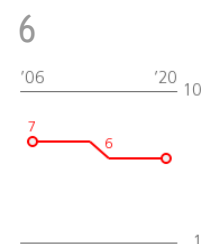
Traditional political parties dominate Congress. Votes on different bills, presented by the Executive or elaborated in Congress, almost exclusively correspond to political clientelism, political factionalism or money received by legislators from large economic interest groups. Under the Cartes administration, there have been public denunciations of money received by legislators from President Cartes himself (he leads one of the three major economic groups in the country).

Moreover, many bills with origins in Congress have been elaborated without taking in account the state of existing public policies (and finances), and hence without consultation with the executive branch regarding the consequences of those bills. Typically, these are tax exemption bills that affect tax revenues in a country with very low tax pressure.

President Cartes squandered a great deal of political capital in 2016 and 2017 trying to modify the constitution to make his re-election possible. His supporters acted in the gray zone of constitutional politics, which led to massive political protests and conflicts between and within political parties. In the end, Cartes had to relinquish his re-election venture.

The effects of politics on public administration is another serious problem in the interplay of democratic institutions. The public administration is highly politicized and is quite inefficient, which in turn hampers public sector reforms, such as the professionalization of the administration. Clientelistic networks that subvert political institutions are much stronger at the regional and the local levels, where, particularly in the departments bordering Brazil, organized crime has infiltrated politics. Finally, the judiciary is not really independent, and does not effectively serve an oversight role as a counterbalance to the executive and the legislature.

Performance of democratic institutions



Though most democratic institutions are accepted as legitimate by most relevant actors, political elites frequently display a lack of respect for democratic norms. The 2012 impeachment of President Lugo, though complying with formal constitutional requirements, was clearly driven by political-electoral motives. Before President Cartes gave up his re-election plans in April 2017, his re-election bid placed strain on political institutions and raised questions regarding the constitutionality of his supporters' strategy.

Notwithstanding major political rifts and violent protests, in the end the conflict was resolved within a democratic framework. President Cartes could not push through his presidential candidature.

5 | Political and Social Integration

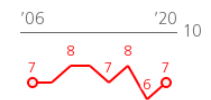
The Paraguayan party system is still dominated by two traditional parties, the Colorado Party and the Liberal Party, which is the major opposition party. Each has been operational for more than 100 years. In the 2018 elections, the two parties won 16 out of 17 departmental governorships, nearly 75% of the seats in the Chamber of Deputies and two-thirds of the seats in the Senate. The effective number of parties slightly increased to 2.91 (2013: 2.39) in the Chamber of Deputies after the 2018 election, and to 3.93 (2013: 3.53) in the Senate. The Colorado Party won the presidential election in 2018 and is still the strongest party. During more than 60 years in power, the party has created a close-knit patronage network. But this is also true for the Liberal Party, especially in the party's municipal and departmental strongholds.

Nevertheless, party discipline is low, and parties consist of multiple factions. Both traditional parties have a broad social base. Direct elections for executive offices in the party and the nomination of candidates for elective office generate possibilities for mobilization in both traditional parties. In the two primaries in December 2017 to nominate the presidential candidates, 1.5 million voters cast votes. Due to patronage networks, the parties function only partially as instruments for articulating and aggregating social interests. The internal fragmentation of the two parties among competing party leaders is also typical, though stronger in the Colorado Party. Moreover, the left is divided. While in the Latinobarómetro survey 2018, only 21% of the Paraguayan citizens expressed trust in political parties, this was the highest value in Latin America (mean 13%). Overall in Latin America, 58% (mean) did not name a party when asked whom they would hypothetically vote for if casting a vote the following Sunday. In Paraguay, only 29% did not name a party.

Party identification seems to be quite high (although 2018 was also an election year). In the 2016/2017 LAPOP Survey, 37.5% of respondents identified with a party, the fourth highest value in Latin America. Based on data from the Supreme Electoral Court in 2018, the Colorado Party had 1,430,000 affiliated members with sole

Commitment to democratic institutions

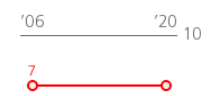
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Party system

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membership and 780,000 members who also belonged to other parties). The same numbers for the Liberal Party were 716,000 and 565,000, respectively. Smaller parties generally have fewer than 3,000 members (with sole party memberships).

In the 2016 Latinobarómetro survey, only 14% of Paraguayans interviewed (Latin American mean: 20%) classified themselves as being on the political left on a left-right scale; 22% were on the right (Latin American mean: 28%); and 52% placed themselves in the center (Latin American mean: 36%). Thus, the Paraguayan electorate is basically a center-right electorate (74%), which is reflected in the dominance of the Colorado Party and the Liberal Party.

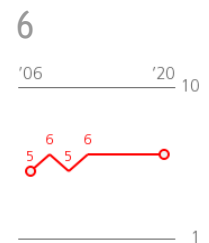
The system of social interest groups is weak, politically fragmented and dominated by only a few issues. Although there is a large number of small-scale organizations at the community level (such as neighborhood organizations), they are poorly interconnected and few ties exist between them and nationwide associations, limiting their ability to articulate common interests. There is no link to political parties in terms of collateral organizations, although one of the umbrella labor groups has a relationship with the Colorado Party.

Manufacturers are organized under the Unión Industrial Paraguaya (UIP). The labor movement, however, is weak and fragmented. There are currently several competing trade union federations. Strong organizations represent the interests of rural landowners (cattle ranchers and soybean producers), like the Asociación Rural del Paraguay (ARP), Coordinadora Agrícola de Paraguay (CAP), the Asociación de Productores de Soja (APS) and the Confederación Paraguaya de Cooperativas (CPC).

Peasants in Paraguay have a long tradition of struggle around land and other rural issues (such as debt relief). Today, they constitute Paraguay's main and most important social movement. They are organized in the Federación Nacional Campesina and the Coordinadora Nacional Intersectorial, which, however, often lack adequate means for articulating and promoting its demands within political institutions. This is related to the fact that the traditional political parties still have very profound roots in the countryside in Paraguay and they are able to water down peasants' demands and behavior on election days.

Over the last years, a strong new social movement has developed in Paraguay, as secondary-school and university students have mobilized and demonstrated in support of greater education expenditures (as a percentage of GDP), improvements in school infrastructure and a higher quality of education, and against corruption and authoritarianism in educational institutions.

Interest groups



Support for democracy has traditionally been low among Paraguayan citizens (33% in 2007). However, it rose substantially, to 44% in 2015 and to 59% in 2017 (compared to the Latin American mean of 53%), but decreased again in 2018 to only 40% (Latin American mean: 48%). Only 24% were satisfied with how democracy worked in Paraguay (equal to the Latin American mean).

In 2018, only 10% of respondents agreed that the country was governed for the common good of the people (Latin America as a whole: 17%), while 87% said the country was governed in the interest of and for the benefit of small powerful groups (Latin America: 79%). The work of the government was approved by 23% of respondents in 2018 (compared to 21% in 2017 and 29% in 2016). Trust in Congress and in the judiciary was low at 25% and 24%, respectively (Latin American mean: 21% and 24%), and lower still trust in political parties (21%, still the highest in the region along with Uruguay). Comparatively high however was trust in the military (52%) and the Catholic Church (82%).

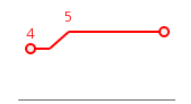
Compared to the rest of Latin America, a relatively high percentage of the population is open to the idea of an authoritarian solution. In 2018, 27% of Paraguayan respondents (Latin American mean: 15%) agreed that under certain circumstances they would prefer an authoritarian regime.

Autonomous organization in civil society is uneven. Groups face various socioeconomic barriers to organizing, and there is a general lack of civic culture. The question remains whether citizens participate in independent or clientelistic organizations. There is a large number of small-scale organizations at the community level, however, and more than two-thirds of the Paraguayan population is active in such organizations. But their main objectives are usually limited to immediate measures, such as building roads or improving the local water supply. A characteristic of Paraguayan organizing is the strong division between small-scale social groups and solidarity on a community level, and other types of civic engagement that is oriented toward the common good. Trust within the population is still at a low level, but has increased somewhat in recent years. According to the 2018 Latinobarómetro survey, 17% of Paraguayans said they trusted their fellow citizens (2016: 20%), which is higher than the Latin American average (14%).

Approval of democracy

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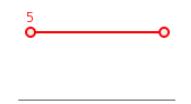
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Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

Paraguay is an upper-middle-income country with gross national per capita income (PPP) of \$13,081 in 2017. It is ranked 110 out of 188 countries in the 2018 Human Development Indices and Indicators Update (data refer to 2017) with an HDI value of 0.702 and is classified as a high human development country. Paraguay's HDI value is below the average (0.757) for countries in the high human development group, and below the average (0.758) for countries in Latin America and the Caribbean. If adjusted for inequality, Paraguay's HDI value falls by 25.5% (with an IHDI of 0.522). The country's Gender Inequality Index in 2017 ranking was 113 out of 160 countries, with a score of 0.467 (as compared to 0.386 for the overall Latin America and the Caribbean region).

Social exclusion is quantitatively and qualitatively extensive and structurally ingrained. The degree of income inequality is significant. The country's Gini index value slightly increased between 2016 (0.497) and 2017 (0.503). The taxation rate is low, around 10% for VAT, personal income and other primary taxes. The tax base has been eroded by a large number of possible tax exemptions.

Inequality in land distribution has increased during the last decade. In 2017, the poverty rate expressed as a percentage of the population fell to 26.4% (national statistics) or 21.6% (Economic Commission for Latin American and the Caribbean / CEPAL statistics) from 28.9% (national) or 24.0% (CEPAL) in 2016. Moreover, the share of the population living in extreme poverty fell from 5.7% (national statistics) or 7.9% (CEPAL) in 2016 to 4.4% or 6.0% in 2017. The incidence of poverty in rural areas is higher than in urban areas. Poverty rates are much higher among the indigenous population. In 2016, two-thirds of indigenous people lived in poverty and one-third lived in extreme poverty.

Land distribution is extremely unequal: 70% of productive land is occupied by 1% of farms.

Question
Score

Socioeconomic
barriers

4

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	36164.1	36054.3	39008.9	40842.3
GDP growth	%	3.1	4.3	5.0	3.6
Inflation (CPI)	%	3.1	4.1	3.6	4.0
Unemployment	%	4.6	5.3	4.6	4.7
Foreign direct investment	% of GDP	1.3	1.3	1.3	1.2
Export growth	%	0.1	9.5	8.3	3.1
Import growth	%	-2.6	1.1	12.0	9.6
Current account balance	\$ M	-144.9	1277.9	1206.2	219.8
Public debt	% of GDP	18.6	19.4	19.8	21.5
External debt	\$ M	16124.5	16223.7	15925.0	15806.1
Total debt service	\$ M	1967.2	1366.0	1771.9	2287.9
Net lending/borrowing	% of GDP	-0.6	0.2	-0.4	-
Tax revenue	% of GDP	9.7	9.6	10.0	-
Government consumption	% of GDP	11.6	11.1	10.8	11.2
Public education spending	% of GDP	-	3.4	-	-
Public health spending	% of GDP	4.2	4.1	-	-
R&D expenditure	% of GDP	0.1	0.2	-	-
Military expenditure	% of GDP	1.1	1.0	0.9	0.9

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market-based competition operates under a weak institutional framework. Free-market competition and the protection of property rights are limited by endemic corruption and political influence in government administration and the judiciary. Regulations are sometimes inconsistent and often not implemented. According to the World Bank's Doing Business 2019 ranking, starting a business is difficult (151 out of 190 economies), requiring seven procedures, 35 days and a cost of 40.3% of per capita income. The informal sector is large, and economic activity is characterized by many small and very small enterprises.

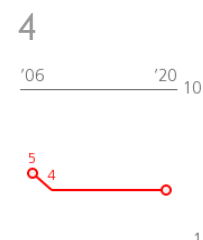
Public enterprises produce around 7% of GDP. There is a strong state presence in telecommunications (though this is challenged by private cellular telephones companies, as most Paraguayans use cellular phones rather than land lines), electricity production, gas and oil refineries (albeit with increasing competition), cement production and water industries. However, state telecommunications and water companies are weak in terms of service coverage. The government controls the price of fuel and public-transport fares. In addition, the government sets the minimum wage, which however is often not adhered to. Around 10% (more than 300,000 employees) of the workforce is employed in the public sector, which increased by 32% (almost 70,000 jobs) between 2007 and 2014. There are no formal restrictions on capital investments and capital movements, but domestic companies are favored in government procurement bids.

The informal sector is large and includes, apart from licit but unregistered activities, cross-border smuggling and the illegal production and sale of narcotics, pirated music, stolen automobiles and weapons. In total, it accounts for around 40% of GDP. Some 53.4% of employment in urban areas is informal (men 48.8%; women 59.4%; data for 2017).

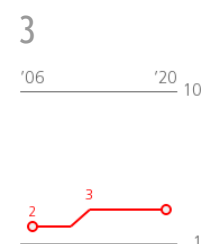
The Global Competitiveness Index for 2018 ranks Paraguay 95 out of 140 countries (in 2017: 96 out of 135), and 112th with regard to institutions. The most problematic factors for doing business are corruption, an inadequately educated workforce, inefficient government bureaucracy and inadequate infrastructure.

The formation of monopolies is generally prohibited by Article 107 of the national constitution. An antitrust law, the Law on the Defense of Competition, was introduced in June 2013. It aims to target anti-competitive agreements, abuse of dominant position and predatory pricing. In 2015, the Comisión Nacional de la Competencia (CONACOM) was established as the responsible institutional body to oversee competition policy. According to the OECD, the commission was insufficiently funded and comprised of only 10 staff members in 2018. With respect to CONACOM's policy approach, there is not yet enough data to draw significant conclusions. In February 2017, two years after its creation, the commission decided

Market organization



Competition policy



its first case, allowing Coca Cola to purchase Unilever’s Latin America soy drink entity, AdeS. According to CONACOM, key areas requiring intervention with regard to competition policy are the financial sector, telecommunications, health and hydrocarbons. In practice, monopolies are rarely split up. While oligopolies exist in the private sector (banking, supermarkets, mass media), the state holds a monopoly in some sectors such as telecommunications (Corporación Paraguaya de Comunicaciones, holding the monopoly on fixed-line voice services, including local telephony, international long-distance telephony, and VoIP) and electricity (Administración Nacional de Electricidad, ANDE).

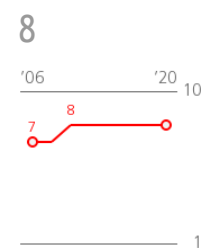
The Global Competitiveness Index for 2017 to 2018 ranks Paraguay 122 out of 137 economies in the effectiveness of its anti-monopoly policy.

Paraguay is historically a very open economy. Tariffs are low and non-tariff barriers and other obstacles to trade are minimal in comparison to other countries in the region, especially in the Mercosur area. Exports accounted for 35.5% of GDP in 2017 (CEPALSTAT). Exports are highly concentrated on a few products (soy, electricity and meat). The country’s membership in the Southern Cone Common Market (Mercosur) has largely liberalized trade with Argentina, Uruguay and Brazil.

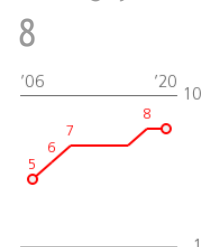
The weighted average tariff rate is 6.6% (2016 WTO data), but non-tariff barriers exist. According to the WTO (June 2018), Paraguay had 16 non-tariff measures in force. In addition, cumbersome and time-consuming customs procedures, as well as burdensome labeling procedures, add to the cost of trade. Paraguay has repeatedly addressed these customs procedures, which it perceives to be unfair and exaggerated, within the Mercosur framework. In the World Bank 2019 Doing Business Report, Paraguay was ranked 113 out of 190 countries; in the specific ranking of “trading across borders,” it ranked 127th. It has improved its rank since 2011 by introducing a single window for exporting, reducing the time required for border and documentary compliance. Paraguay has to date been involved in 21 WTO trade disputes, but only as a third party.

The financial sector appears sound. After several banking crises in the 1990s and early 2000s, the legal and regulatory framework of banking supervision has improved considerably over the last years and become more risk-based, increasingly meeting international standards. Public financial institutions, such as the National Development Bank (BNF), the Development Financial Agency (AFD) and the central bank (BCP) have been strengthened. The Superintendence of Banks (SIB) within the BCP is responsible for the supervision of the financial sector. A new penal code with enhanced penalties for money-laundering crimes came into effect in July 2009. A new electronic information system to report suspicious financial transactions has been introduced, and a new anti-money-laundering plan was launched in June 2013. Moreover, a regulatory framework for cooperatives has been implemented. However, it remains weak, and in practice, it does not have the same level of enforcement as that for the banking sector. There is also no deposit-guarantee system in this sector.

Liberalization of foreign trade



Banking system



In general, the non-banking financial sector – especially exchange houses – still operates in a weak regulatory environment with limited supervision. In 2015, the government introduced legislation to give the central bank more regulatory powers; when these are implemented, the country will comply with 90% of the core Basel principles for effective banking supervision.

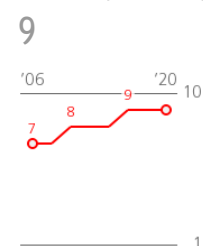
Access to credit is limited to long-term financing of big enterprises. Banks are well capitalized and show strong profits. About 55% of adult Paraguayans have access to an account with a formal banking institution. Most lending facilities are short term. Long-term financing for capital investment projects is scarce. The World Bank 2018 Doing Business Index ranks Paraguay 124 (out of 190 countries) in the category getting credit. The Global Competitiveness Index ranks the Paraguayan financial system 72 (out of 140 countries) with a low rate of non-performing loans (2.9% of total loans; ranked 48th). The banks' regulatory capital ratio (which measures the capital adequacy of deposit takers) was 15.4 (ranked 85th). According to World Bank data, the capital to assets ratio has been comparatively low during the past years (7%–8%), though slightly increasing over time (8.2% in 2017). The soundness of banks is evaluated as quite high at 5.3 (on a scale from 1 to 7). Access to credit by SMEs is still difficult; the financing of SMEs is valued 3.7 in the Global Competitiveness Index (GCI) 2018 (on a scale from 1 to 7).

8 | Monetary and fiscal stability

Controlling inflation and a suitable foreign-exchange policy are recognized goals of government economic policy. Inflation is under control (2016: 3.9%; 2017: 4.5%; 2018: 4.1%) and has stayed within the range established by the central bank in 2017 (a maximum of 4.0%); before 2017, it was 4.5% (+/-2%). Paraguay has a floating exchange rate. Because of close ties to its two big neighbors in the Mercosur, the Paraguayan currency (guaraní) depends on the economic development and currency rates (measured against the U.S. dollar) in Argentina and Brazil. The real effective exchange rate index (World Bank) indicates moderate devaluation since 2010, with a hike in 2014 (to 119.5 to the U.S. dollar), reaching 115.3 in 2017. The guaraní had further depreciated by 6% against the U.S. dollar by November 2018.

The central bank (Banco Central del Paraguay, BCP) coordinates monetary policy, taking into account the baseline of government economic policy. The BCP's independence from political pressures has been strengthened over time. It is now quite autonomous in its decisions.

Monetary stability



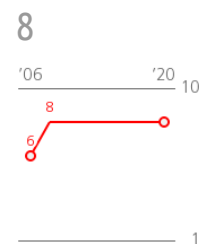
Generally speaking, the government pursues a consistent policy for macrostability, resulting in strong economic fundamentals (low debt, sizable official reserves and small fiscal and external imbalances). The 2013 Fiscal Responsibility Law established budget deficit limits of 1.5% of GDP starting in 2015. The global fiscal deficit (CEPAL data) was 1.1% of GDP in 2016, 1.1% in 2017 and 1.3% in 2018 (with primary fiscal deficits of 0.5%, 0.5% and 0.7%, respectively).

The government has resorted to external borrowing to finance portions of its deficit. In January 2013, the Paraguayan government successfully issued a \$500 million ten-year sovereign bond in the international financial market. Another 30-year bond for \$1 billion was issued in August 2014, with a reopening in April 2015 in which an additional \$280 million was issued. An additional 10-year sovereign bond issue of over \$600 million was released in March 2016. Half of the bond's revenues were earmarked for public investment, with the rest being used to refinance old debt. The Paraguayan government successfully issued a sovereign bond worth \$500 million in 2017 and one worth \$530 million in 2018. As a consequence, the public debt/GDP ratio (World Bank data) has almost doubled since 2011, reaching 25.7% in 2017. External debt increased to 18.7% of GDP in 2018, but is still low compared to other Latin American countries. Standard & Poor's and Fitch give Paraguay BB stable and BB+ credit rating, respectively, while Moody assigned the country a Ba1 rating.

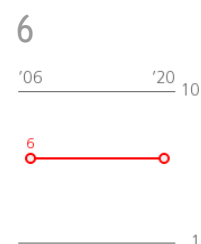
9 | Private Property

Property rights and the regulation of the acquisition of property are generally well defined, but there are problems with their implementation under the rule of law, not least of all because of inefficiency and corruption in the judicial system. While there has been progress in the cadaster system since 2016, land titles are still often ill-defined, especially in the agricultural sector. A latent and sometimes violent conflict exists between interests, in which large agricultural corporations (some of them foreign-owned) look to consolidate and expand holdings, while the landless and small farmers seek agrarian reform and land redistribution. Protesters sometimes occupy land, which generates conflicts that often encourage conduct outside the rule of law. Acquiring the necessary documents for land titles takes much time, adding to conflicts over land titles, and thus property rights. The World Bank (2019) ranks Paraguay 74th out of 190 countries with regard to the ease of registering property, with a score of 66.12. This is better than the Latin American average of 55.25. While Paraguay increased its score with regard to protection of property rights in the Index of Economic Freedom from 30.0 (2016) to 39.5 (2019), it is still quite low.

Fiscal stability



Property rights



Private activities represent the backbone of the economy, but concentration of market power is tolerated by the state, for instance, in the media sector. In some sectors, such as telecommunications, electric-power generation, cement production and water services, state enterprises exercise a monopoly or subvert fair competition. Ports and airports are also managed by state-owned enterprises. Privatization programs came to a halt during the administration of President Duarte. They proved to be very unpopular because of repeated major irregularities, a lack of transparency and a number of corruption charges.

The Cartes government passed new laws allowing for more private sector activities in cooperation with the public sector (private-public partnerships, or PPP) to facilitate and encourage infrastructure investments.

Foreign investors are guaranteed equal treatment and most sectors are open to private investment. Foreign investment in Paraguay profits not only from low taxes, but also from beneficial regulations in terms of profit remittances. Foreign direct investment (FDI) has hovered around 1.5% of GDP.

10 | Welfare Regime

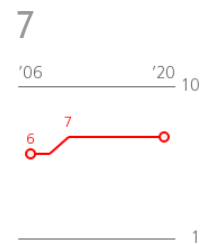
Social expenditures as a proportion of GDP have greatly increased in the last 13 years from 4.0% (2003) to 11.8% (2016) and are now higher than the Latin American average. There are rudimentary measures to moderate social inequities, but efforts are sharply segmented in terms of territory, class and sector. Social protection is one of the lowest in Latin America. The social security system extends only to those employed in the formal sector of the economy. Currently, eight out of every 10 citizens lack pension coverage, and seven out of every 10 workers lack health insurance.

The pension system is organized on a pay-as-you-go basis, that is, it is not financed by assets that are set aside. However, due to the country's demographics (high fertility rates and high population-growth rates), there is less necessity for a general overhaul of the pay-as-you-go pension system. More important is an increase in administrative efficiency and a curbing of corruption. There is a lack of reliable data on the system's liabilities and assets. Paraguay's biggest social security challenge is to create and implement an integrated social-protection system that reaches the entire population and guarantees benefits in a permanent and sustainable manner.

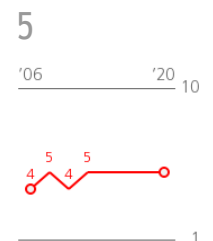
There are particularly marked differences in the delivery of health care. Public spending for health was 7.8% of GDP in 2015 (CEPALSTAT). Only 24% of the population has health insurance coverage.

President Lugo's government started to pay conditional cash subsidies (in exchange for commitments regarding health and education of children) via the Tekopora

Private enterprise



Social safety nets



program, which was continued under President Cartes' government. Another program gives subsidies to elderly people in extreme poverty. Of these two programs, 71% and 88% of subsidies, respectively, are distributed to the bottom 40% of the population. Additional funds (sembrando oportunidades) are channeled to households in extreme poverty.

Life expectancy is relatively high, at an average of 74 years. In some rural areas, self-regulated and small-scale "social pharmacies" supplement scarce public-health services and improve primary health care in remote areas.

Women are disadvantaged both economically and politically. In the Human Development Report 2017, the country was ranked at 113rd place on the Gender Inequality Index, with a score of 0.467 (as compared to 0.386 for the Latin America and the Caribbean region overall). The labor-force participation rate among women was 56.6% (LAC 51.6%), as compared to 83.9% (LAC 77.5%) among men. The share of the labor force made up by women was about 40% of the total in 2017.

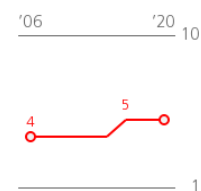
Only 15% (2013: 17%) of Chamber of Deputies seats and 18% (2013: 20%) of Senate seats are occupied by women. None of the 17 governors elected in 2018 is a woman. Around 10% of the mayors elected in 2015 were women (2010: 8%). One of the three justices on the Supreme Electoral Court is a woman. Three of the nine justices on the Supreme Court are women.

There is less inequality in the educational sector, as girls have a higher enrollment ratio than boys at the secondary and tertiary levels, but the adult literacy rate (2015) skews slightly in favor of males (95.5% compared to 94.3%). Mean years of schooling are 8.4 for women and 8.3 for men.

The indigenous population is denied equal development opportunities. Poverty rates are much higher among them than among the rest of the population. In 2016, two-thirds of indigenous people lived in poverty and one-third lived in extreme poverty. Of the indigenous population, 29% is unable to read and write. Indigenous households receive about half as many years of schooling as the national average and 96% of them lack access to advanced sanitation, while 80% do not have access to improved water sources.

Equal opportunity

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11 | Economic Performance

In the current decade, the Paraguayan economy grew at higher rate than most South American countries. In 2018, GDP per capita grew by 3.0% (CEPAL data), compared to 3.9% in 2017. Agricultural production presented positive growth as result of good yields of soybeans, maize, cassava and tobacco. GDP per capita (PPP) was \$9,691 in 2017, having persistently increased over the last decade. Inflation remained moderate to low since 2012, reaching 3.6% in 2017 (and 4.1% in 2018, according to CEPAL data).

The urban unemployment rate fell slightly from 7.7% in 2016 to 6.9% in 2017, rising again to 7.4% in 2018. But underemployment, not unemployment, is the main problem in the Paraguayan economy. Some 20% of the workforce is underemployed. Agriculture and stockbreeding account for 9.2% of the country's GDP. The agricultural sector is highly volatile due to weather conditions and fluctuations in commodity prices and external demand.

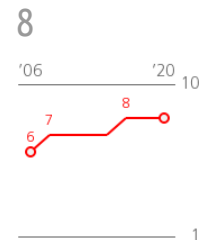
Manufacturing accounts for 20% of GDP. But 97% of the industrial sector is composed of micro, small and medium companies. Electricity (including revenues from the binational hydroelectric power stations) accounts for 8.1% of GDP.

The fiscal deficit was 1.1% in 2016 and 2017 (CEPAL data). The 2018 deficit was expected to be around 1.3%, under the limit of 1.5% of GDP set by the Fiscal Responsibility Law. Due to recent years' fiscal deficits, the government issued sovereign bonds (the sixth of them, issued in 2018 worth \$530 million with another one planned for 2019 worth \$500 million). Public debt has grown steadily since 2011: from 6.9% of GDP to 16.2% in 2018, according to CEPAL data; from 13.0% to 25.7% in 2017 according to World Bank data. A high percentage of debt issues are used to finance former debt payments.

The value of investment and trade has grown. However, basic infrastructure shortcomings, low productivity, underdeveloped technological capacities and the large share of informality are still the greatest challenges for the Paraguayan economy. There is also a need of public and private investment in infrastructure (for example, electricity transmission lines, paved roads), which was one of the main objectives of President Cartes' government. FDI totaled \$371 million in 2016 and \$455.9 million in 2017 (CEPAL data). The main countries of origin of FDI were the United States, Brazil and Spain. In general, FDI as percentage of GDP has been low (average 1.5% between 2004 and 2016)

The tax base is quite low and regressive (due to the high dependency on indirect taxes); top corporate taxes are 10%, the lowest corporate tax rate in the region. Tax revenue as a percentage of GDP amounted to only 9.3% (2018), the lowest such ratio in Latin America. Commercial agriculture's contribution to tax revenue is small.

Output strength



12 | Sustainability

Though there is a Ministry for the Environment (Secretaría del Ambiente, SEAM) and a number of regulations in place, environmentally sustainable growth has been given only sporadic attention by the government and has a weak institutional framework. The National Development Plan 2030 (Plan Nacional de Desarrollo Paraguay 2030) approved in 2014 included cross-departmental provisions related to environmental sustainability.

While CO₂ emissions are comparatively quite low (0.8 metric tons per capita in 2015), the low profile accorded to environmentally sustainable growth is particularly evident given the environmental impact of the country's large hydroelectric plants, which are its main energy source. In 2016, a total of 69.9% of the country's energy consumption drew from renewable sources. Only 26 Paraguayan companies possess an ISO 14001 certification (2017).

Paraguay's economic development model is based on overexploitation of natural resources. Land taxes are negligible, and the agricultural sector receives preferential treatment in relation to income and value-added taxes. Cattle ranching and commercial agriculture are important drivers of deforestation, which has accelerated because of the boom in soybean production. Moreover, biomass (mainly wood) is the main energy resource for half the rural population. Since 2000, the land area in soy cultivation has tripled in the Eastern Region and cattle herd sizes have multiplied by six. From 2001 to 2017, Paraguay lost 5.46 million hectares of tree cover, equivalent to a 22% decrease since 2000, and 259 metric tons of CO₂ emissions. In 2017, it lost 360 kilohectares of tree cover, equivalent to 18.4 metric tons of CO₂ emissions. Nearly 94% of the Atlantic Forest has already disappeared. In the Chaco Region, forest loss is estimated at approximately 240,000 hectares per year. At the current level of deforestation, in 24 years the entire Chaco forest will have disappeared.

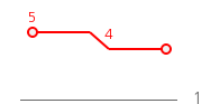
In 2004, the Nicanor Duarte government approved the Zero Deforestation Law, but this regulation applied only to the Eastern Region, not the Chaco Region, which contains the majority of Paraguay's forest. Evidence suggests that the law is not effectively implemented or strongly enforced. The Ministry of Environment is understaffed. Moreover, a 2013 presidential decree softened the law by exempting most estate owners in the Chaco Region from evaluations of the environmental impact of their activities. Indigenous communities are negatively affected by deforestation and the expansion of commercial agriculture; their rights are not sufficiently protected by the government.

Reducing air and water pollution has not been a priority. Organizations of small farmers and landless peasants as well as indigenous groups occasionally protest against the indiscriminate fumigation of soybean plantations and the use of herbicides, because of the environmental damage and water pollution caused by such practices and because of the health risks for the people living in the affected regions. A total of 95% of cultivated soy plants come from genetically modified varieties.

Environmental
policy

4

'06 '20 10



Early in its term (2013–2018), the Cartes government approved the Agenda Educativa 2013 to 2018, which set educational-policy priorities aimed at improving the quality of education (as defined in the Plan Nacional de Educación 2024, which is part of the National Development Plan). In reaction to secondary-school student protests, the government also increased investment in school infrastructure. At the end of its term, the Cartes administration initiated a debate on a strategic plan to improve the quality of education (Plan Nacional de Transformación Educativa 2030). In reforming the education sector, the government cooperated with the Inter-American Development Bank (IADB). Paraguay ranks 66 (out of 133 countries) in the U.N. Education Index, 17th in the region, at a similar level as the Dominican Republic.

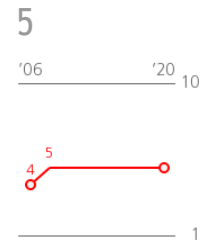
The Fund for Excellence in Education and Investigation (Fondo para la Excelencia de la Educación y la Investigación, FEEI) receives 30% of its income from compensation payments from Brazil for the use of extra energy (from Paraguay's portion) from the binational hydroelectric power plant at Itaipú. In January 2019, the steering committee for the development of a strategy for the transformation of the educational system in Paraguay (Comité Estratégico del Proyecto Diseño de la Estrategia de Transformación Educativa del Paraguay) started work.

The literacy rate in the 15 to 24 age group is quite high at 98.5% (2016), while the rate between men and women is somewhat unequal (male literacy rate, 98.2%; female rate, 98.7%). However, levels of functional illiteracy are much higher, especially in rural areas. There are large inequalities between urban and rural areas with respect to enrollment rates, above all, in tertiary education. Despite rising school enrollment rates (according to CEPAL data, the net primary enrollment rate in 2016 was 78.0%, and the secondary enrollment rate 64.9%), the educational system still has significant qualitative deficiencies. These are often related to improper staffing (due to the politicization of the education system and clientelistic networks). However, challenges are sometimes as basic as the need to provide food and school supplies for young pupils. Progress in higher education has been skewed toward those who are well off. The Global Competitiveness Report 2018 ranks Paraguay 127 (out of 140 countries) with regard to the skill sets of graduates and 127th in the quality of vocational training.

In terms of tertiary education, Paraguay has experienced a boom of private universities (as in other Latin American countries). However, those universities do not make any difference when compared to state universities in terms of quality of education, and sometimes they perform very badly. They are basically profit-oriented institutions and not concerned with raising the educational standards.

Research and development facilities are rudimentary. But long-term research has improved in think tanks and universities thanks to the creation of PRO CIENCIA, a program of the National Council of Science and Technology (CONACYT) that

Education policy /
R&D



receives money from the FEEI. R&D expenditures have increased as a result of this program.

Quantitatively, investment in education and training, as in research and development, is still rather low. While public expenditure on education reached 4.5% of GDP in 2016, R&D expenditures remained low, at just 0.1% of GDP. There were 184 researchers in the R&D sector per each million people. The Global Innovation Index ranked Paraguay 89 out of 126 countries in 2018 (2017: 85th; 2016: 94th) in this area.

Governance

I. Level of Difficulty

The structural constraints on governance are high. Paraguay has no coast and its geography is challenging. The Chaco Region is arid and sparsely populated. These characteristics make the construction and maintenance of road infrastructure (only 10% of roads are paved, of which 20% are severely deteriorated; 2017) expensive and render integration with other countries more difficult. Paraguay has one of the lowest density of roads in South America. Paraguay's transportation costs for foreign trade activities are higher than the average cost for other South American countries. The Global Competitiveness Report 2018 ranks Paraguay 99 out of 140 states in road connectivity, and 129th in quality of roads.

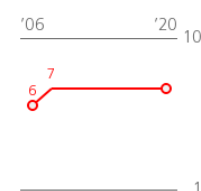
The quality of electricity services is low by international standards, with regular and long-lasting interruptions to service, which is perceived as a major problem for doing business. Moreover, the incidence of electricity losses is high (between 25% and 30% of the time).

Paraguay's main exports are agricultural products. Therefore, the economy suffers in the case of climatic adversities such as droughts or flooding (often caused by the El Niño phenomenon). The country is unable to combat poverty systematically on its own. Future development must contend with persistent and considerable social inequality; the lack of an educated labor force (relatively low levels of human capital); labor market inefficiencies; an inefficient and overstaffed public administration; a weak business climate; widespread corruption in politics, in society and in the private economic sector; and deficiencies in infrastructure. Professionalism in the public sector has improved in the last 15 years. This is especially true at the central bank, the Ministry of Finance and the Statistics Office (DGEEC). At the same time, new employees in the public sector are more carefully observed than previously and evaluated according to professional rules in many cases. But public sector reforms are hampered by a highly politicized public administration.

The democratization process in Paraguay begun 30 years ago, in February 1989, after a long phase of authoritarian rule, unfolded amid a weak autonomous civil society, a weak political opposition and broad continuity among the elites in politics and officialdom. Politics has been based on patronage networks, which essentially subverted civil society, resulting in a weak and limited civic participation in public life. The NGO sector in Paraguay depends strongly on support from international

Structural
constraints

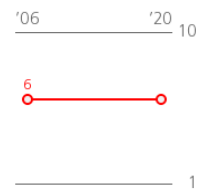
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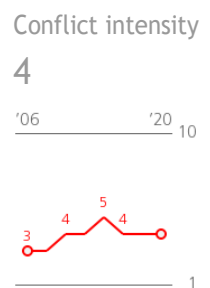
Civil society
traditions

6

donors. There is a network of small civil society organizations that could be used for mobilization processes in times of crisis (as during the protests against President Cartes' re-election plans or during mobilizations against corrupt politicians). However, on an everyday basis, the connection between small, limited organizations and wider social movements is poorly developed. Interpersonal trust is very low in Paraguay, a symptom of low levels of social capital. There has been a strong human-rights movement in Paraguay. As an example, the Paraguayan Human Rights Coordinator (Coordinadora de Derechos Humanos del Paraguay, CODEHUPY) is comprised of 33 organizations (and six supporting organizations). Thus, the picture is very mixed in Paraguay; there is comparatively little social capital, but this is combined with intense but locally focused forms of cooperation and a national human-rights movement.



Great ethnic homogeneity is certainly an advantage for the Paraguayan government. There are no religious differences that could be viewed as a source of conflict. The great majority of political parties, such as the Colorado Party and the Liberal Party, do not articulate or draw attention to social cleavages between the poor and the rich. Nevertheless, class conflict between landowners and organized landless small-scale farmers in rural areas has intensified over the last decade. For years, the policy of expanding agriculture lands was an important source of the country's GDP growth. Now there is almost no arable land left in eastern Paraguay. There have been violent clashes between the police and rural peasants.



The intensity of drug-trafficking has increased over the last three years, and a considerable portion of the northern zone of the eastern area of the country has been penetrated by drug-trafficking gangs. This is also the region where the small EPP guerrilla group is active. Radicalism and violence in Paraguay can largely be blamed on these two groups, but mainly on the drug-traffickers, who cooperate closely with their Brazilian peers. The widespread insecurity and violence related to drug-trafficking, including kidnapping and assaults, are not driven by ethnic or regional factors.

The EPP, which is active in and enjoys some support in rural areas, does not constitute a genuine challenge to the Paraguayan state or to general political stability. However, it has exposed the state's inefficiency with regard to providing security. Observers estimate that the EPP has little more than 30 to 50 active members, with around 200 local families supporting it.

II. Governance Performance

14 | Steering Capability

The government of President Cartes (2013–2018) was committed to constitutional democracy and a market economy. The main objectives of his government, however, have been concentrated on economic transformation. This included reform of the public sector, regaining fiscal stability, a stronger role for private enterprise in the economy, improving the infrastructure by engaging the private sector in public investment, more social investment and a resolute suppression of the rural insurgency of the EPP. The new government of President Mario Abdo Benítez will primarily follow this path. Moreover, the first initiatives of the new government (in office since August 2018) were related to fighting corruption and reforming the educational system.

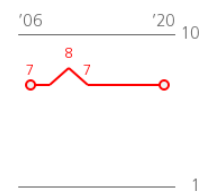
Initially, the government of Horacio Cartes was able to effectively prioritize and organize its strategic objectives and policy measures. He received increased authority to deploy the military in the fight against the Paraguayan People’s Army (EPP). He managed to convince a congressional majority to approve a fiscal responsibility law, which introduced a fiscal deficit ceiling of 1.5% of GDP. Moreover, against strong opposition and protests in the streets, he steered a public-private partnership framework bill through Congress to facilitate and encourage infrastructure investments. In addition, in 2014, the government approved the National Development Plan 2030 (Plan Nacional de Desarrollo Paraguay 2030). The plan delineates three strategic axes for public policy between now and 2030: reducing poverty and increasing social development, strengthening inclusive economic growth and improving the country’s integration with the world. The new government of President Abdo has not renounced this plan.

In the second half of Cartes’ administration, the government’s long-term policy goals were overshadowed by the short-term electoral interests of President Cartes, who was bargaining to consolidate the support of his party (and other parties) for a re-election bid, while also campaigning to amend the constitution to enable this prospect. During this period, future President Abdo Benítez was one his main opponents. The re-election bid had negative repercussions for the government’s strategic priorities. The last year of Cartes’ presidency was dominated by the internal party elections – where Cartes’ candidate lost – and the electoral campaign for the general elections in April 2018.

Question
Score

Prioritization

7



The government of President Cartes (2013–2018) defined a comprehensive reform agenda. At the beginning, Cartes was quite successful at getting the necessary legislative support from Congress to initiate his agenda. He received broader authority to deploy the military in the fight against the Paraguayan People’s Army (EPP). Congress approved a fiscal responsibility law, a state financial administration law and a public-private partnership framework bill to facilitate and encourage infrastructure investments. Moreover, taxation on the agricultural sector was substantially increased (basically by requiring agribusiness to pay corporate income tax).

However, in second half of its tenure, the government failed to advance its policies. PPP projects stalled or were not executed in time, due to deficiencies in public investment management, planning or regulatory capacity. Examples are the tenders for the national highways Ruta 2 and Ruta 7, for the Metrobus in Asunción and Silvio Pettrossi international airport.

With regard to attaining fiscal stability, the government has been quite successful. Economic growth was higher than the Latin American average.

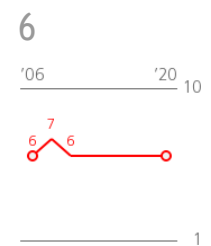
Security forces did not succeed in their fight against the small EPP insurgency, which is still quite active. Moreover, the Cartes government failed to combat drug-trafficking and organized crime, which have much more weight in terms of undermining public security than the EPP.

Over the last 10 years, think tanks, research institutions and advocacy organizations have had a certain amount of influence on policy decision-making. Opinion-makers from these institutions are listened to by policymakers. International cooperation, for instance, with the World Bank, the IMF and the Inter-American Development Bank (IDB) has a long tradition in Paraguay, has served as a supporter of continuous reform efforts from one government to another and, to a certain extent, has also facilitated learning from past experiences by observation and knowledge exchange.

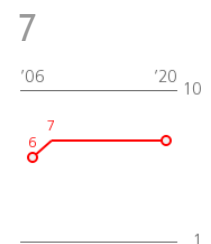
The government of President Cartes (2013–2018) demonstrated a certain ability (especially at the beginning of his term) to engage in policy learning, but its flexibility was limited. An important step was the signing of the political pact, Acuerdo por Paraguay, with four of the five opposition parties (including the Liberal Party) at the beginning of his term, signaling the need for a more cooperative policy-making, if long-term goals and continuity in policies were to be sustained.

But during most of his term, Cartes relied more on entrepreneurs from his own businesses than on professional independent advisers inside and outside the government. He made his entrepreneurs and managers his principal advisers. They held more power than ministers in his cabinet. He rarely had cabinet meetings. He preferred to have his managers make contact with various cabinet ministers.

Implementation



Policy learning



With regard to his re-election plans, President Cartes showed a very low degree of learning. Similar ambitions previously put a strain on the presidencies of Nicanor Duarte and Fernando Lugo. But in the end – for the sake of political stability and social peace – he desisted from pushing through his re-election plans.

The new government of President Abdo Benítez (since August 2018) started a political dialog with other parties, involved civil society organizations in reform of the education sector and initiated a debate on future tax reforms.

15 | Resource Efficiency

At the beginning of his government (2013), President Cartes was committed to increasing efficiency. He nominated a technocratic cabinet and tried to select office holders on the basis of merit. But soon, he had to back off because of resistance within his own party and the need to placate the opposition. The new government of President Mario Abdo Benítez has a more traditional and partisan profile. Benítez needs to placate and integrate the different factions in the Colorado Party and award political allies and (personal) friends.

Recruitment of administrative personnel still puts a heavy emphasis on political loyalty (especially at the municipal level), leading to deficient staffing, despite the high number of employed. However, the recruitment system was subject to reform, and recruitment based on merit has expanded. Still, there are several challenges with respect to the modernization of the public sector, such as intra-administrative coordination to implement new steering processes. And there is still a lack of qualified technical personnel in many ministries. This impairs the planning, evaluation (including social and environmental risks), execution and monitoring of projects – including joint ventures for private-public investment in infrastructure and regulatory capacity.

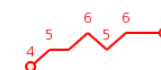
The fiscal deficit stayed within the limits set by the Fiscal Responsibility Law (1.5% of GDP). Between 2016 and 2018, it varied between 1.1% and 1.3%. Fiscal revenue increased. However, the tax rate as percentage of GDP remains low. Tax evasion has been reduced, as more people and companies register as taxpayers. Even so, most soybean producers and cattle ranchers have yet to register as taxpayers. Likewise, real estate tax collection is minimal, denoting tax evasion, principally by big landowners. At the same time, diverse forms of tax avoidance prevail in the tax system.

Combatting the EPP guerrilla group has been hampered by institutional rivalries between the police and the armed forces, as well as professional deficiencies within the security forces.

Efficient use of assets

6

'06 '20 10



1

Effective and coherent policy coordination is hindered by bureaucratic inefficiencies and, despite attempts to reform public administration, by the lack of qualified technical personnel in many ministries.

Historically, government departments, ministries and public agencies have acted independently and without coordination of public policies. This situation not only reflects inefficiencies in the public sector, but also, and more importantly, entrenched interests manipulating policies in favor of political and economic groups and personal interests. This practice has prevailed for many decades and little progress has been made to reduce its negative effects.

Moreover, reform policies during the Cartes government (2013–2018) were hampered by contradictions among some of the government's goals. The most significant example is the contradiction between low taxes, which on the one hand, are presented as a comparative advantage in Paraguay. On the other hand, to achieve the objective of increasing state incomes as a condition for higher social spending, higher taxes are necessary. In addition, deficits pertaining to inter-institutional coordination hampered the execution of the government's reform program.

Some mechanisms ensuring integrity are effective, while others simply do not work. A positive example is the reformed public procurement system, which already in 2003 produced a credible shift in public-sector procurement procedures. Also, credible reforms have been undertaken to modernize the public-sector recruitment system toward a meritocratic system. However, some central institutions, such as the national audit office, lack sufficient funds and independence to properly fulfill its tasks. Also, attempts to modernize the public administration via coherent informational systems have proven to be difficult, but efforts are in motion.

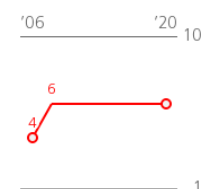
After protests from civil society and the media, as well as a court decision that stated that the salaries of public officials must be disclosed, a freedom-of-information law was introduced in October 2014, which requires public institutions to divulge previously confidential information about staff, salaries, audits, et cetera. The new law – if applied – helps in the fight against corruption.

Although a law on access to public information was enacted, many public offices do not provide information based on the argument of confidentiality that in many cases is based on provisions that have lower legal status than the law.

The president of the Council of Magistrates declared in November 2014 that 25% of the judges in Paraguay were corrupt. Under pressure from the media and the public, President Cartes and members of Congress from all parties asked for a cleanup of the judiciary, and initiated impeachment procedures against four of the nine Supreme Court judges (one of whom resigned voluntarily) and one Supreme Electoral Court judge (who also resigned). However, the impeachment procedures against Supreme Court judges did not advance during the Cartes presidency.

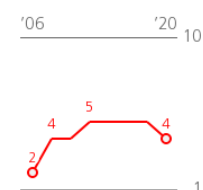
Policy coordination

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Anti-corruption policy

4



In the end, Cartes did not really intend to clean up the judiciary. On the contrary, it was his administration that most manipulated the judiciary, in comparison to other administrations over the last 30 years in Paraguay. As a result, today, the former attorney general, the chairman of the Jurado de Enjuiciamiento and other members of the Cartes administration have been processed and imprisoned.

16 | Consensus-Building

The main political actors agree on establishing a market-based democracy. Nevertheless, there are problems with implementation because there are many veto points in the political system, and economic reforms that would result in strengthened democracy and market economy threaten the vested interests of the political elite. Formal democratic institutions are subverted by informal and clientelistic practices. There is a lack of consensus-building mechanisms, for example, between business owners and unions, or between landowners and landless peasants.

Advocacy of democracy and a market economy, by political and economic actors, is only formal. Most of them do not believe in or understand democracy as a means for improving the well-being of the population or guaranteeing a market economy. Most political actors have a low degree of tolerance for political views different from their own conservative agenda.

With regard to the market economy, the formalization of the economy through the personal income tax has been blocked for years by veto players. The tax base as percentage of GDP is the lowest in Latin America. Moreover, the judiciary's lack of independence, weak regulatory practices, high levels of market concentration and economic inequality permit only limited competition between economic actors.

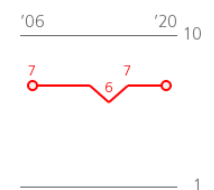
There is a considerable way to go to establish an inclusive market economy.

The military respects the democratic legitimacy of the government and is not an independent political actor. There is a risk that social conflicts could get out of control and put political institutions under pressure. The same is true with regard to conflicts over the rules of politics, as the violent protests over the re-election plans of President Cartes revealed, when a part of the Congress building was burned and a demonstrator killed by the police.

Anti-democratic actors are not openly visible, but the historically grown systems of clientelism and patronage are essentially anti-democratic and are largely associated with the traditional political parties: the Colorado Party and the Liberal Party. In sum, while neither of the two main political parties oppose democratic norms, clientelistic practices of these organizations partly hamper democratic reforms. Discontent with how democracy works in Paraguay and the fact that a relatively high percentage of the population is open to the idea of an authoritarian regime (or at least is not opposed to one) could ultimately facilitate the rise of anti-democratic politicians.

Consensus on goals

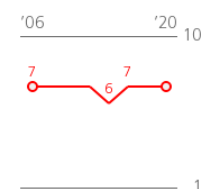
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Anti-democratic actors

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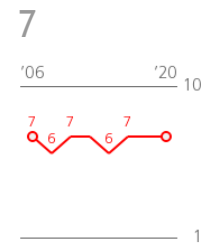
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Although the political leadership tried to prevent the escalation of political cleavages into conflicts, it could not mend existing divisions. Political cleavages do not split primarily along ethnic, class, regional or religious lines.

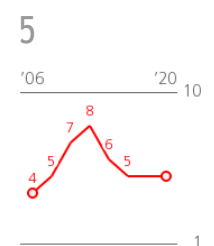
One major political cleavage relates to the traditional parties (ANR and PLRA) on the one hand, and progressive parties on the other. Another division relates to the indigenous population, which is, however, very small in number and not sufficiently organized to forcefully articulate this division. A third major cleavage, conflict over available farmland, has been growing for the last decade. On the one hand, the landless are organized into a broad movement and represented by different organizations. On the other hand, large landowners and soy producers are important and influential economic actors. Moreover, Brazilian landowners in Paraguay receive the strong support of their government in Brazil. The Lugo government had tried to reframe the land reform topic from land redistribution to rural development, putting the focus on the provision of assistance to small landowners and infrastructure investments in the countryside (roads, schools, medical clinics and so on). This approach has also in some measure employed by President Cartes with the Sembrando Oportunidades Program, which supports small-scale farmers with technical, financial and managerial assistance so as to improve their access to markets and value chains. But the political leadership has not demonstrated a willingness to explore a comprehensive solution for the land conflict (at least one that would take the demands of the indigenous population into account).

Civil society organizations and NGOs have gained more leverage in public decision-making processes over the past two decades. However, substantial progress, especially in social issues, has not taken place because of the vested interest of powerful economic groups that have more leverage over the Paraguayan State. Political parties and their clientelistic networks are still quite strong in Paraguay, which limits the space available to civil society actors. However, overall the executive branch has accorded more space to civil society organizations, as they have demanded change in policy-related decision-making. Protests and demands by secondary and university students have provoked some changes in educational policies and rules. Finally, mobilization of indebted peasants produced some positive responses from the government and Congress (such as debt refinancing and emergency measures for subsistence farmers).

Cleavage /
conflict
management



Civil society
participation



The political leadership recognized the need to deal with acts of injustice and human rights violations perpetrated during the Stroessner dictatorship, but the process of reconciliation has been slow. Only a few victims of the dictatorship have been comprehensively indemnified, and compensation amounts have been quite low. A museum of memory was created in one of the torture centers of the Stroessner era. The office of the ombudsman supports the investigation of human rights abuses from that time.

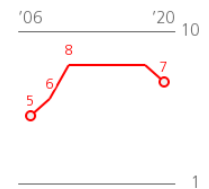
There is another problem successive Paraguayan governments have in terms of reconciliation with the Stroessner dictatorships. Texts used in primary and secondary schools to teach Paraguayan history shows the dictatorship as very benevolent and bringing progress to the country in terms of basic services, physical infrastructure and so on. There is no mention of the suppression of human rights, the lack of freedom of expression, political parties that could not freely operate, and killings for political reasons. The young generation, especially millennials, know nothing about the Stroessner era.

The new president, Mario Abdo Benítez, is the son of the long-time private secretary of Stroessner. He attended Stroessner's funeral in Brazil in 2006. There was no official act on the part of the government to commemorate the 30th anniversary of the end of the Stroessner regime in February 2019. Moreover, government representatives repeatedly criticized the Inter-American Human Rights Commission and the Inter-American Court of Human Rights.

In June 2014, President Cartes signed a law ordering the expropriation of 14,400 hectares of rural lands that the Sawhoyamaxa indigenous community has been trying to reclaim for more than 20 years. The indigenous community was displaced from their land illegally during the Stroessner dictatorship in the 1980s. Later in the year, the Supreme Court rejected claims made by the owners that the expropriation was unconstitutional. With the expropriation and the subsequent restitution process, the Paraguayan government complied with two rulings of the Inter-American Court of Human Rights (IACHR), from 2006 and 2009, respectively. Other IACHR cases related to restitution claims by indigenous communities in Paraguay have not yet been settled. In July 2015, the IACHR sent a reminder to the Paraguayan government that it was out of compliance with three rulings.

Reconciliation

7



17 | International Cooperation

There is a long tradition of international cooperation in Paraguay. Over the last 30 years, several national development plans have been elaborated, but only two of them were partially implemented, during the Lugo administration. The Cartes government (2013–2018) affirmed its resolve to undertake political and economic reforms, which included curbing corruption, public-sector reform, poverty reduction and increasing international competitiveness.

Traditionally, multilateral and bilateral cooperation agencies had no national plans for their loan and donation proposals. As a result, their proposals practically became the national plans in different areas. Now, cooperation agencies work with national and regional plans to elaborate their cooperation programs.

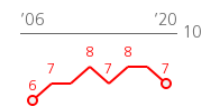
The Cartes administration worked closely with multilateral international donors and financial organizations, including the IMF, the Inter-American Development Bank (IDB) and the World Bank, with the aim of bringing international assistance to the domestic reform agenda. The IDB country strategy for Paraguay (2014–2018) supported the objectives of the National Development Plan. The World Bank committed \$200 million for the fiscal year 2017.

Apart from financial cooperation, Paraguay cooperates above all with development cooperation organizations based in the United States (USAID), Germany (GIZ) and Japan (Japan International Cooperation Agency, JICA) on technical issues. On December 2, 2018, JICA signed an agreement with Paraguayan government to provide grant aid of up to JPY 2.7 billion for a project to procure dredging equipment for the Rio Paraguay. USAID has a focus on the judiciary sector, with aims of improving the administration of justice, and promoting the professionalization of the judiciary and a more transparent justice system.

However, national plans still have many problems in terms of coordination, evaluation and monitoring. For many offices in the public sector, these plans are nothing but a rough guide or framework. The various ministries in each government do not necessarily take in account the national plan when elaborating their own plans. The current 2030 National Plan is now being revised with regard to several objectives and goals by Abdo Benítez's new administration.

Effective use of support

7



1

The Cartes government (2013–2018) mostly acted as a credible and reliable partner. The U.S. government and Paraguay collaborated extensively on anti-narcotics and anti-smuggling policies. At the same time, Paraguay diversified its international partners. For example, Russia has become an important export market for Paraguayan beef. However, Paraguay is also promoting closer cooperation between Mercosur and the European Union. In March 2015, the Paraguayan government signed a cooperation agreement with the EU.

In August 2017, the Paraguayan Congress approved a law to implement the Rome Statute of the International Criminal Court (ICC) and ensure cooperation.

Paraguay is the only country in South America to have diplomatic relations with Taiwan. In July 2017, during a three-day state visit, the Paraguayan president reconfirmed the bond between both countries and signed a broad economic cooperation agreement. It has yet to be seen whether the new Paraguayan government will seek closer ties with China, which has become an important trade partner of Paraguay with regard to imports (with a high percentage of goods re-exported to Brazil) but not as a destination for Paraguayan exports.

Despite significant flaws, Paraguay's economic transformation is generally viewed with optimism, as reflected in credit ratings and foreign investments. In 2017, the Paraguayan government successfully issued a sovereign bond worth \$500 million; and in 2018, it issued one worth \$530 million. Standard & Poor's and Fitch each give Paraguay BB stable and BB+ credit rating, while Moody assigns the country a Ba1 rating.

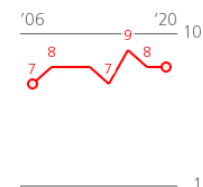
In 2011, the Paraguayan Congress ratified the founding treaty (2008) of the new South American regional organization UNASUR (Union of South American Nations). Paraguay is also a founding member of the Southern Cone Common Market (Mercosur), along with Argentina, Brazil, Uruguay and Venezuela. Asunción is the headquarters of the Mercosur Court of Arbitration.

Paraguay has had observer status in the Pacific Alliance since 2013 and would like to join the group. This is not possible because Mercosur membership impedes the country from independently signing trade agreements with third parties. But with the government turnovers in Argentina and Brazil, Mercosur might change its trade policies.

The Paraguayan economy is closely tied to those of neighboring states Argentina and Brazil, for example, in the energy sector. President Lugo (2008–2012) was able to renegotiate the Itaipú Dam Treaty with Brazil. President Cartes concluded negotiations with the Argentinean government over the distribution of accumulated debts for the Yacyretá hydroelectric dam. The outcomes of the renegotiation of the Yacyretá treaty have been criticized by the opposition and think tanks. The agreement

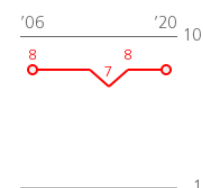
Credibility

8



Regional cooperation

8



was approved in a close vote in the Senate shortly before the transfer of the presidency from Cartes to Abdo.

President Cartes promoted closer cooperation and economic integration with neighboring Bolivia, including through the construction of an electric transmission line into the western Chaco Region and a road through the Chaco (Transchaco). Moreover, Bolivia supplies Paraguay with liquefied natural gas.

The Paraguayan government – in conjunction with the Brazilian government – was very active in blocking Venezuela’s pro tempore presidency in 2016 and then advocating for the suspension of Venezuela’s Mercosur membership.

In April 2018, the Paraguayan government was one of six governments to suspend its participation in UNASUR and to stop its contributions to the organization. The UNASUR members have not been able to elect a new secretary-general since January 2017. They are deeply divided with regard to the crisis in Venezuela. Paraguay might even leave the organization.

Paraguay aligned with Argentina, Brazil and other Latin American countries in the Lima Group in not recognizing the Maduro government in Venezuela after the fraudulent election in 2018.

Paraguay is the only South American government that still has full diplomatic relations with Taiwan, which complicates negotiations between Mercosur and China. The new government of President Abdo might change this policy, opting for closer relations with China – but without cutting ties with Taiwan.

Strategic Outlook

Paraguay's presidential democracy is characterized by a strong, bicameral Congress and a fragmented party system (including factions within parties). Consequently, many issues in political decision-making are vulnerable to vetoes, and comprehensive political and economic reforms must draw on broad coalitions.

Paraguay's democracy has been shaped by decades of the Colorado Party's dominance, which, with one exception in 2008 has won all the elections since the democratic transition in the early 1990s. It again won the presidential election in April 2018 and most of the governorships in the departments. Successful modernization of the state and the economy would undermine part of the power base, of not only of the Colorado Party, but also the Liberal Party.

President Cartes (2013–2018) had been a political newcomer who joined the Colorado Party only in 2009. In contrast, the new President Mario Abdo Benítez, the son of the long-time personal secretary of General Alfredo Stroessner, represents the more traditional sector of the Colorado Party. Nevertheless, he will be confronted with challenges similar to those of his predecessor. While the Colorados have a majority in the Chamber of Deputies, this does not mean that the party will always vote unanimously for the president's proposals. The party is traditionally divided into different factions. Former President Cartes will continue to exercise some influence in the party (for example, through the financial resources he can contribute to election campaigns as a wealthy businessman).

At the end of his term, Cartes made various decisions that had major impacts without consulting with his successor, such as moving the Paraguayan Embassy in Israel from Tel Aviv to Jerusalem. This decision was reversed by the new president. In return, supporters of the new president helped block Cartes from obtaining a powerful position as an elected senator.

In order to realize his political agenda, the president needs support from other parties as well. The agenda has still to be articulated because the campaign in the Colorado Party's internal election was basically anti-Cartes. The topics of the campaign were the re-introduction of obligatory military service, modernization of the state bureaucracy and reducing taxes for businesspeople investing in the country.

In the end, the new government will follow the line of the preceding Colorado governments: conservation of macroeconomic stability, low taxes (especially for agribusinesses), financing infrastructure projects and the fiscal deficit with sovereign bonds, and a conservative agenda of promoting family values (against gender equality and same sex marriages).

While the new government initiated a discussion about tax reform, there will not be major changes in the tax policy. The income tax of 10% will not be increased. Agricultural exports (for example, soybeans) will not be taxed. The government will focus on diminishing tax evasion and perhaps

broaden its tax base. Some advances in fighting corruption can be expected, but that will be subordinated to calculations of political convenience.

A major future challenge is reforming the state apparatus so that planned reforms can be efficiently executed and monitored. Infrastructure deficits must be addressed to make the economy more competitive. While poverty has been reduced, the number of poor people is still high and may rise again in an economic crisis. Especially in the countryside, the potential for conflict, including violent conflict, remains high.

Finally, major challenges ahead include confronting corruption – defined as one of the new government's priorities – and organized crime's infiltration of politics, or risk disintegration of state structures in parts of the country.