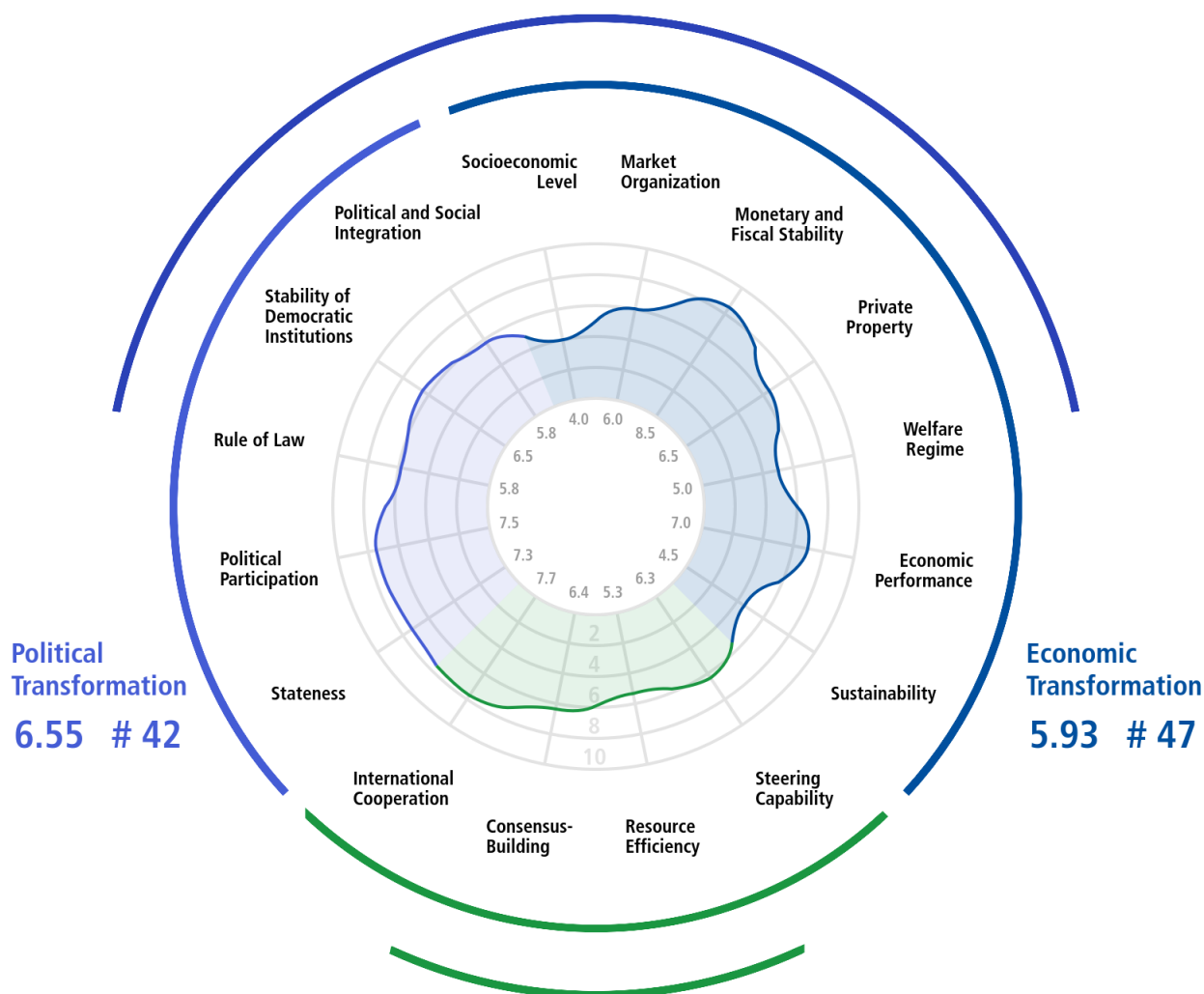


# Paraguay

## Status Index

**6.24 # 41**

on 1-10 scale out of 137



**Political Transformation**  
**6.55 # 42**

**Economic Transformation**  
**5.93 # 47**

## Governance Index

**5.71 # 33**

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2024 Country Report – Paraguay. Gütersloh: Bertelsmann Stiftung, 2024.

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**Key Indicators**

Population	M	<b>6.8</b>	HDI	<b>0.717</b>	GDP p.c., PPP \$	<b>15977</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.1</b>	HDI rank of 189	<b>105</b>	Gini Index	<b>45.1</b>
Life expectancy	years	<b>70.3</b>	UN Education Index	<b>0.656</b>	Poverty <sup>3</sup>	% <b>5.6</b>
Urban population	%	<b>62.8</b>	Gender inequality <sup>2</sup>	<b>0.445</b>	Aid per capita \$	<b>26.1</b>

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

In April 2018, the Colorado Party once again won the presidential election, with President Mario Abdo Benítez assuming office in August 2018. President Abdo, a member of the traditional wing of the Colorado Party, was not expected to implement significant reforms aimed at modernizing the state or addressing social inequalities. With a majority only in the Chamber of Deputies, President Abdo's party did not hold a majority in the Senate and faced internal divisions between his supporters and the faction led by former President Horacio Manuel Cartes. However, when the opposition made two attempts to initiate impeachment proceedings against President Abdo in 2019 and 2021, the Colorado Party united behind its leader.

The two main factions of the Colorado Party faced each other in the intraparty elections in December 2022. The faction led by former President Cartes emerged victorious, securing both the nomination of the party's presidential candidate for the April 2023 elections and the election of the party leader. As of January 2023, Cartes was to assume the role of president of the Colorado Party. In an effort to combat the pervasive corruption that undermines democratic institutions in Paraguay, the U.S. government has imposed sanctions on ex-President Cartes and his companies on two occasions (in August 2022 and January 2023).

This rampant corruption, which reaches high into the political world, remains a key problem in Paraguay. Another challenge is organized crime linked to drug trafficking – Paraguay is an important transit country for drugs moving from Bolivia to Argentina, Brazil and Uruguay, and on to Europe. Corruption and organized crime form a toxic combination that threatens to turn Paraguay into a narco-state in parts of the territory. The assassination of a Paraguayan prosecutor while on holiday by hitmen in Colombia shows the international dimension of the challenge.

In 2020, the government reacted relatively quickly and efficiently to the COVID-19 pandemic. However, it was less successful regarding vaccination, and at the beginning of the second pandemic year, structural problems in the health system became apparent. In 2021, COVID-19 generated 66% excess mortality. The country received its first vaccine doses only in March 2021, when the Russian vaccine Sputnik V arrived, and when Chile donated 20,000 doses manufactured by the Chinese company Sinovac. The situation subsequently improved, although the vaccination rate remained low. Due to the COVID-19 pandemic, the municipal elections scheduled for November 2020 were postponed – with the approval of Congress – until October 2021. The Colorado Party won the municipal elections in October 2021 in 160 of the country's 261 municipal districts with a total vote share of close to 50%.

The Paraguayan economy was much less affected by the COVID-19 pandemic than was the rest of Latin America. The economy contracted by only 0.8% in 2020 and recovered by 4.1% in 2021. Due to adverse weather conditions for agriculture and the impact of the Ukraine conflict, the economy shrank by 0.3% in 2022. As a result of the recession in 2019, the government invoked the emergency escape clause of the Fiscal Responsibility Law, which allows for an increase in the deficit ceiling in case of a decline in economic activity during times of crises.

## History and Characteristics of Transformation

Following power struggles among the elite, Paraguay's democratic transformation began in 1989 after 35 years of dictatorship under General Alfredo Stroessner. The transformation was marked by significant continuity among the political elites and the bureaucratic establishment, including the public administration, military and judiciary, all of which were linked to the governing Colorado Party. The periods under presidents Rodríguez (1989 – 1993) and Wasmosy (1993 – 1998) were characterized by political instability and turmoil and continued military influence. In 1996, General Lino Oviedo, who served as the commander-in-chief under President Wasmosy, attempted a coup but failed. On March 28, 1999, President Raúl Cubas Grau, who was seen as a puppet of General Oviedo, resigned to avoid impeachment due to his alleged involvement in the murder of Vice President Luis María Argaña. Luis Ángel González Macchi, the head of the Chamber of Senators, was then inaugurated as the new president to complete the remaining term.

In August 2003, Nicanor Duarte Frutos of the Colorado Party assumed office. However, despite high approval rates, 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, 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. In the end, 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 did not have a majority in the Senate. Though the Colorados had a majority in the Chamber of Deputies, it did not guarantee unanimous support for the president's proposals. The party was split between the supporters of President Abdo and the faction led by 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 there has been little progress in fighting corruption. Organized international crime linked to drug trafficking poses a serious threat to the country's democracy.

Regarding economic transformation, Paraguay has largely maintained its free-market model, based on agricultural production and exports, hydroelectric power plants (and the export of electricity to Argentina and Brazil), and a still huge informal sector, with few mechanisms to ensure greater equality. Apart from the Lugo episode, Colorado governments were in office for the entire period and almost all followed a similar line: seeking to maintain macroeconomic stability, retain low tax rates (especially for agribusiness), and finance 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 FRL has been suspended due to the costs of the pandemic but is to be followed again in the medium term. In the area of social policy, the Tekoporã conditional cash transfer program has been in place since 2005, with the aim of achieving 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, particularly in border areas and in the northeastern region known as the Chaco, the state presence is weaker. Large areas of the country are sparsely populated, and there are few border controls or airspace controls.

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 these regions – but to a lesser degree, also in other parts of the country, including the capital Asunción – with police forces unable to control violence related to drug trafficking organizations.

According to Insight Crime, the First Capital Command (Primeiro Comando da Capital, PCC) is Brazil's largest and best-organized criminal organization. It is actively involved in controlling drug trafficking routes between Brazil, Bolivia and Paraguay. Additionally, it competes for control with the Comando Vermelho (CV) and local criminal groups. Brazilian criminal groups consistently overpower the police forces in the area.

Drug 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 transport cocaine primarily to Brazil. However, these traffickers also utilize Brazilian, Argentinean and Uruguayan ports to transport cocaine to Europe.

Since its founding in 2008, the Paraguayan People's Army (EPP) has carried out attacks mainly in rural areas, with isolated acts occurring in Asunción. The group has targeted military and police outposts and patrols, private security guards and ranchers. It has also engaged in kidnapping landowners to secure ransom funds and

Question  
Score

Monopoly on the  
use of force

6

'06 '24 10



1

has conducted attacks using explosives. Since 2008, the EPP has been held accountable for the deaths of 21 soldiers, 13 police officers and 28 civilians. 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 and some recent successes, successive governments have failed to make discernible progress in fighting the EPP.

In theory, all citizens enjoy civil rights protections. In practice, however, the government often neglects the rights of Indigenous groups. This neglect is partly due to the small size of Indigenous groups. According to the last census in 2012, there are approximately 120,000 Indigenous people, making up 2% of the population. These people live in 493 communities and belong to 19 ethnicities and five linguistic groups. Additionally, the government's neglect stems from the poor organization of Indigenous groups. The property interests of Indigenous peoples are not adequately protected, leading to the displacement of many from their ancestral lands. According to Anivid, an umbrella organization representing Indigenous peoples, 66.2% of Indigenous people live in poverty, with 34.4% experiencing extreme poverty.

Mestizos, or citizens of mixed racial background, comprise 95% of the population. The constitution acknowledges Paraguay as a multicultural, bilingual country, with Guaraní and Spanish serving as the official languages. Ninety percent of Paraguay's non-Indigenous population speaks Guaraní as either their first or second language.

There is a significant population of approximately 350,000 Brazilians in the border area – the so-called Brasiguayos. Many are landowners in possession of large parcels of arable land used for soybean production. More than half of the owners of arable land in the departments of Alto Paraná and Canindeyú are Brazilians. The loyalty of such landowners lies more with Brazil than with the Paraguayan state. The possession of large tracts of land by foreigners adds a unique dimension to the conflict over land in Paraguay.

In summary, with the exception of occasional conflicts arising from issues of social exclusion, the nation-state enjoys broad acceptance. Access to citizenship and naturalization is not withheld from any specific groups.

State identity

9

'06 10 '24 10

1

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. The Catholic Church consistently voices its concern about corruption, social inequality and poverty, as well as the justice system in Paraguay.

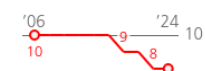
According to official data, 88% of the population is Roman Catholic, with another 9.6% belonging to evangelical Protestant denominations. An estimated 46,000 to 100,000 people, concentrated in remote areas of central Chaco and some eastern regions, are members of the Mennonite Church. The Church of Jesus Christ claims 96,000 members, while Jehovah's Witnesses estimate their membership at 11,000. There are approximately 10,000 Muslims, with the majority in Ciudad del Este, and 1,000 Jews living primarily in Asunción.

The state maintains a functioning basic infrastructure throughout most of the country, performing functions including staffing administrative institutions, hiring officials, administering justice, and developing and implementing government policies. However, there is a significant problem of efficiency and management in implementing public policies. The Paraguayan state lacks sufficient tax revenues (because tax rates are low) to increase the coverage of health and education services. New infrastructure projects depend on public sector borrowing. In addition, corruption and the political colonization of the administration have affected the functioning of the state. The courts and law enforcement are heavily compromised due to structural corruption. Furthermore, the state's presence in the San Pedro, Amambay and Chaco regions is thin. 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 adequately prepared for major epidemics and pandemics. In 2020, 72% of the population in urban areas and 51% in rural areas had access to drinking water (CEPALSTAT). Similarly, in 2020, 54% of the population in urban areas and 71% in rural areas were connected to sewage systems (CEPALSTAT). According to the World Development Indicators 2022, 100% have access to electricity.

As a result of a cooperation project (concluded in November 2022) between the government of Japan, UNICEF and the Ministry of Public Health, a total of 973 health services throughout the country have received new cold chain equipment to improve vaccine distribution management, benefiting 80% of the Paraguayan population. This ensures the safe storage of vaccines – not only for COVID-19 but also for over 30 types of disease-preventing doses.

No interference of religious dogmas

8



1

Basic administration

6



1



## 2 | Political Participation

The general elections on April 22, 2018 – 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 to be technically efficient and politically balanced. However, according to Latinobarómetro data from 2020, only 13% of Paraguayans express trust in their electoral institutions (Latin American average: 31%).

Patronage and political dependencies – particularly in the civil service – influence the election process. Vote-buying, extortion and irregularities are still practiced both in political parties’ internal elections and in national elections. Limited campaign finance oversight gives advantages to candidates with major economic resources. While the 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. The financing of internal elections (primaries) remains unregulated.

The primaries for the nomination of candidates to the April 2023 general elections in December 2022 were conducted properly without constraints.

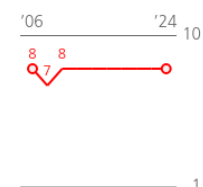
Democratically elected representatives have the power to govern, and the influence of veto powers – especially the military – has declined. The military is clearly subordinated to civilian government control. Even so, due to landowners’ economic influence and power to mobilize, plans to engage in land reform and increase taxes on agricultural exports have been repeatedly blocked before being seriously debated in Congress.

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 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. The top individual income and corporate tax rates are 10% – clear evidence of economic pressure groups’ veto power. The overall tax burden equals 13.9% of total domestic income.

Drug-trafficking and organized crime have gained influence and permeated political institutions, affecting the scope of action of democratically elected representatives – especially at the local level.

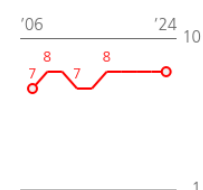
Free and fair elections

8



Effective power to govern

8



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

However, legal and bureaucratic barriers hinder union organization due to a high minimum membership requirement. Private-sector employers oppose the formation of unions, and laws prohibiting discrimination against unions are not consistently enforced.

Rights violations and anti-union practices remain commonplace in both the private and public sectors. Labor legislation fails to promote trade union activities. The government does not always respect unions' freedom of association and right to collective bargaining. The overall level of unionization stands at approximately 6.9% (2019, ILO) of the formal labor force, but this figure is significantly higher in the public sector and lower in the private sector. According to the ITUC Global Rights Index 2022, Paraguay is ranked as a country with regular violations of internationally recognized labor rights by governments and employers. This index cites instances of excessive representativity or a minimum number of members required for the establishment of a union.

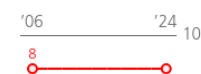
Farmers have primarily organized around the land problem and, more recently, have demanded a comprehensive agrarian policy for smallholders. The main organization in this regard is the Federación Nacional Campesina (FNC). However, only 4% of workers are covered by collective bargaining.

Freedom of opinion and freedom of the press are constitutionally guaranteed, and citizens can generally express their opinions freely. The government does not restrict or disrupt access to the internet or censor online content. Paraguay was ranked 96th out of 180 countries in the World Press Freedom Index 2022 by Reporters Without Borders. The media sector in Paraguay is pluralistic and includes both private and public radio and TV broadcasters. However, media pluralism is threatened by ownership concentration and the influence that political parties and economic interest groups exert over the media. There are no legal limits on media concentration, which has increased in recent years. The market is dominated by three major media companies: Vierci, Albavisión and Cartes (which is directly linked to ex-President Cartes). The leading newspapers are ABC Color, La Nación and Última Hora. Online media platforms have experienced recent growth, and a high percentage of Paraguayans use social media, particularly Facebook and Twitter, to obtain political information. Community media outlets are facing challenges in maintaining viability. The National Telecommunications Commission (CONATEL), which is responsible for granting and denying broadcasting licenses, lacks autonomy.

In 2014, a freedom of information law was introduced, requiring public institutions – including Congress – to divulge information such as details related to salaries and contracts. Investigative journalists have utilized this new law to uncover networks of corruption. However, many journalists work under precarious labor and contract

#### Association / assembly rights

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#### Freedom of expression

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conditions. Journalists who are critical of politicians are occasionally subjected to physical threats. Reporters and community radio stations have faced intimidation, especially when they concentrate on corruption or organized crime, particularly in remote border areas. These circumstances can lead to self-censorship. Criminal organizations and corrupt politicians profit from a pervasive climate of impunity.

There is a police action protocol in force for cases of journalists in situations of high risk or threats. The Interinstitutional Roundtable for the Safety of Journalists is another initiative that seeks to protect the right to free expression and the exercise of journalism. On September 6, 2022, Humberto Coronel, a journalist who used to denounce corruption and organized crime on his radio program, was shot and killed as he was leaving the radio station. In February 2023, another journalist was murdered in the city of Pedro Juan Caballero, close to the Brazilian border.

### 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 depend on the political will of legislators who have seats on the Jury of Prosecution ("Jurado de Enjuiciamiento"). This relationship can influence court rulings. Newly elected presidents have repeatedly attempted to change the composition of the Supreme Court, and Congress has threatened to impeach Supreme Court judges.

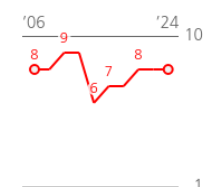
In comparison with the constitutional attributes of other Latin American presidents, the Paraguayan president is not politically strong. For example, his veto can be overruled by an absolute majority instead of a two-thirds majority, as in other countries. With regard to the nomination of ministers and 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.

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 struggles are fostered by ambiguities within the constitution itself. Undue external influence, including from economic groups and money from drug-trafficking, compromises the judiciary's independence. Interested parties, including the government and members of parliament, attempt to influence investigations and pressure judges and prosecutors.

Judicial disciplinary review processes are often politicized. Significant political interference is evident within the Judicial Council of the Magistrature (Consejo de la Magistratura), which evaluates nominations of judges and submits nominees' names to Congress and the executive. This body is also involved in the impeachment of

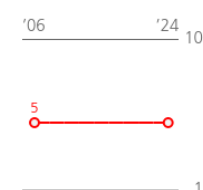
Separation of powers

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Independent judiciary

5



judges. The Judicial Council is made up of a member of the Supreme Court of Justice (CSJ) designated by it, a representative of the executive, a senator and a deputy both appointed by their respective chambers, two registered lawyers elected by their peers, a professor of the Faculty of Law of the National University chosen by his or her peers, and a law professor from the private university sector chosen by his or her peers. When a seat on the CSJ falls empty, the Judicial Council proposes a terna (list of three) of candidates to the Senate, which selects the new magistrate to the CSJ from the list, subject to the approval of the president. During Abdo's presidency, five new Supreme Court judges were appointed (between 2018 and 2020). While the first two appointments met with broad approval, traditional practices seem to have been evident for the next three appointments. The majority of judges (five out of seven) are considered sympathizers of the Colorado Party.

In November 2022, Paraguay was consumed by a scandal sparked by press revelations that the son of the president of the Supreme Court (CSJ), a lawyer, represented a Brazilian citizen who had been arrested for drug-trafficking and was seeking a "legal way out" of extradition to the United States. In January 2021, a judge ordered the arrest of Efraín Alegre, the Liberal Party's presidential candidate in the 2013, 2018 and 2023 general elections, for not meeting bail conditions (the bail had been fixed at \$21,500) in a case related to charges of illegal campaign financing (relating to 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.

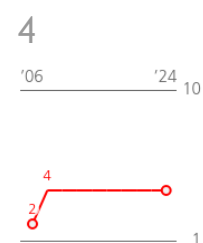
Corruption remains a central feature of state and administrative culture. Many of the state's resources are distributed based on patronage networks.

In 2021, 75% (2019: 65%) of Paraguayans believed that the majority of politicians were corrupt, according to LAPOP. The percentage of Paraguayans who said they had been the victim of at least one bribery request by either the police or public employees during the last 12 months was respectively 18% and 19% (2019: 8%). According to LAPOP data, Paraguay is among Latin America's top four countries with regard to the prevalence of corruption. Furthermore, 20% of respondents said that paying a bribe is justifiable.

The AS/COA 2022 Capacity to Combat Corruption (CCC) Index lists Paraguay at 11th place out of 15 Latin American countries, compared to a 12th place position in 2021. In the 2022 WJP Rule of Law Index, Paraguay was ranked 130th out of 140 countries and 26th out of 32 in Latin America and the Caribbean in terms of the effectiveness of its criminal justice system.

In 2021, only 20% (2019: 29%) said they believed the Public Prosecutor's Office would investigate the perpetrators of acts of corruption, and only 24% (2019: 30%) trusted the capacity of the courts to punish those responsible for acts of corruption (LAPOP).

#### Prosecution of office abuse



Public employees who fail to comply with financial disclosure laws face a ban from government positions for a maximum of 10 years, but enforcement is notoriously inadequate. Corruption charges and convictions typically impact lower- and mid-level officials, while high-ranking officials generally escape prosecution. For instance, the Brazilian Lava Jato prosecutors took action against former President Cartes over his alleged participation in a money-laundering and kickback scheme, even issuing an international arrest warrant in November 2019. However, in Paraguay, he did not face prosecution. Furthermore, in 2021, a former member of the Senate was found guilty of illicit enrichment.

To prevent impeachment proceedings for the commission of malfeasance in office, the ombudsman (defender of the people) resigned in September 2022.

At the height of the pandemic, irregularities occurred in the emergency purchase of medical equipment. The General Audit Office (Controlaría General) and the Public Prosecutor's Office discovered and prosecuted these irregularities.

Civil liberties are generally secure, but there are instances in which the police do not abide by the law that prohibits arbitrary arrest and detention. As of September 2022, the Human Rights Unit of the Public Prosecutor's Office had filed 90 cases regarding bodily harm in the exercise of public functions in that year and seven cases of torture (compared to nine cases in 2021).

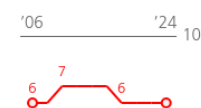
The constitution provides for the right to a fair and public trial. Nominally, citizens are equal before the law and have equal access to justice. Defense attorneys, however, often manipulate the judicial process so as to ensure the statute of limitations is passed before trials are concluded. It is 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, but trials are often lengthy. Criminal cases typically spend several years in court. Harsh and sometimes life-threatening conditions in the country's overcrowded prisons have repeatedly been the subject of criticism. Criminal organizations have acquired an exponentially growing level of control over the administration of penitentiaries. The government's human rights bodies are not efficient, do not coordinate with one another 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 filed with the 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

#### Civil rights

6



1

can be subject to extensive delays. Whereas an increasing number of laws and international treaties protect the rights of Indigenous people, they have not been sufficiently implemented.

Although the government adopted a National Plan for Indigenous Peoples in 2021, the situation of the Indigenous population has not improved. Attacks on Indigenous property are rarely prosecuted or sanctioned. The state often responds to efforts to reclaim ancestral lands with violence.

The National Institute for Indigenous Affairs (INDI) is responsible for protecting and promoting Indigenous rights. Its tasks include negotiating, purchasing and registering land on behalf of Indigenous communities that claim an inability to access their ancestral lands. The INDI has a small budget, which has been further reduced in recent years.

No laws explicitly prohibit discrimination against LGBTQ+ individuals in relation to employment, housing, access to education or health care. Instances of such discrimination, including social discrimination, are commonplace. NGOs report incidents of police harassment and discrimination against LGBTQ+ individuals. Currently, there is no comprehensive law addressing discrimination, but there is a specific law targeting workplace discrimination based on race, skin color, sex, age, religion, political opinion, disability, HIV-positive status or social origin. However, this law is rarely enforced.

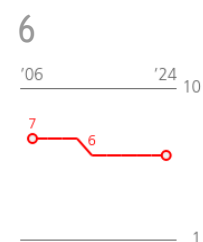
The budget of the Women's Ministry was reduced every year during Abdo's presidency.

#### 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 broad 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 governing Colorado Party is currently split between the faction of President Abdo and the faction of his predecessor Cartes, who has been the president of the Colorado Party since January 2023. These divisions lead to cross-party alliances, shifting voting coalitions and political blockades – all of which subject political decision-making to short-term strategic calculations and make long-term planning difficult.

Traditional political parties dominate Congress. Votes on different bills, whether they have been presented by the executive or elaborated in Congress, correspond almost exclusively to patterns of political clientelism, political factionalism or the money

Performance of democratic institutions



received by legislators from large economic interest groups. Frictions also arise from the various attempts to influence the judiciary and, in particular, the composition of the Supreme Court.

Though most democratic institutions are accepted as legitimate by the majority of relevant actors, political elites often demonstrate a lack of respect for democratic norms. Significant conflicts that occurred during President Abdo's term, such as disputes over the secret treaty on Itaipú at the start of his tenure, or the management of the COVID-19 pandemic, have also been resolved within the institutional framework.

In his fourth annual report to Congress on the activities of the government in July 2022, President Abdo emphasized his respect for democratic institutions. In doing so, he certainly wanted to distance himself from the failed re-election ambitions of his predecessor in office, Cartes, which violated constitutional provisions and subjected Paraguayan democracy to a stress test. Unlike his two predecessors from the Colorado Party, Duarte and Cartes, Abdo did not try to change the constitution to allow for re-election. But this may also have been due to his poor poll ratings and the strength of his opponents in the Colorado Party.

## 5 | Political and Social Integration

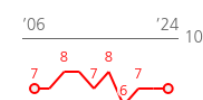
The Paraguayan party system is still dominated by two traditional parties – the Colorado Party and the Liberal Party, which serves as the major opposition party. Both parties have been operational for over 100 years. In the 2018 elections, these two parties secured 16 out of 17 departmental governorships, almost 75% of the seats in the Chamber of Deputies, and two-thirds of the seats in the Senate. Following the 2018 election, the effective number of parties in the Chamber of Deputies increased slightly to 2.91 (compared to 2.39 in 2013), and in the Senate it rose to 3.93 (compared to 3.53 in 2013).

The Colorado Party won the 2018 presidential election and has remained the strongest party. Throughout its 70 years in power, the party has established a tightly knit patronage network. This is also applicable to the Liberal Party, particularly in its strongholds at the municipal and departmental levels. However, party discipline is low, and parties are comprised of numerous factions.

Due to the strength of the two traditional parties, electoral volatility is low. The Colorado Party is the structurally dominant party. It can lose the presidential election only when confronted with a largely united counter-coalition, along with significant abstention from voting in its own camp. Both traditional parties have a broad social base, however.

Commitment to democratic institutions

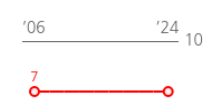
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Party system

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In the 2021 (October) municipal elections, the Colorado Party won the mayoral election in 160 (a gain of 13) of the country's 261 municipal districts, while the Liberal Party won in 64 districts (losing 15). Additionally, electoral alliances that included both leftist and liberal candidates (14), managed to win in 37 districts (a gain of 12). The number of municipal districts has increased since 2015, when there were just 250. Although the Colorado Party performed well, receiving 49.3% of the votes at the aggregate national level (1,336,425), the combined total of non-Colorado votes was over 50% (1,375,583).

For the party primaries (in December 2022) to nominate candidates for the 2023 general elections, the Colorado Party had 2.6 million registered members, of which 1.2 million participated. The Liberal Party had 1.5 million registered members, with 430,000 participating in selecting the candidates for the Senate slate. 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 create opportunities for mobilization in both traditional parties. In the December 2022 primaries to nominate candidates for the 2023 general election, 1.6 million voters affiliated with one of the two parties cast their votes. Another 590,000 voted for the presidential candidate in the primaries of the party alliance "Concertation for a New Paraguay," which is supported by a faction of the Liberal Party.

Due to patronage networks, the parties function only partially as instruments for articulating and aggregating social interests. The parties – especially on the left – tend to be internally fragmented among competing party leaders.

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 has also made agreements with other parties, such as the Liberal Party.

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 legislators vis-à-vis the parties and further weaken party discipline. It will also make it easier for business interests to influence the elections. The justification for the reform was that it would provide the electorate with options to vote for the less corrupt and clientelist candidates of the traditional parties, while also allowing more space for other parties. However, it could also produce the opposite result, giving organized crime more influence on politics through the targeted support of individual candidates. Additionally, it undermines women's quotas, which are currently only required for internal party elections.



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). However, the labor movement is weak and fragmented. The rate of unionization was only 5.7% in 2019, with a rate of 28% in the public sector and just 0.6% in the private sector. Out 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, specifically Itaipú and Yacyretá. There are several competing trade union federations, with seven active and four inactive in 2020. Strong organizations represent the interests of rural landowners, including cattle ranchers and soybean producers. These organizations include the Asociación Rural del Paraguay (ARP), Coordinadora Agrícola de Paraguay (CAP), Asociación de Productores de Soja (APS) and 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 to some degree able to neutralize peasants' demands and subsequent voting behavior on election days.

The Articulación Nacional Indígena por una Vida Digna (ANIVID), created in 2020, includes Indigenous organizations, communities, clans and individuals with the common goal of defending their lands, territory, rights and culture.

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

Interest groups

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Support for democracy has traditionally been low among Paraguayan citizens. The percentage that views democracy as the best form of government decreased slightly in 2021 compared to 2019, from 51% to 50%. This is well below the Latin American average of 61% (LAPOP).

Only 34% (Latin American average 43%) state they are satisfied with the way democracy operates in Paraguay. In comparison to the rest of Latin America, the country has a relatively high percentage of individuals who are receptive to the notion of an authoritarian government. The level of support for military coups, driven by elevated corruption levels, has experienced a significant increase from 35% in 2019 to 45% in 2021 (Latin American average 40%). Additionally, 37% of respondents would be willing to accept a military coup during a public health emergency. Furthermore, the level of tolerance for executive coups aimed at shutting down the legislature has risen to 37% (Latin American average 30%) as opposed to 27% in 2019.

In 2020 (Latinobarómetro), only 10% of respondents agreed that the country was governed for the common good (the Latin America average was 17%). Eighty-seven percent said the country was governed in the interest of and for the benefit of small, powerful groups (Latin America average: 79%).

Levels of trust in Congress and in the judiciary were low in 2020, at 10% and 13%, respectively (Latin American average: 20% and 25%). Trust in political parties was even lower, at 9%. Trust in the military (36%) and the Catholic Church (77%) was comparatively higher but also decreasing, according to Latinobarómetro.

However, there is a contradiction between low levels of citizen confidence in democracy and political parties and the relatively high degree of party loyalty during elections, as a large majority of voters continue to vote for the traditional parties.

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 as to whether citizens participate in independent or clientelistic organizations. At the community level, there is a large number of small-scale organizations, and more than two-thirds of the Paraguayan population is active in such groups. Nevertheless, the main objectives of these organizations are typically limited to immediate measures such as building roads or improving the local water supply. A defining aspect of Paraguayan organizing is the significant division between small-scale social groups and solidarity at the community level on the one hand and other forms of civic engagement that prioritize the common good on the other. Levels of trust within the population are currently low and have declined in recent years. According to the 2020 Latinobarómetro survey, only 9% of Paraguayans expressed trust in their fellow citizens, which falls below the Latin American average of 12%.

Approval of  
democracy

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Social capital

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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

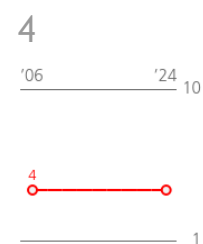
Paraguay was ranked 105th out of 191 countries in the 2021 Human Development Index, with an HDI score of 0.717 (lower than 2020's 0.728). This places the country below the average (0.753) and categorizes it as having high human development. When adjusted for inequality, Paraguay's HDI value falls by 18.8% to a score of 0.582. In 2021, the country was ranked 111th out of 170 countries on the Gender Inequality Index, with a score of 0.445.

Social exclusion is both quantitatively and qualitatively extensive and structurally ingrained. Although there has been a slight improvement with regard to income inequality, the Gini index score remained high at 0.447 in 2021, slightly lower than the pre-pandemic level of 0.473 in 2019. Employment is predominantly informal, with 64.2% of workers aged 15 and older in nonagricultural jobs holding informal positions in 2021, compared to 65.4% in 2016 (INE). Prior to the pandemic, robust economic growth had significantly reduced poverty rates. From 2002 to 2019, the poverty rate more than halved, but progress stagnated thereafter. In 2020, during the pandemic, the poverty rate increased by 2.9 percentage points, but it decreased by 1.4 percentage points in 2021. In 2021, the poverty rate ranged from 20.9% (ECLAC) to 26.9% (EPHC National Statistics). The percentage of the population living in extreme poverty in 2021 varied from 6.0% (ECLAC) to 3.9% (National Statistics). Rural areas have higher rates of poverty and extreme poverty (34.6% in poverty, 7.7% in extreme poverty) than do urban areas (22.4% in poverty, 1.7% in extreme poverty) (National Statistics), with the disparity having increased further during the pandemic.

High rates of economic growth during the boom period (through 2018) enabled the emergence of a growing middle class, as observed in other Latin American countries. However, the majority of the middle class formed during that period did not achieve economic security and continues to face economic vulnerability, albeit above the poverty line.

Question  
Score

Socioeconomic  
barriers



Economic indicators		2019	2020	2021	2022
GDP	\$ M	37925.3	35432.2	39950.9	<b>41722.3</b>
GDP growth	%	-0.4	-0.8	4.0	<b>0.1</b>
Inflation (CPI)	%	2.8	1.8	4.8	<b>9.8</b>
Unemployment	%	6.6	7.6	7.3	<b>6.9</b>
Foreign direct investment	% of GDP	1.1	0.3	0.5	<b>1.1</b>
Export growth	%	-3.4	-9.0	2.1	<b>-1.6</b>
Import growth	%	-2.0	-15.2	21.8	<b>5.6</b>
Current account balance	\$ M	-218.9	691.7	-305.2	<b>-2776.6</b>
Public debt	% of GDP	25.8	36.9	37.5	<b>40.8</b>
External debt	\$ M	16387.6	19763.4	21352.8	-
Total debt service	\$ M	1383.3	1111.1	1217.7	-
Net lending/borrowing	% of GDP	-2.4	-5.8	-3.4	-
Tax revenue	% of GDP	10.0	9.5	9.8	-
Government consumption	% of GDP	11.9	12.6	12.0	<b>11.5</b>
Public education spending	% of GDP	3.5	3.9	3.4	<b>3.6</b>
Public health spending	% of GDP	3.3	4.1	-	-
R&D expenditure	% of GDP	0.1	0.2	-	-
Military expenditure	% of GDP	1.0	1.0	0.9	<b>0.8</b>

Sources (as of December 2023): 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. Prices are primarily determined by market forces, but the government intervenes by setting electricity rates and subsidizing state-owned enterprises. Free-market competition and the protection of property rights are constrained by persistent corruption and political influence within government administration and the judiciary. The absence of consistent property surveys and registries further complicates the process of acquiring land titles. Regulatory agencies' supervisory functions over the telecommunications and energy sectors, potable water, and the environment suffer from inefficiency and a lack of transparency.

Market organization

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Foreign investors are guaranteed equal treatment, and most sectors are open to private investment. Foreign investors in Paraguay benefit not only from low taxes but also from beneficial regulations in terms of profit remittances. There is no restriction on the repatriation of capital and profits.

The informal sector is significant, accounting for 47% of the country's GDP. In 2021, 64.2% of workers carried out their activities in the informal sector (on their own or in microenterprises) according to the National Institute of Statistics (INE). By area of residence, in rural areas, approximately eight out of every 10 people not employed in agriculture are in informal work. In urban areas, on the other hand, six out of every 10 nonagricultural workers are informal.

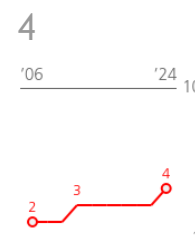
Economic activity is predominantly controlled by small and microenterprises. As of December 31, 2020, taxpayers registered with the Ministry of Finance accounted for just 24% of the overall economically active population. The informal sector encompasses lawful but unregistered activities as well as cross-border smuggling, the illegal production and sale of narcotics, and the sale of pirated music, stolen automobiles and weapons.

The formation of monopolies is generally prohibited by Article 107 of the national constitution. An antitrust law – the Law on the Defense of Competition – has been enacted. Introduced in June 2013, this policy aims to target anti-competitive agreements, abuses of dominant position and predatory pricing. In 2015, the Comisión Nacional de la Competencia (CONACOM) was established as the institutional body responsible for overseeing competition policy. CONACOM represents the country in the International Competition Network.

CONACOM is not truly an independent authority. Its members are appointed by the executive, and business associations are permitted to take part in the selection process. CONACOM continues to hire personnel as it receives additional funds from the national government. The initial cases involving anti-competitive practices were resolved in 2021, but it was not until 2022 that the first sanctions were imposed. Before that, penalties were imposed in cases of merger condition violations.

While oligopolies exist in the private sector (in banking, supermarkets and the mass media), the state maintains a monopoly in certain sectors. These sectors include electricity, overseen by the Administración Nacional de Electricidad (ANDE), and telecommunications, where the Corporación Paraguaya de Comunicaciones holds a monopoly on fixed-line voice services such as local telephony, international long-distance telephony and VoIP. However, effective competition has been present in the mobile telephony market since 1998. Additionally, the internet market is open to competition.

#### Competition policy



Paraguay has long been a highly open economy. In the Index of Economic Freedom 2023, Paraguay receives a relatively high score of 77.2 (out of 100) for trade freedom. Tariffs are kept low, and non-tariff barriers as well as other hindrances to trade are comparatively minimal when compared to neighboring countries, particularly in the Mercosur area. Paraguay enforces a ban on the importation of used clothing and cars that are more than 10 years old. Additionally, the government occasionally imposes seasonal restrictions on certain vegetables (such as tomatoes, bell peppers and onions) to safeguard local producers. Furthermore, Paraguay mandates nonautomatic import licenses for various products, including personal hygiene items, cosmetics, perfumes, toiletries, textiles, clothing, insecticides, agrochemicals, poultry, barbed wire, wire rods, steel and iron bars.

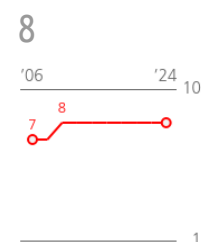
Exports totaled 36% of GDP in 2021, according to the World Bank. The export market is dominated by a small number of products, including soybeans and soybean oil, electricity and meat. The country's membership in Mercosur has led to trade liberalization with Argentina, Uruguay and Brazil.

The simple average applied MFN tariff rate was 9.6% in 2021, according to the WTO, and was almost identical for agricultural and nonagricultural products. However, cumbersome and time-consuming customs procedures add to the cost of trade. Paraguay has been involved in 21 WTO trade disputes to date, but only as a third party. It has been a member of the WTO since 1995.

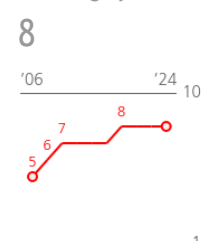
The banking system is solid and oriented toward international standards. After several banking crises in the 1990s and early 2000s, the legal and regulatory framework for banking supervision has improved considerably and has become more risk-based, increasingly meeting international standards. Public financial institutions such as the National Development Bank (BNF), the Development Financial Agency (AFD) and the central bank (BCP), have been strengthened. The Superintendency of Banks (SIB), within the BCP, is responsible for the supervision of the financial sector. However, the IMF recommends that the oversight of cooperatives, insurance companies and pension funds be strengthened.

Paraguay's banking system includes 17 banks with approximately \$25.5 billion in assets and \$18.4 billion in deposits (2021). The banking system is generally well capitalized and profitable and had a non-performing loan (NPL) ratio of 2.5% at the end of the first quarter of 2022. According to 2021 WDI data, the NPL ratio was reported as 2.3%, which is roughly the average of the past decade, while the capital adequacy ratio (CAR) of 9.4% had gradually increased over time. However, there is a high degree of dollarization both for assets (41.3% of total assets) and liabilities (47.6% of total liabilities). Long-term financing for capital investment projects is limited, with most lending facilities being short-term. Additionally, Paraguay has a significant percentage of citizens without access to banking services. Many Paraguayans rely on alternative methods, such as e-wallets, to save and transfer money.

#### Liberalization of foreign trade



#### Banking system



The 2022 evaluation of Paraguay by the Financial Action Task Force of Latin America (GAFILAT) concludes that, in general, the legal system in place is appropriate to combat money laundering. However, the number of investigations launched, legal proceedings initiated and convictions secured is considered low, given the level of existing threats in the country. According to the U.S. Narcotics Control Strategy Report 2022, the Paraguayan government has taken steps to align the country's anti-money laundering/terrorism financing (AML/CFT) legal framework with international standards and enhance interagency coordination among the competent authorities. Nevertheless, criminal convictions remain rare and uneven due to rampant corruption in both the political and judicial sectors. Transnational and local criminal organizations take advantage of the largely informal economy and lax border controls in Ciudad del Este and other border towns to engage in trade-based money laundering.

## 8 | Monetary and fiscal stability

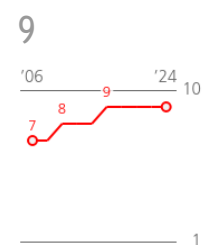
Controlling inflation and maintaining a suitable foreign exchange policy are stated objectives of government economic policy. The central bank (Banco Central del Paraguay, BCP) coordinates monetary policy. The BCP's independence from political pressures has been strengthened over time, making it relatively autonomous in its decisions.

According to World Bank data, inflation has remained moderate to low since 2012, ranging between 1.8% and 5.0%. In 2021, the inflation rate reached a low of 1.8%, followed by a substantial increase to 4.8%. In contrast, ECLAC reports somewhat higher figures, with inflation rates of 2.2% (2020), 6.8% (2021) and a significant jump to 8.1% in 2022. Responding to these price increases, the central bank raised its benchmark interest rate from 2.75% in October 2021 to 5.25% in January 2022, and further to an 11-year high of 8.50% in October 2022.

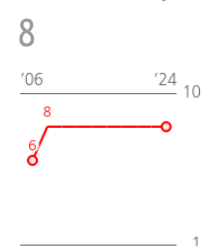
Paraguay has a floating exchange rate. Due to its close ties to Argentina and Brazil, its two major counterparts in the Mercosur, the Paraguayan currency, the guaraní, is influenced by economic development and currency rates measured against the U.S. dollar in these neighboring countries. The real effective exchange rate index (World Bank), with 2010 as the base year (100), has shown stability since 2016 (110.4), experiencing only minor fluctuations (reaching 107.2 in 2021).

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 remained relatively low until 2018. Due to the recession in the first half of 2019, the government invoked the emergency escape clause of the FRL, which allows an increase in the deficit ceiling in case of a decline in economic activity, up to 3% of GDP in times of crisis.

### Monetary stability



### Fiscal stability



As a result of the government's efforts to mitigate the impact of the pandemic, the fiscal deficit reached 6.1% of GDP in 2020 but fell to 3.7% of GDP in 2021. According to the Ministry of Finance, the fiscal deficit for 2022 amounted to 3% of GDP. The fiscal deficit does not include payments in arrears to private enterprises that provide goods and services to the state. Consequently, the actual fiscal deficit in Paraguay for 2022 may be larger.

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. In January 2021, the government placed another round of sovereign bonds in the international market, totaling \$826 million. The transaction included the issuance of new debt valued at \$487 million and the repurchase of the 2023 sovereign bond for \$339 million. In January 2022, the government managed to issue a \$500 million sovereign bond with a maturity of 10 years and an interest rate of 3.85%. A portion of the net proceeds from the bond sale was once again used to pay for the purchase of outstanding bonds.

The accelerated increase of public debt over the last five years has set off alarms in international financial organizations, such as the IMF, which strongly recommends an increase in tax revenues. However, international credit rating agencies still rate Paraguay's creditworthiness quite positively. Standard & Poor's and Fitch each give Paraguay BB/B stable and BB+ credit ratings, while Moody assigns the country a Ba1 rating (as of January 2023).

Public debt increased from 25.8% of GDP in 2019 to 36.9% in 2020 and 37.7% in 2021, according to the IMF. External debt increased from 26.5% of GDP in 2019 to 38.4% in 2020 and 37.8% in 2021, as reported by CEPALSTAT. The Ministry of Finance states that the public debt was 36.8% of GDP at the end of 2022.

Taxation is low overall, with a personal income tax that ranges from 8% to 10% and a business income tax of 10%. The value-added tax stands at 10% (5% for basic items in the food basket). In 2020, value-added tax revenues totaled 4.9% of GDP, while the personal income tax totaled 0.2% and the corporate income tax 2.3%. Total tax revenues amounted to 13.4% of GDP, according to the OECD.



## 9 | Private Property

Property rights and the regulation of property acquisition are generally well defined, but problems arise with their implementation under the rule of law, primarily due to inefficiency and corruption in the judicial system. Although progress has been made in the cadaster system since 2016, land titles in the agricultural sector frequently remain ill-defined, resulting in insecure property rights and contracts.

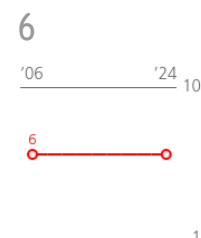
The US State Department reports that after the previous head of INDERT (Instituto Nacional de Desarrollo Rural y de la Tierra) was removed from the position due to accusations of bribery in October 2020, the new administration has made notable efforts to regularize property title registration in various regions of the country's interior. It has also considerably increased the number of regularized property titles and revenues collected by the institution.

A latent and sometimes violent conflict exists between various interests in the country, 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, generating conflicts that often lead to conduct outside the rule of law. Acquiring the necessary documents for land titles takes considerable time, adding to conflicts over land titles and property rights.

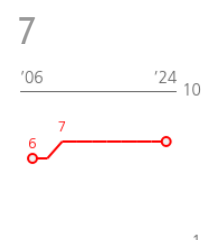
While Paraguay slightly increased its score on the Index of Economic Freedom with regard to the protection of property rights, showing a rise from 41.6 (2021) to 46.8 (2023), its position still remains relatively low on the scale, which has a maximum value of 100. Nevertheless, the index values have shown significant improvement since 2016, when they stood at 30.0.

Private business activities are the backbone of Paraguay's economy, with no restrictions on the repatriation of capital and profits. Private entities have the freedom to establish, acquire and dispose of business interests. The Index of Economic Freedom ranks Paraguay as moderately free in terms of business freedom, with a score of 69.5 (out of 100) in 2023, compared to 59.6 in 2021. The state tolerates the concentration of market power, particularly in the media sector, as well as in the banking system, and for gas stations and supermarkets. In certain sectors like telecommunications, petroleum distribution, cement, electric power generation and water services, state-owned enterprises compete with private companies or even hold a monopoly. However, privatization programs came to a halt during President Duarte's administration (2003 – 2008). These programs proved to be highly unpopular due to repeated major irregularities, a lack of transparency and corruption.

Property rights



Private enterprise



The Cartes government (2013 – 2018) passed new laws allowing for more private sector activities in cooperation with the public sector, known as private-public partnerships (PPPs), aiming to facilitate and encourage infrastructure investments. This policy has been continued by President Abdo, who succeeded Cartes in 2018 and will serve until 2023. In 2021, public-private partnership investment in transport amounted to \$130 million, according to the World Bank.

Foreign investors are guaranteed equal treatment, and most sectors are open to private investment. Foreign investors in Paraguay benefit not only from low taxes but also from favorable regulations regarding profit remittances. There are no restrictions on the repatriation of capital and profits. Private entities are free to establish, acquire and dispose of business interests. Foreign direct investment (net inflows) in Paraguay amounted to \$122 million in 2021, approximately 0.3% of GDP (according to the IMF), which is relatively low by Latin American standards.

## 10 | Welfare Regime

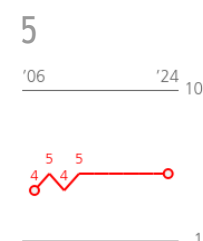
Social safety nets in Paraguay are highly fragmented based on territory, class and sector. In 2019, social protection and labor programs provided coverage for 69% of the population, according to the World Bank. The proportion of social expenditure as a share of GDP has remained stagnant since 2012, reaching a low of 10.3% in 2021, according to ECLAC. Paraguay's social protection system is divided into the contributory social security and social assistance sectors. Since 2018, the Ministry of Social Development has been responsible for implementing social development policies and coordinating efforts to reduce poverty and enhance living conditions for vulnerable individuals. The average life expectancy in Paraguay is relatively high, at 75 years (73 for men and 77 for women).

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.

The contributory social security system extends only to formal sector employees. According to the OECD's 2019 Multidimensional Review of Paraguay, coverage is low, with only 21.8% of workers making social security contributions in 2017. The largest excluded group is the self-employed, who can contribute voluntarily to the pension regime, but only a small percentage choose to do so. Only 46% of the population above the age of 65 had a pension. In 2010, the Adultos Mayores program was introduced to provide grants to elderly people (aged 65 and over) in extreme poverty. As of 2022, it had 267,137 beneficiaries.

The Paraguayan health system is made up of public, private and mixed sectors. It operates in an uncoordinated and fragmented manner, with different financing, regulation, enrollment and service delivery modalities. Territorial coverage is asymmetrical. The Ministry of Public Health and the Institute of Social Welfare (IPS)

Social safety nets



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. In 2019, public expenditure on health accounted for 3.3% of GDP and 14.4% of total public expenditure (PAHO).

President Cartes and President Abdo both continued the Tekoporã conditional cash transfer program as well as the Adultos Mayores program. The Tekoporã program, launched in 2005, benefited 168,141 families in 2022.

As a response to the pandemic, the government launched two complementary programs, Ñangareko and Pytyvõ. Ñangareko started as a food safety program but was swiftly transformed to provide cash transfers to families with income from subsistence activities or activities strongly affected by the social distancing measures of the pandemic. The Pytyvõ program targeted informal workers and consisted of temporary financial aid. These social programs efficiently mitigated the decline in income experienced by recipients and the job vulnerability during the pandemic.

Discrimination is prohibited by the constitution, but there is no executive law on this and therefore no legal basis for enforcement. Women are disadvantaged both economically and politically. The Gender Inequality Index 2021 ranked Paraguay 111th out of 170 countries with a score of 0.445. The Femininity Index of Poverty, which represents the ratio between the poverty rate of women and the poverty rate of men (expressed as 100), was 122 in 2021 according to CEPALSTAT.

The female labor force participation rate (population ages 15 and older) was 60% in 2021, compared to 84% for men. The unemployment rate in 2021 was 9.7% for women and 5.9% for men. In 2021, 26.5% of women (and 11% of men) in the urban sector and 35.3% (and 14.3% of men) in the rural sector had no income of their own. As of 2020, the literacy rate was 98.6% for men and 98.7% for women. The percentage of the population with at least some secondary education is 71.8% for women and 68.2% for men, according to CEPALSTAT. The Gender Parity Index (GPI) for gross enrollment indicates parity in primary and secondary education, with a slight overrepresentation of women (1.3) in higher education.

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. Only 12% (2015: 10%) of the mayors and 27% (2015: 22%) of the city councilors elected in 2021 were women. Only one of the nine justices on the Supreme Court is a woman (2022). The three justices on the Supreme Electoral Court are men.

In March 2022, the Liberal Party (PLRA) implemented a statutory reform, transitioning from a 33% quota for women to parity and alternation for all electoral positions, including national, departmental and municipal positions, as well as internal party positions. In 2022, the Chamber of Senators made amendments to its

Equal opportunity

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internal rules of procedure, mandating that the presiding Senate Bureau include at least one woman in its three total positions (one president and two vice-presidents).

The Indigenous population is denied equal development opportunities – mostly through neglect. Poverty rates are significantly higher in these communities than among the rest of the population.

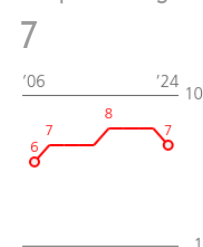
## 11 | Economic Performance

The Paraguayan economy suffered less from the COVID-19 pandemic than did much of the rest of Latin America, according to ECLAC data. GDP per capita contracted by only 2.0% in 2020 (following a decline of 1.7% in 2019), rebounded by 2.8% in 2021, and turned negative again in 2022 at -1.5%. Paraguay's heavy reliance on agriculture proved beneficial, as this sector was less affected than others by the pandemic. However, heatwaves and a severe drought during the critical summer months of 2021/2022 affected up to 60% of soybean crops and reduced economic growth prospects. The low levels of river water led to a decline in revenue from the two binational hydroelectric dams in 2020 and 2021. Paraguay was unable to fully capitalize on favorable prices for its agricultural exports due to the low water levels. The navigability of the Paraguay and Paraná rivers was threatened and shipping costs increased, exacerbating supply problems resulting from the war in Ukraine.

In 2022, Paraguay recorded its first trade deficit in 28 years. While imports increased by 16.1% compared to 2021, exports decreased by 1.5%. The drop in exports reflected the effects of the drought, which severely affected the soybean harvest. Soybean exports decreased by 58.8% in 2022. Additionally, the growth of meat product exports slowed as a result of economic sanctions imposed on Russia. In 2021, Russia had been the destination of 20% of Paraguayan beef exports. According to the quarterly FGV Economic Climate Index (ECI) for 10 South American economies, Paraguay ranked first or second in both 2021 and 2022. According to IMF data, FDI net inflows remained low at 0.3% in 2020.

The urban unemployment rate reached 7.5% at the end of 2021, then decreased to 6.7% in the second quarter of 2022. However, the main issue in the Paraguayan economy is underemployment rather than unemployment. Inflation has remained moderate to low since 2012, reaching 2.2% in 2020, but it increased to 6.8% in 2021 and 8.1% (October) in 2022. The central government's budget had a deficit of 6.1% of GDP in 2020 and 3.8% in 2021. The public debt, which had risen from 25.8% of GDP in 2019 to 36.9% in 2020, increased slightly to 37.7% in 2021, according to the IMF.

Output strength



## 12 | Sustainability

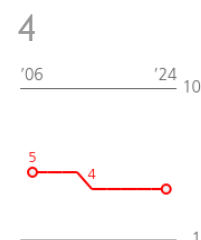
Environmental concerns have received little attention from President Abdo. In his Annual Report to Congress in July 2022, he mentioned them only briefly, focusing more on other issues. While the Ministry for the Environment was established in 2018 and several regulations have been enacted, the government has only sporadically prioritized sustainable growth and lacks a strong institutional framework. President Cartes approved the National Development Plan 2030 in 2014, which included provisions for environmental sustainability across various departments. However, the plan has been poorly implemented. In terms of climate change adaptation policies, the National Adaptation Plan (2022 – 2030) was developed in a participatory manner. It lays out 25 objectives for resilient cities and communities, health and epidemiology, ecosystems and biodiversity, energy, agriculture and food security, forestry, water resources, and transportation.

While Paraguay has a clear legal framework intended to safeguard both its natural biodiversity and Indigenous peoples, its economic development model is based on the 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 due to the boom in soybean production. The harvest area of Paraguay is covered by oil crops (2020; CEPALSTAT), representing 62.5% of the total. Furthermore, 95% of the cultivated soy plants in Paraguay come from genetically modified varieties.

Due to the presence of large binational hydropower plants, CO<sub>2</sub> emissions in Paraguay are relatively low. As of the end of 2021, Paraguay became one of six countries worldwide that exclusively relied on renewable electricity, according to REN21. In terms of energy consumption, hydropower accounted for 18%, biomass for 41% and petroleum derivatives for 41%, based on the National Energy Balance 2021. However, the government has not prioritized the reduction of air and water pollution. Occasionally, organizations representing small farmers, landless peasants or Indigenous groups protest against the indiscriminate use of pesticides and herbicides. They are concerned about the environmental damage, water pollution and associated health risks for residents in the affected regions.

Devastating wildfires have broken out across Paraguay in 2019, 2020 and 2021/2022. The government has been criticized for its lack of strategy and insufficient measures against the wildfires. In July 2022, the government launched a campaign around the slogan “Don’t ignite a tragedy,” with the aim of raising awareness before the months in which forest fires commonly occur.

Environmental  
policy



Education policy contributes to a substandard system of education and training in Paraguay. By the end of its term (2013 – 2018), 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 Inter-American Development Bank (IDB). The Fund for Excellence in Education and Investigation (FEEL) receives 30% of its income from compensation payments from Brazil for the use of Itaipú’s extra energy.

Paraguay is ranked 69th (of 134 BTI countries covered) in the U.N. Education Index, surpassing China but coming last among the 10 South American countries with a score of 0.656. The literacy rate for individuals aged 15 to 24 is high, standing at 98.6% as of 2020. Additionally, the ratio of literacy between men and women is nearly equal, with respective rates of 98.6% and 98.7%. However, significant levels of functional illiteracy can be found within the country.

Striking disparities in enrollment rates are evident, particularly between urban and rural areas. Especially noticeable is the discrepancy in tertiary education. When comparing the population aged 15 and above living in urban areas to those living in rural areas, those in urban areas study for an average of approximately three years longer. On average, individuals in Paraguay receive 8.9 years of schooling (HDI 2022).

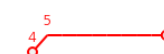
Despite rising school enrollment rates, the educational system still has significant qualitative deficiencies. These are often related to improper staffing due to the politicization of the system and clientelistic networks. However, challenges are sometimes as basic as the need to provide food and school supplies for young pupils. Progress in higher education has been skewed toward wealthier students. Paraguayan students have low scores in international comparisons such as the OECD’s PISA tests, and learning outcomes have not improved over the past decade.

Quantitatively, investment in education and training, as well as in research and development, remains relatively low. Public expenditure on education accounted for 9.6% of government expenditure in 2021 and 3.3% of GDP in 2020. These figures represent some of the lowest values in Latin America. Meanwhile, R&D expenditure remained negligible at 0.14% of GDP in 2019. The number of researchers in the R&D sector equated to 156 per 1 million people in 2019. In the Global Innovation Index 2022, Paraguay was ranked 91st out of 132 countries (88th in 2021 and 97th in 2020). In the specific sub-category of education, the country ranked 105th, while in R&D it ranked 101st.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

The structural constraints on governance are fairly 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 densities of roads in Latin America. Paraguay's transportation costs for foreign trade activities are higher than the average cost for other Latin American countries. Transport by ship can be affected by low water levels.

Paraguay is vulnerable to climate change. Its main exports are agricultural products, so the economy suffers during climatic adversities like droughts or flooding (often caused by the El Niño phenomenon). In the past three years, a series of droughts and a lack of rainfall have occurred. Rising average temperatures pose a threat that will intensify in the future, affecting both agricultural yields and the population's health.

The country is unable to combat poverty systematically on its own. Future development must contend with persistent and high levels of social inequality; the lack of an educated labor force, which translates into relatively low levels of human capital; labor market inefficiencies; an inefficient and overstaffed public administration; widespread corruption in politics, society and the private economic sector; and deficiencies in infrastructure. Over the past decade, professionalism in the public sector has improved. This is especially true at the central bank, the Ministry of Finance and the Statistics Office (DGEEC). New employees in the public sector are being more carefully selected than previously, and in many cases, they are evaluated according to professional rules. However, public sector reforms face obstacles due to high levels of politicization in the public administration.

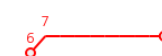
The democratization process in Paraguay began 30 years ago in February 1989, after a long phase of authoritarian rule. It unfolded under conditions of a weak autonomous civil society, a weak political opposition, and broad continuity among the elites in politics and officialdom. Politics has been based on patronage networks, a fact that has essentially subverted civil society, resulting in a weak and limited culture of civic participation in public life.

The NGO sector in Paraguay relies heavily on support from international donors. A network of small civil society organizations exists that can be utilized for mobilization processes during times of crisis. This was seen during protests against President Cartes' re-election plans, the management of the COVID-19 pandemic and

Structural  
constraints

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Civil society  
traditions

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mobilizations against corrupt politicians. However, on a day-to-day basis, there is little connection between these under-resourced organizations and broader social movements. One exception is the robust human rights movement in Paraguay. For instance, the Paraguayan Human Rights Coordinator (Coordinadora de Derechos Humanos del Paraguay, CODEHUPY) consists of 36 organizations and networks. In Paraguay, levels of interpersonal trust are very low, reflecting the overall low levels of social capital.

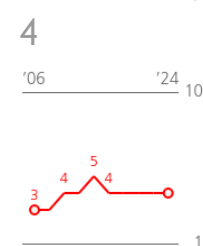
Thus, there is a mixed picture in Paraguay – there is comparatively little social capital, but there are intense but locally focused forms of cooperation and a national human rights movement.

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. However, 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. Today, there is almost no arable land left in eastern Paraguay.

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

The EPP, which is active in and enjoys some support in rural areas, does not pose a genuine challenge to the Paraguayan state or to general political stability. However, it has exposed the state's inefficiency in providing security throughout the country. Criminal organizations related to international drug trafficking pose a greater challenge, as they attempt to infiltrate state structures and influence political institutions.

Conflict intensity





## II. Governance Performance

### 14 | Steering Capability

The government of President Mario Abdo Benítez (2018 – 2023) has been committed to constitutional democracy and a market economy. When it assumed office, the government followed the same strategic priorities as the preceding Colorado Party governments: the retention of macroeconomic stability, low taxes – especially for agribusinesses – and the financing of infrastructure projects and the fiscal deficit with sovereign bonds.

The Plan Nacional de Desarrollo: Paraguay 2030 (PND) serves to guide national policies, and the Secretaría Técnica de Planificación (STP) conducts an annual evaluation of the PND in relation to policies implemented and the resulting outcomes. President Abdo's government did not establish new strategic priorities and has primarily engaged in reactive policymaking. This approach can be attributed in part to the disruptions caused by the COVID-19 pandemic, which compelled the government to concentrate on curbing the spread of the virus and managing its economic and social repercussions. In response to these consequences, the government devised an economic recovery plan that received a positive assessment from the IMF.

One of the stated objectives of the government – which was also dictated by the circumstances – was the renegotiation of the contracts with Brazil and Argentina concerning the two binational hydropower plants at Itaipú (which were to expire in 2023) and Yacyretá (which had expired in 2014). The agreement reached with the Argentine government in 2017 on the outstanding Paraguayan debt and the price of electricity sold to Argentina had never been approved by the Argentinean Congress and has again been questioned by the current government in Buenos Aires. 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, not the regional market price for energy. The Paraguayan government desires more flexibility regarding the sale of surplus energy.

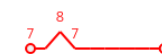
The government's major declared objectives also included fighting against corruption and organized crime, as well as pacifying regions where guerrilla activities were taking place.

Question  
Score

Prioritization

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To mitigate the economic impact of the pandemic, the long-term goal of fiscal stability was made more flexible, but not abandoned. Congress allowed the government to suspend the Fiscal Responsibility Law (FRL), which establishes a budget deficit limit of 1.5% of GDP. As a result, the fiscal deficit reached 3.7% in 2021 and 3% in 2022. By the beginning of 2023, the inflation rate had also slowly declined to 7.8% in January. In order to refinance debt and finance infrastructure projects, the government successfully issued \$1.3 billion in sovereign bonds in 2021 and 2022. According to the minister of public works, a new record was set in 2022 with the construction of 3,700 kilometers of new paved roads at a cost of \$650 million.

The rapid implementation of new social assistance programs helped reduce the pandemic's significant social cost on the most vulnerable. Paraguay's public social assistance programs prevented what would have otherwise been a greater increase in poverty. Although the government's strategy to contain the COVID-19 pandemic was relatively successful in the first year, the government was far less efficient when it came to procuring vaccines. The government has attempted to respond to the challenge of future pandemics. As a result of a cooperation project between the government of Japan, UNICEF and the Ministry of Public Health, a total of 973 health services throughout the country have received new cold chain equipment to improve vaccine management, benefiting 80% of the Paraguayan population. The new equipment ensures the safe storage of vaccines, not only for COVID-19 but also for more than 30 types of disease-preventing doses.

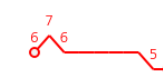
The course of the negotiations on the binational Itaipú power project revealed that President Abdo lacked a clear strategy and that the ministries and departments responsible for the management of Itaipú have been insufficiently coordinated. Transparency over the government's conduct of the Itaipú negotiations has not improved since this episode. As of January 2023, no results of the negotiations had been published.

Security forces made only small advances in their fight against the small EPP insurgency, which remains quite active. This was exemplified by the kidnapping of a former vice president in September 2020, whose whereabouts were still unknown as of January 2023. Additionally, the Abdo government has faced significant challenges in combating drug trafficking and organized crime, particularly in relation to the Brazilian gangs that are expanding their control within Paraguayan prisons. Collectively, these issues present a far greater threat to public security than the EPP insurgency. Responding to pressure from foreign agencies such as the DEA and Europol, Paraguay initiated its largest operation against cocaine trafficking and money laundering in February 2022. Known as Operation A Ultranza PY, this operation aimed to dismantle a network responsible for bringing cocaine from Bolivia to Paraguay and then transferring it to Argentina and Uruguay before ultimately shipping it to Europe.

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 across governments. To a certain extent, it has also facilitated learning from past experiences through knowledge exchange.

Methods of policy evaluation have improved with regard to different types of impact evaluation. These evaluations are carried out by local and external consultant firms through bids made through international cooperative initiatives, including some from academic institutions. Academic experts and institutions, along with NGOs, also participate in the design of policies in various public ministries or agencies.

In order to counteract the consequences of the pandemic, the government acted swiftly and effectively by adapting, supplementing and expanding existing social welfare programs.

The temporary suspension of the Fiscal Responsibility Law (FRL) can be seen as another example of flexibility in the context of the economic and social crisis resulting from the pandemic.

## 15 | Resource Efficiency

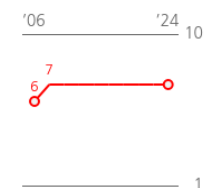
The Abdo administration (2018 – 2023) had a more traditional and partisan profile than that of his predecessor. President Abdo had to appease and integrate the various factions of the Colorado Party, reward political allies and personal friends, and come to terms with his still-influential predecessor, Horacio Cartes, who was elected as president of the Colorado Party (against Abdo) in December 2022.

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 become more common. Nevertheless, challenges remain regarding the modernization of the public sector. These challenges include internal administrative coordination to implement new management processes and a shortage of qualified professional staff in many ministries. This shortage affects the planning, assessment (including social and environmental risks), execution and monitoring of projects, including joint ventures for private-public investment in infrastructure, as well as regulatory capacity. Low levels of budget execution, which indicate weak institutional capacity, have limited the effectiveness of the emergency package implemented in response to the COVID-19 pandemic and, subsequently, the prospects of swift recovery.

The Office of the Comptroller General of the Republic is the body tasked with controlling the economic and financial activities of the state, the departments and the municipalities. It has functional and administrative autonomy. The Comptroller's Office estimates that 90% of public institutions have deficiencies in their oversight systems.

### Policy learning

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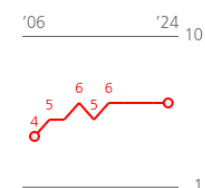


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### Efficient use of assets

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The fight against the 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. According to the Global Organized Crime Index 2021, Paraguay ranks fourth-highest in criminality among 35 countries in the Americas, second-highest in South America, and 16th out of 193 countries worldwide. In December 2022, eight members of the criminal group Primer Comando Capital escaped from the regional penitentiary of Coronel Oviedo.

The 2013 Fiscal Responsibility Law (FRL) set a deficit limit of 1.5% of GDP beginning in 2015. The budget deficit remained below this limit until 2018. In response to the 2019 recession, the government invoked the FRL's emergency escape clause. To mitigate the economic impact of the pandemic, Congress allowed the government to suspend the FRL for up to four years. As a result, the fiscal deficit reached 6.1% of GDP in 2020 but then decreased to 3.7% of GDP in 2021. According to the Ministry of Finance, the fiscal deficit for 2022 was 3% of GDP. A return to the FRL benchmark in the near future seems possible. However, the government must either increase tax revenues or decrease spending to achieve this goal. Public debt increased from 25.8% of GDP in 2019 to 36.9% in 2020 and reached 37.7% in 2021, which is still at a manageable level.

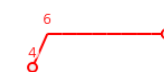
The effectiveness and coherence of policy coordination are hindered by bureaucratic inefficiencies and, despite attempts to reform public administration, by a lack of qualified technical personnel in many ministries. Historically, government departments, ministries and public agencies have acted independently and without coordinating their policies. This situation not only reflects inefficiencies in the public sector but also, and more importantly, the manipulation of policies by entrenched interests in favor of political and economic groups and personal interests. This practice has prevailed for many decades, and little progress has been made with regard to reducing 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.

The coherence of government policies is hampered by contradictions between some of the government's goals. The most significant example is the contradiction between low taxes, which, on one hand, are presented as a comparative advantage for Paraguay, and, on the other hand, the need for higher taxes to achieve the objective of increasing state income as a condition for higher social spending. In addition, poor interinstitutional coordination hinders the implementation of government goals.

Policy  
coordination

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Containing corruption has not been a de facto priority of the government, and the few integrity mechanisms implemented are mostly ineffective. According to experts, the main problem lies in the weaknesses of the judicial system, which does not hold alleged offenders accountable.

A freedom of information law was introduced in October 2014, requiring public institutions to divulge information about staff, salaries and audits. However, many public offices do not provide information, citing confidentiality. In December 2020, as recommended by the IMF, the National Anti-Corruption Secretariat (SENAC) amended the government's National Plan on Integrity, Transparency and Anti-Corruption at both the strategic and institutional levels. The government has established a public portal called Rindiendo Cuentas, where all COVID-19 expenditure is reported. Furthermore, public tenders are now reviewed on an ex ante base by a newly established interinstitutional committee and audited ex post by the General Audit Office.

Some mechanisms ensuring integrity are effective, while others do not work due to a lack of sufficient funding and independence to properly fulfill their tasks. Institutional and procedural fragmentation leads to poor coordination and information exchange across oversight agencies such as the General Audit Office (Contraloría General) and the Anti-Money Laundering State Secretariat (SEPRELAD). The 2022 evaluation of Paraguay by the Financial Action Task Force of Latin America (GAFILAT) concluded that, in general, the legal system in place is appropriate to combat money laundering. However, the number of investigations, legal proceedings and convictions is considered low relative to the level of existing threats in the country.

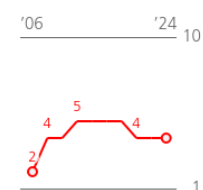
The AS/COA 2022 Capacity to Combat Corruption (CCC) Index lists Paraguay in 11th place out of 15 Latin American countries, compared to 12th in 2021. The index reports improvements in the legal capacity category, with a significant increase in the level of international cooperation in law enforcement. To prevent impeachment proceedings for the commission of malfeasance in office, the country's ombudsman resigned in September 2022.

## 16 | Consensus-Building

Paraguay's main political actors agree on the goal of a market-based democracy, but there is no strong reform pressure, as 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. Political and economic actors primarily advocate democracy and a market economy through formal means. However, 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. Moreover, most political actors have a low degree of tolerance for political views different from their own, which predominantly reflect a conservative agenda.

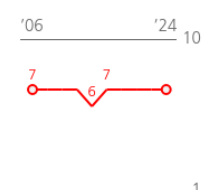
### Anti-corruption policy

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### Consensus on goals

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With regard to the market economy, the formalization of the economy through the use of the personal income tax has been blocked for years by veto players. The tax base as a percentage of GDP is the smallest 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 before an inclusive market economy can be said to be in place.

As with other defective democracies, Paraguay's governments – although more or less cleanly elected – are not necessarily also reformers in the BTI sense, since eliminating informal rules would curtail their power base. Nevertheless, the military, as the classical veto power in Latin American history, respects the democratic legitimacy of the government and is not an independent political actor.

There is a limited risk that social conflicts could spiral out of control and place pressure on political institutions. The same is true with regard to conflicts over the rules of politics, as shown by the 2017 violent protests over President Cartes' re-election ambitions, when a part of the Congress building was burned.

Anti-democratic actors are not openly visible, but the historically embedded systems of clientelism and patronage – which are essentially anti-democratic – are primarily associated with the traditional political parties, the Colorado Party and the Liberal Party.

Among the anti-democratic actors that negatively influence politics are the drug cartels, particularly the Brazilian cartels. The Paraguayan government must take measures to prevent the country from becoming a narco-state, at least in certain areas of the country.

While neither of the two main political parties opposes 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.

Anti-democratic actors

7

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Year	Score
2006	7
2017	6
2024	7

Although government figures have attempted to prevent the escalation of political cleavages into conflicts, they have been unsuccessful in bridging existing divisions. Political cleavages do not primarily occur along ethnic, class, regional or religious lines. One significant political cleavage exists between the traditional parties (ANR and PLRA) on the one hand and progressive parties on the other. Another division involves the Indigenous population, which is relatively small, however, and lacks adequate organization to effectively articulate this division. A third major cleavage revolves around the conflict over available farmland, which has been intensifying over the past decade. On one side, the landless are organized into a broad movement and are represented by various organizations. On the other side, large landowners and soy producers play important and influential roles in the economy. In 2021, the penalties for land occupation were increased (Law Nr. 6830), and the courts have facilitated evictions from occupied lands.

Government policymakers have 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 have not been accorded major importance during President Abdo's time in office (2018 – 2023). Since 2018, the National Institute for Rural and Land Development, which has the constitutional mandate to promote land reform, has suffered successive budget cuts totaling 40%. Looking at the actual budget execution, the situation is even worse. Over the same period, the security forces have intensified their actions against land occupations.

Civil society organizations and NGOs have gained more leverage in public decision-making processes over the past two decades. However, substantial progress, especially on social issues, has not occurred due to the vested interests of powerful economic groups that are significantly more influential than civil society organizations in policy decision-making, particularly in Congress. Formally, civic organizations have increased their participation in public audiences at Congress, but without much influence on the final votes.

Political parties and their clientelistic networks remain relatively strong in Paraguay, limiting the space available to civil society actors. However, the executive branch has allotted more overall space to civil society organizations as they advocate for change in policy-related decision-making. Protests and demands by secondary and university students have prompted some changes in educational policies and rules.

It can be argued that the influence of civil society is most pronounced in the area of agenda-setting, while it has less influence in the areas of policy formulation, deliberation and decision-making, and policy implementation. Civil society is also involved in monitoring social, political and human rights programs, for example, through the CODEHUPY annual reports. However, the extent to which this influences government policy is questionable.

Cleavage /  
conflict  
management

6

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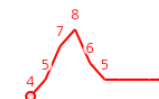


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Public  
consultation

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Some policymakers recognize the need to address historical acts of injustice but have encountered difficulties in their attempts to promote reconciliation. The president during the review period, Mario Abdo Benítez (2018 – 2023), is the son of Paraguay’s former authoritarian leader Alfredo Stroessner’s longtime private secretary. In 2006, he attended Stroessner’s funeral in Brazil. The government did not officially commemorate the 30th anniversary of the end of the Stroessner regime in February 2019. Occasionally, statements emerge from the ranks of the Colorado Party and the government that seek to portray the Stroessner dictatorship in a positive light, or to downplay the human rights violations committed.

The year 2022 marked the 30th anniversary of the recovery of the so-called Archive of Terror of the Department of Investigations of the Police in the capital – the most notorious center of detention and torture during the Stroessner dictatorship (1954 – 1989).

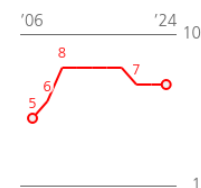
In Paraguay, there is no existing amnesty law preventing the prosecution of human rights violations. However, the process of prosecution has been sluggish and insufficient. Even though more than 30 years have passed since the Stroessner dictatorship came to an end, only eight individuals accused of human rights violations have been convicted, representing a mere 1.7% of the 450 perpetrators identified by the Paraguayan Truth Commission. As of August 2022, the Public Prosecutor’s Office has reported that there are 156 active cases related to crimes against humanity. Unfortunately, very few of these cases have made notable progress, with legal proceedings encountering delays and being discontinued.

Due to limited resources, progress in the forensic search for the remains of the disappeared is moving slowly. In July 2022, the Ministry of Justice authorized the transfer of approximately \$41,600 to a civil society organization that will allocate the funds for this search process and genetic identification procedures for the remains discovered.

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 the time it began disbursements in 2004 and October 2022, the compensation program had paid out just over \$136 million to 10,317 beneficiaries, including both direct victims and their heirs. In fiscal year 2022, compensation payments were made to 165 beneficiaries, for a total value of approximately \$2 million. There are outstanding claims, some dating back to 2013, in favor of 2,231 beneficiaries, for a total debt value of more than \$21 million.

## Reconciliation

7





## 17 | International Cooperation

There is a long tradition of international cooperation in Paraguay. Over the past 30 years, several national development plans have been elaborated. The current plan, approved in 2014 (Plan Nacional de Desarrollo Paraguay 2030), has three pillars: poverty reduction and social development, inclusive economic growth and the integration of 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 serve as no more than a rough guide or framework. The various ministries in each government do not necessarily take the national plan into account when elaborating their own strategic plans.

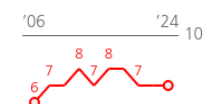
The Abdo administration (2018 – 2023) worked closely with multilateral international donors and financial organizations, including the IMF, the Inter-American Development Bank (IDB), the World Bank (currently under the Country Partnership Framework FY19 – FY23) and the Development Bank of Latin America and the Caribbean (CAF), with the aim of bringing international assistance to the domestic reform agenda.

A major cooperative effort is with the IDB Group. The IDB's Country Strategy for Paraguay 2019 – 2023 seeks to support the country's institutional and productive transformation, using the criteria of sustainability, equity, and economic and social inclusion. The new country strategy prioritizes four areas of collaboration and support: 1) public management and institutions; 2) integration and diversification; 3) productive and resilient infrastructure; and 4) human capital and living conditions. Moreover, the IDB will provide cross-cutting support for challenges relating to 1) gender, diversity, and Indigenous populations; 2) sustainability of natural capital; 3) urban development; and 4) innovation and technology. The planned actions are aligned with Paraguay's 2030 National Development Plan.

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). The USAID (2020 – 2025) Paraguay Strategy focuses primarily on building a culture of lawfulness with the aim of effectively tackling corruption by strengthening the rule of law, advancing a more formal economy, and improving civil society oversight of corruption. The EU's Multiannual Indicative Program for Paraguay (2021 – 2027) provides €51 million for the period from 2021 to 2024 period. The two priority areas for the EU partnership with Paraguay for the period from 2021 to 2027 are (1) a green and resilient economy, with the objective of supporting Paraguay in making its development more

Effective use of support

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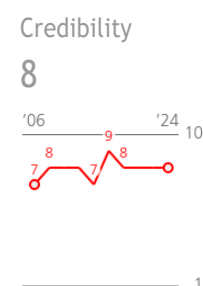


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sustainable, and its economy resource-efficient and more competitive; and (2) sustainable production and support for sustainable value chains.

The adoption of a National Development Plan has helped improve donor coordination.

During his term in office (2018 – 2023), President Abdo has served as a credible and reliable partner, although his engagement has generally been limited and passive. The U.S. government and Paraguay have extensively collaborated on anti-narcotics, anti-money laundering and anti-smuggling policies. Paraguay is also seeking closer cooperation between Mercosur and the European Union. In November 2022, President Abdo made official visits to Spain and Germany, and in January 2023, he visited Italy.



Paraguay is the only South American government that has maintained full diplomatic relations with Taiwan, which poses a complication in negotiations between Mercosur and China. Shortly before the end of his term, President Abdo paid a state visit to Taiwan in February 2023. Relations had not been problem-free in the past, as the Paraguayan government had previously expressed concerns regarding a lack of Taiwanese investment.

Not all parties want to maintain special relations with Taiwan. The candidate of the opposition coalition (Concertación Nacional) Efraín Alegre announced in January 2023 that Paraguay should establish diplomatic relations with China. Although representatives of agricultural producers (meat and soybeans) support closer relations with China as an important export market, the presidential candidate of the Colorado Party has promised to continue supporting Taiwan. Relations with Taiwan are closely linked to relations with the United States. The United States would consider the severance of diplomatic relations with Taiwan an affront.

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. In January 2022, the government managed to issue a \$500 million sovereign bond with a maturity of 10 years and an interest rate of 3.85%. A portion of the net proceeds from the bond sale was used by Paraguay to repurchase earlier outstanding bonds.

Standard & Poor's and Fitch each give Paraguay BB/B stable and BB+ credit ratings, while Moody assigns the country a Ba1 rating (as of January 2023).

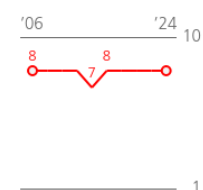
Paraguay maintains positive relations with all of its neighboring countries, with Argentina and Brazil serving as its most significant partners. However, Paraguay's relations with Venezuela are strained. Paraguay is one of the founding members of the Southern Cone Common Market (Mercosur), which includes Argentina, Brazil and Uruguay. The Mercosur Court of Arbitration is headquartered in Asunción, Paraguay. Paraguay advocates for the signing of a free trade agreement between Mercosur and the European Union. Additionally, Paraguay has held observer status within the Pacific Alliance since 2013.

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

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 the Forum for the Progress and Development of South America (PROSUR), which has declined. Paraguay was also aligned with other Latin American countries in the Lima Group – now also in decline – that sought to bring about a regime change in Venezuela. Paraguay is also a member of the Community of Latin American and Caribbean States (CELAC), which was founded in 2011 and reactivated in 2020.

#### Regional cooperation

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## Strategic Outlook

Paraguay's presidential democracy is characterized by a strong bicameral Congress and – due to perpetual factionalism within the parties – a somewhat fragmented party system. Therefore, the process of political decision-making is vulnerable to vetoes, and comprehensive political and economic reforms must rely on broad coalitions. This presents an obstacle to breaking out of the low-level equilibrium that Paraguay's defective democracy has been in since 1989, which is characterized by an unwillingness to reform in terms of the rule of law, corruption and the state administration. Furthermore, 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.

Although former President Horacio Cartes (2013 – 2018) and his business were sanctioned (banned from entry) by the U.S. government for significant levels of corruption and ties with transnational criminal and foreign terrorist organizations, he was elected as the president of the Colorado Party in December 2022 (taking office in January 2023). Additionally, his favorite candidate and his faction emerged victorious in the primaries, securing this figure's position as the presidential candidate of the Colorado Party in April 2023.

Widespread corruption and organized crime form a toxic combination. There is a risk that traditional corruption structures will be overlaid and exploited by organized crime and that Paraguay is turning into a narco-state. International crime poses one of the greatest threats to Paraguayan democracy, as demonstrated by the assassinations of politicians during the October 2021 municipal elections, the uncovering of links between drug trafficking and politics, and, most recently, the assassination of Paraguay's anti-corruption prosecutor while on vacation in Colombia in May 2022.

Paraguay's economic model is based on the export of raw materials, with the budget deficit financed through the issuance of public debt. A significant portion of the new debt is utilized to settle existing debt. Thus, the economy relies on price and demand fluctuations in the global market, as well as the accessibility of affordable credit. Adverse weather conditions that impact agriculture and a lack of confidence from foreign lenders have the potential to disrupt the Paraguayan economy.

To demonstrate its creditworthiness, the government must prioritize the restoration of fiscal stability in a timely manner. While it is crucial to restore macroeconomic stability, Paraguay must also focus on fostering sustainable growth by maintaining ongoing investments in infrastructure and enhancing governance (such as combating corruption) in order to create a more favorable business environment. To cultivate the country's human capital in the long run, the government should increase investments in educational infrastructure and establish a strategic plan for educational 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. These revenues are relatively low today, even by Latin American standards. Given the high dependence on agricultural and energy exports, another step should be diversification – for example, by increasing the variety of agricultural products and commodities exported, as well as the amount of raw materials processed domestically. In addition, the country should make greater use of its cheap and abundant hydropower to expand the domestic manufacturing industry. The renegotiation of the Itaipú contract, which expires in August 2023, could serve as an impetus for this endeavor. A new agreement will probably only be signed under the next government. Furthermore, the agreement with Argentina on Yacyretá will likely have to wait until after the elections in both countries. Lastly, while poverty rates have been reduced, they remain high overall. Therefore, a more systematic approach to poverty reduction, beyond mere assistance policies, should be developed.