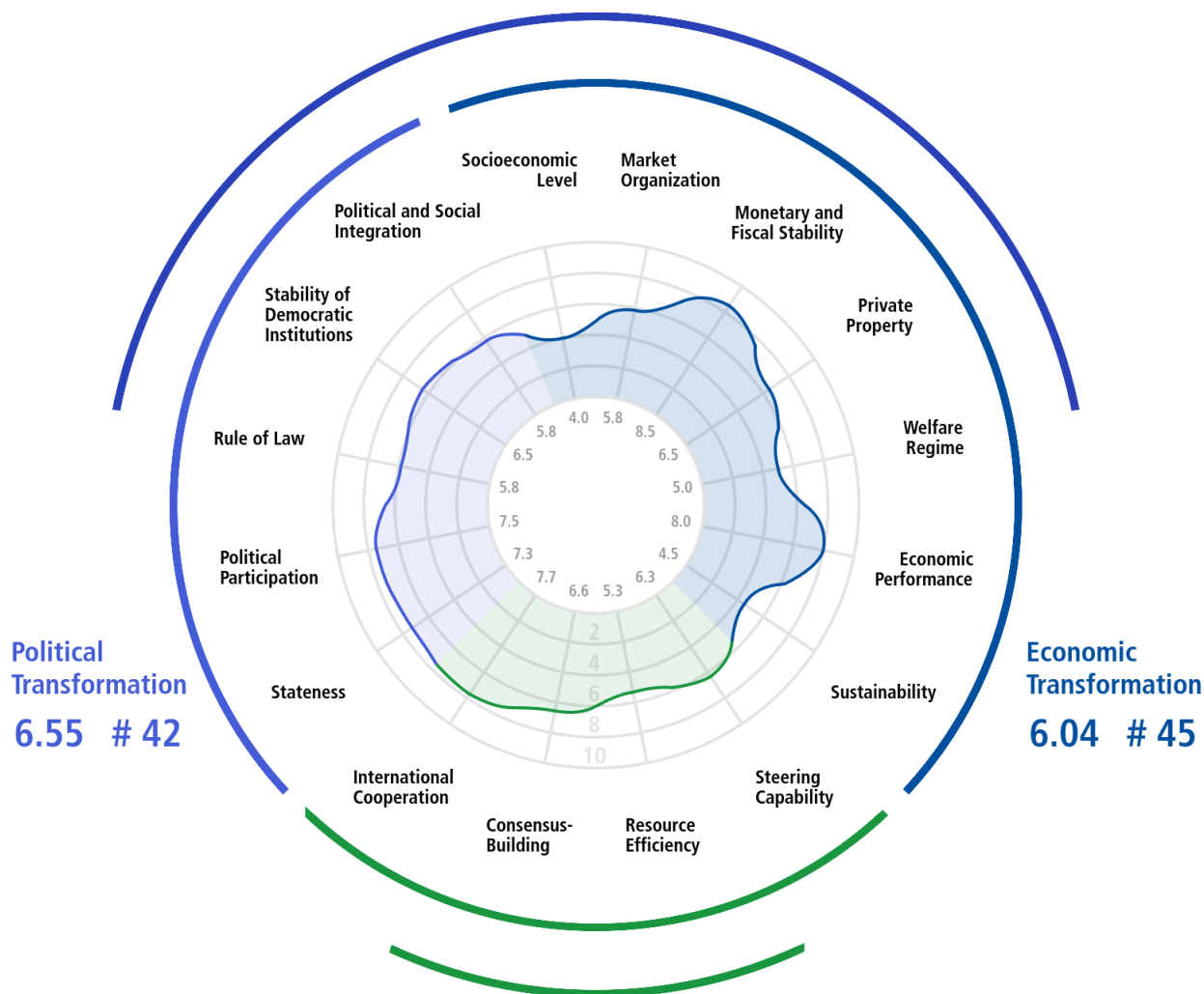


Paraguay

Status Index

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on 1-10 scale out of 137



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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	7.1	HDI	0.728	GDP p.c., PPP \$	13013
Pop. growth ¹	% p.a.	1.2	HDI rank of 189	103	Gini Index	45.7
Life expectancy	years	74.3	UN Education Index	0.638	Poverty ³	% 4.5
Urban population	%	62.2	Gender inequality ²	0.446	Aid per capita \$	18.4

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

In April 2018, the Colorado Party again won the presidential election. The new president, Mario Abdo Benítez, assumed the presidency in August 2018. He belongs to the more conservative wing of the Colorado Party. He was therefore not expected to introduce fundamental reforms to modernize the state and confront social inequality. President Abdo's party does not have a majority in the Senate (only in the House of Representatives) and is split into two factions, one of which supports former President Cartes.

In his first year in office, President Abdo managed to push through a small reform to simplify the tax system but did not raise the very low taxes in Paraguay. The president plans to renegotiate a treaty with Brazil over the binational hydropower plant Itaipú, which expires in 2023. A secret agreement negotiated in 2019 that established the operating conditions of Itaipú until 2023 caused public protests when it came to light. It was rejected by a majority in Congress because it represented additional costs for Paraguay. Only Brazil's willingness to annul the agreement and the resignation of some of those responsible for the negotiations saved President Abdo from an impeachment in August 2019. In an opinion poll, almost 70% rated his work during his first year in office as bad or very bad.

In 2019, the Paraguayan economy stagnated as a result of lower agricultural yields due to adverse weather, and lower energy production in its hydropower plants. The government reacted to the economic slump by making the fiscal stability requirements more flexible and by taking on more foreign debt through issuing sovereign bonds. The COVID-19 pandemic caught the Paraguayan economy in a moment of economic recovery. The economic slump was less pronounced, as agriculture, Paraguay's main export sector, was less affected by the economic impact of the pandemic. The government also tried to mitigate the economic consequences of the pandemic by increasing social assistance benefits. Lower government revenues were compensated for through the renewed issue of sovereign bonds. For this purpose, with the approval of Congress, the law on fiscal stability was temporarily suspended. The Paraguayan economy is expected to return to pre-crisis levels in 2021.

When the COVID-19 pandemic broke out in March 2020, the government reacted relatively quickly and efficiently. The number of people infected, and the number of deaths, was relatively low compared to other Latin American countries. At the end of January 2021 Paraguay registered 131,000 confirmed cases of COVID-19 and 2,680 deaths caused (38.54 deaths per 100,000). Due to the COVID-19 pandemic, the municipal elections scheduled for November 2020 were postponed (with the approval of Congress) until October 2021.

History and Characteristics of Transformation

Following elite power struggles, Paraguay's at times turbulent democratic transformation began in 1989 after 35 years of dictatorship under General Alfredo Stroessner. It was shaped 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 – considered to be the puppet of General Oviedo – resigned to avoid impeachment for his alleged role in the murder of Vice President Luis María Argaña. 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 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. In April 2008, after 61 years of Colorado Party domination, opposition candidate Fernando Lugo, bishop emeritus of San Pedro Lugo, won the presidential election, but his coalition failed to win a majority in Congress. Most of his legal initiatives in the area of social politics were blocked. 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. In June 2012, Congress removed Lugo from office, and Vice President Federico Franco was sworn in for the rest of the presidential term ending in August 2013.

The 2013 general elections brought the Colorado Party back to power. President Horacio Cartes squandered much of his political capital 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, won the 2018 presidential election. With 17 out of 45 seats the Colorado Party does not have a majority in the Senate. 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 divided between the supporters of President Abdo and the factions of former President Cartes.

Over these periods, Paraguay has been able to stabilize its democratic system, but serious deficiencies remain. Progress has been made in strengthening the electoral regime and neutralizing the military's veto power, but the rule of law remains weak and progress in fighting corruption has been sparse.

Regarding economic transformation, Paraguay has largely maintained its free-market model, based on agricultural production and exports and hydroelectric power plants, with few mechanisms to ensure greater equality and a still huge informal sector. Apart from the Lugo episode, Colorado governments were in office for the entire period and almost all followed a similar line: maintaining macroeconomic stability, low taxes (especially for agribusiness), and financing infrastructure projects and the budget deficit with sovereign bonds. An important milestone was the Fiscal Responsibility Law (FRL) passed by the Cartes government in 2013, which limits the budget deficit (to 1.5% of GDP), the growth of current primary spending, and current spending in election years. In the area of social policy, the CCT program Tekoporã has been in place since 2005 to achieve greater transparency and accountability in social assistance.

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) and local criminal groups. Police forces are easily outgunned by Brazilian criminal groups.

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 2019 (U.S. International Narcotics Control Strategy Report 2020), Paraguay is still one of the principal producers of marijuana in Latin America and a significant transit country for drugs (cocaine) from the Andean countries. Traffickers exploit the country's porous borders, clandestine airstrips, lack of airspace control, extensive internal waterways, and under-resourced, often corrupt law enforcement and judicial officials to transit cocaine, primarily to Brazil.

Since its founding in 2008, the Paraguayan People's Army (EPP) has carried out attacks in the countryside (with isolated acts in Asunción). The group has attacked military and police outposts and patrols, private-security guards, and ranchers; has

Question
Score

Monopoly on the
use of force

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7 6

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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 (with fewer than 100 active members), its existence reveals the ineffectiveness of state and local security forces. Despite an increase in military and police resources, successive Paraguayan governments have failed to 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 (based on the last census in 2012: approximately 120,000 people or 2% of the population, living in 493 communities, 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. 90% of Paraguay's non-indigenous population speaks Guaraní as a first or second language. In 2018, 37% of the population over five years old spoke Guaraní at home, 29.3% Spanish, and 30.7% combined both languages.

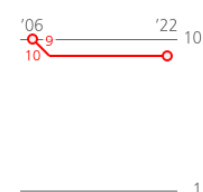
There is a significant population of approximately 500,000 Brazilians in the border area (the so-called *Brasiguayos*). Many are landowners in possession of large parcels of arable land used for soybean production (95% is produced by *Brasiguayos*). The loyalty of such landowners lies more with Brazil than with the Paraguayan state, and the Brazilian government defends their interests against expropriation and expulsion. The possession of large tracts of land by foreigners adds a unique 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. Access to citizenship and naturalization is not denied to particular groups.

Church and state are separate according to the constitution, which proclaims that there is no official state religion. The constitution declares that the relationship between the state and the Roman Catholic Church is based on independence, cooperation, and autonomy (Article 24). As a pressure group, the Catholic Church has considerable influence over certain subjects discussed in bills introduced by Congress, such as abortion, divorce and gay marriage. Both Chambers of Congress (in December 2018 and March 2019) and various municipalities have passed resolutions that they are "pro-life and pro-family." The Catholic Church is consistent in voicing its concern about corruption, social inequality and poverty, as well as the system of justice in Paraguay.

State identity

9



1

No interference of religious dogmas

8



1

During the review period religious groups from within the Catholic Church and from other religious denominations have been very influential on government policies and norms related to gender and sexual education, as well as to LGBTQ+ rights. These religious groups, especially from evangelical sects, are fierce lobbyists of the National Congress. They have also been granted space within Congress to conduct prayers. There is no doubt that these religious groups are gaining excessive influence and have been able to shape state policies to reflect their religious beliefs.

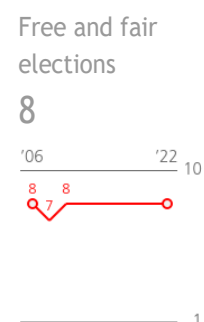
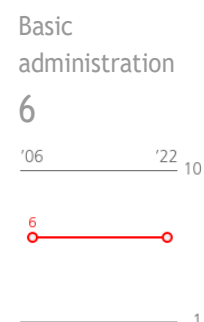
Approximately 88% to 90% of the population is Roman Catholic, with another 6% to 10% belonging to evangelical Protestant denominations. Other religious groups constitute less than 4% of the population. An estimated 46,000 to 100,000 people, concentrated in remote areas of the central Chaco and some eastern regions, are members of the Mennonite Church.

The state maintains a functioning basic infrastructure throughout most of the country, including staffing administrative institutions, hiring officials, administering justice as well as developing 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. In addition, 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. The health infrastructure is not sufficiently prepared for major epidemics and pandemics. 100% of the population in urban areas and 94.9% in rural areas have access to drinking water (2015). 95.5% of the population in urban areas and 78.4% in rural areas are connected to sewage systems (2015) (CEPALSTAT).

There were some COVID-19 pandemic-related service disruptions with regard to the distribution of drinking water and hand sanitizers (UNICEF database).

2 | Political Participation

The general elections on April 22, 2018, which were won by the Colorado Party's presidential candidate, were held 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 representing the entire political spectrum from right to left participated. Both freedom of assembly and freedom of expression were ensured. Turnout in the 2018 presidential election was relatively 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.

Due to the COVID-19 pandemic the municipal elections scheduled for November 2020 have been postponed (with the approval of Congress) until October 2021. The next general elections will be held in 2023.

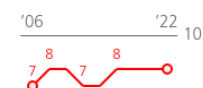
Democratically elected representatives have the power to govern, and the influence of veto powers, especially the military, has declined. The military is clearly subordinated to civilian government control.

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. Representatives of these groups and their technical aides participated in the elaboration of the last tax reform (becoming law in September 2019) to avoid measures that would have obliged them to pay higher taxes.

Landowners (especially soybean producers and cattle ranchers) have sufficient power to avoid taxes altogether, and 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

Effective power to govern

8



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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.

Business leaders formed an alliance with trade union leaders to oppose the conformation of a regulatory body to control the use of pension funds. A bill submitted by the executive in 2019 was rejected in Congress.

The country has a low overall rate of taxation (10% 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.

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 6.5% of the formal labor force (but significantly higher in the public sector).

Farmers have primarily organized around the land problem and more recently have demanded a comprehensive agrarian policy for smallholders. The main organization is the Federación Nacional Campesina (FNC). However, in total, only 4% of workers are covered by collective bargaining. In 2019 social discontent led to various demonstrations and blockades of roads by students and small farmers. The secret agreement between Paraguay and Brazil on Itaipú also led to protests by citizens. These protests and demonstrations have often led to clashes with the police and repressive measures.

Due to the COVID-19 pandemic, since March 2020 all public gatherings have been suspended. On March 16, the president declared a "state of sanitary emergency" which authorized the Ministry of Public Health and Social Welfare to provide "general preventative isolation" for the protection of public health. Amnesty International refers to several reports of ill-treatment, humiliating and/or degrading punishment in arrests by security forces who were enforcing compliance with quarantines. Human rights groups have criticized the selective enforcement of COVID-19 pandemic restrictions in relation to infractions by government members and their allies (as during the wedding of ex-president Cartes' daughter) compared with infractions by people protesting against the government. The restrictions have been extended a number of times. As of January 31, 2021, social gatherings in public of up to 100 people and for up to four hours are allowed, with a distance of two meters; a curfew is in effect from 00:00 to 05:00.

Association /
assembly rights

8

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Freedom of opinion and freedom of the press are constitutionally guaranteed and, in general, citizens can express their opinions freely. Reporters without Borders ranked Paraguay 99 and 100 (out of 180 countries) in the World Press Freedom Index in 2019 and 2020. There is a pluralistic media sector, including private and public radio and TV broadcasters. Generally, media pluralism is threatened by ownership concentration and the influence that political parties and economic interest groups exert over the media. Politicians and entrepreneurs have rented journalists to produce news or opinion articles favorable to their interests. 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.

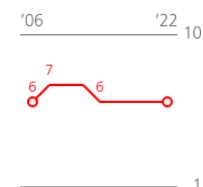
In 2014, a freedom of information law was introduced, requiring public institutions (including Congress) to divulge information (for example, related to salaries and contracts). Investigative journalists have used the new law to uncover networks of corruption. However, in August 2019, the government promulgated a law which shields the sworn statements of public officials and private companies that bid with the state.

Journalists critical of politicians are sometimes physically threatened. Reporters have been intimidated, especially when they focus on corruption or organized crime (particularly in remote border areas). Moreover, many journalists work under unstable labor and contract conditions. In July 2019, two journalists were injured by rubber bullets fired by police while covering a protest in Asunción, prompting condemnation by press freedom groups.

The government does not restrict internet access or content. 60.5% of Paraguayans report using Facebook, and 69.2% indicate using WhatsApp (Twitter 7.9%); the proportion of users of both social networks is higher than the regional average (LAPOP). 95.8% have a mobile telephone and 4.1% internet in their home. A high percentage of Paraguayans use social media (especially Facebook and Twitter) to obtain political information.

Freedom of expression

6



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. Judges' careers are dependent on the political will of Congressmen that have seats in the Jury of Prosecution ("Jurado de Enjuiciamiento") and can exert influence on court rulings. Newly elected presidents have repeatedly attempted to change the composition of the Supreme Court.

In comparison with the constitutional attributes of other Latin American presidents, the Paraguayan president is not politically strong. In 2018 and 2019, a third of the presidential vetoes (5 out of 15) were overruled by Congress (with a simple majority in both chambers) and rejected. With regard to the nomination of ministers and control over the budget, the president must adjust his policy to take account of congressional majorities. Congress can make all types of amendments to the national budget, without formally estimating state income and revenues.

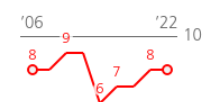
While a state of emergency law was approved by Congress in late March 2020, in early April Congress also created a bicameral commission to oversee the spending of the emergency budget. While the judiciary stopped working partially due to lockdown measures in March and April 2020, there is no evidence that judicial independence has been affected by measures related to the COVID-19 pandemic.

The judiciary is the subject of - as well as an actor in - recurring power struggles at the margins of the rule of law. In some cases, these are fostered by ambiguities within 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.

In January 2021 a judge ordered the arrest of Efraín Alegre, the Liberal Party's presidential candidate in the 2013 and 2018 general elections, for not meeting bail conditions (the bail was fixed at \$21,500) in a case related to charges of illegal campaign financing (the small sum of \$14,800). Alegre maintained that the charges were fabricated. He accused Attorney General Sandra Quiñónez of advancing an arbitrary judicial process against him on behalf of former President Horacio Cartes, who had appointed her in 2018. In contrast, despite an international arrest warrant issued in Brazil for money-laundering, ex-President Cartes was not investigated in Paraguay. During Abdo's presidency five new Supreme Court judges have been appointed (between 2018 and 2020). While the first two appointments met with broad approval, traditional practices seem to be in evidence for the next three appointments. The vast majority of judges (5 of 7) are considered sympathizers of the Colorado Party.

Separation of powers

8



1

Independent judiciary

5



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Judicial disciplinary review processes are often politicized. 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. It is also involved in the impeachment of judges. In 2019, the Judicial Independence Index of the World Economic Forum ranked Paraguay 138 out of 141 countries with a value of 1.7 (1 = not independent at all; 7 = entirely independent), lower than the values for 2018 (1.9), 2017 (2.1) and 2016 (2.2). The Index of Public Integrity (IPI) ranks Paraguay 114 out of 117 countries worldwide and 15 (out of 18) within the regional group regarding judicial independence.

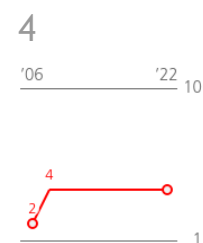
Corruption remains a central feature in state and administrative culture; many of the state's resources are distributed based on patronage networks. The Global Competitiveness Index 2019 ranks Paraguay 60 (out of 141 countries) with regard to budget transparency and 111 with regard to incidence of corruption. Paraguay ranks 12 out of 15 Latin American countries in the 2020 Capacity to Combat Corruption (CCC) Index.

Although the perception of corruption in the country has been declining in recent years, it remains high. In 2019, 71% of Paraguayans (2010: 86%) believed that corruption was at least somewhat widespread (LAPOP). The percentage of Paraguayans who have been the victim of at least one bribery request during the last 12 months reached 28.3%, one of the highest percentages in Latin America and the Caribbean. Approximately 30% trust the capacity of the institutions to investigate and punish those responsible for acts of corruption in the country.

Public employees who fail to comply with financial disclosure laws are banned from government positions for up to 10 years, but enforcement is extremely poor. Charges and convictions for corruption tend to affect lower- and mid-level officials, while high-ranking officials tend not to be prosecuted. Although the Brazilian Lava Jato prosecutors initiated proceedings against former President Cartes for his alleged involvement in a money-laundering and kickback scheme, and issued an international arrest warrant in November 2019, he was not prosecuted in Paraguay. In July 2020, the Paraguayan attorney general presented formal charges against the former director of the dismantled Specialized Technical Customs Surveillance Department (Departamento Técnico Aduanero de Vigilancia Especializada – Detave), and 11 other officials for bribery, criminal association and contraband.

At the height of the pandemic there were irregularities in the emergency purchase of medical equipment. These irregularities were discovered and prosecuted by the general audit office (Controlaría General) and the public prosecutor's office. Misused funds have been subsequently recovered. Seven officials from the Ministry of Health remain under investigation.

Prosecution of
office abuse



Civil liberties are largely secure. There are no political prisoners. The law prohibits arbitrary arrest and detention, but the police do not always observe this. The constitution provides for the right to a fair and public trial. Nominally citizens are equal before the law and have equal access to justice. Defense attorneys, however, often manipulate the judicial process to reach the statute of limitations before trials are concluded. It is easy for politically connected or wealthy defendants to be released on bail and to benefit from other concessions, such as house arrest.

Defendants have the right to a trial without undue delay, although trials are often protracted. Criminal cases typically spend several years in court. In October 2019, 74% of male and 65% of female prisoners were awaiting trial. Harsh and sometimes life-threatening conditions in the country's overcrowded prisons have repeatedly been the subject of criticism. The government's human rights bodies are not efficient, do not coordinate and do not consult human rights NGOs. Human rights defenders working to promote small farmers' rights have been harassed and threatened. Human rights organizations also claim that the fight against the EPP has been militarized and that human rights have not been sufficiently respected.

There are many cases of human rights violations in Paraguay, primarily centered on land disputes between small farmers, indigenous people and large landowners. These cases (and many others) have been placed in international and regional courts of which Paraguay is a member. The majority of court rulings on these cases have been unfavorable to the Paraguayan state. Compliance with these rulings by Paraguay can be subject to extensive delays. Whereas an increasing number of laws and international treaties protect the rights of indigenous people, they have not always been sufficiently respected.

No laws explicitly prohibit discrimination against LGBTQ+ 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 LGBTQ+ people.

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 the majority of 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. The ruling Colorado Party is currently split between the faction of President Abdo and the faction of his predecessor Cartes. These divisions lead to cross-party alliances, shifting voting coalitions and political blockades, all of which subjects political decision-making to short-term strategic calculations and makes long-term planning difficult.

Civil rights

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Performance of democratic institutions

6



10

1

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.

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. Cartes' plan sparked major political rifts and violent protests, but ultimately the conflict was resolved within a democratic framework.

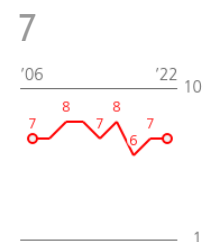
Major conflicts during President Abdo's term, such as disputes over the secret treaty on Itaipú, have also been resolved within the institutional framework. The president reacted to criticism from parliament and annulled the agreement, while those responsible for the deal were forced to resign from their posts.

5 | Political and Social Integration

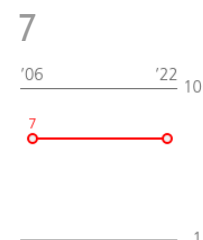
The Paraguayan party system is still dominated by two traditional parties, the Colorado Party and the Liberal Party, which is the major opposition party. Each has been operational for more than 100 years. In the 2018 elections, the two parties won 16 out of 17 departmental governorships, nearly 75% of the seats in the Chamber of Deputies and two-thirds of the seats in the Senate. The effective number of parties increased marginally 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 remains the strongest party. During 70 years in power, the party has created a close-knit patronage network. 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. Based on data from the Supreme Electoral Court in 2018, the Colorado Party had 1,430,000 affiliated members with sole membership and 780,000 members who also belonged to other parties. The Liberal Party had 716,000 affiliated members with sole membership and 565,000 who also belonged to other parties. Smaller parties generally have fewer than 3,000 members (with sole party memberships). 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 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 typical. The left is particularly divided.

Commitment to democratic institutions



Party system



Due to the dominance of the two traditional parties and the relative weakness of the left, political polarization in the party system is relatively low. The left have also made agreements with other parties.

In 2019, 32% of Paraguayan citizens expressed trust in political parties, slightly higher than the Latin America average (28.2%) (LAPOP).

The 2019 reform of the electoral system (Ley 6318/2019) established an open-list proportional system, which allows electors to vote for individual candidates on a party list. This will strengthen the candidates and MPs vis-à-vis the parties and further weaken party discipline. It will also make it easier for business interests and organized crime to influence the elections. The justification for the reform was that it would provide options to the electorate to vote for the less corrupted and clientelist candidates of the traditional parties and permit more space for other parties.

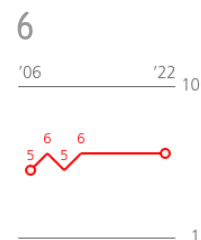
According to presidential decree 3536, public funding for political parties has been suspended as part of the emergency measures taken during the COVID-19 pandemic.

The system of social interest groups is weak, politically fragmented and dominated by a small number of 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. The rate of unionization was only 5.7% in 2019 (28% in the public sector and 0.6% in the private sector). Of 715 trade unions in 2020, 54% (388) are in the private sector, 43% (306) in the public sector and 3% (21) in binational entities (Itaipú and Yacyretá). There are several competing trade union federations (7 active and 4 inactive in 2020). Strong organizations represent the interests of rural landowners (cattle ranchers and soybean producers), such as 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 (FNC) and the Coordinadora Nacional Intersectorial (CNI). However, these organizations often lack adequate means for articulating and promoting their 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 neutralize to some degree peasants' demands and subsequent voting behavior on election days.

Interest groups



Over the past few years, a strong new social movement has developed in Paraguay, as secondary-school (organized in the National Federation of Secondary Students; FENAES) and university students have mobilized and demonstrated in support of greater education expenditure (as a percentage of GDP), improvements in school infrastructure and a higher quality of education, and against corruption and authoritarianism in educational institutions.

Support for democracy has traditionally been low among Paraguayan citizens. The percentage that views democracy as the best form of government decreased to its lowest historical level in 2016 (48.6%) and rose only slightly in 2019 (51.2 %) (LAPOP).

Compared to the rest of Latin America, a relatively high but declining percentage of the population is open to the idea of an authoritarian government. The level of support for military coups due to high levels of corruption decreased considerably, from 44.2% in 2016 to 34.7% in 2019. The tolerance for military coups as a reaction to high crime rates decreased from an all-time high in 2012 of 54% to 41.8% in 2019 (2016: 46.6%). Although the tolerance for executive coups to close the legislature (27.2%) is lower than the tolerance for military coups to fight crime or corruption, the tolerance level has not changed much since 2014.

In 2018, only 10% of respondents agreed that the country was governed for the common good (the Latin America average was 17%). 87% said the country was governed in the interest of and for the benefit of small powerful groups (Latin America average: 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 average: 21% and 24%). Trust in political parties was lower still, at 21%, which is nevertheless the highest in the region, along with Uruguay. Trust in the military (52%) and the Catholic Church (82%) was comparatively higher.

Although trust in political parties is low, party loyalty is relatively high, and voters continue to vote for the traditional parties by a large majority.

Autonomous organization in civil society is inconsistent. 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 the main objectives of these groups 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 at a community level, and other types of civic engagement that are 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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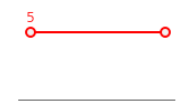
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Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

Paraguay is ranked 103 out of 189 countries in the 2020 Human Development Report with an HDI value of 0.728, below the average (0.753) for countries in the high human development group, and below the Latin America and Caribbean average (0.766). If adjusted for inequality, Paraguay's HDI value falls by 23.5% (to an IHDI of 0.557). The country's ranking in the Gender Inequality Index in 2019 was 107 out of 162 countries, with a score of 0.446 (compared to 0.389 for the overall Latin America and the Caribbean region, and 0.340 for high HDI countries).

Social exclusion is quantitatively and qualitatively extensive and structurally ingrained. While a slight improvement in income inequality was recorded, the Gini index remains high (46.1). Employment is highly informal. Among workers aged 15 and older in non-agricultural jobs, 64% hold informal jobs. Strong growth led to a sharp reduction in poverty. Between 2002 and 2019 the poverty rate more than halved, but poverty reduction has slowed in recent years. In 2019, the poverty rate fell to 23.5% (EPHC) from 24.2% in 2018. The share of the population living in extreme poverty fell from 4.8% in 2018 to 4.0% in 2019. The incidence of poverty in rural areas is higher (33.4% in poverty, 7.8% in extreme poverty) than in urban areas (17.5% in poverty, 1.8% in extreme poverty). High economic growth during the boom period (until 2018) enabled a growing middle class as in other Latin American countries. However, most of the middle class created during that period did not reach economic security and remain economically vulnerable.

The economic consequences of the COVID-19 pandemic disproportionately affect low-income sectors of the population, women, and informal sector employees. According to the World Bank, unemployment and underemployment are expected to increase in commerce, services and construction. Labor incomes are expected to fall, especially for workers in the informal sector.

Question
Score

Socioeconomic
barriers

4

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	38997.1	40225.4	37906.9	35304.2
GDP growth	%	4.8	3.2	-0.4	-1.0
Inflation (CPI)	%	3.6	4.0	2.8	1.8
Unemployment	%	4.6	5.6	6.6	7.6
Foreign direct investment	% of GDP	1.9	0.8	1.6	-
Export growth	%	8.5	-0.4	-3.4	-4.4
Import growth	%	12.3	8.3	-2.0	-14.4
Current account balance	\$ M	1132.0	-67.2	-211.6	737.6
Public debt	% of GDP	19.8	22.3	25.8	36.7
External debt	\$ M	15929.0	15799.2	16387.6	19763.4
Total debt service	\$ M	1771.9	2300.7	1383.3	718.1
Net lending/borrowing	% of GDP	-0.4	-1.0	-2.4	-
Tax revenue	% of GDP	10.0	10.1	10.0	-
Government consumption	% of GDP	11.1	11.5	12.0	12.9
Public education spending	% of GDP	3.1	3.3	3.5	-
Public health spending	% of GDP	3.0	2.9	-	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	0.9	1.0	1.0	1.0

Sources (as of December 2021): 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. The government sets electricity rates and subsidizes state-owned enterprises. Free-market competition and the protection of property rights are limited by endemic corruption and political influence in government administration and the judiciary. The lack of consistent property surveys and registries makes it difficult to acquire land titles.

Regulations are inconsistent and are frequently not implemented. According to the World Bank's Doing Business 2020 ranking, starting a business is difficult (160 out of 190 countries; 25 out of 32 in Latin America and the Caribbean), requiring seven procedures, 35 days and incurring a cost of 52.2% of per capita income. 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.

The informal sector is large, accounting for 63.4% of total employment in the non-agricultural sector and 93.1% in the agricultural sector (2019, ILO data). Economic activity is dominated by small and micro enterprises. On December 31, 2020, taxpayers registered with the Ministry of Finance represented only 24% of the total economically active population. The informal sector includes, apart from licit but unregistered activities, cross-border smuggling and the illegal production and sale of narcotics, pirated music, stolen automobiles and weapons.

The Global Competitiveness Index for 2019 ranks Paraguay 97 out of 141 countries (in 2018: 95 out of 140), and 115 with regard to institutions.

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.

CONACOM is not really an independent authority. Its members are chosen by the executive and business associations are allowed to participate in the selection process. Only a few cases of minor relevance have been presented to CONACOM, with the exception of a case presented by cattle farmers in 2020 against an oligopoly formed by foreign meat packing companies.

While oligopolies exist in the private sector (in banking, supermarkets and the mass media), the state holds a monopoly in some sectors. This includes telecommunications, where the Corporación Paraguaya de Comunicaciones holds the monopoly on fixed-line voice services, including local telephony, international long-

Market
organization

4

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1

Competition policy

3

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distance telephony, and VoIP, and electricity (Administración Nacional de Electricidad, ANDE).

The Global Competitiveness Index for 2018 ranked 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 34.7% of GDP in 2019 (CEPALSTAT). Exports are highly concentrated in a few products (soybeans and oil, electricity and meat). The country's membership in Mercosur has liberalized trade with Argentina, Uruguay and Brazil.

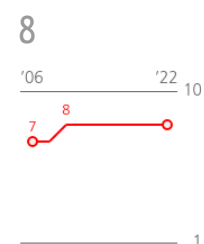
The simple average applied MFN tariff rate was 9.8% in 2019 and was almost identical for agricultural and non-agricultural products. However, non-tariff barriers exist. According to the International Trade Administration, Paraguay prohibits the import of used cars over ten years old and used clothing, and sometimes applies seasonal restrictions on some vegetables (e.g., tomatoes and onions) to protect local producers. In addition, cumbersome and time-consuming customs procedures add to the cost of trade. In the 2020 Doing Business Report, Paraguay was ranked 125 out of 190 countries; in the specific ranking of "trading across borders," it ranked 128 (22 out of 32 in Latin America and the Caribbean). Paraguay has to date been involved in 21 World Trade Organization (WTO) trade disputes, but only as a third party. It has been a WTO member since 1995.

The banking system is solid and oriented toward international standards. The Global Competitiveness Index (GCI) 2019 ranks the Paraguayan financial system 93 (out of 141 countries). After several banking crises in the 1990s and early 2000s, the legal and regulatory framework of banking supervision has improved considerably and has 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.

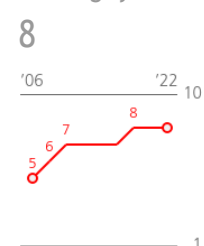
According to the Narcotics Control Strategy Report 2020 of the Department of State, the government has worked to reduce the criminal use of Paraguay's financial system to launder illicit proceeds. Paraguay established the National Secretariat for Asset Forfeiture (SENABICO) in 2018, and in 2019 it introduced ten significant anti-money-laundering laws. However, there remain major deficits in terms of implementation of existing laws and securing money-laundering convictions.

GCI 2019 evaluates the soundness of banks at 5.6 (on a scale from 1 to 7), ranked 40 out of 141 countries. According to financial stability indicators, the banking system is well capitalized and non-performing loans are low (3.0%). The capital-to-asset

Liberalization of
foreign trade



Banking system



ratio is 14.9%, though access to credit is limited. The World Bank 2020 Doing Business Index ranks Paraguay 132 (out of 190 countries) in the category of access to credit.

As a measure to mitigate the economic consequences of the pandemic, low interest-rate credits were made available to formal small and medium-sized enterprises through the National Development Bank, the Financial Development Agency and the Agricultural Loan Facility. The BCP reduced the policy interest rate to 0.75% and temporarily relaxed rules for banks to renew, refinance, and restructure loans without penalty, and with a lower risk weight.

8 | Monetary and fiscal stability

Controlling inflation and a suitable foreign-exchange policy are stated objectives of government economic policy. Inflation is under control at less than 2% in 2020 (2019: 2.8%; 2018: 3.2%;) and has remained within the range established by the central bank in 2017 of 4.0% (+/-2%).

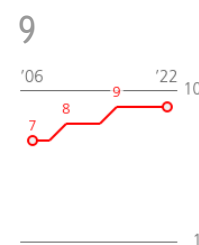
Paraguay has a floating exchange rate. Because of close ties to its two big neighbors in the Mercosur, the Paraguayan currency (guaraní) depends on economic development and currency rates (measured against the U.S. dollar) in Argentina and Brazil. The real effective exchange rate index (World Bank) (2010 = 100) indicates stability since 2011 (112.2) with only slight fluctuations (reaching 110.1 in 2019). The guaraní had further depreciated by 8.5% against the U.S. dollar by September 2020 but appreciated against the Argentinian peso and the Brazilian real.

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 relatively autonomous in its decisions.

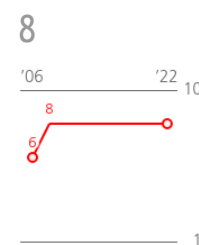
Paraguay has a track record of prudent macroeconomic policy based on sound fiscal rules, inflation targeting, a moderate and sustainable public debt, and a flexible exchange rate regime. The 2013 Fiscal Responsibility Law (FRL) established budget deficit limits of 1.5% of GDP beginning in 2015. As a result, the fiscal deficit has remained relatively low until 2018 (ECLAC data) reaching 1.3% of GDP (with a primary fiscal deficit of 0.7%). In response to a recession in the first half of 2019, the government invoked the emergency escape clause of the FRL that allows an increase of the deficit ceiling in case of a decline in economic activity up to 3% of GDP in times of crises. As a result, the central government's budget reached a deficit of 2.8% of GDP in 2019.

Taxation is low, with a personal income tax of 8% to 10%, and a business income tax of 10%. The value-added tax is 10% (5% for basic items in the food basket). In 2019

Monetary stability



Fiscal stability



75% of collected taxes came from value-added tax, the selective consumption tax and import taxes; 25% were derived from corporate income taxes and personal income taxes.

The government has resorted to external borrowing to finance portions of its deficit and has successfully issued several sovereign bonds in the international financial market. The Abdo government issued its first sovereign bond in February 2019, worth \$500 million (for 31 years with a yield of 5.4%) which was seven times oversubscribed. As a consequence, public debt increased to 25.6% of GDP in 2019 and 34.9% in 2020 (IMF). External debt increased to 42.5% of GDP in 2019. To mitigate the economic consequences of the pandemic in 2020, Congress authorized up to a maximum of \$1.6 billion (4% of GDP) new external debt and allowed the government to suspend the FRL for up to four years. While public debt is still modest in terms of international standards, it is less so in terms of fiscal revenues (since taxes are very low).

On March 19, 2020, the World Bank approved a financing package for a total of \$300 million to mitigate the impact of the pandemic (including \$100 million to finance productive agricultural activities that will benefit around 170,000 small and medium size farmers and indigenous agricultural producers). On April 21, 2020, the IMF approved a \$274 million loan under the Rapid Financing Instrument (RFI); and on April 23, the government successfully issued \$1,000 million in international sovereign bonds. In January 2021, the government placed another round of sovereign bonds in the international market, for a total of \$826 million. The transaction included the acquisition of new debt to a value of \$487 million, which will be used to finance the 2021 budget, and a repurchase of the 2023 sovereign bond of \$339 million. The operation received demand of more than \$5,000 million, which implies an oversubscription of more than six times. Standard & Poor's and Fitch each give Paraguay a BB/B stable and BB+ credit rating, while Moody assigns the country a Ba1 rating.

As a result of increased government spending during the COVID-19 pandemic the fiscal deficit was expected to reach 6.5% in 2020. The government's goal is to return the deficit to the FRL ceiling by 2024, which will be important to ensure the continued credibility of the fiscal framework.

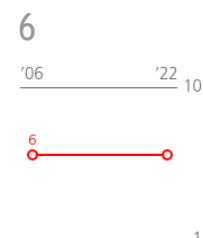
9 | Private Property

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 because of the inefficiency and corruption in the judicial system. While there has been progress in the cadastre system since 2016, land titles are still frequently ill-defined, especially in the agricultural sector leaving property rights and contracts insecure. 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 lead to conduct that falls outside the rule of law. Acquiring the necessary documents for land titles takes considerable time, adding to conflicts over land titles, and thus property rights. The World Bank (2020) ranks Paraguay 80 out of 190 countries (7 out of 32 in Latin America and the Caribbean) regarding the ease of registering property, with a score of 66.1. This is better than the Latin American average of 54.9. While Paraguay increased its score with regard to protection of property rights in the Index of Economic Freedom from 38.30 (2018) to 44.7 (2020), it remains relatively low (maximum value 100).

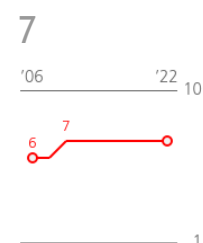
Private activities represent the backbone of the economy. Concentration of market power is tolerated by the state, for instance, in the media sector. In some sectors, such as telecommunications, petroleum distribution, cement, electric-power generation, and water services, state-owned enterprises exercise a monopoly or subvert fair competition. 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 corruption. There is no privatization program under President Abdo. As a response to the COVID-19 pandemic the government did not take equity stakes in troubled firms or nationalize companies to prevent bankruptcy. Instead, the government eased credit options and granted tax deferrals for private companies.

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. This has been continued by his successor. 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) amounted to \$479.5 million in 2019 and the five-year average FDI inward flow hovered around 1.4% of GDP (Global Competitiveness Index 2019), relatively low by Latin American standards.

Property rights



Private enterprise



10 | Welfare Regime

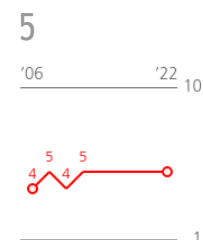
Social safety nets are sharply segmented in terms of territory, class and sector. Social expenditure (by the central government) as a proportion of GDP has stagnated since 2012 and was 8.6% in 2018 (ECLAC), the lowest percentage in Latin America. Social protection in Paraguay is divided between contributory social security and social assistance. Since 2018, the Ministry of Social Development is responsible for social development policies and coordinating actions to reduce poverty and improve living conditions of vulnerable people. Life expectancy in Paraguay is relatively high at 75 years.

The contributory social security system extends only to formal sector employees. According to OECD's 2019 Multi-dimensional Review of Paraguay, coverage is low; in 2017 only 21.8% of employees made social security contributions. Contribution levels are lower than in most OECD countries, while the 100% replacement rates for full retirement in the main regimes are higher than those of OECD countries and Latin America as a whole. The largest excluded group is the self-employed. They can contribute voluntarily to the pension regime, but only a small percentage do so. Only 46% of the population above age 65 had a pension. The Adultos Mayores program was introduced to grant subsidies to elderly people in extreme poverty and had 193,000 beneficiaries in 2019. The pension system is organized on a pay-as-you-go basis. Due to the country's demographics, there is less necessity for a general overhaul of the system than for an increase in administrative efficiency and a curbing of corruption.

According to PAHO's 2017 "Health in the Americas+," the Paraguayan health system comprises public, private and mixed sectors. It operates in an uncoordinated and fragmented manner, with different financing, regulation, enrollment, and service delivery modalities, and is characterized by an asymmetrical territorial coverage. The Ministry of Public Health and the Institute of Social Welfare (IPS) are the most important health institutions in Paraguay and together cover approximately 95% of the population. The IPS covers around a fifth of the population, primarily workers in the formal sector and their families; the majority of the population has no health insurance and is covered by the ministry. Public spending for health was 3.0% of GDP and private spending 3.6% of GDP in 2017 (WHO).

President Cartes and President Abdo both continued the CCT program Tekoporã as well as the Adultos Mayores program. As a response to the pandemic, the government launched two complementary programs, Ñangareko and Pytyvõ. Ñangareko began as a food safety program but was quickly transformed into paying cash transfers to families with income from subsistence activities or activities strongly affected by the social distancing measures of the pandemic. Each beneficiary received a monthly transfer equal to 23% of the minimum wage. Until June 16, 2020, Ñangareko

Social safety nets



subsidies had been awarded to 285,340 people. The Pytyvõ program was aimed at informal workers and consisted of temporary financial aid for two months, corresponding to 25% of the legal minimum wage. There were 1.15 million beneficiaries. In addition, advance and additional payments were made to 165,000 beneficiaries of Tekoporã and 205,000 of Adultos Mayores. These social programs have been efficient in mitigating the drop in income experienced by recipients and the vulnerability of jobs during the pandemic. The implementation of these programs was swift and effective, especially in isolated rural areas.

Discrimination is prohibited by the constitution, but there is no executive law on this and ergo no legal basis for enforcement. Women are disadvantaged both economically and politically. The Gender Inequality Index 2020 ranks Paraguay 107 with a score of 0.446 (worse than the regional average of 0.389). The female labor force participation rate was 59.2% (LAC 52.1%), compared to 84.6% (LAC 76.9%) for men. GNI per capita was \$8,855 for women and \$15,483 for men. 25% of women (9% of men) in urban sectors and 33% (12% of men) in rural sectors have no income of their own (2019). The literacy rate in 2018 was 94.5% for men and 93.5% for women. The percentage of the population with at least some secondary education is 49.2% for women and 51.2% for men. The poorest population only experience 5.8 years of schooling, while the richest experiences, on average, 10.8 years. Indigenous people only experience up to 3 years on average.

After the 2018 general election, just 15% (2013: 17%) of Chamber of Deputies seats and 18% (2013: 20%) of Senate seats were occupied by women. None of the 17 governors elected in 2018 were women. Around 10% (2010: 8%) of the mayors and 22% of the city councilors elected in 2015 were women. One of the three justices on the Supreme Electoral Court is a woman. Two of the nine justices on the Supreme Court are women (2020).

The indigenous population is denied equal development opportunities. Poverty rates are significantly higher for them than for the rest of the population.

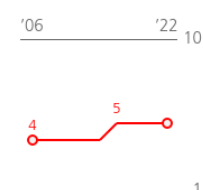
11 | Economic Performance

The performance of the Paraguayan economy, despite difficulties, has remained solid. It grew at an average rate of 4.1% per year between 2013 and 2018, but then stagnated in 2019 (0.0%), affected by adverse weather conditions (drought and flooding had a negative impact on agriculture) and the economic situation of its main trading partners, Argentina and Brazil. Hydro-electricity production was also hurt by low water levels.

The Paraguayan economy was much less affected by the COVID-19 pandemic than the rest of Latin America. According to IMF data, the economy contracted by only 0.9 % in 2020 and will recover by 4.0% in 2021. Paraguay's high dependence on

Equal opportunity

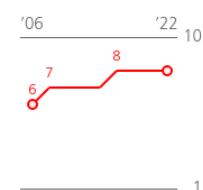
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Output strength

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agriculture was helpful because this sector was much less affected by the pandemic relative to other sectors. In contrast to 2019, the weather in 2020 was conducive to agriculture, resulting in a high level of soybean production (Paraguay's most important export commodity). In addition, government-sponsored public works that formed part of its economic stimulus package boosted the construction sector. In the second quarter of 2020 agriculture grew by 17.5% and construction by 9%, year on year. The current account balance turned positive in 2020 at \$122 million, after deficits of \$70 million in 2018 and \$385 million in 2019 (ECLAC), albeit with a shrinking trade volume (falling by approximately 60%).

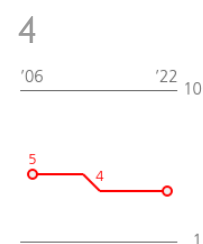
Inflation remained moderate to low since 2012, reaching 1.6% in 2020 (2.8% in 2019 and 3.2% in 2018, according to CEPAL). Due to the recession in the first half of 2019, the government invoked the emergency escape clause of the FRL that allows an increase of the deficit ceiling in case of a decline in economic activity, up to 3% of GDP in times of crises. Therefore, the central government's budget had a deficit of 2.8% of GDP in 2019; and 6.5% in 2020. Public debt remained below 20% of GDP throughout the decade but jumped from 25.6% in 2019 to 34.9% in 2020. The urban unemployment rate increased marginally from 6.2% in 2018 to 6.6% in 2019, then rose by more to 7.9% in September 2020. Underemployment, rather than unemployment, is the main problem in the Paraguayan economy.

12 | Sustainability

Though the Ministry for the Environment (Ministerio del Ambiente y Desarrollo Sostenible) was created in 2018, and a number of regulations have been in place, sustainable growth in Paraguay has been given only sporadic attention by the government and has a weak institutional framework. The National Development Plan 2030, approved under President Cartes in 2014, included cross-departmental provisions related to environmental sustainability, but implementation has been poor. While Paraguay has a clear legal framework intended to safeguard both its natural biodiversity and indigenous peoples, its 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 major drivers of deforestation, which has accelerated because of the boom in soybean production. A total of 95% of cultivated soy plants come from genetically modified varieties. Due to the large binational hydropower plants, CO₂ emissions are comparatively low. In 2018, a total of 68.1% of the country's energy consumption was drawn from renewable sources. However, biomass (mainly wood) is the main energy resource used by half the rural population.

Reducing air and water pollution has not been a priority. Organizations of small farmers and landless peasants, as well as indigenous groups, occasionally protest the indiscriminate use of pesticides and herbicides, because of the environmental damage

Environmental
policy



and water pollution caused by such practices and because of the health risks for the people living in the affected regions.

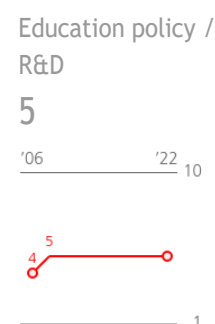
Devastating wildfires have broken out across Paraguay in 2019 and 2020 (affecting the Chaco region and the Pantanal where the fires tripled in 2020 compared to 2019), man-made fires combined with drought and record high temperatures. The government has been criticized for the lack of strategy and insufficient measures against the wildfires. Congress declared a national emergency in reaction to the fires and transferred more resources to the fire service.

Education policy contributes to a substandard system of education and training in Paraguay. By the end of its term, the Cartes administration had 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 cooperates with the InterAmerican Development Bank (IDB). The Fund for Excellence in Education and Investigation (FEEI) receives 30% of its income from compensation payments from Brazil for the use of Itaipú's extra energy.

The UN Education Index 2019 ranks Paraguay 69 (out of 133 BTI countries) and sixth to last in the region with a score of 0.638 (which has stagnated over the past few years). The literacy rate among the 15 to 24 age group is relatively high at 98.3% (2018), while the rate between men and women is almost equal (97.7% vs. 98.9%). However, levels of functional illiteracy are considerably higher, especially in rural areas. There are large inequalities between urban and rural areas with respect to enrollment rates, above all in tertiary education. The population aged 15+ living in urban areas studies for approximately three years longer than people of the same age group in rural areas.

Despite rising school enrollment rates, 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 wealthier students. Paraguayan students have low scores in international comparisons such as OECD's PISA and learning outcomes have not improved over the past decade. The Global Competitiveness Report 2019 ranks Paraguay 134 (out of 141 countries) with regard to the skill sets of graduates, and 133 in the quality of vocational training.

Quantitatively, investment in education and training, as in research and development, remains rather low. While public expenditure on education reached 3.4% of GDP (2016), one of the lowest values in Latin America, R&D expenditure remains negligible at 0.1% of GDP. There were 135 researchers in the R&D sector per million people. The Global Innovation Index ranked Paraguay 97 out of 131 countries in 2020 in this area (down from 95 in 2019 and 89 in 2018).



Due to the COVID-19 pandemic, classroom teaching was suspended from mid-March 2020 until March 2021. Poor equipment without the necessary information technology makes it difficult to teach virtual lessons during the pandemic. According to an opinion poll by UNICEF Paraguay in July 2020, only 22% of teachers have used virtual platforms for teaching during the pandemic.

Governance

I. Level of Difficulty

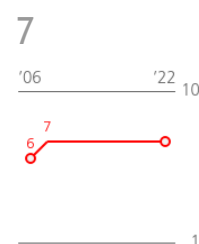
The structural constraints on governance are high. Paraguay has no coast and its geography is challenging. The Chaco Region is arid and sparsely populated. These characteristics make the construction and maintenance of road infrastructure expensive and render integration with other countries more difficult. Paraguay has one of the lowest density of roads in Latin America. Paraguay's transportation costs for foreign trade activities are higher than the average cost for other Latin American countries. The Global Competitiveness Report 2019 ranks Paraguay 71 out of 141 states in road connectivity (99 in 2018), and 126 in quality of roads (129 in 2018). Boat transport can be affected by low water levels.

The quality of electricity services is low by international standards, with high electricity losses, and regular and long-lasting interruptions to service, which is perceived as a major problem for doing business. The Global Competitiveness Report 2019 ranks Paraguay 121 out of 141 in electricity supply quality.

Paraguay's main exports are agricultural products. Therefore, the economy suffers during 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 overstuffed 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 past decade. 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. However, public sector reforms are hampered by a highly politicized public administration.

Paraguay was less affected by the COVID-19 pandemic than neighboring countries. At the end of January 2021 Paraguay registered 131,000 confirmed cases of COVID-19 and 2,680 deaths (38,54 deaths per 100,000). The economy contracted by 1.6% in 2020 and is expected to recover in 2021.

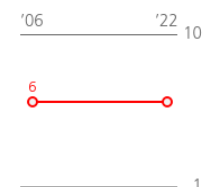
Structural
constraints



The democratization process in Paraguay began 30 years ago, in February 1989, after a long phase of authoritarian rule. It 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 weak and limited civic participation in public life. The NGO sector in Paraguay depends strongly on support from international 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, the protests against the secret agreement on Itaipú, or during mobilizations against corrupt politicians). However, on an everyday basis, the connection between small under-resourced 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, there is a mixed picture in Paraguay: there is comparatively little social capital, but there are intense but locally focused forms of cooperation and a national human-rights movement.

Civil society traditions

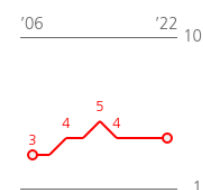
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Great ethnic homogeneity is certainly an advantage for the Paraguayan government. There are no religious differences that could be viewed as a source of conflict. The great majority of political parties, such as the Colorado Party and the Liberal Party, do not articulate or draw attention to social cleavages between the poor and the wealthy. 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 agricultural 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.

Conflict intensity

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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 also 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 throughout the country.

II. Governance Performance

14 | Steering Capability

The government of President Abdo Benítez (in office since August 2018) is committed to constitutional democracy and a market economy. When it assumed office, the government followed the same priorities as the preceding Colorado governments: the conservation of macroeconomic stability, low taxes (especially for agribusinesses), and the financing of infrastructure projects and the fiscal deficit with sovereign bonds. The government also opened a political dialogue with other parties, involved civil society organizations in reform of the education sector and initiated a debate on future tax reforms.

The “Plan Nacional de Desarrollo: Paraguay 2030” acts as a guideline for national policies and the Secretaría Técnica de Planificación (STP) conducts an annual evaluation of PND vis-à-vis policies implemented, as well as results obtained. The government has set few strategic priorities, and since 2019 it has been primarily reactive in its policymaking. One of the primary stated objectives of the government was the renegotiation of the contracts with Brazil and Argentina regarding the two binational hydropower plants at Itaipú (which expires in 2023) and Yacyretá (which had expired in 2014). According to the Itaipú treaty, any remainder of Paraguay’s half share of the energy that is not used domestically must be sold to Brazil. The price of such sales is based on the cost of production and not the regional market price for energy. Currently Paraguay transfers about 85% of its share to Brazil.

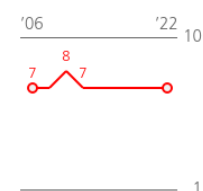
In response to the economic and social consequences of the COVID-19 pandemic, the government drew up an Economic Recovery Plan which was finalized in October 2020. The plan was rated positively by the IMF. It provided for boosting public investment, temporarily raising social benefit spending and for elaborating and implementing a new Fiscal Responsibility Law.

During the COVID-19 pandemic, the government set clear priorities: protect the population against the spread of the pandemic, protect the particularly needy against impoverishment and to reactivate the economy. The long-term goal of fiscal stability was made more flexible with the approval of Congress, but not abandoned. Part of the funding to stimulate the economy is allocated to infrastructure projects, which have been given strategic priority.

Question
Score

Prioritization

7



The Paraguayan government had successfully preserved fiscal stability in 2018 but has been forced to be more flexible with its objective since 2019, first because of economic stagnation in 2019 (as a result of weather-related disruptions in agriculture and in energy production), and then because of the economic consequences of the COVID-19 pandemic. The policy adjustment was made within the framework of the emergency regulations of the law on fiscal stability and with approval from Congress.

Law 6380/19 on Modernization and Simplification of the National Tax System was passed in 2019 and came into force in January 2020. The main objective was not to raise taxes but to simplify taxation. The unified Business Income Tax replaced the previous Income Tax for Commercial, Industrial and Service Activities (IRACIS), the Income Tax for Agricultural Activities (IRAGRO), and the Income Tax for Small Taxpayers (IRPC). The tax rate (10%) is equivalent to the previous taxation structure. A new tax will be applied to non-residents performing taxable activities in Paraguay.

The course of the negotiations on Itaipú revealed that President Abdo lacks a clear strategy and that the ministries and departments responsible for the management of Itaipú are insufficiently coordinated. A year after taking office, President Abdo was nearly impeached over the negotiations on Itaipú. The Paraguayan ambassador in Brazil had signed a secret agreement with the Brazilian government that established the operating conditions of Itaipú until 2023 to the detriment of Paraguay; and would have led, among other things, to higher electricity tariffs for Paraguayan consumers. When the secret agreement became known, protests broke out in Asunción and the opposition called for President Abdo to be impeached. The foreign minister, the ambassador to Brazil and the Paraguayan director of the binational Itaipú company were forced to resign. President Abdo saved himself because the Brazilian government agreed to the revocation of the secret treaty and his opponents in the Colorado party did not (yet) want to topple him. The transparency over the government's conduct of the Itaipú negotiations has not improved since this episode. The efforts to contain the wildfires in 2019 and 2020 highlighted major problems regarding the preparedness of the government and the implementation of firefighting measures.

Security forces failed in their fight against the small EPP insurgency, which is still quite active, as demonstrated by the kidnapping of a former vice president in September 2020. Moreover, the Abdo Benítez government has failed to combat drug-trafficking and organized crime (especially of Brazilian gangs that are expanding their control within Paraguayan prisons), which together pose far more of a threat to public security than the EPP.

Although the government's strategy to contain the COVID-19 pandemic has been relatively successful, in mid-July 2020 President Abdo Benítez had to admit that funds allocated in March to the Ministry of Health to fight the pandemic had not been sufficiently spent. Due to weak public health capacity Paraguay is likely to face significant logistical challenges in the rollout of vaccinations.

Implementation

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International cooperation, for instance, with the World Bank, the IMF and the Inter-American Development Bank (IDB) is an established tradition in Paraguay, and has served to support reform efforts from one government to another and, to a certain extent, has also facilitated learning from past experiences through knowledge exchange. However, the use of expert commissions or task forces is not a habit of Paraguayan governments. Some of these commissions (with participation of the private sector and sometimes individual professionals) do shape bills submitted to Congress, such as in the case of the last tax reform (becoming law in September 2019).

The new government of President Abdo began a political dialogue with other parties, involved civil society organizations in reform of the education sector and initiated a debate on future tax reforms. As time went on, the willingness to exchange ideas with broad sectors of society and politics decreased. However, in order to counteract the consequences of the pandemic, the government acted swiftly and effectively by adapting, supplementing and expanding existing social mitigation programs (see “Social safety nets”). This was made possible by the practice, now accepted in Paraguayan politics, of not changing everything every time there is a new government, but rather maintaining functioning programs and thus competence in the relevant ministries.

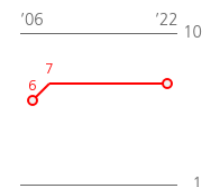
15 | Resource Efficiency

The Abdo administration has a more traditional and partisan profile than that of his predecessor. He must appease and integrate the various factions of the Colorado Party and reward political allies and (personal) friends. Much emphasis is still placed on political loyalty in the recruitment of administrative staff, especially at the municipal level). The recruitment system has been reformed, and merit-based recruitment has been expanded. Nevertheless, there remain challenges with regard to the modernization of the public sector, such as internal administrative coordination to implement new management processes, and there is still a shortage of qualified professional staff in many ministries. This affects the planning, assessment (including social and environmental risks), execution, and monitoring of projects, including joint ventures for private-public investment in infrastructure and also regulatory capacity. Low levels of budget execution, indicating weak institutional capacity, have limited the effectiveness of the emergency package in response to the COVID-19 pandemic and subsequently the prospects of swift recovery. The fight against EPP guerrillas and organized crime (particularly Brazilian criminal groups) has been hampered by institutional rivalries between the police and armed forces, as well as professional shortcomings and corruption within the security forces.

The 2013 Fiscal Responsibility Law (FRL) set a deficit limit of 1.5% of GDP from 2015. The budget deficit was maintained below this until 2018. In response to the 2019 recession, the government invoked the FRL’s emergency escape clause. To

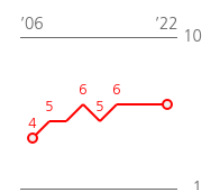
Policy learning

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Efficient use of assets

6



mitigate the economic impact of the pandemic, Congress allowed the government to suspend the FRL for up to four years. The budget deficit was expected to reach 6.5% in 2020. The government's goal is to bring the deficit back to the FRL ceiling by 2024, which is important to ensure the continued credibility of the fiscal framework. The tax-to-GDP ratio remains low, although tax evasion has been reduced as more people and companies register as taxpayers. The 2019 tax reform simplified taxes but did not increase them. The government has resorted to external borrowing to finance parts of the deficit and has successfully issued several government bonds on the international financial market.

In 2020, Paraguay was relatively successful in flattening the curve of infected people and deaths and containing the COVID-19 pandemic. The emergency package approved by Congress in March 2020 amounted to approximately 2.4% of GDP, of which about 1.3 percentage points represented additional spending on health care.

Effective and coherent policy coordination is hindered by bureaucratic inefficiencies and, despite attempts to reform public administration, by a lack of qualified technical personnel in many ministries. Historically, government departments, ministries and public agencies have acted independently and without coordinating their 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 impact.

The government has been more successful in coordinating its various social programs. Questions of environmental protection and sustainability as cross-cutting issues are given insufficient consideration in the activities of the government, due to a lack of coordination and prioritization.

Coherent government policies are hampered by contradictions between 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 income as a condition for higher social spending, higher taxes are necessary. In addition, poor inter-institutional coordination hinders the implementation of government goals (as in the case of the secret Itaipú negotiations).

Policy
coordination

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'06 '22 10



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Some mechanisms ensuring integrity are effective, while others simply do not work. A positive example is the reformed public procurement system. Credible reforms have been undertaken to modernize the public sector recruitment system and transform it into a meritocratic system. However, some central institutions, such as the national audit office, lack sufficient funds and independence to properly fulfill their tasks. Institutional and procedural fragmentation leads to poor coordination and information exchange across control agencies, such as the General Audit Office (Contraloría General) and the Anti-Money-Laundering State Secretariat, SEPRELAD). The government has established a public portal “Rindiendo Cuentas,” where all COVID-19 expenditure is reported. Moreover, public tenders are now reviewed ex-ante by a newly established inter-institutional committee and audited ex-post by the General Audit Office. The effects of these measures cannot yet be assessed.

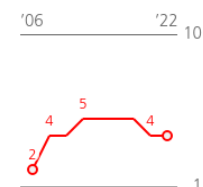
As recommended by the IMF, in December 2020 the National Anti-Corruption Secretariat (SENAC) amended the government’s National Plan on Integrity, Transparency and Anti-Corruption both at the strategic and the institutional level. However, SENAC’s capacities and role within the regulatory framework need to be strengthened further. As for now it is perceived by many Paraguayans as simply a figurehead institution.

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. The law requires public institutions to divulge previously confidential information about staff, salaries and audits. However, many public offices do not provide information, citing confidentiality. In the majority of cases the right to confidentiality is based on provisions that have lower legal status than the law.

Ex-President Cartes is still very influential in politics, and the government’s survival depends on the support of his Colorado faction. President Abdo also relies heavily on traditional sectors of the Colorado Party that have no interest in controlling informal power structures and enrichment mechanisms.

Anti-corruption policy

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16 | Consensus-Building

The main political actors agree on a market-based democracy. But there is no strong reform pressure, because reforms that would result in a strengthened democracy and market economy would 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 primarily through formal means. 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 (predominantly 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 a percentage of GDP is the lowest in Latin America. Paraguay's ratio of tax revenue to GDP is half the average for OECD countries. 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 spiral 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 highlighted, 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 embedded systems of clientelism and patronage are essentially anti-democratic and are primarily 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, the clientelistic practices of these organizations partly hamper democratic reforms. Discontent over 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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Although the political leadership has tried to prevent the escalation of political cleavages into conflicts, it has been unsuccessful in bridging existing divisions. Political cleavages do not split primarily along ethnic, class, regional or religious lines.

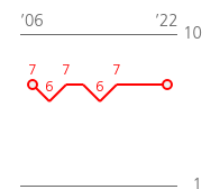
One major political cleavage relates to the traditional parties (ANR and PLRA) on the one hand, and progressive parties on the other. Another division relates to the indigenous population, which is, however, very small in number and not sufficiently organized to forcefully articulate this division. A third major cleavage, conflict over available farmland, has been increasing for the last decade. On the one hand, the landless are organized into a broad movement and represented by different organizations. On the other, large landowners and soy producers are important and influential economic actors. Moreover, Brazilian landowners in Paraguay receive the forceful support of their government in Brazil.

The Lugo government attempted to reframe the topic of land reform from land redistribution into rural development, placing the focus on the provision of assistance to small landowners and infrastructure investments in the countryside (e.g., roads, schools and medical clinics). This approach was also in some measure employed by President Cartes through the Sembrando Oportunidades Program, which supported small-scale farmers with technical, financial and managerial assistance to improve their access to markets and value chains. The political leadership has not demonstrated a willingness to explore a comprehensive solution to the land conflict (at least one that would take the demands of the indigenous population into account). The issue of land reform and the situation of smallholders has not appeared to be of major importance during President Abdo's time in office. The courts have facilitated evictions from occupied lands.

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 occurred due to the vested interest of powerful economic groups that have more leverage over the Paraguayan State. Political parties and their clientelistic networks remain relatively strong in Paraguay, which limits the space available to civil society actors. However, the executive branch has accorded overall more space to civil society organizations, as the latter demand change in policy-related decision-making. Protests and demands by secondary and university students have provoked some changes in educational policies and rules.

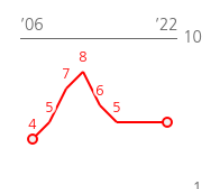
Cleavage /
conflict
management

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Civil society
participation

5



Some sections of the political leadership recognize the need to deal with historical acts of injustice, but attempts to reconcile encounter difficulties. The current president, Mario Abdo Benítez, is the son of the long-time private secretary of Paraguay's former authoritarian leader, Alfredo 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.

In Paraguay, there exists no amnesty law preventing the prosecution of human rights violations. But prosecution has been slow and inadequate. More than 30 years after the Stroessner dictatorship ended, only eight of the people accused of human rights violations have been convicted. That is 1.7% of the 450 perpetrators identified by the Paraguayan Truth Commission. Repeatedly, legal proceedings have been delayed and discontinued. In December 2019, a conviction was finally secured in a human rights violation lawsuit stemming from a complaint filed in 1989.

Due to scarce resources, the forensic search for the remains of the disappeared is progressing slowly. Some victims of the dictatorship have been indemnified, but the level of compensation has been relatively low, and many victims have been waiting in vain for years for the compensation awarded to them. Between 2004 and August 2020, the Paraguayan state spent the equivalent of approximately \$90 million to compensate a total of 9.861 direct victims or their heirs.

17 | International Cooperation

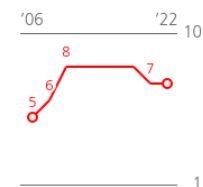
There is a long tradition of international cooperation in Paraguay. Over the last 30 years, several national development plans have been elaborated. The current plan was approved in 2014 (Plan Nacional de Desarrollo Paraguay 2030). Its three pillars are poverty reduction and social development, inclusive economic growth, and integrating Paraguay into the world.

However, national plans still face 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 into account the national plan when elaborating their own strategic plans.

The Abdo administration works closely with multilateral international donors and financial organizations, including the IMF, the Inter-American Development Bank (IDB), World Bank (currently under the Country Partnership Framework FY19-FY23) and CAF, with the aim of bringing international assistance to the domestic reform agenda.

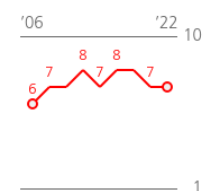
Reconciliation

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Effective use of support

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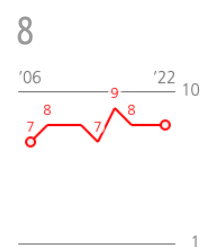
A major cooperation effort is with the IDB Group, which accounts for 48.8% of multilateral financing and 23.3% of external financing (2018). The IDB's Country Strategy 2019 - 2023 for Paraguay seeks to support the institutional and productive transformation of the country, under the criteria of sustainability, equity, and economic and social inclusion. The new country strategy prioritizes four areas of collaboration and support: (i) public management and institutions; (ii) integration and diversification; (iii) productive and resilient infrastructure; and (iv) human capital and living conditions. Moreover, the IDB will provide cross-cutting support for challenges relating to (a) gender, diversity, and indigenous populations, (b) sustainability of natural capital, (c) urban development, and (d) innovation and technology. The actions planned are aligned with the 2030 National Development Plan of Paraguay. The IDB projects sovereign guaranteed loan approvals of \$1 billion.

Apart from financial cooperation, Paraguay also cooperates with development cooperation organizations based in the United States (USAID), Germany (GIZ), Spain (Spanish Agency for International Cooperation and Development, AECID), and Japan (Japan International Cooperation Agency, JICA). Prime Minister Shinzo Abe became the first Japanese prime minister ever to visit Paraguay in December 2018. The EU is the largest development assistance donor in Paraguay in terms of grants. The Multiannual Indicative Programme for Paraguay provided €168 million for the 2014 - 2020 period. The adoption of a National Development Plan has helped to improve donor coordination. In cooperation with the Paraguayan government the OECD conducted a multi-dimensional review of Paraguay between March 2017 and July 2019, elaborating reform proposals for different sectors.

For the majority of the time, the Abdo government acts as a credible and reliable partner, but its engagement has in general been limited and passive. The U.S. government and Paraguay collaborated extensively on anti-narcotics, anti-money laundering and anti-smuggling policies. In April 2019 then U.S. Secretary of State Mike Pompeo visited Paraguay. This marked the first time that a U.S. secretary of state had visited the country since 1965. Then President Trump hosted Paraguay's President Abdo for a White House visit in December 2019. At the same time, Paraguay diversified its international partners. For example, following Chile, Russia was the second most important export market for Paraguayan beef in 2020. Paraguay is also pursuing closer cooperation between Mercosur and the European Union.

In August 2017, the Paraguayan Congress approved a law to implement the Rome Statute of the International Criminal Court (ICC) and ensure cooperation. On April 17, 2020, the Paraguayan Senate voted 25 to 16 against a proposal put forward by senators from the left-wing alliance, Frente Guaso, to establish diplomatic relations with China, which would have implied cutting diplomatic ties with Taiwan. Paraguay is the only South American government that still has full diplomatic relations with Taiwan, which complicates negotiations between the Mercosur and China. The

Credibility



benefits Paraguay derives from the status of being one of Taiwan's key remaining allies seem to compensate for the foregone macroeconomic opportunities with regard to Chinese investment, aid, and loans. There are fewer disadvantages concerning trade, which can be channeled through third countries. Since 1997 every Taiwanese president has visited Paraguay twice; and every Paraguayan president (with one exception) has twice made a stop in the island nation. Taiwan's President Tsai Ing-wen attended the inauguration of President Mario Abdo Benitez in August 2018, who in turn visited Taiwan in October of the same year.

Despite significant flaws, Paraguay's economic transformation is generally viewed positively, as reflected by credit ratings and foreign investments. Between February 2019 and January 2021, the government successfully issued sovereign bonds worth \$2.3 billion. Standard & Poor's and Fitch each give Paraguay BB/B stable and BB+ credit ratings, while Moody assigns the country a Ba1 rating.

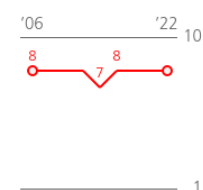
Paraguay has good relations with all its neighboring countries, with Argentina and Brazil being its most important partners. In South America, only relations with Venezuela are strained. Paraguay is a founding member of the Southern Cone Common Market (Mercosur), along with Argentina, Brazil and Uruguay. Asunción is the headquarters of the Mercosur Court of Arbitration. Paraguay supports the signing of a free trade agreement between Mercosur and the EU. Paraguay has had observer status in the Pacific Alliance since 2013 and has aspirations to join the group. This is not possible because Mercosur membership impedes the country from independently signing trade agreements with third parties.

The Paraguayan economy is closely tied to those of neighboring states Argentina and Brazil, for example, in the energy sector. The Itaipú hydroelectric plant and Yacyretá hydroelectric plant constitute both an element of cooperation and of conflict (over the distribution of electricity and benefits) between Paraguay and its neighbors.

In 2011, the Paraguayan Congress ratified the founding treaty (2008) of the Union of South American Nations (UNASUR). After the suspension of its membership in April 2018, Paraguay left UNASUR in March 2019, together with six other member countries (Argentina, Brazil, Chile, Colombia, Ecuador and Peru) and co-founded PROSUR (Forum for the Progress and Development of South America). Paraguay is also aligned with other Latin American countries in the Lima Group that seeks to bring about a regime change in Venezuela.

Regional
cooperation

8



Strategic Outlook

Paraguay's presidential democracy is characterized by a strong bicameral Congress and – due to typical factionalism within the parties – a somewhat fragmented party system. As a result, the process of political decision-making is vulnerable to vetoes, and comprehensive political and economic reforms must rely on broad coalitions. This is an obstacle to breaking out of the low-level equilibrium that Paraguay's defective democracy has been in since 1989, characterized by an unwillingness to reform with respect to the rule of law, corruption and the state administration. Moreover, since successful modernization of the state (and the economy) would undermine part of the power base not only of the ruling Colorado Party but also of the chief opposition, the Liberal Party, major reform initiatives seem unlikely in the near future. Nonetheless, as recent examples of Chile and Peru have shown, lingering too long in a state of seeming stability - which actually represents the preservation of a mediocre status quo - and postponing reforms indefinitely could be disastrous for the country's elite.

Paraguay's economic model is based on the export of raw materials and financing the budget deficit through public debt. The economy is therefore dependent on price and demand fluctuations on the world market and the availability of cheap credit. Weather-related slumps in agriculture and a loss of confidence on the part of foreign lenders can throw the Paraguayan economy into disarray. To prove its creditworthiness, the government will have to work to restore fiscal stability as quickly as possible. While it is important to restore macroeconomic stability, Paraguay must also promote sustainable growth through continued investment in infrastructure and through improved governance (for example, by fighting corruption) and creating a more attractive business environment. To strengthen the country's human capital in the long term, the government must invest more in education infrastructure and develop a roadmap for education reforms. In response to the shortcomings in combating the pandemic, it will be necessary to restructure and improve the health care system. Improving public services will require more resources and higher tax revenues, which are currently relatively low, even by Latin American standards. Given the high dependence on agricultural and energy exports, another step should be diversification, increasing the variety of agricultural products and commodities exported and the amount of processed raw materials. In addition, the country should make greater use of its cheap and abundant hydropower to expand the domestic manufacturing industry, for which the renegotiation of the Itaipú contract, which expires in 2023, could be an impetus. Last but not least, while poverty has been reduced, poverty rates are still high and could rise again as a result of the pandemic. A more systematic approach to poverty reduction than mere assistance policies should be developed.

Paraguay's economy weathered the first wave of the COVID-19 pandemic better than other Latin American countries and is expected to return to pre-pandemic levels by 2021. The government plans to support economic reactivation with substantial (and necessary) infrastructure investments. However, due to existing weak public health capacity, Paraguay will face significant logistical challenges in rolling out vaccinations, especially since not enough vaccines have been ordered in

2020 and there is a risk of favoritism in the vaccination campaign. As a result of these shortcomings, the pandemic could drag on for longer than expected and negatively impact economic recovery. Important cross-border trade with Brazil and Argentina will not fully resume unless the pandemic is deemed under control. By mid-July 2021, only about 2% of the population had been fully vaccinated.