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Paraguay: Social Development Issues for Poverty Alleviation

Country Social Analysis

A joint publication with Environmentally and
Socially Sustainable Development,
Latin America and Caribbean Region

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Glossary and Acronyms

AIDS	Acquired immune deficiency syndrome
ANDE	National Electricity Administration (<i>Administración Nacional de Electricidad</i>)
ANR	National Republican Association, Colorado Party (<i>Asociación Nacional Republicana, Partido Colorado</i>)
BNF	National Development Bank (<i>Banco Nacional de Fomento</i>)
CAS	Country Assistance Strategy
CAH	Agricultural Rehabilitation Credit (<i>Crédito Agrícola de Habitación</i>)
CEPAL	Economic Commission for Latin America and the Caribbean (<i>Comisión Económica para América Latina y el Caribe</i>)
CONASAM	National Council on Minimum Wage (<i>Consejo Nacional de Salario Mínimo</i>)
CSA	Country Social Analysis
CSOs	Civil Society Organizations
DEAG	Directorate of Agricultural Extension (<i>Dirección de Extensión Agraria</i>)
DGEEC	General Directorate of Statistics, Surveys and Census (<i>Dirección General de Estadísticas, Encuestas y Censos</i>)
EPH	National Household Survey (<i>Encuesta Permanente de Hogares</i>)
FDC	Farming Development Fund (<i>Fondo de Desarrollo Campesino</i>)
GDP	Gross Domestic Product
IBR	Rural Wellbeing Institute (<i>Instituto de Bienestar Rural</i>)
IDB	Inter-American Development Bank
IMAGRO	Agricultural Activities Rent Tax (<i>Impuesto a la Renta de Actividades Agropecuarias</i>)
IMF	International Monetary Fund
INDI	Indigenous People's Institute of Paraguay (<i>Instituto Paraguayo del Indígena</i>)
JICA	Japan International Cooperation Agency
MAG	Ministry of Agriculture and Animal Husbandry (<i>Ministerio de Agricultura y Ganadería</i>)
NGOs	Non-Governmental Organizations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value Added Tax
WHO	World Health Organization

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Foreword

Growth, poverty reduction and improved governance are the outcomes of complex social processes. Understanding these processes is essential to bringing about positive change. This report presents a review of historical socioeconomic, political and institutional processes that have shaped Paraguay's current situation, and that will continue to influence its future. This report also examines social development-related risks in order to identify opportunities for strengthening Paraguay's social policies and programs to better achieve a more inclusive, cohesive and accountable society.

The preparatory work for this document was carried out in 2003. The work involved the analysis of existing qualitative and quantitative data, in-depth interviews with qualified in-country informants, and discussions with government officials and World Bank staff. To the extent possible, the data analysis was disaggregated to reflect differences between relevant social groups and regions. When available, inter-temporal comparisons of available indicators were included in the analysis to provide a better understanding of the issues and processes depicted by the existing information. The Government has reviewed and commented on the final report.

On August 15, 2003, a new administration, headed by President Nicanor Duarte Frutos, took office. The new administration is making significant efforts to tackle some of the key challenges identified in this report and to advance on the implementation of a needed reform agenda. Aware of the political challenges this agenda represents, the administration has made significant efforts to build political consensus to approve in Congress significant reforms that will introduce tax reforms, clean up and strengthen the independence of the judicial system, and to increase the transparency and efficiency of government procedures.

The Government strategy for achieving these objectives has four pillars: (i) Recovering public trust and confidence on the state's institutions and their representatives by increasing public sector efficiency and compliance with the law; (ii) Strengthening citizenship rights and democratic institutions by involving citizens in the design, implementation and monitoring of policies and programs, and in checking government actions through social accountability mechanisms; (iii) Reactivating the economy and promoting employment creation by eliminating the fiscal deficit, maintaining a macro environment favorable to growth and development, promoting the development of exports, and investing in physical and human capital; (iv) Fighting poverty and inequity by developing targeted interventions to ensure access to health services, education, and basic utilities for poor and vulnerable sectors.

Regarding this last point, the administration has emphasized that poverty alleviation is a key priority. The National Poverty Reduction Strategy prepared by the last administration is a step in the right direction. The new administration has established a Social Cabinet to coordinate all poverty alleviation programs by the different state agencies and to promote new social policy measures with the government's economic management team. The current challenge is to put into practice the guiding principles of the strategy to achieve broad-based participation, better targeting, precise identification of beneficiaries and greater impact across all programs.

The reforms initiated by the Duarte Frutos administration during its first six months appear to have broken a long period of economic, social and political instability that had hampered any previous reform efforts. Nevertheless, as this reports discusses, the challenges that the new

administration faces are daunting. After the previous half-decade of economic decline, the new administration has raised high expectations indeed.

This report is intended to document and systematize our understanding of Paraguay social dynamics, and to translate that knowledge into concrete recommendations for integrating social development priorities into the country's efforts to grow, reduce poverty, and improve governance.

Axel van Trotsenburg
Country Director
Argentina, Chile, Paraguay and Uruguay

Paraguay: Social Development Issues for Poverty Alleviation

Country Social Analysis

Executive Summary

1. The Country Social Analysis (CSA) is a new type of World Bank-financed study that seeks to provide an overview of key opportunities and constraints to sustainable development from a social development perspective. This Paraguay case study analyzes existing information and summarizes the main features of the socioeconomic, cultural, political and institutional context of Paraguay. It identifies constraints for poverty alleviation and inclusive development, opportunities for addressing those constraints, and the social development inputs that can contribute to the advancement of the Bank's strategy in Paraguay. The CSA is intended to feed into the World Bank's Country Assistance Strategy and other economic and sector work, as well as into project-related work.

2. This report was prepared between December 2002 and March 2003 by a team of Bank Staff and consultants. It is based on currently available information and in-depth interviews with a broad range of stakeholders. In August 2003, a new administration took office, and since then many and positive significant changes have taken place. However, this report has not been updated to reflect these changes. Rather, it should be read as a baseline of social issues and attitudes prevalent in Paraguay prior to the current administration assuming office.

1. Key Socio-Economic Features

3. Paraguay's population of 5.6 million, according to 2003 Census Bureau estimates, is significantly rural (46%) by Latin American and Caribbean standards. Moreover, 2002 Census data shows that 10% of the urban population resides in small, often isolated towns with less than 5,000 residents.

4. Paraguay's economy rivals Bolivia's as one of the smallest and poorest in South America. The service sector accounted for close to 52% of the Paraguayan GDP in 2001; agriculture, livestock and forestry 29%, and industry only 14%. Agriculture is the mainstay of the economy, as it employs 36% of the workforce and contributes over 90% of the total merchandise exports. Cotton, once the basis of small farmers' production system, has been in crisis since the mid-1990s. Soybean production has expanded significantly in recent years.

5. Over the long term, Paraguay's real GDP per capita has risen significantly, nearly doubling in the last forty years. However, during the 1990s, Paraguay was the only country in the Southern Cone where GDP per capita was negative, decreasing by 0.4%. An economic recession took hold of the country after 1995, and the country is only slowly emerging. Between 1997 and 2001, Paraguay's GDP per capita averaged US\$1,558.

6. Paraguay is a poor and unequal society. Various poverty estimates suggest that between one in every three Paraguayans (World Bank Poverty Assessment) to half of the population is poor (2003 Census Bureau Household Survey). In rural areas, 41.2% of the people lack a monthly income to cover basic necessities, whereas in urban centers this figure is 27.6%. The top 10% of the population holds 43.8% of the national income, while the lowest 10% has only 0.5%. The Gini Index is 0.57. The economic recession has worsened income inequality, notably in the rural areas, where the Gini Index has risen from 0.56 in 1995 to 0.66 in 1999. Similarly, land concentration in the Paraguayan countryside is one of the highest in the globe: 10% of the population controls 66% of the land, while 30% of the rural people are landless.

7. A notable portion of the service economy is related to commercial activities in the Brazilian frontier, notably the so-called triangular trade in Ciudad del Este. A Central Bank study reported that 47% of total imports between 1990-97 were re-exported either legally or illegally. In 2001, the Central Bank valued total export payments at US\$2.4bn, while registered exports were only US\$990m.

8. Informal and illicit practices are a standard feature of Paraguay's economy. Informal labor arrangements account for roughly half of the national workforce. According to the Census Bureau, 46% of the informal urban employment is dedicated to commercial activities. Tax evasion, according to the IMF, is at 60%.

9. As a result of these illicit activities, actual GDP figures are believed to be as much as 20% to 50% higher than those reported by the Central Bank. Indeed, the luxury vehicles, mansions and other signs of conspicuous wealth that can be observed in Paraguay suggest a much larger economy than that recorded in the official statistics. Ill-gotten fortunes contribute significantly to the country's stark social inequalities.

2. Main Politico-Institutional Elements

10. For almost 35 years the axis of Paraguayan politics rested on the conjunction of three leading institutions: the Armed Forces, the *Asociación Nacional Republicana* (ANR or Colorado Party) and the different branches of the state. The consolidation of this institutional arrangement established a measure of public order and continuity unknown to a country beset by political instability and violence. It also cemented Paraguay's longstanding tradition of political authoritarianism. Power was exercised in discretionary and informal way, unencumbered by rules or ideological commitments. The authoritarian regime and patrimonial state significantly constrained the development of civil society and contributed to the development of corrupt practices.

11. In 1989, following the overthrow of the Stroessner regime, Paraguay entered a sudden phase of political liberalization and initiated a gradual process of democratization. Yet many elements of the Stroessner regime remained in place. At the onset, Paraguay's transition faced two basic challenges. On the one hand, it had to democratize the regime, by creating conditions to assure adequate political contestation and citizen participation in the election of leading government authorities. On the other hand, because of its strong patrimonial legacy and partisan appropriation of the state, it needed to modernize the state and enact significant reforms in the public sector. On the whole, Paraguay has been modestly successful in the democratization of its regime, but relatively ineffective in its attempts at state innovation.

12. Unlike other transitions in South America, Paraguay was undergoing a first time democratization, not a re-democratization. Consequently, most political attention focused

intensely on building new institutions from scratch. These efforts were most positive in the electoral realm. Indeed, the 1996 municipal elections were conducted adeptly and fairly. However, the modernization of the state remains a necessary condition for the consolidation of democracy. Without it, Paraguay's democracy will remain frail, inefficient and vulnerable.

13. The Paraguayan state is formally divided into national, departmental and municipal levels of administration. There are 17 departments in Paraguay and 226 municipalities. Executive and legislative authorities for these three tiers of government are elected by popular vote. The 1992 constitution describes Paraguay as a "decentralized unitary state." Historically, however, the state has been highly centralized, and remains so by many standards. The national government administers more than 97% of the entire state budget, and retains over 96% of all public staff.

14. Expenditure by the central government is about 16% of GDP, among the lowest in Latin America and the Caribbean, a result of its small tax base. In addition, several large public enterprises (electricity, telephone, water, petroleum imports) play a significant role in the economy, generally as monopoly providers of these services. While the Paraguayan state is weak, its size is relatively large considering its presence and size of its labor force. All told (including public enterprises), it employs around 203,000 people (about 10% of the labor force), including 196,260 at the national level; 1,078 in the departments and approximately 6,200 in local governments. Furthermore, the number of public sector workers has increased by 2.5% per year over the 1990s. A public servant salary is seldom viewed as providing a single source of income. The work shift is based on a six-hour day. State employees often hold additional jobs, including within the public sector. Bribes are widely accepted as a form of salary compensation.

15. The state in Paraguay is not a pervasively inefficient, politicized and corrupt institutional structure. It is important to emphasize that the state also comprises pockets of administrative competency, technical skill and non-partisan direction among career public servants. However, since there are few incentives and no clear career path for public sector workers, these highly qualified staff tend to be bypassed by political appointees and have limited influence in the high level management and policy decision making. Proper leadership and skillful management can make an important difference in changing organizational practices and norms. Throughout the public sector, many talented, young professionals would certainly offer more if its personnel system were based on merit, and offered opportunities for in-service training.

16. The legacy of the Stroessner era is still very much alive in Paraguay's public sector. Under Stroessner the state operated in a patrimonial fashion – it blurred distinctions between public and private property, presented discretionary patterns of authority, served as the country's main venue to wealth, and acted as a vital source of patronage for the Colorado Party, who behaved as if "owned" the state. Then, as today, public appointments and promotions were essentially based on political loyalty and personal relations, rather than merit.

17. Transparency International has consistently placed Paraguay among the most corrupt nations in the world. In its 2002 Corruption Perceptions Index, only Nigeria and Bangladesh scored worse than Paraguay. Corruption in Paraguay takes a myriad of forms and scales. Contraband and drug trafficking are certainly the most notorious and lucrative ventures. By the 1990s it had diversified to include timber, armaments and cocaine transshipments. However, there are multiple other manifestations that include commercial practices in the private sector.

18. The transition to democracy has scantily touched this legacy. The nature of the transition imposed obvious limitations in the realm of political leadership, as did the inertia of the status quo in a society where change is normally viewed with mistrust. With the collapse of the old

hierarchy, corruption became more accessible, leading to a sort of spree, as many newcomers arrived on the scene. Moreover, with the electoral competition and sudden political shifts, terms in public office became more precarious and usually briefer. This shorter time frame has contributed to a “now or never” disposition, accelerating, as a result, both the rate and intensity of corruption.

19. This vicious spiral, however, put Paraguay on the brink of fiscal collapse. Tax collection is very low and the public rolls are bloated. Between 1989 and 2002, the state’s workforce increased by nearly 49,000 – a 32% rise over 14 years. At present, close to 95% of state expenditures are for salaries and pensions. Paraguay’s tradition of fiscal prudence is, by most accounts, in serious jeopardy. For all its risks and costs, the looming fiscal crisis may provide national leaders with another, albeit dramatic, opportunity to introduce serious state reforms.

20. Another source of instability in Paraguayan government is the extensive turnover of cabinet members. In the preceding 11 years, on average, cabinet ministers were renewed every 20 months. This high rotation of cabinet officials, along with their political appointees, has produced constant re-adjustment in state personnel, especially among top administrators. As a result, governance has suffered. Policies have encountered frequent shifts. Managers with experience have been lost, and implementation of various projects delayed. Because of these problems, Paraguay was only able to use 43% of all the international cooperation loans made available between 1989 and 1998.

21. By political design, Paraguay has had to endure a strikingly congested and disorderly electoral calendar. With the presidential vote in April 2003, the country has held 8 national elections since 1991 – at an average of one national contest every 18 months. Between national elections and internal Colorado and Liberal party contests, on average, Paraguay has held a significant popular election every 5 months. This overloaded and disorderly electoral calendar has generated detrimental consequences for Paraguayan politics. Already known for a history of fractious politics, the obligation to hold frequent direct party votes has fueled in Paraguay the escalation of internal factions and exacerbated tensions and disputes between them. As a result, party discipline has weakened immensely, severely hampering of the prospects of generating party cohesion in legislative settings.

22. The absence of financial controls on internal party elections has paved the way for the considerable influx of “dirty monies” from Paraguay’s vast illicit economy. As such, it has served to re-affirm ties between politicians and shadow power groups. Moreover, the intense political competition and need to build electoral “war chests” has intensified corrupt practices within the state. Wealthy individuals, including several political “outsiders,” have made use of the internal party elections to pay their way into public office. For the average citizen, politics has become a domain for the rich and corrupt.

23. All this has led to a heightened sense of civic fatigue and disenchantment with politics. In a recent poll, almost half of the respondents agreed with a proposal to suspend national elections for ten years, and close to two thirds said they would favor halting all political party activities for a similar period of time. Clearly, the quarrelsome, self-absorbed, and corrupt features of Paraguayan politics have led to a profound malaise and skeptical view of government. Unfortunately, such views often overlook many positive developments that have been achieved in recent years and ignore important elements of decency within the country’s political establishment.

24. One of the most striking changes in Paraguay since 1989 has taken place in the realm of civil society. The last 14 years of political freedom have contributed to notable expansion and innovation within this societal arena. Most noticeably, it led to the discernable growth and mobilization of popular sector organizations, especially among the peasantry and urban workforce.

25. While Paraguay's civil society is dynamic and pluralist, it remains rather weak. Civil society is a cacophonous milieu where opinion leaders strive to influence state policy and societal attitudes, through cooperation, competition or conflict. A recent poll found that 36% of the adult population in Paraguay claims to be active in some kind of civil society-based organization. The highest rates of participation are found in religious groups (15%); followed by neighborhood commissions (8%), school parent associations (7%), sport clubs (7%) and cooperatives (6%). Among these organizations, the Catholic Church is singled consistently as the most trustworthy (34%); ensued by the school parent association (20%) and the neighborhood commission (16%).

26. Participation is generally preferred in local community organizations, where trust and reciprocity are better. National organizations are more difficult to trust than local ones, where face-to-face interaction and the bonds of family and personal familiarity increase the prospect of cooperation. In fact, national organizations, especially among popular sector groups, are often characterized by problems of disconnection between the leadership and the local bases of support. On the other hand, on their own, local organizations are basically ill-suited to affect the macro policies relevant to their interests.

27. Mistrust towards social leaders that intercede with the national government is also very much related to the character of the state in Paraguay. Overwhelmingly, people believe that national public institutions are ridden with corruption. Therefore, by association, they mistrust social organizations that benefit from state policies.

28. Abetted by the international development community, the state has showed a greater disposition in recent years to cooperate with civil society groups. The signs are encouraging. But the main structural limitations remain in force. By definition, states grounded on patrimonial arrangements hinder the organizational development of civil society. Their personalized authority structures blur distinctions between public and private goods, undercut predictable rules, invite impromptu arrangements, and stir a sense of recurrent flux and confusion. Patrimonial states nurture – and are in turn perpetuated by – an opportunistic societal ethos that undermines norms of trust and cooperation.

29. In many respects, Paraguay's civil society mirrors the patterns of conduct that exist in the state – namely, informality, discretionary and personalistic leadership, nepotism, factionalism, opportunism and corruption. These patterns of behavior are often less prevalent than in the state. In other cases, they match the state quite well. Progress towards civil society consolidation in Paraguay requires a modern state – one that will be able to offer a better organizational model, and be open to engage civil society on the basis of a more consistent set of rules.

3. Main Constraints to Poverty Reduction

30. ***Inequality.*** The increasingly high levels of poverty and extreme poverty, particularly in rural areas, paired with one of the highest levels of income inequality in the world, present a serious challenge for poverty reduction and inclusive development in Paraguay. Income inequality is a main restriction to poverty reduction. Economic growth would not be enough to half poverty levels by 2015. Improved income distribution would assist in achieving the

objective of halving the poverty rate by 2015, at the current GDP annual growth rate. Similarly, less concentrated land distribution accompanied by improved extension services, technology and capital, would increase the rural poor's productive potential and assist them to move out of poverty. In addition to the purely growth related reasons that justify income and land redistribution there is a socio-political dimension that needs to be considered as it also has a direct impact on the levels of investment and growth. Until the issue of inequality is addressed, the trust on democratic institutions and the government will continue to be low and governance will be threatened.

31. An income tax would improve income distribution, while raising the country's low tax base, contribute to greater social accountability, and not penalize poor consumers. Land taxation would stimulate agricultural production and lead to less concentrated land distribution by providing incentives to work unutilized or underutilized land more intensively. Land taxation would increase employment opportunities in the rural areas and, through land market forces, lower the barriers for small farmers to access lands currently underutilized.

32. Unequal access to quality services, particularly education and health, are perceived by all societal sectors as important social problems resulting from the weak institutional framework and endemic corruption which contribute to divert resources away from needed social services. Despite a successful education reform serious issues of quality and equity remain. The lack of bilingual education for the mostly Guaraní speaking population in rural areas is an issue that needs to be addressed. Similarly, insufficient coverage of health care services, particularly in rural areas, and lack of coverage by a unified and efficient social security system are pressing needs.

33. ***Weak governance, non-accountable and non-inclusive institutions.*** Institutional weakness of the state and civil society are key constraints to poverty reduction. Formal institutions are eroded or degraded, giving room for the establishment of cliques that manage through informal mechanisms. In addition, there is little social control of the allocation of economic, political, social and cultural resources. Thus, dispute resolution is seen as a zero-sum game in which the State and the political system do not perform as mediators between different interest groups, but rather as tools for maintaining privileges.

34. The state is weak. While there are detailed normative and legislative systems, existing regulations are continuously bypassed. The central (as well as local level) government does not have the capacity for enforcing existing norms. The lack of an independent civil service career is seen as a huge obstacle for transparency and efficiency in state management. Another related issue refers to the little participation in decision making over allocation of resources at all levels, which is reflected in the existing (budgetary and administrative) constraints that local governments face.

35. Related to the above, important executive functions require Congress approval or can be voted by it (among many others the approval of projects, budget reallocations, administrative sanctions). The polarization and fragmentation of the congress hinders its own effectiveness. This fragmentation also undermines the Congress fulfilling many of its delegated executive tasks (such as the long delays in its approving World Bank-financed projects).

36. Paraguay's political system contributes to fragment Paraguayan society. Political parties build their programs around short-term goals intended to benefit its group interests and not the country as a whole. The infighting leads to blocking the congress in its legislative functions. The individual interests winning over those of the country as a whole lead to a lack of a "common

vision for the country". The fact that elections for different levels of government are spread out contributes to politicize Paraguayan society even more.

37. Despite an increase in registered non-governmental organizations since the return of democracy in 1989, civil society remains as fragmented as the party system. It is organized around interest groups pursuing their interests. While some broad civil society movements are attempting to have a real influence on public policy (Acuerdo Ciudadano, Paraguay Jaipotava, etc.), they have so far had little echo. The same organizations recognize that they have very little mobilizing power and that they are not able to agree on key issues. According to some, a key proposal that could help to strengthen civil society would be to enact a popular participation law, in order to increase citizen participation in public policy formulation, implementation and monitoring.

38. Corruption is a clear symptom of the social, political and institutional problems of the country. Corruption is pervasive, and, over time, a "culture of corruption" has developed at all levels. The private sector is not exempt from corruption and finds it increasingly difficult to compete in the formal economy with clean and clear rules against corrupt and informal entrepreneurs that do not pay taxes, are not subject to the rules of the formal private sector and manage their business through state corruption. Nevertheless, there is an important segment that does not expect anything from the state and that survives in despite of the state.

39. The existing anti-corruption commission has had major achievements in promoting the content and passage of the new procurement law in Congress, the content of the Customs Code (*Codigo Aduanero*, under consideration in Congress), and in fostering local accountability (*contralores ciudadanos*), among other achievements. The commission was established with strong participation of civil society, including representatives of Transparency Paraguay, the rural movement, unions, NGO network and the press. Nevertheless, allegations of connections of some commission members with questionable characters weakened the legitimacy and strength of the commission. By design, the commission has no administrative or fiscal power, and budget allocation is insufficient which makes difficult the delivery of the National Integrity Plan (*Plan Nacional de Integridad*).

40. Because of many of the above factors, the country faces the risk of the increasing levels of violence. Violence refers not only to the increase in crime that has occurred over the last years, but more importantly to the overall increase of societal violence. Examples of this are the growing number of violent deaths, particularly among the youth, and the increasing number of violent social conflict (such as the "*Marzo Paraguayo*" and many more but less evident clashes between the police and peasant organizations, and public demonstrations that end up in confrontations with the police). While this violence has historical reasons (in the long authoritarian tradition of the country) and could respond to agitators, it also reflects the lack of confidence in the political system and the near exhaustion of the conflict resolution mechanisms and channels for transmission of societal demands.

41. ***Incomplete Reforms.*** The incomplete reform agenda, particularly the financial sector reform and the slow decentralization process, constitute a severe hindrance to improves fiscal management and improved provision of services to the poor. Many issues have been on Paraguay's institutional reform agenda. Some reforms have been relatively successful, while others have clearly failed because they have lacked two basic ingredients: political will and leadership.

42. Discussion of the reform agenda still is alive as people begin to assess the effects of earlier reforms. The looming fiscal crisis of the state in 2003 may provide national leaders with a unique – albeit dramatic – opportunity to introduce serious reforms in the public sector to make public finances sustainable. If handled properly, the institutional reform agenda can lead to improvements in the medium and long term prospects of poverty reduction in Paraguay. Nevertheless, in order to advance on this agenda, it will be crucial to have transparency and social accountability mechanisms in place. For example, moving ahead with privatization without having clear rules, auditing procedures and independent regulatory agencies in place, would contribute even more to the spread of corruption.

43. ***Lack of poverty information and monitoring.*** Finally, there is a lack of reliable and systematic poverty statistics for vulnerable groups, which renders more difficult the task of targeting and monitoring poverty reduction efforts to those most in need. Similarly, there are no institutional mechanisms for promoting social accountability, such as participatory monitoring and evaluation and others that could strengthen the capacity of the government (in collaboration with civil society) to better target resources for poverty alleviation. Follow-up work on these subjects is needed to anticipate the potential social and poverty impacts of the government's proposed reforms, to help identify measures to be included in their design, and to ensure greater social accountability.

4. Social Development Inputs for Bank Involvement

44. For all these daunting constraints, there also are many opportunities for contributing to poverty reduction and improving governance. There is much to do at all levels and in a great variety of domains.

45. ***Youth Social Inclusion.*** The large youth population in Paraguay poses risks as well as opportunities for poverty reduction and sustainable development. This segment of the population is liable to make a significant generational impact in the years to come – in politics, society and the economy. With creative ideas, good leadership, and adequate resources, the Paraguayan youth could offer a great source of social energy and idealist commitment to initiate and sustain a whole range of anti-poverty activities. In order to take advantage of this potential it would be essential to develop the entrepreneurial capacity and skills among poor young people so that they could develop their own income generating activities and/or participate in better conditions in the labor market. Finally it would be important to strengthen the role and willingness of youth to engage constructively in the political arena and contribute to a new generation of leadership in Paraguay. In this context it would be important to have better coordination of the different governmental institutions with some responsibility in youth-oriented policies and programs, and of other civil society organizations working on youth issues.

46. ***Indigenous Peoples.*** Paraguayan law does not discriminate against indigenous groups. However, inadequate enforcement of the law, particularly when indigenous peoples are in conflict with non-indigenous peoples, severely curtails indigenous peoples rights. In this regard, it is important to strengthen indigenous representation by supporting indigenous organizations and promoting indigenous participation in policy discussions to facilitate the inclusion of their objectives and specific demands in policies and programs. A key issue for rural indigenous communities is land tenure. INDI should be strengthened to continue demarcating lands. Access to social infrastructure and social services is another priority for indigenous peoples. Existing experiences with community driven development initiatives among indigenous communities indicate that this could be a strategy for providing these services. A special bilingual bicultural

education program is needed to facilitate access of indigenous communities to educational services.

47. ***Community-Driven Development.*** The strong social ties that exist at the local level combined with the weak bridging social capital (discussed before), suggest the need for a decentralized demand-driven approach to poverty alleviation. Community driven development (CDD) activities would facilitate channeling resources to the poor and vulnerable and would reduce the extent of intermediation – and associated administrative costs – between the central government and the participating local groups. Participation by beneficiaries in the selection, financing, execution, and operation and maintenance of CDD activities would also ensure that resources reach the poorest areas. In this regard, efforts should be made to develop partnerships between the government, the private sector, and civil society organizations to invest in community development activities. Also, it would be important to support the establishment and strengthening of the municipal development councils with technical assistance and resources that would allow them to play a more active role in the planning and implementation of CDD activities.

48. ***Institutional reforms.*** Institutional reforms are essential for strengthening the rule of law, curtailing corruption, increasing efficiency in managing public resources and, overall, strengthening governance in Paraguay. Strengthening the capacity of state institutions and civil society organizations for poverty alleviation partnerships is as an area that could contribute significantly to the success of the government’s poverty reduction strategy.

49. ***Accountability and governance.*** Government information and statistics are not as readily available as they should be. Sharing of information, dialogue and cooperation between the state and civil society organizations needs to be strengthened. Establishing clear social accountability procedures and participatory monitoring and evaluation systems would contribute to that end. Within the context of reforms needed to improve governance in Paraguay, social development inputs would focus on assisting in the design of mechanisms to increase the social accountability of Paraguay’s political and public institutions and their programs. This would improve citizen’s control over the allocation and spending of public resources and would create accountability mechanisms that could help curb corruption and nepotistic behaviors.

50. ***Building human capital and decreasing vulnerability.*** Social development inputs contribute to human development by highlighting the heterogeneity of social groups, enhancing the understanding of the socio-cultural, political and institutional context in which human development takes place, identifying potential social constraints and facilitating the discussion of how these elements should be considered in the design of the interventions.

Chapter 1: Country Context

1. Introduction

1. A Country Social Analysis (CSA) is a new type of Economic and Sector Work (ESW) that seeks to provide an overview of key country issues – both opportunities and constraints to sustainable development – from a social development perspective. The analysis is intended to feed into the Country Assistance Strategy (CAS), other ESW and project-related work. A CSA seeks to highlight the social risk factors and processes which might preclude a country achieving sustained growth, poverty reduction and increased governance. In particular, a CSA contributes to identify and understand the socio-economic, socio-political and socio-cultural processes that increase the vulnerability of certain social groups to risk factors which could lead them to a situation of poverty and social exclusion.
2. Ultimately, a country social analysis covers sectoral issues that affect the development process, but it looks at these through a social development perspective, identifying the elements that contribute to either constraining or empowering the poorer segments of the population. As such, a country social analysis allows the identification of objective social risk factors and the social constructions created by society regarding those risk factors, as well as the specific actions and institutions a particular society could develop to control those risk factors. In particular, it seeks to help empower poor people to take part in decisions that affect their lives, provide spaces for channeling their voice, increase their assets and opportunities, and promote accountable institutions that will adequately address the needs of the poor in an inclusive way.
3. The Paraguay Country Social Analysis tries to answer the following questions: Who are the most vulnerable groups in the country and how are they attended to by existing services? What are the main risks to poverty alleviation and social inclusion? Are existing institutions responsive to poor people's needs? Are they accountable to citizens and do they use resources effectively and transparently? What is the capacity of citizens, particularly poor people, to articulate their needs and demands and channel them to policy makers? What is the organizing capacity of communities for implementation of development projects aimed at improving their quality of life? What mechanisms are in place to facilitate civic engagement in formulation and monitoring of public policies?
4. The CSA is divided into three chapters. The first chapter analyzes demographic, socio-economic and cultural factors that have an impact on the provision and access to services, and the vulnerability of certain social groups. The second chapter discusses the governance structure and institutional processes, assessing their impact and implications for poverty reduction. It covers an analysis of the executive and legislative powers, the electoral and party system, the judiciary, and the organization of the state. It also analyzes the systems' existing as well as faltering accountability mechanisms, and the various forms it takes, particularly with regards to transparency and corruption. The third and final chapter draws on the previous chapters, identifying the main constraints and opportunities that the previous analysis offers for poverty reduction. Finally, based on the analysis, it identifies what kind of social development inputs are needed to inform the Bank's strategy in Paraguay and to address some of the issues identified in the previous chapters.

1.1. Demographic Trends

1.1.1. Predominantly rural population

5. Paraguay's population of 5.6 million is significantly rural, with about 46% of the population living in the countryside.¹ Only Guatemala has a smaller proportion of urban dwellers than Paraguay. While urbanization has experienced a perceptible increase since the 1970s, even today, there are strong ties with rural communities. In addition, recent census data shows that 10% of the urban population resides in small, often isolated towns with less than 5,000 residents.²

Table 1: Share (%) of Urban/Rural Population in 2000

Country	Urban	Rural
Guatemala	40	60
Paraguay	54	46
Bolivia	62	38
Ecuador	63	37
Chile	86	14
Argentina	88	12
Uruguay	92	8

Source: UNDP Human Development Report 2003

6. Paraguay has only two urban centers with more than 100,000 inhabitants. The largest is the metropolitan area of Asunción with close to 1.6 million people, followed by Ciudad del Este and its adjacent districts comprising 330,000 inhabitants. Both metropolitan regions include 65% of the country's urban population. Besides these two urban centers, there are only seven cities with more than 20,000 people.³ Together with Asunción, Ciudad del Este and adjacent metro areas, these cities represent 78% of Paraguay's urban dwellers, less than 38% of the country's total population.

1.1.2. Internal migration as a livelihood strategy

7. According to the 1997/98 household survey, some 140,000 people moved from rural to urban areas between 1992 and 1997 (6% of the urban population), in search for employment opportunities, generating an increase in the urban informal sector. While migration still does not represent a "flooding" of the urban labor market, it is adding substantially to the urban labor force.⁴

8. However, according to the 1997/98 household survey, most migrations in Paraguay did not occur between rural and urban areas (28% of all migration), but within urban areas, accounting for 32% of all migration. Existing data shows that among the 500,000 people that migrated (or

¹ See, Dirección General de Estadística, Encuestas y Censos (DGEEC), *Paraguay Censo 2002: Resultados* (Asunción: DGEEC, 2003).

² Data derived from calculations made with 2002 census figures, DGEEC, *Paraguay Urbano: Resultados Preliminares del Censo 2002* (Asunción: DGEEC, November 2002).

³ These cities are (in order of size): Encarnación, Pedro Juan Caballero, Caaguazú, Coronel Oviedo, Concepción, Villarrica and Pilar.

⁴ World Bank 2001, *Attacking Poverty*, p. 57.

10% of the population), 26% migrated within rural areas, and 14% migrated from urban to rural areas.⁵ While, in recent years Paraguay has experienced increased migration from rural to urban areas, the data seems to indicate that the rising levels of poverty in the countryside have not resulted in a big wave on migration from the rural to the urban areas.

9. The search for better employment opportunities and expansion of the agricultural frontier seem to be the main reasons for migration. According to the survey, one in two migrants (45%) above 23 years of age migrated to find a better job (23 years was chosen as cut-off because individuals were at least 18 years old when they migrated). Another 37% migrated for family reasons, and 13% migrated to look for a home. Four out of every ten migrants were between 15 and 29 years of age, and 45% of the migrants who currently live in urban areas were between 15 and 29 years of age.⁶

10. During the same period, a higher share of women migrated than men, mostly to urban areas (60% of all migrant women). However, while women represent more than half of the migrant population, only about 40% work, versus three of every four migrant men. Women often work in informal, low skill activities and they are more likely than non-migrants to be unemployed and underemployed.⁷

1.1.3. Preponderance of youth population

11. Paraguay has one of the highest percentages of youth population in Latin America and the Caribbean. About 59% of Paraguay's population is under 24 years old, compared to approximately 45% for both Argentina and Chile. ECLAC⁸ estimates that 40% of the population in the year 2000, is under the age of 15 and only one out of every four Paraguayans is over the age of 35.⁹ Paraguay's population is significantly younger than the typical population of a middle-income country (only 3.4% of the Paraguayan population is over 65 years of age, well below the rate of 6.5% for middle income countries.¹⁰ Although population growth has slowed down significantly from 3.9% per annum in the 1980s to 2.7% in the 1990s, the population growth rate is significantly higher than the average of 1.5% for other middle income countries in the region.

⁵ World Bank 2001, *Attacking Poverty*, p. 57.

⁶ World Bank 2001, *Attacking Poverty*, p. 57.

⁷ World Bank 2001, *Attacking Poverty*, p. 57.

⁸ Economic Commission for Latin America and the Caribbean, CEPAL in Spanish.

⁹ See, Comisión Económica Para América Latina (CEPAL), *Anuario Estadístico de América Latina y el Caribe 2001*, p. 4, consulted at www.eclac.cl on January 4, 2003.

¹⁰ World Bank 2001, *Attacking Poverty*, p. 57.

Table 2: % of Youth Population in 2000

Country	% Youth (10-24 years)	% Age 65 and above
Paraguay	59	3
Argentina	37	10
Guatemala	34	4
Bolivia	31	4
Ecuador	31	5
Chile	26	7
Uruguay	24	13

Source: UNDP Human Development Report 2003

1.2. Ethnicity and Culture

12. Paraguayan society is relatively homogenous in its ethnic and religious composition, and quite unique in its linguistic culture. Most Paraguayans are *mestizos* (of mixed Spanish and Amerindian ancestry). While ethnic and religious cleavages in Paraguay are not significant sources of conflict and are downplayed in everyday life, most groups have tended to remain culturally and socially distinct even after several generations. Nevertheless, it is important to highlight the economic significance of these groups.

1.2.1. Indigenous population

13. The indigenous population is small compared to Latin American and Caribbean countries such as Bolivia, or Peru, of which more than half the population is indigenous.¹¹ According to the 2002 Census, indigenous people in Paraguay accounted for 85,000, or less than 2% of the total population, or 5% of the rural population.¹²

Table 3: Share of indigenous population in 2000

Country	% of Indigenous Population
Paraguay	2
Argentina	3
Chile	7
Ecuador	40
Guatemala	43
Peru	52
Bolivia	61

Source: Paraguay: DGEEC, *Pueblos Indígenas: Resultados Preliminares del Censo 2002* (Asunción: DGEEC, December 2002), p. 18. Argentina: Programa de Capacitación para las Poblaciones Indígenas de Argentina, World Bank, Argentina. Chile: *La Encuesta de Caracterización Socioeconómica Nacional (CASEN) 2000*, Chile. Ecuador, Guatemala, Peru, Bolivia: Social Development Indicators, *SDStats*, Social Development Department of the World Bank.

¹¹ Inter-American Development Bank, IDB America, June 1, 2003.

¹² See, DGEEC, *Pueblos Indígenas: Resultados Preliminares del Censo 2002* (Asunción: DGEEC, December 2002), p. 18. It is important to highlight that this figure is twice the population from the 1991 census, which reflects better procedures to account and register indigenous communities in the 2002 census and not population growth.

14. Despite their small numbers, there is significant diversity among the indigenous peoples in Paraguay, being divided into seventeen different groups belonging to five different linguistic families.¹³ About 95% of the indigenous population is rural. A large percentage (at least 55%) of the indigenous population is concentrated in the dry occidental region of the country known as "El Chaco". In the Northeastern region of the country there is about one third of the indigenous population, while in the Southeastern region of the country resides less than 12% of the total indigenous population of the country.¹⁴

15. Indigenous peoples in Paraguay consider land to be communal property and do not recognize individual or family rights to the land, apart from usufruct rights which are not hereditary. This allows for greater flexibility and mobility of the indigenous families and facilitates access to natural resources and opportunities for paid labor. There are different organizational levels among the indigenous communities ranging from local and community groupings to the regional and pan-ethnic national levels. While decision-making in indigenous communities is based on consensus and any actions that are proposed must receive full approval from all the community members, minority groups are not obliged to accept or perform the decisions of the majority group.

1.2.2. Other ethnic groups

16. There are a number of ethnic groups that have settled in Paraguay through centuries of foreign immigration. Although relatively small in numbers, some of them play a key role in the Paraguayan economy.

17. The largest immigrant group in Paraguay are the Brazilians. According to the 1982 census, there were 99,000 Brazilians residing in Paraguay. However, more recent estimates suggest that between 300,000 and 350,000¹⁵ Brazilians live in the eastern border region. Until the 1970s, the Brazilian presence in Paraguay was relatively minor and was confined to small agricultural colonies along the Eastern border of Paraguay. In the early 1970s, however, Brazilian immigrants began streaming into the region from the neighboring Brazilian state of Paraná. Brazilian farmers whose holdings were too small to support increased production costs sold their land in Brazil and bought cheap land in Paraguay, clearing vast amounts of natural forests to plant soybean and establish extensive cattle ranch operations. Many Paraguayan peasants and indigenous groups were evicted from lands purchased by immigrants. The pace of land sales increased to such a point that undercapitalized Paraguayan farmers who had settled in the region as part of IBR's colonization programs were selling their lands to Brazilian farmers and financial groups. As a result of the pressure over land tenure issues, in recent years tensions between Braziguayos and local people has increased. Paraguayans regard the Brazilian influx as an invasion, while many Braziguayos continue to complain of discrimination against their children in local schools and official intimidation.

18. Another immigrant group that plays a key role in the Paraguayan economy are the Mennonites, around 15,000 in total, most of whom live in the Paraguayan Chaco. Although German immigrants had settled in Paraguay before the turn of the 20th century, a large number of

¹³ Tupí-Guaraní, Zamuco, Mataco-Mataguayo, Makoy, Guaicurú.

¹⁴ World Bank 2001, *Attacking Poverty*, p. 166.

¹⁵ Official data from the Brazilian Ministry of Foreign Affairs indicates at least 200,000. According to Catholic Church estimates the figure would be between 300,000 and 400,000. A recent study by Sylvain Souchaud (2002), *Pionniers Brésiliens au Paraguay*, suggests that up to 500,000 Braziguayos would live in Paraguay.

Mennonite immigrants from Germany, Canada, Ukraine and other countries arrived in the 1920s, establishing their colonies and cities. Overcoming the natural hardships of the Chaco, the Mennonites have developed an efficient cooperative system that provides around half of Paraguay's dairy needs and produces its finest quality cotton fiber and groundnut oil. The Mennonites have successfully developed an agro-industrial economy that has provided them with higher income levels and better quality of life than their neighbors. They have managed to maintain their traditional values for more than 60 years thanks to the broad religious and economic independence granted by the Paraguayan government, with little meddling from or mingling with Paraguayan society until recently when many Paraguayans have moved to the area to work as hired farmhands or open shops.

19. It is also important to mention the Japanese immigration in Paraguay from the mid 1930s to the late 1950s. Today some 10,000 Japanese and Japanese descendants live in Paraguay, mostly in highly productive agricultural colonies. More recently, there has also been a growing influx of Korean and other Asian immigrants who have set up shops and settled in Asunción, Ciudad del Este and Encarnación. The actual number of Koreans and ethnic Chinese, is believed to be between 30,000 and 50,000.

20. The first Middle Eastern immigrants came to Paraguay in the late 1800s and early 20th century from Palestine, Syria and Lebanon. After two generations these groups have blended with Paraguayan society. However, over the last 15 years a new wave of Middle Eastern immigrants have arrived, particularly to Ciudad del Este. About 15,000 Lebanese have settled in this city. Most of the recent immigration of Asian and Middle Eastern origin has flourished thanks to the triangulation commerce.

1.2.3. Language

21. In Paraguay, language is not necessarily associated with ethnicity, as it is in other Latin American and Caribbean countries, but rather with geographical location and social class. According to recent data, 87% of the population – both mestizos and indigenous peoples- speak Guaraní. About 50% of Paraguayans use both Guaraní and Spanish in customary speech, while 37% speak Guaraní as the main language, primarily in rural areas.¹⁶ In daily life, however, Guaraní is essentially reserved for informal settings. Because of its unique historical heritage, Paraguay's native tongue is one of its main sources of national identity and, in 1992 the Constitution established Guaraní as one of the country's two official languages. Paraguay is the only country in Latin America and the Caribbean that is officially bilingual in Spanish and a native language.

22. Despite the recent recognition of Guaraní as an official language, during centuries the Guaraní language was relegated as an informal language to a colloquial environment. While the Guaraní had been written and used during the period of the Jesuits Missions, afterwards it was not utilized as a formal language for instruction. In the past, the more affluent monolingual Spanish speakers relegated the oral language to a second stage. This resulted in implicit cognitive structures, a form of conceiving and providing meanings to reality and, more importantly, to unequal relationship between social groups, so much that the Guaraní speakers (which tend to be the poorest either in rural or urban areas), referred to Spanish as *Carai'nee*, or the *Language of the Lords*. The vast majority of primarily Guaraní speakers (and those who do not have full command of Spanish) are in subordinated positions. However, at the same time, the Guaraní

¹⁶ World Bank 2001, *Attacking Poverty*, p. 118.

language and culture has provided the basis for the development of a Paraguayan nationalism, that cuts across social classes.

1.3. The Economy, Poverty and Vulnerability

23. Paraguay is classified as a lower middle income country.¹⁷ Paraguay's economy rivals Bolivia's as one of the smallest and poorest in South America. In Latin America and the Caribbean, only Haiti, Nicaragua, Suriname, Guyana and Honduras have lower GDP per capita than Paraguay. Following a sharp dip in the early 1980s, Paraguay's GDP per capita grew faintly until 1995. The peak years of growth, from 1975 to 1981, were led by the construction of the Itaipu dam (the world's largest hydroelectric plant), favorable prices for new agricultural exports (namely, cotton and soybeans) and a large influx of foreign investments. Thereafter, it experienced a gradual fall as the country underwent an economic recession. Hence, during the 1990s, Paraguay was the only country in the Southern Cone where GDP per capita decreased by as much 0.4%.¹⁸ The decrease was particularly sharp from 1997 to 2001, during which it contracted by an annual average of 1.9%.¹⁹ In 2002, GDP was US\$5.7bn, down from US\$9.6bn in 1996.²⁰ Income indicators of Paraguay show that Paraguay's GDP per capita averaged US\$1,558 between 1997 and 2001,²¹ which is similar to that of Ecuador (US\$1,240 in 2001).²²

24. In 2001, the service sector accounted for close to 52% of the GDP, followed by agriculture, livestock and forestry sector with 29% and the industry with 14% of the GDP, respectively. Agriculture continues to be the basis of the economy. The agricultural sector employs 36% of the workforce and contributes over 90% of the total merchandise exports. Leading agro exports include soybeans (36% of total exports), cotton (over 8%), meat (8%) and timber (7%).²³ Cotton, once the mainstay of peasant farmers, has been in crisis since the mid-1990s. Soybean production has expanded significantly in recent years, particularly among medium and large agricultural producers. Paraguay is self-sufficient in basic foodstuff.

25. A significant portion of the service economy is related to commercial activities in the Brazilian frontier, notably the triangular trade in Ciudad del Este. Informal and illicit practices permeate Paraguayan economy. Informal labor arrangements account for roughly half of the national workforce.²⁴ In urban areas across the country, the number of street vendors has

¹⁷ Other Lower Middle Income countries in Latin America and the Caribbean are Belize, Bolivia, Colombia, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica Peru, St Vincent and the Grenadines and Suriname.

¹⁸ Programa de las Naciones Unidas para el Desarrollo (PNUD) and DGEEC, *Informe Nacional de Desarrollo Humano: Paraguay 2002*. Draft version. p. 34.

¹⁹ EIU, *Paraguay: Country Profile 2002*, p. 25.

²⁰ The GDP per capita figure is from, EIU, *Paraguay: Country Profile 2002* (London, 2002), p. 22. Cross national comparisons are based on CEPAL data.

²¹ Average based on GDP per capita at 1982 constant prices, see EIU, *Paraguay: Country Profile 2002*, p. 42.

²² World Bank, *World Development Report 2003*, p. 234.

²³ EIU, *Paraguay: Country Profile 2002*, p. 22.

²⁴ This estimation is based on Fernando Masi's broader definition of "informal labor," which, unlike the Census Bureau, encompasses domestic servants and family farm workers. See, Masi, Fernando. "Desigualdad de Ingresos Familiares en Paraguay: Algunas Evidencias," In *Pobreza, Desigualdad y Política Social en América Latina*, edited by Dionisio Borda y Fernando Masi. (Asunción: CADEP, 2001).

increased notoriously. According to the Census Bureau, 46% of the informal urban employment is dedicated to commercial activities.²⁵

26. A Central Bank study reported that 47% of total imports between 1990-97 were re-exported either legally or illegally. In 2001, the Central Bank valued total export payments at US\$2.4bn, while registered exports were only US\$990m. The US\$1.4bn difference came from small purchases made by foreign tourists and large-scale contraband activities.²⁶ At the same time, tax evasion, according to the IMF, is at 60% for the Value Added Tax (VAT) and Customs duties. In recent years, the triangular commerce has declined sharply due to a fall in exchange rate competitiveness and more rigorous controls by Brazilian customs. Nevertheless, as a result of these illicit activities, local economists believe actual GDP figures would be higher than those reported by the Central Bank.

27. Multiple factors contribute to the current crisis, from negative terms of trade to the negative spillover of the 1999 devaluation of Brazil's currency, and the recent Argentine and Uruguayan economic crises. Coupled to this, there has been a notable drop in the triangular re-export trade with Brazil and Argentina, due partly to new MERCOSUR tariffs and greater border controls. Since 1995 Paraguay has been beset by four banking crises, leading to the collapse of 13 banks and 11 financial companies. As a result, credit has been reduced to the private sector, international and domestic investment have fallen sharply and the overall business environment deteriorated considerably. Adding to this deteriorating economic and fiscal conditions, sociopolitical factors including political instability and a tradition of patronage politics have contributed to the crisis and represent severe restrictions to sustained economic growth. Fiscal and financial reforms have been restrained in many aspects by the political context, corruption, political uncertainty, and growing obstacles to state modernization.

1.3.1. Income indicators of poverty

28. Parallel to the decrease in GDP per capita, and due to the economic recession, poverty levels in Paraguay increased during the second half of the 1990s. During this period, the share of the population in poverty rose from 30.3% in 1995 to 33.7% in 1999 (2 million people), while extreme poverty rose from 13.9% to 15.5%.²⁷ Close to 20% of the population survives with less than a US\$1 a day, and almost half of the Paraguayan people live with less than US\$2 a day.²⁸

29. Poverty levels in Paraguay are significantly higher in rural areas than in urban areas. Rural poverty has also been rising in the second half of the 1990s, and growing faster than urban poverty. From 1995 to 1999, rural poverty rose from 37.2% to 42%, and rural extreme poverty from 21.4% to 26.5%. On the other hand, urban poverty increased from 23.7% to 26.7% during the same period, while urban extreme poverty actually decreased by 0.7%.²⁹ Poverty in Paraguay is concentrated in rural areas, where 55% of Paraguay's poor live and close to 76% of the

²⁵ Percentages calculated from figures in, DGEEC, *Sector Informal: Encuesta Integrada de Hogares, 1997/98*. (Asunción: DGEEC, 1999), p. 14.

²⁶ EIU, *Paraguay: Country Profile 2002*, p. 34.

²⁷ World Bank, *Paraguay: Attacking Poverty. Volume One: Summary Report* (November 26, 2001), p. 3.

²⁸ World Bank, *Development Report 2003*, p. 237.

²⁹ World Bank, *Paraguay: Attacking Poverty. Volume One: Summary Report* (November 26, 2001), p. 3.

extremely poor. The poorest regions are in the north and central parts of the country.³⁰ Together, they account for 54% of the extreme poor, despite the fact they only represent 22% of the national population.³¹

Table 4: Number of the poor and extreme poor in rural and urban areas, 1995 and 2001

	Headcount		Population Shares		Number of Poor (000)		Share of Poor	
	(%)		(%)				(%)	
	1995	2000/01	1995	2000/01	1995	2000/01	1995	2000/01
Extreme Poverty								
Urban	6.8	7.1	51.7	54.0	169.7	222.5	25.4	24.8
Rural	21.4	25.1	48.3	46.0	499.3	673.4	74.6	75.2
Overall	13.9	15.4	100.0	100.0	668.9	895.9	100.0	100.0
Poverty								
Urban	23.7	27.6	51.7	54.0	591.3	867.6	40.5	44.0
Rural	37.2	41.2	48.3	46.0	867.9	1104.3	59.5	56.0
Overall	30.3	33.8	100.0	100.0	1459.2	1971.9	100.0	100.0

Source: DGEEC.

30. In addition to increasing levels of poverty, Paraguay has a highly unequal income distribution. According to the World Bank, only the Central African Republic, Brazil, Nicaragua and South Africa rank consistently higher. The top tenth of the population holds 43.8% of the national income, while the lowest tenth has only 0.5%. The Gini Index of income inequality is 57.7.³² The economic recession has worsened income inequality, notably in the rural areas, where the Gini Index has risen from 56.3 in 1995 to 66.4 in 1999.³³

31. Paraguay also has a striking land concentration, with a land distribution Gini of 0.78. According to the 1991 Agricultural Census, 1.1% of the landowners over 1,000 hectares owned 77% of the land, while the small producers under 10 hectares, who represent 59% of the landowners, owned only 0.9% of the total land.³⁴ While there are no more recent nation-wide data on land tenure, existing surveys and case studies³⁵ indicate that land concentration over the last decade would have increased even more.

³⁰ The North region includes the departments of San Pedro and Concepción, the Central region is comprised by the departments of Caaguazú, Caazapá, Guairá and Paraguari.

³¹ World Bank, *Paraguay: Attacking Poverty. Volume Two: Full Report* (November 26, 2001), p. 7.

³² The national ranking is based on both the Gini Index and the percentage share of income or consumption by the highest 10% bracket of the population. *World Bank Development Report 2003*, table 2. pp. 236-237. Figures for Paraguay are from 1998.

³³ Marcos Robles, "Paraguay Rural: Ingresos, Tenencia de Tierras, Pobreza y Desigualdad," In *Economía y Sociedad*, No. 1, 2000, pp. 5-27.

³⁴ This section is based on a background document entitled "The Small Farm Sector and Rural Finance Issues in Development" prepared for the Paraguay Policy Notes (March 2003).

³⁵ Data based on the 1997/98 Census Bureau national home survey, cited in, Sistema de las Naciones Unidas, *Visión Conjunta de la Situación de Paraguay 2001*, (Asunción, no publication date), p. 61. see Ramon Fogel, "The Peasantry," In *The Transition to Democracy in Paraguay*, edited by Peter Lambert and Andrew Nickson, (London: Macmillan Press, 1997), p. 98. In fact, the Gini Index for the 1991 Agrarian Census was estimated at 93.0. Secretaría de Acción Social (SAS), Presidencia de la República. *Estrategia Nacional de Reducción de la Pobreza y la Desigualdad*, (Asunción, 2002), p. 23.

32. Higher initial inequality may result in lower subsequent growth, and thereby in lower poverty reduction over time. This is in part because under high inequality, access to credit and other resources is concentrated in the hands of the privileged, thereby preventing the poor from investing or protecting themselves from shocks. Second, higher levels of inequality reduce the benefits from growth for the poor. This is because a higher initial inequality reduces the share of the gains from growth that goes to the poor.³⁶

1.3.2. Groups most vulnerable to poverty

33. The groups most vulnerable to poverty in Paraguay are the indigenous people, small farmers and landless, women-led households, unemployed and underemployed youth, working children, poor senior citizens and handicapped persons.³⁷

34. Indigenous peoples, roughly 85,000 people, or 5% of the rural population are amongst the poorest and more vulnerable groups. Most of the indigenous population (95%) lives under the poverty line and is extremely vulnerable to any shock that will break the fragile equilibrium of their subsistence livelihoods³⁸. Economic activities of indigenous communities combine hunting, fishing and gathering with subsistence agriculture and seasonal wage labor. As much as 41% of the indigenous population does not have economic activities other than these. About 45% of the economically active indigenous population has some time of seasonal work, with incomes significantly below the minimum wage.³⁹

35. Indigenous groups generally face land tenure insecurity. Official estimates by INDI suggest that about 50% of the indigenous families in the Chaco region and 40% of the families in the Eastern region do not have land. Lands occupied by indigenous groups could be under four different situations: (i) indigenous lands demarcated; (ii) indigenous lands demarcated and titled; (iii) private lands claimed by indigenous groups and (iv) indigenous (demarcated/titled) lands occupied by non-indigenous settlers.⁴⁰ While there is a land regularization and acquisition program under INDI, this has made slow progress in titling indigenous lands and land acquisitions (through IBR) have benefited only a few communities. It is important to note that only a small fraction of the lands claimed by indigenous communities are currently titled to indigenous peoples.

36. The rural poor is composed by two distinct groups. The poorest quintile of the rural families is comprised mostly by families with little land (between 2 and 20 hectares) that have no off-farm

³⁶ World Bank, *Paraguay: Attacking Poverty. Volume 2: Full Report*, (November 26, 2001), p. 18.

³⁷ See Secretaría de Acción Social, Presidencia de la República (SAS). *Estrategia Nacional de Reducción de la Pobreza y la Desigualdad* (Asunción, Noviembre 2002), pp. 24-25. All figures cited in the section on the “most vulnerable social strata” are derived from this source, unless otherwise specified. Most of these statistics were produced through the Census Bureau’s 1999 and 2000/2001 household surveys. Paraguay: Attacking Poverty. World Bank 2002.

³⁸ See Paraguay Nota Política Sobre los Pueblos Indígenas, prepared by the World Bank (February 2003).

³⁹ World Bank 2001, *Attacking Poverty*, p. 166.

⁴⁰ Illegal occupations of indigenous’ land were frequent in the past. Since 1989 there have been improvements, but illegal occupations continue to occur.

income generating opportunities and rural properties, too small to sustain a livelihood⁴¹. In addition to these near landless and precarious land settlers, there is a group of landless rural inhabitants⁴² that do not have employment in the agricultural sector and survive combining non-agricultural activities and subsidies.⁴³

37. Poverty in Paraguay also has a discernable gender, age and linguistic bias. Single mothers, separated women and widows comprise 23% of Paraguay's poor population. Poor households led by women are slightly higher in urban areas than in rural areas. In urban centers, women are the head of 27% of poor households and comprise a third of those living in extreme poverty.⁴⁴ According to the UNDP Gender Development Index, in 1999 Paraguay does worse than most of its neighbors in terms of gender equality.⁴⁵ According to the United Nations⁴⁶ women continue to have lower educational levels than men and 6 out of 10 illiterate persons in the country were women, mainly from rural areas. The country had one of the highest rates of maternal death in the Latin America and Caribbean region, with abortion being the second most common cause of maternal death.

38. The gender-related development index (GDI) for Paraguay is lower than its overall HDI, with a value of 0.727, although Paraguay's worldwide ranking is better at the 75th position.⁴⁷ The GDI ranks Paraguay in 12th position in Latin America and the Caribbean after Argentina, Uruguay, Chile, Costa Rica, Mexico, Panama, Colombia, Belize, Venezuela, Brazil and Peru. However, Paraguay ranks better than 8 other Latin American and Caribbean countries (Ecuador, Dominican Republic, Guyana, El Salvador, Bolivia, Nicaragua, Honduras, Guatemala and Haiti).⁴⁸

39. Children and youth, from 5 to 24 years of age, encompass three quarters of Paraguay's poor population, and 45% of those living in extreme poverty. In urban areas, 22.4% of poor people are either unemployed or underemployed youth, ages 15 through 24 years. In the countryside, close to 38% of the same age group is poor and 23.4% is extremely poor. The total level of unemployment for the young (15-24 years old) population reaches 24%, being higher for women (28%). Four out of ten work less than 48 hours a week and half of them has been in their present jobs for less than a year. One out of four young people works and studies at the same time.

⁴¹ Marcos Robles, "Paraguay Rural: Ingresos, Tenencia de Tierras, Pobreza y Desigualdad," In *Economía y Sociedad*, No. 1, pp. 5-27. 2000 Galeano, Luis. "Exclusión rural y política social". En: D. Borda y F. Masi. Pobreza, Desigualdad y Política Social en América Latina. CADEP: Asunción, 2000.

⁴² Some agrarian scholars like Luis A. Galeano place the number as low as 30,000 families, while others such Tomás Palau estimate a higher figure of 100,000. As of recent date, there is no social scientific study that clarifies this number well and provides solid criteria for its calculation. Figures and estimations reported in, SAS, *Estrategia Nacional*, p. 24.

⁴³ Pobreza y crecimiento dual en Paraguay, by Samuel Morley and Rob Vos. Technical paper, Inter.-American Development Bank, 2000. Morley, Samuel (2001) Rural Poverty in Paraguay, background report to the World Bank poverty assessment of Paraguay.

⁴⁴ World Bank, *Paraguay Gender Review*.

⁴⁵ World Bank, *Paraguay Gender Review*.

⁴⁶ Committee on the Elimination of Discrimination Against Women, Concluding Observations: Paraguay, U.N. Doc. A/51/38, paras. 105-133 (1996).

⁴⁷ UNDP Human Development Report 2002, p. 223.

⁴⁸ UNDP, Human Development Report 2002, p. 224-225.

Young people with no instruction get only 16% of the salary of the ones with tertiary education. About 44% of children ages 5 through 14 years are poor, while close to 14% of children and youth from 5 to 17 years old – over 265,000 of them, according to a 2000/2001 Census Bureau study— work on a regular basis.

40. Also disproportionately represented among the Paraguayan poor are people 65 years and older. All told, they represent 22% of the poor population, but scarcely 5% of the total population. In urban places, over 16% of senior citizens are poor, while in rural settings close to 27% are poor, and nearly 15% are extremely poor.⁴⁹

Table 5: Most Vulnerable Social Strata

	Rural		Urban		Total	
	Poor	Extreme Poor	Poor	Extreme Poor	Poor	Extreme Poor
Total	1,100,000	690,000	880,000	220,000	1,980,000	910,000
Landless Peasants	790,000	N/A	-	-	790,000	N/A
Indigenous Peoples	100,000	N/A	-	-	100,000	N/A
Women-led households	222,000	82,000	235,000	74,000	457,000	156,000
Under/unemployed youth	419,000	419,000	195,000	11,000	614,000	430,000
Working children	556,000	221,000	305,000	18,500	861,000	239,000
Senior Citizens	295,000	102,000	142,000	9,400	437,000	111,400
Handicapped people	N/A	N/A	N/A	N/A	140,000	12,000

Source: Secretaría de Acción Social, *Estrategia Nacional de Reducción de la Pobreza y Desigualdad*. Totals do not reflect the addition of subcategories as many overlap.

41. Poverty is concentrated in households where the Guaraní is the primary language. In urban areas, 68.5% of the extremely poor are individuals whose primary language is Guaraní, whereas the figure in rural areas is 94%.⁵⁰ These homes are apt to have a per capita income level 15% to 45% lower than otherwise similar households.⁵¹ In urban areas, 44% of poor households speak primarily Guaraní-only, while in rural areas this figure rises to nearly 86%.⁵²

42. Finally, in Paraguay there are close to 140,000 people with acute mental and physical disabilities that are poor. Of these, approximately, 12,000 people (8.5%), mostly mentally handicapped, live in extreme poverty.

1.3.3. Non-monetary indicators of poverty

43. Despite increasing poverty levels and a largely stagnant GDP per capita, from 1982 to 1998 the share of households with at least one unmet basic need fell from 86.9% to 55.3%. Similarly, between 1980 and 1999, the Human Development Index rose from 0.698 to 0.738.⁵³ According to the UNDP's Human Development Index (HDI), Paraguay ranks in the 90th position out of 173

⁴⁹ Secretaría de Acción Social, Presidencia de la República (SAS). *Estrategia Nacional de Reducción de la Pobreza y la Desigualdad*, (Asunción, Noviembre 2002).

⁵⁰ World Bank 2001, *Paraguay: Attacking Poverty. Volume 2: Full Report*, p. 47.

⁵¹ World Bank 2001, *Paraguay: Attacking Poverty. Volume 1: Summary Report*, p. 15.

⁵² Samuel Morley and Rob Vos, "Pobreza y Crecimiento Dual en Paraguay," In *Pobreza y Cambio Social*, edited by Luis Galeano and Domingo Rivarola (Asunción: CPES, 2001), p. 63 and p. 68, respectively.

⁵³ World Bank, *Paraguay: Attacking Poverty*, pp. 11-13.

nations in the world, with a 0.740 HDI value. Out of 33 Latin American and Caribbean nations, more countries rank above Paraguay (22) than below (10). These include Ecuador, Dominican Republic, Guyana, El Salvador, Bolivia, Honduras, Nicaragua, Guatemala and Haiti.⁵⁴ Paraguay's position is shored by a relatively higher GDP per capita, yet diminished by a comparatively lower life expectancy and educational index.

Table 6: Human Development Index in 2000

Country	HDI
Guatemala	0.631
Bolivia	0.653
Ecuador	0.732
Paraguay	0.74
Chile	0.831
Uruguay	0.831
Argentina	0.844

Source: UNDP Human Development Report 2003

44. Nevertheless, it is important to highlight that according to recent studies⁵⁵ that there are significant differences in the estimation of poverty figures based on income measure compared with and NBI measure. Both estimates provide incomplete accounts of the situations. Galeano (2000) shows that according to NBI estimates the poverty rate for Asunción would be higher. This difference could reflect temporary shifts in income flows while the NBI estimate would reflect more structural problems that are more permanent over time. Further, it would suggest that a significant percentage of the non-poor according to income estimates would be clustered around the poverty line and are highly susceptible to shocks and at great risk of falling under the poverty line.

45. HDI disparities within Paraguay are striking. With an HDI score of 0.896, Asunción ranks in the same 22nd worldwide position as Israel, above Greece, Singapore and South Korea. A dozen of modern farming districts in Itapúa, Alto Paraná and eastern Caaguazú have HDI levels that match those of Poland, Chile, Uruguay and Costa Rica. On the other hand, the poorest municipality is comparable to 134th ranked Kenya, while 23 other districts score close to the HDI levels of India, Zimbabwe and Cambodia.⁵⁶

46. Only 50% of Paraguayan households have access to drinking water from a public or private network. Access to drinking water from a public or private network is lower in rural areas (21.7%) compared to urban areas (79.5%).⁵⁷ As many as 49.8% of households in rural areas get their drinking water from wells without pumps and 19.6% from wells with pumps, bringing up to 70% the number of households that get their drinking water from wells. Due to the lack of water

⁵⁴ See, PNUD, *Informe Sobre Desarrollo Humano 2002*, pp. 149-152.

⁵⁵ Bogado, Daniel. 2000. "Situación Habitacional Según la EIH 97/98. Condiciones de habitabilidad, saneamiento y déficit habitacional." DGEEC y Programa MECOVI, Asunción, Paraguay. Galeano, Luis, "El combate a la pobreza en el Paraguay", CADEP, Asunción, 2000.

⁵⁶ For Paraguay's municipal level HDI scores see Table 21 in, PNUD and DGEEC, *Informe Nacional*. For world references see PNUD, *Informe Sobre Desarrollo Humano 2002*, pp. 149-152.

⁵⁷ PNUD and DGEEC, *Informe Nacional*, p. 49.

quality control of wells and the risk of contamination from filtration, this is a serious problem for the health of those using wells for their drinking water.⁵⁸

47. Sewerage coverage remains very low in Paraguay, with only 10% of Paraguayan households with waste pipes and less than 50% with cesspools. The figures for rural households is significantly lower than for urban, with only 0.2% having waste pipes (as opposed to 17.7% in urban areas) and 26.7% cesspools (compared to 80.2% for urban households).⁵⁹

48. The two vulnerable groups that receive less attention from health and other public services are indigenous peoples and physically and mentally disabled.⁶⁰ Regarding water and sanitation, less than 5% of indigenous families have access to potable water, about 30% get their water from wells and 65% from open sources, 25% of the households do not have bathroom or a latrine, 74% have latrines and only less than 1% have a bathroom. Less than 3% of the indigenous households are connected to the power grid and 95% uses either candles or kerosene lamps.

49. In education, literacy rates as well as primary and secondary school enrollment have also shown improvements in the last years. Illiteracy among the population 15 years and older has dropped from 22.8% in 1982 to 8.4% in 2001. Current illiteracy rates stand at mid-level by Latin American and Caribbean standards, below Argentina (3.2%) but above Brazil (14.8%).⁶¹ School enrollment at the primary level has risen from 88.7% in 1980 to 91.2% in 1997. Among secondary students enrollment rates have increased from 25.4% in 1985 to 37.9% in 1997. Numerous qualitative problems, however, persist in the country's educational system. These will be addressed in the section on "Provision and Access to Services".

50. Health standards in Paraguay are poor, although some advancement has been made. Life expectancy has risen by 6 years since 1960 to 69.9 years in 1999, and now stands at the average life expectancy for Latin America and the Caribbean.⁶² The infant mortality rate for children under the age of one has been reduced in three decades since 1970 from 56 to 26 per 1,000 live births, placing Paraguay above the Latin American and Caribbean average.⁶³ Yet domestic variations on these rates are stark. Rural infant mortality rates are 2.5 times higher than in the urban areas. Among the Guaraní speaking population, the death rate increases by three times.⁶⁴ Also, Paraguay has one of the worst maternal mortality rates in the Western hemisphere. The most reliable reports suggest a rate of 192 maternal deaths per each 100,000 live births over the 1989-95 period.⁶⁵ Only four other countries in the region – Haiti, Bolivia, Peru and the Dominican Republic— had a higher maternal mortality rate.

⁵⁸ PNUD and DGEEC, *Informe Nacional*, p. 50.

⁵⁹ PNUD and DGEEC, *Informe Nacional*, p. 50.

⁶⁰ PNUD and DGEEC, *Informe Nacional*, p. 70.

⁶¹ PNUD and DGEEC, *Informe Nacional de Desarrollo Humano: Paraguay 2002*. Draft version. p. 35.

⁶² PNUD and DGEEC, *Informe Nacional*, p. 41. According to the UNDP's 2002 Human Development Report, the average life expectancy for Latin America and the Caribbean in the year 2000 was 70.0 years.

⁶³ PNUD, *Informe Sobre Desarrollo Humano 2002: Profundizar la Democracia en un Mundo Fragmentado*. (New York: PNUD, 2002), p. 175.

⁶⁴ PNUD and DGEEC, *Informe Nacional*, p. 43.

⁶⁵ PNUD and DGEEC, *Informe Nacional*, p. 42-43.

Table 7: Life expectancy and infant mortality in 2001

Health	Life expectancy	Infant mortality p/1,000 live births
Bolivia	63.1	60
Guatemala	65.2	43
Ecuador	70	24
Paraguay	70.6	26
Argentina	74.1	16
Uruguay	74.5	14
Chile	75.8	10

Source: World Development Report 2003

51. Measured in terms of weight, figures also show that 4.6% of children below 5 are malnourished and 19.9% present a risk of malnutrition. If height is taken as an indicator of malnutrition, these figures increase to 13.9% and 24.6%.⁶⁶

52. Teenage pregnancies are high for the region standards. About 28% of the women aged 15-24 have been pregnant at least once and, among these, the majority has given birth to their first child when they were 18 years old or younger. This figure goes up to 32% among the poor and 31% rural women 15 to 24 years old. Overall fertility rate remains very high compared with the average for other Mercosur countries (4.1 vs. 2.2 children born/woman, respectively) and, as expected age specific fertility rates are particularly high for women 15 to 19 years old.⁶⁷

1.4. Provision and Access to Services

1.4.1. Health

53. The provision of public health services has not seen any significant change in Paraguay. It is still highly centralized, poorly run and sparse in its actual coverage. Public expenditure in health grew from 0.3% of the GDP in 1990 to 1.3% in 1998, the second lowest ranking in South America.⁶⁸ A National Health System was formally established in 1993, but never properly implemented for lack of resources. A Census Bureau survey reported in 2001 that only 19% of the population has medical insurance, and that close to two thirds of these people are covered under the *Instituto de Previsión Social* (IPS, the state-run social security system).⁶⁹

54. Public clinics, notably the national IPS hospital, frequently do not have in stock the most basic medicines and health professionals are not available when needed. Recent attempts to decentralize health services by allowing local hospitals to keep 50% of the fees charged to their patients (an estimated 5% of the national health budget), were curtailed by the Ministry of Health. Public health services in Paraguay remain an important resource for political patronage and charges of corruption in the media have preclude further changes. Hence, despite progressive constitutional entitlements, health provision by the state is poor, sparse and remains highly

⁶⁶ PNUD and DGEEC, *Informe Nacional de Desarrollo Humano: Paraguay 2002*, Draft versión, p. 47.

⁶⁷ For a detailed analysis see, *Paraguay Gender Review. Issues and Recommendations*, The World Bank, July 2002.

⁶⁸ See, CEPAL, *Anuario Estadístico*, p. 56.

⁶⁹ EIU, *Paraguay: Country Profile 2002*, p. 16.

centralized. According to the 2001 annual household survey (EPH), only 19% of the population had medical insurance.

55. Access to health services is largely determined by geographical location and income. Medical services are still notably concentrated in Asunción. Although the ratio of physicians per capita and the number of hospital beds available are appropriate, there are on average 3.9 doctors and 7.9 hospital beds for every ten thousand inhabitants nationwide, in Asunción, this number increases to 15.3 doctors per every ten thousand inhabitants, whereas the figure for the rest of the country is only 2,5.⁷⁰

56. If family income is taken into account, almost 60% of those with diseases or accidents from the lowest 20% income group, did not consult a clinic, compared to only 16% of the richest 20%. Around 50% of people living in rural areas or that spoke Guaraní did not consult a clinic, whereas this is reduced to 28% in urban areas and for Spanish-speaking.⁷¹

57. Another indicator of the differential access to health services is that 31.3% of child deliveries are conducted outside of the formal medical system, either public or private. 42% of deliveries in rural areas as well as of Guaraní-speaking people took place outside of the formal medical system, demonstrating a clear lack of coverage of health services in rural areas.⁷² Indigenous people's access to health services and their health indicators are much lower than for the population as a whole. The average infant mortality rate among indigenous communities is almost 2.5 times the infant mortality rate for the country.

1.4.2. Education

58. As a results of a successful reform in the educational sector, Paraguay has improved some of its education indicators substantially. Illiteracy among the population 15 years and older has dropped from 22.8% in 1982 to 8.4% in 2001. Current illiteracy rates stand at mid-level by Latin American and Caribbean standards, below Argentina (3.2%) but above Brazil (14.8%).⁷³ Nevertheless, there still exist a difference between males and females, particularly in rural areas. Regarding age, illiteracy rate are 3.6% for young people (15-24) and 18% for adults (25 and older). Almost 70% of illiterate youth live in rural areas. Regarding formal education, 43% of the youth are enrolled in primary school and almost 48% in secondary school. However, only 7%, mostly concentrated in urban sectors, has pursued post-secondary education.

⁷⁰ PNUD and DGEEC, *Informe Nacional*, p. 92.

⁷¹ PNUD and DGEEC, *Informe Nacional de Desarrollo Humano: Paraguay 2002*. Draft version. p. 46.

⁷² PNUD and DGEEC, *Informe Nacional de Desarrollo Humano: Paraguay 2002*. Draft version. p. 46.

⁷³ PNUD and DGEEC, *Informe Nacional de Desarrollo Humano: Paraguay 2002*. Draft version. p. 35.

Table 8: Comparative Literacy Rates

Adult Literacy Rate (%)	Paraguay	Chile	Argentina	Bolivia
Female	91.9	95.4	96.7	78.6
Male	94.2	95.8	96.8	91.7
Ratio	0.98	1.00	1.00	0.86

Source: UNDP, 2000 as cited in Paraguay Gender Review.

59. Also, illiteracy rates among the indigenous population are significantly higher than for the population as a whole. According to the 1992 population census, about 63% of the indigenous population 15 years and older was illiterate, compared to only 14.3% for the rural population. Literacy was higher among men (60%). There are significant differences on the level of illiteracy among the various groups, ranging from 43% among the Mataco-Mataguayo groups to 73% among the Tupi-Guaraní. Only 9% of the indigenous population 15 years and older completed 3rd grade and less than 2% completed 6th grade.

60. School enrollment at the primary level has risen from 88.7% in 1980 to 91.2% in 1997. Among secondary students enrollment rates have increased from 25.4% in 1985 to 37.9% in 1997. This lag in the enrollment in secondary education suggests that the transition from primary to secondary school continues to be an issue that the education reform needs to address. Overall attainment rates are higher for girls than for boys, except for girls in rural areas.⁷⁴ The main factors that influence young people schooling are employment, income level, educational level of the household head, and migration. It is also observed that the school drop-out rate increases with age. In rural areas, the number of children under age 15 living at home is one more factor correlated with low school attendance, probably because of the child-care duties that family members perform or because youth must work to add income to the larger household. The reasons for not going to school also suggest differences by gender including pregnancy related problems among girls (about 20% of girls aged 12-15 are not attending school).

61. Numerous problems persist in the country's educational system. For one, functional adult illiteracy remains very high. In 1997, 34% of the population aged 25-64 years had not completed primary education, and 6% had no education at all.⁷⁵ School desertion is high. Almost half of the children who enrolled for first grade in 1993 dropped out of school before finishing eighth grade.⁷⁶ Most drop outs claim to have financial impediments to continue in school.⁷⁷ In 1999, close to a quarter of the national teachers did not have proper pedagogical training.⁷⁸ Furthermore, significant differences in the quality of the education between private and public institutions and between urban and rural areas remain as a key challenge.

62. Another issues is that despite progressive increase for the population as a whole, education attainment remains consistently lower among the population that speaks Guaraní only, underscoring the importance of improving Paraguay's bilingual education program. Until

⁷⁴ *Paraguay Gender Review. Issues and Recommendations*, The World Bank, July 2002.

⁷⁵ EIU, *Paraguay: Country Profile 2002*. p. 16.

⁷⁶ PNUD and DGEEC, *Informe Nacional*, p. 39.

⁷⁷ Close to half of the school drop outs between age 12 and 15 said their decisions were taken because of economic difficulties. World Bank, *Attacking Poverty*. p. 104.

⁷⁸ PNUD and DGEEC, *Informe Nacional*, p. 39.

recently, all formal education was forced in Spanish, creating a situation in which children, particularly from poor families, were forced to learn in Spanish at the school while elsewhere they continued to perform and socialize both in Guaraní and Spanish. There was a dissociation between the cognitive structure in Guaraní and the use of Spanish language. Guaraní was only used when the students were not able to understand some concept. Recently, Guaraní language was introduced into the primary educational system to facilitate the learning process of the children, who start the learning process mostly in the mother tongue and the other language is introduced progressively, without losing the proficiency in the mother tongue.

63. Multiple factors have contributed to the success of the reforms in the educational sector. First, the establishment of a highly respected Reform Council, comprised by prestigious national professionals, including the teaming up of national and international experts to draft plans and garner political support for education reform. Second, despite political instability and cabinet alterations, government backing for the reform program remained constant throughout the decade. The 1992 constitution required that 20% of central government revenue be earmarked for education. Allocations for public education increased considerably during the 1990s. Between 1990 and 1998 public expenditure for education grew from 1.2% of the GDP to a 4.0% share⁷⁹ and teacher salaries rose six-fold from 1989 and 1996.⁸⁰

⁷⁹ República del Paraguay, Seguimiento de los Compromisos Asumidos en la Cumbre Mundial de Desarrollo Social Copenhague 1995: Informe Nacional. (Asunción: SAS, June 2000), p. 57.

⁸⁰ Borda and Masi, *Los Límites de la Transición*, p. 66.

Chapter 2: Governance

2.1. Background

64. Important events in Paraguay's political history which have contributed to shape the Paraguayan national psyche were the two wars of the Triple Alliance against Argentina, Brazil and Uruguay between 1865 to 1870 during which Paraguay lost territory to both Brazil and Argentina, and the Chaco war against Bolivia between 1932-1935. First, the geographic and national insularity shifted towards increased regional and global integration. Second, the authoritarian political tradition, and patrimonial history and nature of the state permeated to the family level, contributing to the establishment of a patriarchal extended family.

65. The economy rooted historically in agricultural subsistence, cattle raising and extractive enclaves contributed to the development of small bourgeoisie and a relatively new rural oligarchy, whose origins were established in the last century and crystallized during the Stroessner era. At the same time a small and politically weak middle class became the channel for upper mobility through the expansion of kinship and clan-like relations with local caciques that would protect and advance the interests of their clique. In terms of *relational networks*, Paraguayan political culture became progressively influenced by a strong sense of social intimacy, where interpersonal relations based on familial ties, friendship and partisan allegiances prevailed regularly over impersonal relationships, rules and obligations.

66. At the same time, the existence of a sense national identity, shaped by history and language, the relative absence of a social elite grounded on ascriptive criteria, such as aristocratic lineage, and ethnicity or religious criteria provided Paraguayan society with more social mobility than the other countries of the region. Social mobility has been related more to social hierarchies grounded on patriarchal relations and the strength of natural leaders. This has also resulted in the related opportunistic societal ethos, not bound by any clear set of rules, as well as in the way how conflict at all levels have been handled by Paraguayan society, which have tended to downplay them until there is a violent outcome either at the personal or societal level.

67. Paraguay's political history has been marked by authoritarian personalities. From independence until 1904, dictators and military officers successively ruled Paraguay. Between the 1870s and 1940s the political system was dominated by a small oligarchy that allowed some political competition between the *Asociación Nacional Republicana* (ANR) or Colorado Party and the *Partido Liberal Radical Auténtico* (PLRA) or Liberal Party, both established in 1887⁸¹. As political instability grew, so did the importance of the military in politics. Still, military rule did not predominate as only four of eight presidents who finished their terms were military men. In 1940 the military came into scene, changing the power relations and the political landscape⁸².

⁸¹ The Colorados have been in power since their triumph in the 1947 civil war. In Latin America and the Caribbean, only Mexico's PRI ruled for a longer stretch than the Colorado Party.

⁸² For a detailed account of the evolution of the party system see Diego Abente (1995) "A Party System in Transition", pp. 299-320 in *Building Democratic Institutions*, by Mainwaring and Scully (Eds.).

A 1954 coup put in power Alfredo Stroessner, who remained until 1988. Few imagined in the 1950s that Stroessner's term of office would become the longest in Paraguay's history.

2.1.1 Stroessner and the transition to democracy

68. Stroessner's regime relied on the conjunction of three leading institutions: (i) the Armed Forces, (ii) the *Asociación Nacional Republicana* (ANR or Colorado Party) and, (iii) the different branches of the state. The consolidation of this institutional arrangement established a measure of public order and continuity unknown to a country beset by political instability and violence. It also cemented Paraguay's longstanding tradition of political authoritarianism.⁸³ By the early 1960s, all other political parties were either legitimating the political system by participating in fraudulent elections or were effectively isolated.

69. Under Stroessner, all military officials, state employees, police officers and public teachers were required to be members of the Colorado Party, which gained preeminent political status at this time. Power was exercised in discretionary and informal ways, unencumbered by rules or ideological commitments. The regime's security apparatus kept the population in a climate of fear and self-censorship. Fusing the boundaries between public and private wealth, the regime allowed its collaborators – in the government, the military and Colorado Party-- to amass considerable fortunes and engage in a range of illicit economic activities, including contraband and drug trafficking.⁸⁴ The regime contributed to institutionalize corruption as part of Paraguayan politics.

70. Stroessner's regime significantly constrained the development of civil society and a market economy in Paraguay. The independent media and social organizations, if tolerated, were frail and subject to constant intimidation. Business firms routinely maintained crony relations with the regime. All main venues of wealth were connected to state privilege and favor. By law, all business corporations (or "*sociedades anónimas*") were required to obtain Stroessner's personal authorization before establishing their operations.⁸⁵

71. The February 1989 coup d'état that overthrew General Alfredo Stroessner prompted an unexpected and unprecedented democratization process in Paraguay. Stroessner's downfall was triggered by divisions over the spoils of government among the Colorado elite, and the dissatisfaction of junior army officers. The broader conditions for political change were fostered by mounting economic frustration, the disenchantment of business sectors, international support for democracy and, after the mid 1980s, an awakening of civil society, backed notably by the Roman Catholic Church.

⁸³ Paraguay had 11 presidents in the 19 years between the end of the Chaco War with Bolivia in 1935 and Stroessner's takeover in 1954, and suffered a tragic civil war in 1947. Prior to 1989, the only transition to democracy had taken place in the mid 1920s, under President Eligio Ayala, of the Liberal Party. Ayala ushered a relatively competitive presidential election in 1928. The transition, however, collapsed in the context of the impending Chaco War (1932-1935).

⁸⁴ Of the top twenty fortunes that were made in Paraguay during the Stroessner era, six involved high-ranking military officers, including General Andrés Rodríguez; six were made by civilians in important government positions; four others were relatives and business cronies of Stroessner and Rodríguez. Only four of the leading personal fortunes were amassed by relatively independent business entrepreneurs. See, Anibal Miranda, *Dossier Paraguay: Los Dueños de Grandes Fortunas*, 2nd revised edition (Asunción: Miranda y Asociados, 2000), p. 187.

⁸⁵ This law was not repealed until 1988.

72. Paraguay took slightly less than a decade to install the first democratic regime in its national history. The transition was ushered in two phases. The first, from February 1989 to August 1993, was commanded significantly from above. It ended with the inauguration of the first civilian president in 39 years, Juan Carlos Wasmosy. The second phase, completed in August 1998, exhibited a more horizontal dynamic of negotiation and elite pacts. Each phase introduced a series of democratic improvements yet exposed serious limitations and fault lines in the political system.

73. The democratization process triggered political liberalization. Yet many elements of the previous regime did not change rapidly. Most inauspiciously, the intricate alliance between the government, the Armed Forces and the Colorado Party has changed slowly. In effect, Paraguay's transition to democracy unfolded *from within* the political structure established by Stroessner.

74. Paraguay's transition to democracy has had to face several simultaneous challenges. For one, it sought to install the first democratic regime in its entire political history. Unlike other South American nations, its transition process was one of democratization, not re-democratization. The lack of historical precedent was further complicated by the fact that the transition was led by the same political forces that had occupied prominent positions during the previous autocratic regime. Secondly, given the strong patrimonial heritage and the Colorado Party's fusion with the state apparatus, the Paraguayan transition was faced with the imperious need to modernize and decouple the state apparatus and the Colorado party.

75. The first phase of Paraguay's transition to democracy was characterized by significant vertical control by General Andres Rodríguez's administration. Rodríguez himself called a snap presidential and parliamentary election and by vowing to leave power to an elected civilian in 1993, Rodríguez essentially transformed his government into a transitional rule. During this period, Paraguay undertook an electoral reform and re-wrote its constitution (in 1992). Gradually, sectors within the military began to show signs of withdrawal from partisan politics, as in-fighting increased within the Colorado Party. Most noticeably, the country held its first democratic elections for local government in mid 1991.

76. The limits of the transition, however, became quite evident in the months preceding the 1993 presidential elections. The ruling establishment made massive use of state resources and warned public employees that they would lose their jobs if they did not vote for the Colorado Party. Similarly, sectors within the military indicated they would not accept a Colorado defeat. Nevertheless, for the first time in Paraguayan history, the opposition – that is, the *Partido Liberal Radical Auténtico* (PLRA or Liberal Party) and the *Partido Encuentro Nacional* (PEN) – obtained a combined majority in both houses of Congress.⁸⁶ Furthermore, for the first time, departmental authorities (governors and council members) were chosen for each of the country's 17 sub-national units.

77. The second phase of Paraguay's transition to democracy inaugurated with the election of president Juan Carlos Wasmosy exhibited greater equilibrium between the government and the opposition groups. Once in office, Wasmosy reached an agreement with the PLRA, the leading opposition party, to create a working majority in Congress. The opposition drew on this pact, their parliamentary majority, the newly enhanced powers of Congress, and the legislative agenda

⁸⁶ An opinion survey found that 76% of Paraguayans believed elections in their country to be fraudulent, yet the results prove the elections were open and democratizing in many respects. Survey data from the 1995 Latinobarometro poll, as noted by, Mikel Barreda and Andrea Costafreda, "La Transición Democrática y el Sistema Político Institucional," In *Diagnóstico Institucional de la República del Paraguay* (Asunción: Institut Internacional de Governabilitat, UNDP, 2002), p. 86.

set by the 1992 constitution, to negotiate a number of basic political reforms. These innovations led to the institution of a new magistrate council (the *Consejo de la Magistratura*) and major judicial reform, the formation of a new electoral administration (the *Tribunal Superior de Justicia Electoral*) and the creation of voter roll, the passage of a law suspending party affiliations among officials in the military and the police, and the establishment of an opposition-led public audit agency (the *Contraloría General de la República*). All these measures sought to overcome the main obstacles to democracy revealed in the context of the 1993 elections.

78. For all its progress, the second phase of the transition highlighted numerous political fissures and restraints on the democratization process. Three of these stand out most clearly: (i) the fear of an authoritarian return; (ii) the rampant growth of corruption; and (iii) the grueling power jostles that have come to overshadow the national political scene.

79. In 1998, Raúl Cubas was elected president. The most discernable threat to the democratization process has come from some army elements allied with illegal business and headed by General Lino Oviedo. In March 1999 after the assassination of vice president Argaña the opposition muster enough votes to start impeachment proceedings against Cubas. Civic revolts erupted and president Cubas resigned. The president of the Congress, Senator Luis González Macchi, was installed as president. The March 1999 events prompted the establishment of the first government of national unity in Paraguay since 1946. All three leading political parties – the ANR, PLRA and PEN – shared cabinet positions and other appointments. Weeks later, the Supreme Court confirmed González Macchi as president until mid 2003. In turn, the Tribunal Electoral called for vote in August 2000 to fill the vacant vice-presidency. The election of the PLRA opposition candidate, Julio César Franco, in a very tight contest, created a most unusual situation. The president and vice-president represented rival political parties. While the vice president could claim a popular mandate, the president had no electoral legitimacy. The odd circumstances were ripe for serious problems of governance. The unique opportunity for implementing reform was lost in the ensuing months. Under internal strain, the PLRA left the government and the PEN lost support and influence. Thereafter the President and the government faced increasing opposition from different sectors that attempted several times to impeach the President and almost paralyzed the government⁸⁷.

80. The administration that took office in August 2003 faces enormous challenges. The new government inherited a difficult social, economic and financial situation. The previous administration was unable to address these problems. However, the new administration has given significant steps to move away from a long period political infighting and divisions that had hampered any progress implementing the needed reforms. These changes open a hopeful third stage in the democratic transition process, as this administration will have to mainstream and consolidate the changes initiated in the past and demonstrate that democracy provides a better system of government to ensure citizens rights, improve transparency and improve peoples' living conditions. At present, the main political challenges to Paraguay's transition to democracy are twofold. On the defensive side, it must stem further institutional erosion and restrain the possibilities of a regime breakdown. More proactively, it must generate the leadership and resources necessary to move beyond its murky and precarious situation and to muster and efficiently manage the resources necessary for poverty alleviation and broader social inclusion.

⁸⁷ For all his weaknesses the González Macchi administration was able to put together an unusual cabinet, notably in the areas of finance, education, and more recently in the Ministry of Justice and Labor.

81. While based on formal criteria, Paraguay could be classified as democratic, the qualitative dimensions of Paraguay's democracy remained discernibly low. Recent data⁸⁸ suggest that *Democracy* in Paraguay is valued low. Multiple reasons could explain this perception. A legacy of mistrust still hovers over the electoral process, with groups in competition fearing the dishonesty of their rivals.⁸⁹ Beyond Paraguay's buoyant press, mechanisms of accountability for congressional representatives are feeble. Increased political factionalism has heightened problems of governance. Furthermore, despite a new-found vitalization, civil society remains relatively weak, with low capacity for organizational management and sustainable civic mobilization. The invisible threads of influence of powerful shadow groups has increased considerably. People are skeptical because the widespread informal and illicit economy, the tradition of state patrimonialism, the presence of crony power groups, and lack of institutions and impersonal norms needed to run a modern market arena. Against this background, the new administration has promised to address the fundamental problems of public sector corruption, to give priority to the social sectors and to alleviate rural poverty. After half a decade of economic decline, this discourse has raised high expectations that the new administration is serious about reforming the country's frail institutions.

2.2. Governance

2.2.1. Executive and legislative powers

82. According to the 1992 constitution, Paraguay is a presidential republic. The president is the chief executive, elected by direct popular vote every five years, concurrently with the direct election of the two houses of Congress (i) the 45-member Senate and; (ii) 80-member Chamber of Deputies. Direct elections are also held for the governor and council members of each of Paraguay's 17 departments, as well as for mayors and local councils in Paraguay's municipalities (226 at present count).

83. The new constitution reduced the powers of the presidency vis-à-vis the legislative branch. Now, the veto powers of the president are weak and can be overrun by an absolute majority of both congressional chambers.⁹⁰ Congress was also given prerogatives to enlarge the fiscal budget, determine military promotions, and organize investigatory commissions. The president cannot dismiss the congress, but the legislative branch can impeach the president. The vague conception of impeachment rules has invited numerous such petitions in recent years, adding instability to Paraguay's already weak institutions. Given the fractious divisions within both legislative chambers, since 1993, all presidents have encountered serious obstacles in assembling congressional support for their policy initiatives. Constructive legislative majorities have been very hard to build. Corrupt practices within the congress, notably with demands for kickbacks and favors in exchange for votes, have further complicated coalition efforts. This combination of

⁸⁸ Latinobarometro 2002. According to this survey, support to democracy in Paraguay is at 41%, only behind El Salvador (40%), Colombia (39%) and Brazil (37%), and below the average for the region of 56%.

⁸⁹ Popular participation in elections are still stained by allegations of vote-buying and selling. In a 1999 World Bank poll, 27% of the people surveyed declared to have sold their vote at one point or another. Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*, p. 22.

⁹⁰ From 1993 to 1998, 63 laws were vetoed by the president, yet only 17 vetoes were actually sustained. See, Mikel Barreda and Andrea Costafreda, "La Transición Democrática y el Sistema Político Institucional," In *Diagnóstico Institucional de la República del Paraguay* (Asunción: Institut Internacional de Governabilitat, UNDP, 2002), p. 95. The analysis presented here builds on many of their useful observations.

weak presidential prerogatives and low legislative support has been a recipe for political deadlock and other problems of governance.

84. As a result of the country's political instability and growing party factionalism, recent governments have encountered a high turnover in cabinet officials and other top appointees. Between 1989 and 1999, on average, all cabinet ministers were renewed every 20 months.⁹¹ Between 1999 and 2002, the country had six Ministers of Finance and four Ministers of Education. The high rotation of cabinet officials and other political appointees has produced constant re-adjustment in the administrative tiers of the state. Governance has suffered and policies have shifted frequently as a result. Managers with experience have been lost, and various projects delayed in their implementation.⁹²

2.2.2. Electoral system

85. The country's election rules and administration have undergone substantial changes since 1989. Election reforms were first introduced in 1990. A new electoral administration (the Tribunal Superior de Justicia Electoral) was initiated in 1995. The new electoral rules require all parties to hold direct elections to select candidates and party leaders. The provision's lofty and subtle aim was to democratize the Colorado Party. In addition, institutional procedures mandate a yearly in-house renewal of all congressional authorities. Elections to congress and departmental and municipal councils are based on proportional representation and closed party lists.⁹³ Senators represent the entire country. Deputies are chosen from each department and Asunción.⁹⁴ Because of its national circumscription, the Senate has been known to elect better-qualified politicians than the Chamber of Deputies.

86. The new electoral rules reaped some rewards. But those who crafted the new election rule woefully ignored the multiple costs and side effects that this perpetual political competition would have for the nation. The new electoral rules have led to a strikingly congested and disorderly electoral calendar. With the recent presidential election of April 2003, eight national elections have been held since 1991 – at an average of one national contest every 18 months.⁹⁵

87. In the last twelve years, the Colorado and Liberal parties – with a combined membership of more than 80% of the nation's voters – have had to organize a total of 23 internal elections, including eight primaries for each party. Each of these contests, and especially those for the ruling Colorado Party, have been major nationwide events. All told, Paraguay has had 31 important elections between 1991 and 2003. On average, the country has celebrated a significant

⁹¹ This estimation is based on a 6.5 average number of cabinet ministers from February 1989 to March 1999. Data prior to 1999 is from Dionisio Borda and Fernando Masi, *Los Límites de la Transición: Economía y Estado en el Paraguay en los años 90.* (Asunción: CIDSEP, 1998), p. 90.

⁹² Because of these problems, Paraguay was only able to use 43% of all the international cooperation loans made available between 1989 and 1998. For further analysis see Dionisio Borda and Fernando Masi (op cit).

⁹³ The method employed to calculate the distribution of seats is the well-known D'Hont formula.

⁹⁴ Variations in the number of deputies elected from each departamento are based primarily on the number of inhabitants in each territorial unit.

⁹⁵ These elections include three municipal votes (1991, 1996, 2001), three presidential and parliamentary contests (1993, 1998, 2003), a vote for the constitutional assembly (1991), and a special election to fill the vacant vice presidential office (2000).

popular vote every five months.⁹⁶ Before 2002, all party elections were held on separate dates, adding disarray to a hectic voting schedule.⁹⁷ In principle, one could see all these elections as a salutary democratic exercise. In practice, however, Paraguay's overloaded and disorderly electoral calendar has generated detrimental consequences for the nation's polity.

88. Given the country's longstanding history of fractious politics, the obligation to hold frequent party votes based on direct popular consultation has fueled the growth of party factionalism, and exacerbated internal party tensions and disputes. As a consequence of all these conflicts, party discipline has weakened immensely. In particular, the prospect of generating party cohesion in the legislative arena has been severely hampered.

89. Adding to this, the intense political competition has heightened the need among politicians to build a "war chest" and to rely on the largesse of those with wealth. The absence of financial controls on internal party elections has paved the way for the considerable influx of "hot monies," derived mainly from Paraguay's sizeable illicit economy. This has served to re-affirm ties between politicians and shadow groups. Moreover, the need for campaign money has intensified corrupt practices within the state. According to a World Bank estimate, a quarter of all bribe monies in the public sector are subsequently re-distributed to politicians and party coffers.⁹⁸

90. As a result of all of these internal elections and expensive campaigns, wealth has become a leading criterion in establishing the prospects of political candidacy, especially for national and departmental posts. Starting in 1993 with Wasmosy and few wealthy candidates for Congress, a growing number of affluent "political outsiders" have made use of the internal party elections to virtually "buy their way" into public office. For the average citizen, politics has become a domain for the rich.

91. The new legal provisions have contributed significantly to increased party in-fighting as a result of an increase in political competition, undermining party discipline in Congress, straining the prospects of coalition-making, and diverting much attention from programmatic issues. An excessive and disorderly electoral calendar, the rise of party factionalism, and the discouraging behavior of many politicians, have severely undermined the image of Paraguay's political class.

2.2.3. Party system

92. The party system in Paraguay consists of the two historic Colorado and Liberal, mass-based parties and an assortment of smaller parties and political movements that make up an independent field. Since 1991, the Colorado and Liberal parties have averaged over 85% of the national vote, and enjoyed the party loyalty of more than 90% of their respective voters. The independent field has averaged less than 15% of the national vote and has been much more volatile in its composition and level of electoral support.⁹⁹

⁹⁶ This average for the last twelve years does not include the multiple internal elections that have taken place in smaller political associations like the Partido Encuentro Nacional (PEN) and the Partido Revolucionario Febrerista (PRF).

⁹⁷ At the end of 2001, Congress passed a law that streamlined much of the electoral calendar. Most importantly, it fused the primary election dates with those for party leadership posts.

⁹⁸ See, Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*. p. 23.

⁹⁹ See, Miguel Carter, *Paraguay Vota Así: Estadística y Geografía Electoral, 1991-2003*, (in preparation).

93. Support for the Liberal and Colorado parties has drawn on a combination of traditional family identity and clientelist practices. Dramatic events like the 1947 civil war helped cement strong party identities. Under Stroessner, the ANR flourished as a party of state patronage and attracted many newcomers. Internal factions were tightly controlled by the dictator. By contrast, the Liberals were divided into several fractions forced to survive on meager resources.¹⁰⁰ During the 1990s a gradual transformation took place from a non-competitive party-state system to competitive party system¹⁰¹.

94. The independent field has existed since the early 20th century as an array of heterogeneous political forces standing at the margins of Paraguay's two historic parties. These associations have generally emerged from dissident leaders of the two traditional parties and civil society groups, including trade unions, social movements, intellectual circles, and groupings associated with the Catholic Church. Throughout its history, the independent field has included a small and fractionalized political left.

95. The Colorado party has evolved to become the country's predominant party under a newly competitive framework. With over 1.2 million party members, representing nearly half of Paraguay's electorate at the end of 2002, and a national network of 395 active branches (or "*seccionales coloradas*"), the Colorado Party has become the most voted party¹⁰². Nevertheless, it is important to highlight that in recent years, as a result of intense internal conflicts between the different fractions which represent diverse economic interests and ideologies from center right to left, the party has decreased its support¹⁰³. In the recent presidential elections, the ANR presidential candidate, Nicanor Duarte Frutos was elected with 37.3% of the vote. Duarte Frutos is the first seasoned party leader to represent the ANR in a competitive presidential election and represents a new generation of political leadership.

96. The PLRA regained great visibility and strength with the democratization process. By 2002, the Liberal party membership, organized in local committees, had climbed to more than 650,000 registered voters. Though poorer than the ANR in resources, the PLRA is the only political association capable of matching the Colorados' nationwide presence. Despite its organizational growth, it has not been able to raise much beyond 35% of the national vote. The PLRA's best performance, in August 2000, elected vice president Yoyito Franco with almost 50% of the valid votes. Yet these results were strongly influenced by the PLRA's informal alliance with the Oviedo fraction of the Colorados. In the recent presidential election, the Liberal candidate, Julio Cesar Franco received only 23.8% of the vote. The demise of the PLRA's historic *caudillos* has increased the number of internal factions within the Liberal camp. While a handful of younger politicians have been engaged recently in a fierce competition for party leadership, the alliance with the Oviedistas has damaged the credibility of the leadership.

97. The independent field presently contains a dozen political parties and movements. Excluding Oviedo's UNACE, these associations add up to over 235,000 registered voters,

¹⁰⁰ The PLRA was born of one of these party splits in 1977. By the mid 1990s it became the only political association in Paraguay to represent the historic Liberal Party.

¹⁰¹ See Abente, Diego (1995), *A party System in Transition*, pp 299-320 in Building Democratic Institutions Ed by Mainwaring and Scully.

¹⁰² All information on the number of party affiliations is based on December 2002 data provided by the Tribunal Superior de Justicia Electoral.

¹⁰³ In February 2002, the ANR suffered its most important secession in decades with Oviedo's formation of the UNACE party, a move which drained the Colorados close to 10% of its membership.

roughly a tenth of the national electorate. Due to the fluidity of the electorate and moving political alliances of these parties, is not possible to have an accurate estimate of their weight other than the results in the past presidential elections in which the candidates for the *Patria Querida* movement, Pedro Fadul, obtained 21.7%, Guillermo Sanchez for UNACE (Oviedo), 13.2% and Diego Abente from Encuentro Nacional only 0.57%.

98. The *Partido Encuentro Nacional* (PEN), was established originally in 1992, after the success of Asunción's 1991 independent movement, the PEN reached its electoral peak with the 1993 presidential campaign. PEN with a social democrat agenda, gained 24% of the valid votes and elected a number of senators and deputies on his coattails. In the 1998 elections, the PEN maintained its congressional delegation thanks to the alliance forged with the Liberal Party. The PEN joined the coalition government under González Macchi in March 1999. Its decision to stay in an increasingly unpopular government provoked malaise and dissent within its own ranks which was reflected in the April election.

99. *Patria Querida* (PQ), is a new movement created around the 2003 presidential bid of Pedro Fadul, a liberal businessman and civic organizer with close links to the Catholic Church. With only 21,000 members, the PQ has been making notable in-roads among mostly urban, middle class voters. Fadul's political novelty and reformist appeal has tapped on widespread discontent with the ruling political class.

100. On the radical end of the independent field, a handful of leftist parties have been trying to build an alliance for the 2003 vote. In spite of an influential role in the new labor and peasant movements, the left's recent electoral expression has been diminutive.¹⁰⁴

101. The nationalist right is best represented by Oviedo's stand in presidential contender, Guillermo Sanchez Guffanti, an unknown Oviedo loyalist, and a slate of congressional, gubernatorial and departmental council candidates. With over 165,000 registered voters, several parliamentarians and municipal officials, UNACE is now Paraguay's third largest political party.

Table 9: Electoral Results by Political Parties (%) Paraguay 1991 – 2003

	ANR	PLRA	Independent	Democratic Alliance	UNACE	Patria Querida
Municipal (1991)	51.3	33.6	15.1			
Constitutional (1991)	57.0	28.0	15.0			
General (1993)	43.4	35.9	20.7			
Municipal (1996)	51.0	35.4	13.5			
General (1998)	54.3	-	2.0	43.7		
Vice-president (2000)	48.8	49.6	1.5			
Municipal (2001)	50.6	36.0	13.4			
General (2003)	38.3	24.5	1.16		13.5	22.3

Source: Miguel Carter (Forthcoming) Paraguay Vota Así: Estadística y geografía electoral. Percentage of valid votes.

102. On the whole, Paraguayan political society is not divided by any significant social cleavages or ideological markers. The independent parties have performed best among the more urban, prosperous and educated voters. The Colorados and Liberals have their most solid support in the

¹⁰⁴ Besides Filizzola's PPS, with over 16,000 members, other movements in the independent field include Fuerza Ciudadana, with almost 14,000 affiliates, and the historic Partido Revolucionario Febrerista, with slightly above 12,000 registered voters. These figures were provided by the Tribunal Superior de Justicia Electoral in December 2002.

interior. The ANR, however, has shown it can improve its vote in the metropolitan areas. In 2001, the Colorados regained the municipalities of Asunción, Fernando de la Mora (a Liberal bastion) and won in several neighboring townships.

103. Until 1998, Paraguay's main political cleavage revolved around Stroessner's legacy. Those opposed to the Colorado Party were against its authoritarian heritage, hence the PLRA and PEN's "Democratic Alliance" for the 1998 elections. With the emergence of General Oviedo and UNACE's success in the 1997 Colorado primaries and more recent political events, the old political bands gave origin to new political alignments that are more fluid. Oviedo's political foray has loosened up party identities in Paraguay. The 2000 election support he elicited from many Colorados for the party's traditional rival, the PLRA, was an unprecedented rift for Paraguayan politics. The country's extremely high levels of party affiliation should not disguise the weak party controls over the selection and discipline of its elected representatives. The two traditional parties in Paraguay may still have a hard shell, but their inner core has grown increasingly soft over the last years. This has been proven by the electoral results of the April presidential election which sanctioned the two traditional parties and gave a strong support to two newcomers.

104. Congressional life has been considerably affected by these recent developments as well as the growing fractionalization of politics. In 1998, the representatives elected to Congress were from the ANR and the PLRA-PEN alliance. Four years later, the same senators and deputies were representing six different political parties and three rival PLRA factions. Amidst all this apparent confusion, two large, loose blocks have formed in each chamber: the ANR and independent parties, namely PEN, versus the PLRA and UNACE.

2.2.4. The judiciary

105. The judiciary is comprised by several institutions: a supreme court, a court of appeals, a number of lower courts, a magistrate council, a public prosecution office, a court of auditors and the electoral justice. The Supreme Court is the highest judicial authority. The Magistrate Council is responsible for drawing the final lists of candidates to the Supreme Court, all other judgeships and public prosecutors. The president and Senate are jointly responsible for appointing Supreme Court justices, top magistrates to the Tribunal Electoral and the chief public prosecutor. The Supreme Court, in turn, designates all other judges. All told, there are 545 judges in Paraguay, almost half of which are local justices of peace (or "*jueces de paz*"). In 1999, there were 11,323 inhabitants per judge.¹⁰⁵

106. The architecture and personnel of the current judiciary are the result of significant reforms that have taken place since 1994 and 1995, when president Wasmosy and the PLRA-EN opposition negotiated a series of political agreements. The number of judges and staff workers increased significantly after 1995, when there were only 150 magistrates for the entire country.¹⁰⁶ The legal structure has also undergone important reforms since the establishment of the 1992 constitution. Between 1998 and 1999, there was a complete overhaul of the procedural penal code. Formal guarantees for judicial independence, access and fairness have improved

¹⁰⁵ Germán Burgos Silva and Joaquín Támara Espot, "Marco Constitucional y Legal y Desempeño Institucional del Estado de Derecho para el Desarrollo Humano," In *Diagnóstico Institucional de la República del Paraguay* (Asunción: Institut Internacional de Governabilitat, UNDP, 2002), p. 185.

¹⁰⁶ Burgos Silva and Támara Espot, "Marco Constitucional y Legal", p. 185.

remarkably since the Stroessner era. Today, they provide a modern, adequate and, in some instances, quite progressive juridical framework for exercising the rule of law.

107. Yet despite these extensive reforms and enhanced institutional resources, there are multiple allegations of corruption in the judiciary. In practice, the independence of the judiciary is limited by the political interference in the appointment of magistrates for the supreme court of Justice and for the lack of existence of a professional judicial career path which results in the lack of professionalization of judges and magistrates. At the same time, while the constitution and laws are quite comprehensive, there has been a slow advance in the regulation of the laws what prevents or makes much more difficult their enforcement. One of the main issues raised against the Judiciary is its inefficiency¹⁰⁷ and the impunity and lack of justice that exists in fighting corruption. As in other instances of the Paraguayan state, there are also pockets of exception within the judiciary. A World Bank study reported there was less corruption in the public prosecutors office (or “*fiscalía*”) than in the rest of the judiciary. Actually, the *fiscalía* placed well below the national average for corruption, and was regarded in the same study as the most efficient of all institutions responsible for law and order in Paraguay.¹⁰⁸

2.2.5 The state

108. Paraguay has historically had one of the most centralized states in Latin America and the Caribbean. The Paraguayan state is now formally divided into national, departmental and municipal levels of administration. In 1996, a new municipal law was voted in Congress to replace the legislation crafted under Stroessner. Yet President Wasmosy vetoed several parts of the new law. Efforts to amend the law have remain dormant in Congress ever since. The new law however transferred control over the tax collection of urban and rural property from central to local administration. No independent sources of revenue were established for the departments. Instead, they were allotted 15% of local property tax proceeds, 15% of VAT revenue and 30% of the tax monies collected from gambling and lottery sources in their jurisdiction. After determined lobby by the national association of municipalities and the council of departmental governors, a law was passed in 1998 that gave departments and municipalities a 50% share in the royalties of Paraguay’s two bi-national hydroelectric plants. The gradual implementation of the law, however, has stumbled into predictable obstacles, with municipal leaders complaining in 2001 that the Ministry of Finance was shirking their actual budget allocations.¹⁰⁹

109. For all the legal changes that have taken place in state decentralization, “in practice lower tiers of government still play a minor role in comparison to central government.”¹¹⁰ In practice, the country continues to concentrate the bulk of state services, resources and decisions in Asunción. Less than 3% of the entire state budget and fewer than 4% of all public staff are

¹⁰⁷ Indicators of access to justice show that in 2001 80% of prisoners in the national prison of Tacumbú had not been sentenced. The figure was 78% in the women’s prison of “El Buen Pastor”. These two prisons together hold about a third of all prisoners in the country.

¹⁰⁸ Of those paying bribes in the judiciary, 24% reported giving inducements to public prosecutors, a much lower figure in contrast to enticements given to judges (42%) and court secretaries (65%). See, Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*. p. 39. For other pertinent data on the *fiscalía* see, Ibid. pp. 41-42.

¹⁰⁹ See, Andrew Nickson and Peter Lambert, “State Reform and the ‘Privatized State’ in Paraguay,” In *Public Administration and Development*, 22 (2002), p. 170-171.

¹¹⁰ See, Nickson and Lambert, “State Reform,” p. 171.

responsible for running 226 municipalities and 17 departments.¹¹¹ Health services and public works, for example, remain highly dependent on ministerial authorities in Asunción. Central authorities often refer to the unreformed 1987 municipal law to justify their controls. In doing so, they are able to harbor more resources for patronage politics.

110. Proponents of state decentralization in Paraguay must reckon with the fact that as many as a third of all local governments are so poor and small in population they are technically unsustainable.¹¹² State devolution of resources and services to places that have little or no state presence could be a recipe for disaster.

111. The size of the Paraguayan state is relatively big if measured in terms of the share of the labor force that it employs. The Paraguayan state employs about 10% of the labor force or around 203,000 people, including 196,260 at the national level, 1,078 in the departments and approximately 6,200 in local governments.¹¹³ However, the state's share in GDP is around 14%, among the lowest in Latin America and the Caribbean, a result of its small tax base.¹¹⁴

112. Almost three quarters of the national state is engaged by the executive branch, which encompasses a presidential office with several bureaus (*Secretarías*), the office of the vice-president, and ten government ministries. The national state also includes eight public corporations that provide basic services such as water, electricity, telephone, port facilities and an oil refinery. In addition to the Central Bank, there are six other banking institutions, five social security and pension organizations, seven development agencies, four national universities, five regulatory offices and four judicial institutions, including the Tribunal Electoral.

113. Paraguay's first civil service law (Law 200) was instituted in 1970 grounded on basic elements of a modern professionalism. Yet the law was never actually implemented. It was not until 1996, seven years into the transition, that the Chamber of Deputies passed a new civil service bill, which then languished in the Senate until December 2000. At that point it only passed into law after overcoming a partial veto from the executive. From its very origins, the reform never mustered any real enthusiasm. The new law (Law 1626) was designed to replace the patronage system with a career civil service based on merit. Yet within weeks of its promulgation, the law was challenged in the courts by the chief public prosecutor and a coalition of public sector trade unions. Key features of the law were suspended by a Supreme Court ruling that declared 40 of its articles to be unconstitutional, including the introduction of an eight-hour work day, the merit-based system for selection and promotion of public administrators, and the two-year minimum service before granting job security. The lack of political support and an organized pro-reform constituency suggests that the new civil service law could – like its 1970 predecessor— simply not be implemented.¹¹⁵

¹¹¹ For data sources see footnotes 52 and 53.

¹¹² See, Vial Saavedra, *Cultura Política*, p. 5.

¹¹³ *Ibid.*, for departmental data. Municipal estimate is based on additions to the 1989 data of 5,245 public employees cited in, R. Andrew Nickson, *Local Government in Latin America* (Boulder: Lynne Rienner Publishers, 1995), p. 230.

¹¹⁴ These calculations are based on Central Bank GDP and labor statistics as noted by, The Economist Intelligence Unit, *Paraguay: Country Profile 2002*, p. 40 and 43. For a similar estimate of the national government share in GDP see, Nickson and Lambert, "State Reform", p. 164.

¹¹⁵ This section draws significantly on Nickson and Lambert, "State Reform", p. 169-170.

114. The legacy of the Stroessner era is still very much alive in Paraguay's public sector. The state still is by and large operated in a patrimonial fashion – blurring distinctions between public and private property, and operating through discretionary patterns of authority. Like the Eastern European communist parties prior 1989, or Mexico's PRI during the 20th century, the Colorado Party behaved as if it “owned” the state with predatory dealings and a hierarchical organization based on kinship and clan ties.¹¹⁶

115. Paraguayan public administration stands apart from its Latin American and Caribbean counterparts for its extreme informality and lack of institutionalization. Precise responsibilities of most individual ministries remain undefined, leading to duplication in effort in some areas and a vacuum in others. There is minimal inter-ministerial communication or coordination, with each operating as a separate fiefdom, at times in competition. The prevailing informality manifests itself in a number of ways, including the absence of filing systems and record-keeping of meetings, minimal internal expenditure control mechanisms, and virtual absence of policy analysis and medium-term planning.”¹¹⁷

116. Furthermore, the management of public personnel is in a state of a morass. In the central administration alone there are 2,500 job categories, with unjustifiable salary differences among them.¹¹⁸ Even today, public appointments and promotions are essentially based on political loyalty and personal relations, rather than merit. A public salary is rarely viewed as providing a single source of income. Thus, given the low wages and six-hour work days, state employees tend to hold second jobs. Many accept bribes as a form of salary compensation. On average, public employees in Paraguay augment their income by 30% thanks to bribe taking.¹¹⁹

117. The spiral of corruption, however, put Paraguay on the brink of fiscal collapse. The country's historically small tax base and low levels of revenue collection, couple to a bloated public roll, have put an unprecedented strain on the national purse. Between 1989 and 2002, the state's workforce increased by nearly 49,000 – a 32% rise over 14 years. At present, close to 95% of state expenditures are for salaries and pensions alone. By the end of 2002, state administrators were actually scrambling to find monies to pay their staff.

118. Despite all its negative reputation, the Paraguayan state is not a pervasively inefficient, politicized and corrupt entity. There are a myriad of institutions within the state. Some are worse than others. Some are actually fairly decent. These pockets of exception can be found within different ministries, bureaus, corporations, branches and tiers within the state. For example, both the Census Bureau and the technical staff of Ministry of Finance have a reputation for solid competence. For all of its initial politicization, the Tribunal Electoral has gradually come to

¹¹⁶ For a useful review of these issues see Anibal Miranda, *Crimen Organizado en Paraguay* (Asunción: Miranda & Asociados, 2001) and Carlos Martini and Myriam Yore, *La Corrupción como Mecanismo de Reproducción del Sistema Político Paraguayo: Apuntes para una Radiografía de la Impunidad* (Asunción: CIDSEP/Universidad Católica Nuestra Señora de la Asunción, 1998). Since 2000, Catholic bishops have repeatedly used the term “mafia” to describe the Paraguayan ruling elite. Although ambiguously applied, the term has caught on. In 2002, an opinion poll revealed that 85% of the population believes that the mafia operates freely in Paraguay; while 84% sustain that the mafia has been growing in recent years. Alejandro Vial Saavedra, *Cultura Política y Prácticas de Gobernabilidad Democrática: La Ciudadanía en su Encrucijada. Resultados Preliminares*. (Asunción: CIRD, November 2002), p. 17.

¹¹⁷ Nickson and Lambert, “State Reform,” p. 166.

¹¹⁸ World Bank, *Paraguay: The Role of the State*.

¹¹⁹ See the study on corruption sponsored by, Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*. p. 22.

embrace its mission in non-partisan terms. Services provided by ANDE, the national electric company, are generally regarded as satisfactory. The Ministry of Education is perceived both by employees and users as fairly decent. A number of municipal and departmental administrations are deemed to be honest and responsive to their citizens.¹²⁰ This suggests that the state in Paraguay, though dysfunctional in many respects, is not entirely hopeless. Proper leadership and skilful management can make an important difference in changing organizational practices and norms. Certainly, throughout the public sector, many talented, young professionals could offer a lot more if its personnel system were based on merit, and offered opportunities for in-service training. The incoming administration campaign gave a strong emphasis to the control of corruption and has a significant challenge ahead in implementing anti-corruption measures and promoting professionalism and efficiency in the state institutions.

2.3. Accountability and Transparency

119. Accountability in Paraguay is weak and most political institutions have little popular legitimacy. A leading factor explaining the lack of legitimacy of Paraguayan political institutions is the high level of perceived corruption transpiring in it. Among opinion leaders and the general public, the problem is perceived to have increased substantially since Stroessner's demise, corruption appearing to have taken endemic proportions. In a recent opinion poll, 80% of the population asserted that this was the case.¹²¹ Transparency International has consistently placed Paraguay among the most corrupt nations in the world. In its 2002 Corruption Perceptions Index, only Nigeria and Bangladesh scored worse. In 1999, a public opinion poll ranked the National Congress as the second most corrupt institution in Paraguay, after the historically-shady customs house. 80% of those surveyed believed the parliament to be a dishonest organization.¹²² In a 1999 World Bank poll, 27% of the people surveyed declared to have sold their vote at one point or another.¹²³

Table 10: Perceived corruption in 2000

Country	CPI
Paraguay	1.7
Bolivia	2.2
Ecuador	2.2
Guatemala	2.5
Argentina	2.8
Uruguay	5.1
Chile	7.5

Source: *Corruption Perceptions Index* (CPI), 2000-2002, Transparency International. 0 highest level – 10 lowest level.

¹²⁰ For further insights on this matter see the evaluations of different state institutions in, Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*.

¹²¹ See, Vial Saavedra, *Cultura Política*, p. 20. For a review of similar elite opinions see, Carlos Martini and Myriam Yore, *Las Élites Paraguayas y su Visión de País* (Asunción: CIDSEP/UC, 2001).

¹²² Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*. p. 27.

¹²³ Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*. p. 22.

120. Almost three quarters of the population, in a 2002 poll, viewed the judiciary as tarnished by “a lot of corruption.” Over 88% of those surveyed indicated they did not believe the courts could guarantee a fair trial to all citizens.¹²⁴ A World Bank study found that both users and staff members of the judiciary ranked this branch of the state as the sixth most corrupt institution in the country. Close to one out of every five users reported paying bribes in the judiciary. Of those who gave bribes, roughly two thirds offered enticements to the court secretaries, while 42% paid off the judges. Among the business firms surveyed for this study, 69% perceived the judicial system as “dependent on economic pressure.” More than a quarter of all firms, and 40% of all the large ones, indicated they would not use the judiciary because of its corruption problems.¹²⁵

121. Corruption is not just pervasive in Paraguay’s political system, but also permeates the private sector. A 1999 World Bank survey found that the business sector’s most serious problems were related to corruption issues. Over 36% of the firms claimed they were their main business hurdle.¹²⁶ About 72% of the Paraguayans believe that a market economy is best for their country, yet only 7% are satisfied with its performance. The striking disparity between subjective and objective appreciations of the market is the highest for all of Latin America and the Caribbean.¹²⁷ The gap reflects people’s understanding of their social milieu and frustration with its character. Asked how the rich produced their wealth, 58% of the adult population indicated it was because they either cheated, had politician friends or good contacts in government. Less than 13% of the respondents believed that wealth could be generated through a good work ethos, intelligence and a solid education.¹²⁸

122. Corruption in Paraguay takes a myriad of forms and scales. Contraband and drug trafficking are certainly the most notorious and lucrative ventures. Under Stroessner, a contraband network in whisky, cigarettes, electronic goods and stolen vehicles was set up. By the 1990s, the illicit trade had diversified to include timber, armaments and cocaine transshipments. State embezzlement has been another major source of corruption in Paraguay. Between 1970 and 1999, an estimated US\$33 billion was misappropriated from the state, through all kinds of shady practices.¹²⁹

123. Corruption appears to have gotten worse after 1989. There many reasons for this. For one, Paraguay’s patrimonial state has all too many beneficiaries: crony entrepreneurs, sectors of the public workforce, and some politicians that view the state as a potential party fiefdom. The democratization process freed corruption from its only vertical control: the dictator himself. With the collapse of the old hierarchy, corruption became much more accessible, as many newcomers arrived on the scene.¹³⁰ Suddenly, it became a spree. What is more, the new electoral

¹²⁴ Vial Saavedra, *Cultura Política*, p. 22 and 21, respectively.

¹²⁵ The relevant 1999 data on the judiciary, as produced through a study sponsored by the World Bank, can be found in, Gobierno de la República del Paraguay et al. *Diagnóstico sobre los Patrones de Comportamiento*. pp. 27-42.

¹²⁶ Gobierno de la República del Paraguay, Instituto del Banco Mundial, and Consejo Impulsor del Plan Nacional de Lucha Contra la Corrupción, *Diagnóstico sobre los Patrones de Comportamiento y Desempeño Institucional, Gobernabilidad y Corrupción del Sector Público del Paraguay*. Unpublished Manuscript, n/date. p. 24.

¹²⁷ See, www.latinobarometro.org/ano2001/grpre2002.pdf.

¹²⁸ See, Vial Saavedra, *Cultura Política*, p. 25.

¹²⁹ See, Miranda, *Dossier Paraguay: Los Dueños de Grandes Fortunas*, p. 259.

¹³⁰ In Paraguay this is often described as the “democratization” of corruption.

competition and political instability made the access to public resources far more precarious than before. With a reduction of time opportunities, the rate and intensity of corruption accelerated significantly, fueled as it was by a “now or never” disposition. The vicious cycle has been spiraling upwards. Finally, the nature and consequences of Paraguay’s transition to democracy have also fostered a societal ethos conducive to corruption. The rationale underlying this ethical erosion is quite straightforward: “if that is the way to fare better and all other do it, why can’t I do too?”

2.3.1. Accountability

124. The level of accountability of Paraguayan institutions is very weak and mechanisms of accountability for congressional representatives are feeble. Current mistrust of the court system and the police is extraordinarily high. 88% of the adult population does not believe they would be guaranteed a fair trial, while 82% sustains that the police would never recover anything stolen from them. Popular discredit of the rule of law is further revealed by responses to another poll question. Asked what would be the best way to resolve a legal problem, 55% of the respondents suggested this would entail paying bribes or resorting to an influential friend.¹³¹ At the same time, there is little citizen participation in the planning, formulation and monitoring of public policies.

125. Recent survey data suggest that inter-personal trust in Paraguay is the second lowest for all of Latin America and the Caribbean. Only 6% of the population agrees that they can trust most people, whereas the regional average stands at 20%.¹³² Trust, in Paraguay, is very much a function of the private sphere. It is the immediate circle of family, friends and neighbors that one can perceive high levels of interpersonal security and comfort. Within this domain, the levels of trust can reach up to 93%.¹³³ In sum, social capital in Paraguay is largely generated in the private realm of family kinship and friendship.

126. The lack of trust is reflected in the perception and assessment the population has of the functioning of the democratic system. Support for democracy in Paraguay is among the lowest in Latin America and the Caribbean, with only 41% of the population and only 7% indicated they were satisfied with the functioning of democracy in Paraguay, the lowest of all ratings in Latin America and the Caribbean, where the average level of satisfaction was at 32%.¹³⁴ Thus, unsurprisingly, 63% of those polled indicated they would agree to a non-democratic government if it could resolve the country’s economic and unemployment problems.¹³⁵ Valuations of the principle of democracy are also tenuous. Only 56% of the adult population views the notion of

¹³¹ See, Vial Saavedra, *Cultura Política*, p. 20-21. Carlos Martini and Myriam Yore, *La Corrupción como Mecanismo de Reproducción del Sistema Político Paraguayo: Apuntes para una Radiografía de la Impunidad* (Asunción: CIDSEP/Universidad Católica Nuestra Señora de la Asunción, 1998).

¹³² See, www.latinobarometro.org/ano2001/grpre2002.pdf.

¹³³ See, Vial Saavedra, *Cultura Política*, p. 18.

¹³⁴ See, www.latinobarometro.org/ano2001/grpre2002.pdf.

¹³⁵ See, www.latinobarometro.org/ano2001/grpre2002.pdf. In its qualified support for a non-democratic government, Paraguay trailed Guatemala, the worst country in the region, by only 1%. The average for all of Latin America and the Caribbean was at 50%. These findings on Paraguay are undoubtedly related to the dismal approval relations of the González Macchi government, which, according to the same poll, were at 5%, by far the lowest in all of Latin America and the Caribbean. In the region, the average government approval ratings were at 36%. Trust in political parties was equally low, at 7%, only 3 points above Argentina, which held the lowest ratings in Latin America and the Caribbean.

democracy in positive terms, and mostly associates its merits with freedoms of expression and association.¹³⁶

2.4. Participation, Civic Engagement and Social Capital

2.4.1. Political participation

127. The overall political situation in Paraguay has contributed to a heightened sense of civic fatigue and growing popular disenchantment with politics. Despite an increase in electoral options, formal political participation in elections has diminished from 53.3% in the presidential elections of 1989, to 80.5% in 1998, down to 30.7 in 2000¹³⁷. Asked in a recent poll if they would agree to suspend national elections for ten years, almost half of the national respondents said yes. What is more, close to two thirds said they would favor freezing all political party activities for a similar period of time.¹³⁸ Clearly, the weaknesses of the Paraguayan political system has led to a profound malaise and skeptical view of government.

2.4.2. Representation of women

128. Women are heavily underrepresented at all levels in the Paraguayan political structure. Women represent slightly less than 16% of all elected officials, and less than 3% of those voted to positions of executive authority. There are no women governors and only seven women elected as town mayors. The percentage of women in the Chamber of Deputies, presently at 2.5%, would qualify Paraguay among the worst countries in the world for female representation in parliament, comparable to places like Bangladesh, Chad and Yemen. Current quota rules aimed at improving gender participation in politics do not favor women candidates in circumscriptions with small distributions, hence the notable disparity in Chamber of Deputies.¹³⁹

129. Women are also heavily underrepresented in the Legislative Power. Although the share of women in the Senate has more than doubled since 1989, its level remains very low, going from 6% to 18% to the period ending in 2003. The share of women in Congress is not only very low (2.5% during the 1998-2003 term), but has also decreased from 4.2% in the 1989-1993 period.

130. At the regional and municipal level, the representation of women is higher than at the national level, which can be due to their more active leadership at the community-level. Women are most represented at the municipal level, where their share increased from 9.6% in the period 1991-1996 to 15.3% in the period 2001-2006 (which still represents only 7 women mayors). Women's representation at the departmental level has increased from 4.8% to 10.2% during the same period, although it remains lower than at the municipal level. Women's representation in "Intendencias" remains lower than at both municipal and departmental levels (4.9%), decreasing from 5.8% in 1991-1996¹⁴⁰.

¹³⁶ See, Vial Saavedra, *Cultura Política*, p. 27.

¹³⁷ PNUD and DGEEC, Informe Nacional, pp. 57-58.

¹³⁸ Alejandro Vial Saavedra, *Cultura Política y Prácticas de Gobernabilidad Democrática: La Ciudadanía en su Encrucijada. Resultados Preliminares*. (Asunción: CIRD, November 2002), p. 24.

¹³⁹ The current quota system establishes a minimum 20% allocation for women candidates in non-executive positions, at an interval of every five candidates, but does not specify their starting point in the party list.

¹⁴⁰ PNUD and DGEEC, Informe Nacional, p. 61.

131. Women are underrepresented in positions of political power compared to men. The political posts with most hierarchy (President and Vice-President) have always been occupied by men. Between 1989 and 1993, only one woman was in charge of a ministry. Between 1998 and 1999, Education and Health and the Secretariat for Women (with ministerial status) were headed by women. However, after the resignation of Cubas, only one ministry remained with a woman leader¹⁴¹.

132. Women are also underrepresented in the judicial system compared to men. In 1997, 50% of defense attorneys, 20% of judges and only 17% of congress deputies were women. There are no women in the Supreme Court, in the Superior Tribunal of Electoral Justice, nor in the Magistrate Council.

2.4.3. Civic engagement

133. Despite a decrease in formal political participation through elections, civic engagement in different forms have seen a notable increase over the 1990s. Freedoms of association and expression have contributed to a notable expansion and innovation within this societal arena. Most noticeably, it led to a discernable growth and mobilization of popular sector organizations, especially among the peasantry and urban workforce. Popular protest is nowadays broadly accepted as commonplace activity.

134. In recent years there have been a number of disruptive civil society mobilizations. The March 1999 civic revolt left manifested the ensuing disappointment over the country's meager political leadership. A growing sense of empowerment can be discerned in the assertiveness that has taken hold of certain civil society sectors, and the toughness of their protest measures. Though quite disorderly in style and mostly reactive in content, these episodes reveal a new dynamic and temper within civil society.

135. After sponsoring the *Paraguay Jaipotáva* campaign, ADEC and other Catholic lay organizations helped organize the *Acuerdo Ciudadano*, a coalition of close to 100 civil society organizations, comprised mainly by NGOs, youth groups, church representatives and business associations. The *Acuerdo's* aim is to articulate civil society organizations in support of democracy, state reform, anti-corruption initiatives and economic reactivation policies. The campaign, however, has not reached much beyond middle class sectors in Asunción. More national in scope is the *Red de Contralorías Ciudadanas*, a civic network that was started in 1997, in the city of San Juan Bautista, Misiones, as part of a local protest movement against corruption. The *Contraloría Ciudadana* enjoyed the strong support of the local bishop, and succeeded in removing a purportedly corrupt governor from office. Afterwards, the movement spread rapidly to other towns in the interior, and has lately established a national network, thanks to NGO support. Its main purpose is to serve as a civic watchdog against government corruption.

136. Civil society's dynamic space encompasses a great variety of actors and activities. Its most relevant sectors in Paraguay include the press, churches, NGOs, labor and peasant unions, business and professional societies, universities, women and youth associations, local community groups, and service clubs. Civil society is a cacophonous milieu where an assorted array of voices strives to influence state policy and societal attitudes, be it through cooperation, competition or non-violent forms of conflict. In spite of the country's striking societal inequality, social conflicts are not as common and polarized in Paraguay as they are in neighboring Bolivia.

¹⁴¹ PNUD and DGEEC, Informe Nacional, p. 59-60.

Class identities have been historically weak in Paraguay and its civil society leaders quite pragmatic, even opportunistic, in their demeanor. Still, among very disparate groups, the possibilities of face-to-face dialogue and negotiation are almost always available.

137. Social involvement, however, is anchored predominantly around local community groups. A recent poll found that 36% of the adult population claims to be active in some kind of civil society organization. The highest rates of participation were found in religious groupings (15%); followed by neighborhood commissions (or “*comisiones vecinales*”) (8%), school parent associations (7%), local sport clubs (7%) and cooperatives (6%). The most trustworthy organizations were ranked as follows: the Church (34%); the school parent associations (20%) and the neighborhood commissions (16%).¹⁴² Only 1.8% declared participation in a political grouping¹⁴³.

138. People prefer to participate in community organizations because this is where they feel a greater sense of trust and expect reciprocity to work best, only 9% do so with regards to the national government.¹⁴⁴ Bluntly put, Paraguayans do not feel comfortable when they cannot interact on an interpersonal basis. Herein stands one of the main obstacles in scaling civil engagements beyond the local level. Countrywide organizations are more difficult to trust and join wholeheartedly. They do not offer the bonds of familiarity and kinship that are the bedrocks of voluntary service and cooperation in Paraguayan society. Moreover, the mistrust and misgivings towards the national government have a spill-over effect on the social leaders who must interact with state authorities. Benefits obtained from the state are usually viewed with suspicion. Popular sector organizations, in particular, tend to suffer the predicament of disjointed ties between their national leadership and local bases of support. Yet for all its virtues and public legitimacy, civil society participation at the local level is not likely to solve problems of national scope and interest.

139. The prospects of Paraguayan civil society have been very much entwined with those of the state. Under the authoritarian state, civil society was restricted in several respects. Many social activities were channeled through the Colorado Party. The state controlled labor, repressed peasant movements, persecuted dissenting intellectuals and allowed mostly innocuous associations in the small middle sectors of Asunción. Only the Catholic Church was able to provide a shield for more independent activities and popular organizing efforts, of notable impact in the rural areas. With the transition to democracy and the encouragement of the international development community, the state gradually began to seek the cooperation of local civil society groups. To date, these initiatives have been rather sparse, limited mainly to a few government agencies and task forces.

140. In Paraguay, civil society development is hindered fundamentally by the very character of its national state. Sharply put, a patrimonial state is harmful for civil society. Its discretionary patterns of authority blur distinctions between public and private goods, undercut predictable rules, invite impromptu arrangements, and stir a sense of recurrent flux and confusion. Societal organizing efforts become more complicated and less resilient in such settings. What is more, patrimonial states nurture an opportunistic ethos that undermines social norms of trust and cooperation. This ethos, in turn, perpetuates the problem of state corruption. Once established,

¹⁴² Vial Saavedra, *Cultura Política*. p. 13-14.

¹⁴³ PNUD and DGEEC, Informe Nacional, p.61.

¹⁴⁴ Vial Saavedra, *Cultura Política*. p. 18.

the vicious cycle is hard to break. In many ways, civil society mirrors forms of conduct that are found in the state –namely, organizational informality and improvisation, personalist leadership, internal factionalism, nepotism (based on family, friendship and party ties), and corruption. While generally less prevalent than in the state, these features of Paraguayan civil society can not be ignored.

141. International factors have a key influence over contemporary civil society. The transfer of material and human resources, experiences and ideas originating from abroad have strengthened significantly the development of this societal arena in Paraguay. For one, the bulk of NGOs have been financed historically through foreign assistance programs. The establishment of transnational advocacy networks related to human rights, the environment, democracy and civic education, the struggle against corruption, the empowerment of women and protection of children, has helped diffuse relevant values and strategies for action. The Catholic Church, Paraguay's most important civil society actor, is embedded in a web of transnational links that affect its institutional practice in many considerable ways. All Church bishops are appointed by the Vatican, while close to half the clergy are foreign missionaries. Religious ideas and movements in Paraguay are deeply affected by transnational sources. Furthermore, national labor and peasant organizations receive subsidies from mostly European solidarity organizations. In Paraguay, the international development community –which consists of ten multilateral organizations (half from the United Nations), eight bilateral agencies and a handful of foreign foundations— have often played an active role in shaping perceptions and thematic concerns within the NGO sector.

142. The most visible sectors of Paraguayan civil society organizations are basically urban-based. Here is a schematic overview of some of its principal actors:

- *The churches* are represented primarily by the Catholic Church. Over 90% of Paraguayans claim to be Catholics. The Catholic Church is the most resource-endowed and complex of all civil society actors in Paraguay. The Church is only second to the state in the provision of education and social services. It has been rated consistently the most trustworthy institution in Paraguay. In 2001, 83% of the population said they had confidence in the Church.¹⁴⁵ The Catholic Church has sought to animate the laity's participation in politics, social movements and community groups, such as the association of Catholic business people (or *Asociación de Empresarios Cristianos*, ADEC), and initiated *Paraguay Jaipotáva* (or "The Paraguay We Want"), a national campaign to stimulate community dialogue and reform initiatives. In addition to the Catholic Church, there are numerous Protestant churches, some of which have been very active in the field of education and social development.
- *Non-Governmental Organizations (NGOs)* are a relatively new and quite dynamic phenomenon in Paraguay. The bulk of these professional service organizations were created in the context of a civil society revival, in the late 1980s and early 1990s. By 1995, the country had 234 NGOs, 90% of which were located in Asunción. Many NGOs were initiated by progressive religious groups. Others were started by intellectuals who had studied abroad yet were marginalized politically from employment opportunities in the university system or the public sector. Close to three fourths of the NGOs work with

¹⁴⁵ See the Latinobarometro poll at, www.latinobarometro.org/ano2001/grpre2001.pdf (consulted on January 3, 2003). Church credibility, however, is likely to suffer with the sex scandal involving one of Paraguay's most renowned bishops, Monsignor Jorge Livieres Banks; first publicized in December 2002.

vulnerable social groups; while about a fifth of these does research. Due to the large number of NGOs and the progressive scarcity of resources, many NGOs are engaged in the same paternalistic and patrimonialistic practices of the state, claiming beneficiaries and territories as their own. By the late 1990s over 30 national NGO networks were established in Paraguay, dealing with a great variety of issues, such as civic education, electoral monitoring, women, environment, children, human rights, indigenous issues, youth and corruption. Around this time, Paraguayan NGOs joined about different 40 transnational networks.¹⁴⁶

- *The universities* are one of the weakest links in Paraguayan civil society. Until recently the country had only two universities, the state National University and the Catholic University, both located in Asunción. Their educational quality has generally been regarded as poor; and their scientific research virtually inexistent. The National University, the largest in Paraguay, has been unreformed since the Stroessner era. A crony, old-guard hierarchy continues to run the institution in a patrimonial fashion, with no merit-based criteria for hiring, promotion, tenure and salaries. Its pedagogical system is greatly outmoded. Lately, three small national universities have been established in interior, while the Catholic University has expanded to include five affiliates in different parts of the country.¹⁴⁷ During the 1990s, a boom of private universities took place; 16 new institutions were established, while 15 additional requests for approval are pending in Congress. However, there is no adequate regulatory framework and control to ensure proper academic standard by the private universities. The new private universities are driven primarily by commercial interest. Recent attempts to build an academic community have been spearheaded from intellectuals in the NGO sector, which for years has been the locus of practically all social research produced in the country.
- *Youth groups* have blossomed since the mid 1990s. All told, there are more than 70 youth associations spread throughout the country, most of which are related to Church initiatives and experiences with pastoral youth groups. Youth participation is largely clustered around religious activities (36%), sport clubs (28%) and cooperatives (21%).¹⁴⁸ Among the better known civic organizations are: the *Movimiento Objeción de Conciencia* (MOC), organized in 1993 to help young men petition for conscientious objection to the mandatory military service; the *Movimiento Boleto Estudiantil* (MOBE), created in the mid 1990s to mobilize students and lobby the government to enact a special student bus fare; the *Parlamento Joven* was started in early 1999 to educate a new generation of Paraguayans in politics, by providing both national and regional forums for public debate and reform advocacy; and, *Juventud Que se Mueve* (JQM) was formed in 2000 to galvanize a national campaign with 50,000 volunteers to clean up and beautify the country. Support for these movements has generally come from the Church and the NGO sector.¹⁴⁹ University student organizations declined sharply after Stroessner's demise,

¹⁴⁶ Figures calculated from data provided by Genoveva Ocampos and José Carlos Rodríguez, *Hacia el Fortalecimiento de la Sociedad Civil en Paraguay: Un Desafío Pendiente* (Asunción: BASE-ECTA/CDE, 1999), p. 72-79.

¹⁴⁷ The three national universities are located in Ciudad del Este, Encarnación and Pilar. The Catholic Universities, which are supervised by the bishops' conference, are established in Ciudad del Este, Villarrica, Hohenau, Coronel Oviedo and Concepción.

¹⁴⁸ Alejandro Vial, *La Participación Ciudadana y Los Jóvenes* (Asunción: CIRD, 2001), p. 13.

¹⁴⁹ MOC and MOBE were originally sponsored by two different NGOs. *Parlamento Joven* was initiated by a Jesuit priest. *Juventud Que se Mueve* was inspired by a priest of the Schoenstatt movement.

but were mobilized again in 1999 to demand a reform of the National University. Youth groups were very active in the March 1999 events and highly energized during its aftermath. As organizations, however, they tend to last for rather brief periods, hence their variable impact within civil society.

- *Women's organizations* are significantly urban and largely middle class in their composition. At the end of 2001, there were 49 women's groups, some of them included within other social organizations. Nine of these groups represent professional associations; nine are specific departments within cooperatives, labor and peasant unions; and 31 are NGOs, support groups and networks. All but two are based in the Asunción metro area.¹⁵⁰ A new generation of gender-based organizations began to activate in Paraguay in the mid 1980s. With the transition to democracy, women's organizations increased in strength and numbers, notably with the support of international resources and ideas. From its onset, the women's network has sought to generate a space for political pluralism and balance their agenda amidst great social and ideological differences. Thanks to this, it has been able to successfully pursue several legal and institutional reforms, including the creation of the Women's Secretariat in 1992, a state agency responsible for coordinating gender policies. More recently, the Women's Secretariat has received international funds to promote women's groups in the interior as part of a campaign against domestic violence.
- *Labor unions* have expanded considerably since the demise of authoritarian rule. In 1987, there were only 215 labor groups, and the unionization rate was at 3% of the national workforce, one of the lowest in all of Latin America and the Caribbean.¹⁵¹ By 1993 this figure peaked to 9%, yet dropped to an estimated 7% in 2002, as a result of the economic downturn, government efforts to undermine union strength, internal corruption scandals and divisions within the trade union movement.¹⁵² There are presently six labor confederations in Paraguay, encompassing roughly 1,500 trade unions. About a tenth of these unions represent public sector workers, which were barred from organizing under the Stroessner regime. The strongest labor confederation is the *Central Única de Trabajadores – Auténtica* (CUT-A), which includes the leading trade union in Paraguay, the *Sindicato de Trabajadores de la ANDE* (SITRANDE), of the state-owned national electricity company. The CUT-A broke off from the original CUT in 2000, after the national secretary was implicated in a major swindle at the state-run Banco Nacional de Trabajadores. In December 2002, the CUT-A was at the verge of yet another break-off. Though also ridden with factional in-fights, the smaller *Central Nacional Trabajadores* (CNT) has been spared of major public scandals, and has maintained an active profile in labor mobilizations. Both the CUT and the CNT were established in 1989, and have preserved important links with the leading international labor federations.¹⁵³ In 1994

¹⁵⁰ See, *Direccionario, Informativo Mujer*, Centro de Documentación y Estudio, Año 13, No. 154 (December 2001).

¹⁵¹ Roberto Céspedes, "The Labour Movement," In *The Transition to Democracy in Paraguay*, p. 108.

¹⁵² The Wasmonsy administration made several attempts to "buy out" the top trade unionists, and appears to have enjoyed a good deal of success at it. During the González Macchi government, the Minister of Justice and Labor, Silvio Ferreira, a former trade unionist, also purportedly defused popular mobilizations through corrupt dealings with labor and peasant leaders. Unionization estimates presented here were provided by Roberto Villalba, one of the main experts on Paraguayan labor issues; responsible for the publication of CDE's *Informativo Laboral*. Interview by the author, Asunción, 17 December 2002.

¹⁵³ Other, smaller confederations include the *Confederación Paraguaya de Trabajadores* (CPT), which under the authoritarian regime functioned as branch of the state. It still maintains ties with the Colorado Party and has also

both confederations successfully organized the first national strike in 46 years. Labor mobilization, however, has fallen significantly since the CUT's partition.

- *Peasant organizations* gained much strength, visibility and character during the transition years. Prior to 1989 less than 3% of the peasant workforce was organized, but by 2002 the number had risen to an estimated 13%.¹⁵⁴ Peasant associations were originally closely connected with the Church's pastoral work in the countryside, as the Stroessner regime allowed very little space for autonomous rural organization. Starting in the early 1990s, with the support of NGOs and Church-related organizations, efforts were made to unite the various regional and local groups that had been formed throughout the country since the mid 1980s. The *Federación Nacional Campesina* (FNC) and subsequently the *Mesa Coordinadora Nacional de Organizaciones Campesinas* (MCNOC) were established as a result of these initiatives. Created in 1991, the FNC later helped found the MCNOC in 1994, but left the umbrella organization in late 1997, due to leadership rivalries and ideological differences. The MCNOC was formed after a successful peasant demonstration in Asunción, during March 1994. This event congregated close to 20,000 people from 22 different organizations, and constituted the first peasant mobilization of its kind in Paraguayan history. Each year, thereafter, peasants have held an annual protest march in Asunción. Due to divisions within the movement, in 1999, the FNC and MCNOC started holding separate marches. The FNC remains the best organized of all national peasant unions, and has demonstrated a greater capacity for mobilization. The MCNOC, however, is the largest national association and has maintained active ties with urban labor groups. The smallest of the three national organizations is the *Organización Nacional Campesina* (ONAC), which is part of the CNT labor confederation. The ONAC also left the MCNOC in late 1997. Following a series of peasant protests, the González Macchi government allocated agricultural project monies to the FNC and MCNOC. The funds, however, were granted without any administrative controls, prompting immediate charges that the government was trying to "buy off" the peasant leadership. In June 2002, several peasant movements played a key role in halting the government's plan to privatize three state-owned companies.
- *Indigenous Organizations*. At a national level the Indigenous communities of Paraguay are represented by API (*Asociación de Parcialidades Indígenas*), an organization established in 1976. The organization is run by Indians but has no independent funding and has had to rely on the support of INDI and, more recently by a large landowners association. This has led to accusations that the institution is compromised; API has, however, maintained some independence from missionary and indigenist NGOs and still is regarded as a legitimate voice by most indigenous leaders. In recent years various

suffered factional tensions. The *Central General de Trabajadores* (CGT) was created in the late 1990s with splinter groups from the CUT and CNT. The *Central Sindical de Trabajadores del Estado Paraguayo* (CESITEP) represents several public sector unions, and congregates approximately 30,000 employees. All other confederations represent roughly 100,000 private and public sector workers, including the teachers unions. For a useful review of the trade union movement in Paraguay see, Roberto Paredes, *El Sindicalismo Después de Stroessner* (Asunción: Author's Edition, 2002); *Entidades y Personajes de la Transición* (Asunción: Author's Edition, 2001), pp. 37-54.

¹⁵⁴ These estimates were provided by Quintin Riquelme, a leading expert on Paraguayan peasant issues; responsible for the publication of CDE's *Informativo Campesino*. Author's Telephone Interview, 1 February 2003. These figures do not include peasant groups sponsored by government programs, such as the Homemakers and 4H clubs, given their very weak organizational autonomy. In 1997, the Ministry of Agriculture claimed to assist 2,477 such clubs, with over 43,000 peasant participants. Figures calculated on the basis of data provided by, Ocampos and Rodríguez, *Hacia el Fortalecimiento*, p. 65.

regional organizations have been established. The first was the *Junta Directiva* of ASCIM, which represents the Indians who live in the agricultural colonies of the Central Chaco. ASCIM is responsible for the Indian settlement program, agricultural extension, credit, health and education programs. The Mennonite advisers, however, have a majority vote on the organization and this makes it difficult for the members to contest the economic, social and religious domination of the Mennonites. In Alto Paraná, Alto Paraguay, the Lower Chaco and, most recently, in San Pedro, regional organizations have been set up with the support of the Catholic Equipo Nacional de Misiones. The organizations include legitimate leaders from the regional communities and are genuinely intended to foster self determination. The missionaries and technical advisers represent the most reformist wing of the Catholic Church and do not directly touch on religious issues; they do, however, present their own vision of the relations between the Indians and the national society and tend to defend the interests of the Church. Finally, there are several small, locally based, associations and productive oriented groups that claim no political representation of indigenous interests at the national level. Various indigenous organizations are often supported by political and civil society actors which have established linkages and clientistic relationships with indigenous organizations.

- *Business associations* are an established force in Paraguayan civil society. The three historic and most influential organizations are the *Asociación Rural del Paraguay* (ARP), founded in 1902, currently with 18 active branches and over 2,100 members; the *Union Industrial Paraguaya* (UIP), created in 1936 and comprised presently by 53 associations; and the *Federación de la Producción, la Industria y el Comercio* (FEPRINCO), initiated in 1951 and including now 60 associations. Though restricted in their autonomy, these business associations were quite comfortable with the Stroessner regime. With the transition, nonetheless, they gained much more visibility and influence over government policies. Business leaders, particularly from the UIP, were assigned top posts in the Rodríguez and Wasmosy administrations. The ARP, in turn, took a defensive position against peasant mobilizations and legislative proposals for land reform. Despite repeated complaints against corruption and calls for public sector reform, these groups have not been able to generate a strong constituency for state reorganization. A newer and more liberal business group is the Church-related ADEC, which has been far more effective at cooperating with other civil society actors. In 1993, a federation of small businesses was established as the *Federación Paraguaya de Microempresarios* (FEPAME). This organization claims a membership of close to 9,000 micro-entrepreneurs, representing twelve different associations.¹⁵⁵
- *Professional associations and service clubs*, like the Lions Club, the Rotary Club and the Cámara Junior, have a longstanding presence but very little impact on civil society. There are about 20 professional associations in Paraguay, with the most relevant ones representing accountants, notary publics, economists and lawyers. All told, membership in these four societies adds to less than 6,400 professionals, most of who are, at best, scantily involved in these associations.¹⁵⁶ Among middle class adults, venues for civil society participation outside the churches and some NGOs are quite sparse.

¹⁵⁵ Ocampos and Rodríguez, *Hacia el Fortalecimiento*, pp. 45-51. For a helpful review of the business community and its political impact see, Borda and Masi, *Los Límites de la Transición*, pp. 94-111.

¹⁵⁶ Ocampos and Rodríguez, *Hacia el Fortalecimiento*, p. 52.

- *Community associations* are the everyday mainstay of Paraguayan civil society. Polls show that for over 92% of those involved in civil society groups, the most important associations are the ones in which they interact with their friends and neighbors, notably in religious groupings, school parent associations, neighborhood commissions, sport clubs and cooperatives.¹⁵⁷ In concrete settings, some of these groups are likely to overlap, with the same local participants engaging in multiple tasks. Government support can be very important to some of these groups. In Asunción, for example, neighborhood commissions were enthusiastically promoted during Filizzola's tenure as city mayor. By 1995 there were 146 active groups, with close to 1,500 partakers. Neighborhood participation, however, dropped considerably during the subsequent administration of Martin Burt, for lack of encouragement from the municipality. School parent associations, already in existence since 1958, received a boost in the 1990s thanks to the government's educational reform program. By 1995, the Ministry of Education claimed there were 1,571 registered associations. Finally, the government has also promoted the organization of local water and sanitation committees, known as the *Juntas de Saneamiento*. With a loan from the World Bank, 214 committees were created between 1993 and 1998, mostly in remote communities. At the end of the 1990s, 340 *Juntas de Saneamiento* were in place throughout the country.¹⁵⁸
- *The press* includes six daily newspapers (with an average circulation of 110,000 newspapers), a handful of magazines, four private television channels, 73 commercial radio stations (46 AM and 27 FM stations), and 107 recently legalized non-profit community radio stations. The risk of press monopoly is low, given the fairly significant variety and competition of outlets. Ownership of the main media sources is controlled by nine family-business conglomerates; only one of these is foreign-owned.¹⁵⁹ In general, Paraguayan journalists are better regarded for their ethics than for their professional training. Media owners, on the other hand, are often prone to use their outlets to advance their personal political and business agenda. The events of March 1999 heightened divisions within the press, particularly as a result of the decision made by the country's leading newspaper, ABC Color, to side openly with Oviedo.¹⁶⁰ The press has historically received high public opinion marks for trustworthiness. The recent polarization over Oviedo, nonetheless, has abated some confidence.

¹⁵⁷ Percentage calculated on the basis of poll data in, Vial Saavedra, *Cultura Política*, p. 14.

¹⁵⁸ Ocampos and Rodríguez, *Hacia el Fortalecimiento*, pp. 57-61. In 2002, 2% of those active in local community associations claimed their most significant involvement to be with these *Juntas*. This percentage calculated on the basis of poll data in, Vial Saavedra, *Cultura Política*, p. 14.

¹⁵⁹ The principal media companies are connected to the following business groups: former president Wasmosy's conglomerate (AM and FM radios, *El Popular* newspaper, shares in the TV channel 2); the Bó Family (AM and FM radios, *El Diario Noticias* newspaper, until recently TV channel 13); Osvaldo Domínguez Dibb (AM and FM radios, *La Nación* newspaper); the Rubín family (AM and FM radios, recently bought stake in TV channel 13); Aldo Zuccolilo (*ABC Color* newspaper); Alcides Riveros (AM and FM radios, recently acquired TV channel 13); A. J. Vierci (TV channel 4); US-based television conglomerate (TV channel 9); Demetrio Rojas (*Última Hora* newspaper).

¹⁶⁰ *ABC Color* was a leading critic of Oviedo in the early 1990s, and strongly opposed the general's coup attempt in 1996. After March 1999, the newspaper has made a systematic effort to re-write the history of this civic revolt, charging that it was part of a deliberate coup d'état carried out with support of the United States and Brazilian embassies. By contrast, *El Diario Noticias* has taken an impassioned anti-Oviedo stance. Another anti-Oviedo outlet has been the consortium known as the *Medios Independientes Asociados*, comprised by Alcides Riveros' radio stations; the *Última Hora* newspaper and the TV channel 9.

Chapter 3: Social Development

Constraints, Opportunities and Risks

143. Poverty, insecurity and lack of trust in democratic institutions have increased significantly in recent years, degrading the population's life conditions and threatening democracy. Public institutions have serious limitations. Checks and balances are weak. Management and results are unsatisfactory. Civil society lacks tools to exert influence on the design, implementation and monitoring of public policies. However, the changes that are taking place in Paraguay with the administration of President Duarte Frutos represent a key opportunity for consolidating democratic institutions in Paraguay, implementing and deepening the needed reforms. The legitimacy and strength of the new administration will be tested by the implementation of these economic, social and institutional reforms.

144. The current administration has moved rapidly to establish its agenda stressing public sector transparency and efficiency. The government's program and strategic guidelines for the 2003-2008 period seeks to address these issues. The Government plan poses four strategic objectives: (i) Recovering confidence on the State's institutions and their representatives; (ii) Promoting active involvement of citizens to build the institutions of democracy; (iii) Reactivating the economy and creating employment in a new sustainable development model and; (iv) Fighting poverty, corruption and insecurity.

145. Implementation of this program will require not only sustained economic growth, sound fiscal policy and political will, but also significant changes in the public and the private sectors, to eliminate the social, political and institutional causes of these problems. For all these daunting constraints, there also are many opportunities for contributing to poverty reduction and good governance. There is much to do at all levels and in a great variety of domains. In this context, this chapter seeks to identify the main constraints, risks and opportunities that Paraguay faces from a social development perspective for achieving sustainable poverty reduction. Based on this, it identifies where social development inputs add value to the Bank's strategy in Paraguay.

3.1. Inputs into Policy Dialogue: Main Constraints to Poverty Reduction

3.1.1 Inequality

146. The increasingly high levels of poverty and extreme poverty, particularly in rural areas, paired with one of the highest levels of income inequality in the world, present a serious challenge for poverty reduction and inclusive development in Paraguay. Income inequality is a main restriction to poverty reduction.

147. In the recent Social Panorama, CEPAL ¹⁶¹ demonstrates that in order to halve the level of poverty in 1990 by 2015, Paraguay would require an average annual growth rate of 4.9% between 2000 and 2015, which is well above the historical trend of GDP growth in Paraguay. Therefore, the challenge of reducing poverty involves not only economic growth, but, particularly for a country like Paraguay, it requires an improved income distribution. According to CEPAL data, to achieve the same objective of halving the poverty rate by 2015, reducing the Gini coefficient by

¹⁶¹ CEPAL (2002) Social Panorama.

2% or 5% would decrease the burden on the GDP annual growth rate from 4.9% to 4.6% or 4.3% annually, respectively.

148. Similarly, the issue of unequal land distribution (*minifundio* and landlessness) represents an additional constraint in the rural areas, as small units (less than 20hectares) have little potential to support the family livelihood and to generate a surplus to move them out of poverty. In the case of landless rural dwellers the issue is compounded by the lack of alternative off-farm income generating opportunities. Schemes for improving land distribution, either through the existing IBR scheme or a market based land reform that would allow small farmers to either buy or rent land to increase the size of their production units, would contribute to increase agricultural outputs and the income of small farmers.

149. In addition to the purely growth related reasons that justify income and land redistribution there is a socio-political dimension that needs to be considered as it also has a direct impact on the levels of investment and growth. The discontent of the rural poor has already taken vocal forms as shown through their popular mobilizations and protests. The growing political force of Paraguayan peasant organizations can take non-constructive and even violent forms if not channeled adequately. Similarly, in urban settings, discontent is growing and the main indications of that are the periodic demonstrations of disgruntled groups (including the unemployed, informal workers, youth and many others), as well as the increased level of crime and delinquency that is affecting Paraguay. Until the issue of inequality is addressed, the trust on democratic institutions and the government will continue to be low and governance will be threatened.

150. Indigenous peoples, although small in relative numbers (2% of the population), are amongst the poorest and most vulnerable in the country. Almost all indigenous population live in conditions of poverty. Non-income indicators of well-being also show a clear negative bias for rural areas, particularly indigenous people, which is partly a reflection of inadequate service provision in rural areas, as well as a lack of systematic bilingual and bicultural education programs for those groups. Inequality is extreme in the case of indigenous populations and their voice is scarcely heard or considered. This constitutes a severe impediment for achieving inclusive development in Paraguay, as indigenous peoples have been persistently at the margins of the economy and society at large.

151. Inequality has also a cultural dimension. Poverty and inequality indicators are also persistently higher among the primarily Guaraní speaking population, whether living in rural or urban areas. In spite of the progress made with the educational reform, illiteracy among the adult population still is high and educational attainment, particularly beyond basic education continues to be low, particularly for the primarily Guaraní speaking population. While in the public discourse, the Guaraní language is valued, in practical terms, those individuals that cannot perform in Spanish are at disadvantage and are looked down¹⁶². Addressing poverty and inequality requires strengthening bilingual education so that children from poor households where the primary language is Guaraní can learn in Guaraní while they are introduced progressively in Spanish without losing proficiency in Guaraní. At the same time, it requires public education, particularly of public servants, to ensure that no discrimination would occur based on the inability of poor individuals to communicate properly in Spanish their demands.

¹⁶² The term “*valle*” to refer to an individual from the rural areas that has little command of Spanish among urbanites conveys a strong sense of inequality and discrimination.

152. Paraguay does not have an income tax. The tax base in Paraguay is one of the smallest in the continent, with tax evasion currently estimated at 60% for the VAT. This has a clear negative redistribute impact. An income tax would represent a significant step towards income redistribution for four basic reasons: (a) it would improve the country's low tax base and would allow the development and strengthening of targeted social programs to the poor; (b) it would establish a progressive tax revenue, that, unlike the VAT, does not penalize poor consumers; (c) it would provide an indispensable instrument in the struggle against corruption; and (d) it would contribute to change the public perception of the state as a "*open booty*," and indirectly foster greater societal demand for proper political representation and state accountability. Similarly, land taxation would also stimulate the land market, creating possibilities for poor rural small farmers of accessing lands currently underutilized.

3.1.2. Weak governance, non-accountable and non-inclusive institutions

153. Paraguay is saddled with entrenched institutional problems. High levels of corruption and organizational informality, discretionary patterns of authority, poorly qualified employees, inflated public rolls, inefficient and ineffective services, and patronage politics represent pernicious obstacles to poverty reduction. The patrimonial state saps resources, energy, commitment and interest in social development policies, while poisoning the broader political and societal environment with its corrupting influence. The persistent levels of corruption and intense political competition that diverts resources and attention away from long-term solutions to poverty reduction, has led to an increasing disenchantment with formal political institutions and electoral processes, as demonstrated before.

154. The above trends coupled with the existence of weak, non-accountable and non-inclusive institutions that lack representativeness put at risk the capacity of the Paraguayan state to address the poverty challenge it is confronted to. The endemic levels of corruption diverts resources away from poverty reduction efforts. The politicization of the judiciary weakens its capacity for law enforcement with regards to corruption. Finally the lack of accountability mechanisms towards citizens further diminishes the control mechanisms to curtail corruption and non-responsible behavior of public servants.

155. Not surprisingly, these factors also emerge as key to explaining the negative performance of Bank-financed projects in Paraguay. The completion date of projects are often significantly delayed and the over-all satisfaction ratings lowered due to frequent change of leadership, lack of institutional commitment, highly politicized civil servants and weak management structure. Other key problems identified in project completion reports are extreme levels of corruption, the lack of political support and will to implement the projects and the lack of local ownership of the projects.

156. Paraguay's democratic regime is frail and vulnerable. The lack of professionalism and continuous infighting within Paraguay's political class have contributed to undermine the legitimacy of the country's novel institutions. Aside from problems in the realm of political leadership, several institutional issues need to be addressed. The burdensome electoral process, excessive powers conferred to the legislative branch, lack of party discipline and weak mechanisms of accountability in Congress, are some of the institutional problems that require urgent revision. There is a growing possibility that many of these items will come to fore as a result of an emerging (yet undefined) movement for constitutional reform.

157. Reduced constitutional powers of the presidency, particularly regarding budgetary matters, and the great difficulties in establishing a working relationship with a highly fractionalized

legislative arena have created obstacles for enacting policy reform and generating a cogent national budget. The country's political instability, burdensome electoral calendar and divisive ruling class have contributed to the frequent turnover of cabinet members and other political appointees, leading to added problems of governance. As a result, poverty-related issues have taken a back seat in the nation's political agenda, and capacity for legislative cooperation and executive implementation notably diminished.

158. The growing levels of poverty coupled with the above have resulted in an increasing disenchantment with formal institutions and participatory mechanisms, as demonstrated by surveys and decreasing levels of participation in the electoral process. The level of popular dissatisfaction with the country's political system, and especially with the governing elite, has reached a dangerous highpoint that represents a serious threat to good governance and poverty reduction.

159. Paraguayan civil society organizations present also similar problems to those of state institutions, related to organizational informality and improvisation, personalist leadership, internal factionalism, nepotism (based on family, friendship and party ties) and corruption. At the same while time civil society has innovative and rich experiences in community development and local participation, they have no clear proposals on how to implement at the national level social development programs and accountability mechanisms. All these elements diminish trust and creativity within civil society, and abate its capacity to provide constructive proposals and influence policy at the national level.

160. Progress towards civil society consolidation requires more than just a qualification of leaders and support for civic, popular and community organizations. At a fundamental level, it needs a modern and self-limiting state –one able to offer a better organizational model, and prepared to engage civil society through a more consistent and transparent institutional framework. To help develop partnerships for poverty alleviation between the Paraguayan state and the civil society sector it would be required to support activities aimed at advancing the qualification and effective participation of civil society groups in social development and democratic governance and establish mechanisms to improve civil society participation in the design, implementation and monitoring of government programs.

3.1.3. Incomplete reforms

161. Closely related to the above, the incomplete reform agenda, particularly the financial sector reform and the slow decentralization process among others constitute a severe hindrance to improve financial and fiscal management, as well as the provision of services to the poor.

162. Many issues have been on Paraguay's institutional reform agenda. Some reforms have been relatively successful, while others have clearly failed. The most promising innovations have had to do with the country's regime democratic transition. The most disappointing initiatives were those aimed at transforming the actual character and everyday function of the Paraguayan state. Legal reforms have been much easier to effect than those requiring administrative implementation, the alteration of established bureaucratic practices, and the curtailment of vested economic interests. State reform, in particular, has generally lacked two basic ingredients: political will and leadership.

163. The most successful institutional innovations have been the constitutional and electoral reforms, and the institutionalization of the military. The most deficient reforms have been in the judiciary, the privatization of state-owned companies, the civil service, and state decentralization.

Neither of the failed reform efforts had strong political proponents or well-organized constituencies within civil society.

164. The slow decentralization process and the persistent centralization of service provision, decision-making and resources in Paraguay prevents the consolidation of local-level institutions that could more effectively address the needs of the poor and rural population, by closer geographical proximity and more effective accountability mechanisms. However, without an effectively functioning national-level state structure, the devolution of responsibilities to lower-levels of government could result in the simple replication of weak institutional structures and processes to the local level, if not supported by an adequate institutional capacity-building plan at the departmental and municipal levels.

165. The sale of public-owned companies has entailed a most problematical reform process, with negligible success. Privatizations were widely regarded as controversial because of gross mismanagement and corruption.¹⁶³ The reform initiative faced adverse conditions from the very onset. Congress hesitated much before passing the law, and did so with many restrictions, including a tight time frame and a clause that gave the legislature a right to stop the program if it felt there were irregularities in the tendering process. An array of interests from within the state, the leading political parties, the public sector trade unions and private business groups converged to undermine the program.

166. The discussion of the reform agenda still is alive as people begin to assess the effects of earlier reforms.. What is more, the looming fiscal crisis of the state may provide national leaders with a unique – albeit dramatic – opportunity to introduce serious reforms in the public sector. If handled properly, the institutional reform agenda can lead to improvements in the medium and long term prospects of poverty reduction in Paraguay.

167. Nevertheless, it is essential to have as a cautionary note that in order to advance with these two tasks is crucial to have transparency and social accountability mechanisms in place. Moving ahead with the privatization without having clear rules, auditing procedures and independent regulatory agencies would contribute even more to the spread of corruption. Within this context, social development inputs would include finding ways of developing civil society monitoring groups for these regulatory boards and establish civil society partnerships for participatory monitoring and accountability, so they can serve as observant watch-dogs.

3.1.4. Weak bridging social capital

168. Much has been said about the need for institutional reforms aimed at increasing accountability and governance. It has also been indicated before that face-to-face interaction and the bonds of family and personal familiarity increases the prospect of cooperation. Paraguay is rich in bonding social capital. However, bridging social capital, or the capacity to establish effective social network and collaboration across social groups, beyond the family or kinship is rather scarce.

169. Participation is generally preferred in local community organizations, where trust and reciprocity are better. National organizations are more difficult to trust. In fact, national organizations, especially among popular sector groups, are often characterized by problems of disconnection between the leadership and the local bases of support. On the other hand, on their

¹⁶³ Nickson and Lambert, “State Reform”, p. 168.

own, local organizations are basically ill-suited to affect the macro policies relevant to their interests.

170. Mistrust towards social leaders that intercede with the national government is also very much related to the character of the state in Paraguay. Overwhelmingly, people believe that national public institutions are ridden with corruption. Therefore, by association, they mistrust social organizations that benefit from state policies. This represents a serious limitation for poverty alleviation. As it is difficult to develop partnerships and to engage in collaboration beyond small groups. Particularly difficult results the collaboration of different civil society groups with the state.

171. This situation is partly rooted on entrenched processes of socialization within the family needs to be addressed at the national level. Examples such as *Paraguay Yaipotava*, *Acuerdo Ciudadano* and other similar experiences provide a good example of how trust can be developed beyond the family and the small clique. However, this requires the collaboration between state and civil society organizations, particularly the Catholic Church which appears in most surveys as the social institution with most respectability.

3.1.5. Lack of poverty information and monitoring

172. Finally, there is a lack of reliable and systematic poverty statistics for vulnerable groups, which renders more difficult the task of targeting and monitoring poverty reduction efforts to those most in need. There are no standardized mean testing instruments for identifying and targeting vulnerable groups. Thus, targeting of social programs tends not to be very good. Also, existing data suggest that allocation of resources for poverty alleviation is influenced by partisan politics.

173. Monitoring and evaluation of social programs is weak. There are no clear criteria for monitoring and evaluation of social programs and the assessment that is done is carried out in disconnection with the relevant policy makers, some times, not by independent evaluators. Similarly, there are no institutional mechanisms for promoting social accountability, such as participatory monitoring and evaluation and others that could strengthen the capacity of the government (in collaboration with civil society) to better target resources for poverty alleviation.

174. Significant progress has been made by the Census Bureau (DGEEC), the Social Action Secretariat (SAS) and the Technical Secretariat of the Presidency (STP) in collaboration with the World Bank, the Inter-American Bank and the United Nations Development Programme (UNDP) in the study of poverty, and the development of a Poverty Reduction Strategy. Follow up work on these subjects is needed to include the analysis of social risk and vulnerability combining quantitative and qualitative methodologies, as these are usually best suited to assess the processes that reproduce or decrease poverty and to understand the perceptions people have of policy intervention. Similarly, Poverty and Social Impact Analysis (PSIA) would be of benefit to anticipate the potential social and poverty impacts of the resisted government's proposed structural reform package, to help identify measures to be included in their design and, to ensure greater civil society buy-in.

3.2. Social Development Inputs into Operations

175. For all these daunting constraints, there also are many opportunities – factors, conditions, potentials and dispositions – that can contribute to poverty reduction. There is much to do at all levels and in a great variety of domains. A serious inclusive social development agenda will

require more than adequate laws and political promises. Experience has shown that the main impediments to reforms lie in its implementation. Without proper political will, leadership, coalition support, and civil society endorsement, reforms efforts are apt to fail.

176. The new administration that will take office on August 15, 2003 represents a great opportunity for change. First of all, it will be a test to the capacity of both the government, that has a minority in congress, and the opposition to agree on policies and programs aimed at poverty reduction. The new administration ran on a platform of poverty alleviation and anti-corruption. The other candidates had similar agendas and, so far, the opposition has indicated that will collaborate with the government on poverty and accountability issues. Second, the new leadership is young and willing to make the changes and, it is conforming a highly qualified team to lead the government.

3.2.1 Youth and social inclusion

177. The large share of youth population in Paraguay poses risks as well as opportunities for poverty reduction and sustainable development. This segment of the population is liable to make a significant generational impact in the years to come –in politics, society and the economy. Today, because of their upbringing in the context of political and personal freedoms, they tend to be much more outspoken and independent than earlier generations. Their disenchantment with the current situation is also indicative of the high-minded expectations that can be found amidst people of this generation. With creative ideas, good leadership, and adequate resources, the Paraguayan youth could offer a great source of social energy and idealist commitment to initiate and sustain a whole range of anti-poverty activities. Nevertheless, it is important to highlight that to become effective actors of social change, the youth needs to be given the opportunity and they must have the resources (institutional and financial) to exercise their citizenship and full capacities.

178. About 48% of the youth are enrolled in secondary school and only 7%, mostly concentrated in urban sectors, has pursued post-secondary education. The total level of unemployment for the young population reaches 24%, being higher for women (28%). One out of four young people works and studies at the same time. Young people with no instruction get only 16% of the salary of the ones with tertiary education . There is a lack of social recognition of the roles and rights of the young people, reinforced by the predominance of a stereotypes and negative images of youth in the media. Young people expresses high discontent with the present work conditions (low salary or/and low skill level of the job). There is no coordinated policy to attend youth needs. Although important initiatives have taken place at the non governmental and governmental levels, these have not been able to respond comprehensively to the complexity of youth needs.

179. These challenges provide a great opportunity to build on the main assets of the youth: their willingness to innovate and capacity to develop new skills. In order to take advantage of this potential it would be essential to develop the entrepreneurial capacity and skills (increasing their technical knowledge, facilitating access to productive resources and assets, and developing managerial skills) among poor young people so that they could develop their own income generating activities and/or participate in better conditions in the labor market. An important element would be the development of job training for rural youth not only on agricultural related activities but also on skills that will allow them to participate in non-agricultural and urban labor markets. Job training should be paired with clear incentives to employers to hire young workers.

180. Finally it would be important to strengthen the social capital of the youth, particularly the poor. Promoting youth participation in policy decision making and civil society organizations is

key to ensure proper representation of their interests as well as to create responsibility among the youth. Leadership training for youth, to enhance their future capacity to engage constructively in the political arena contributing to a new generation of leadership in Paraguay is also essential. Currently, there are few opportunities for the youth to learn and develop their citizenship skills. Public policies must consider young people not only as beneficiaries but also strategic actors participating proactively to improve their country. In this context it would be important to have better coordination of the different governmental institutions (Vice minister of Youth, Ministry of Health, Ministry of Education, Social Action Secretariat, etc.) that have some responsibility in the definition and implementation of a youth policy and youth organizations and other civil society organizations working on youth issues.

3.2.2. Indigenous peoples

181. Implementation of government policies and programs addressing indigenous issues continues to be risky due to the institutional fragility of INDI. It would be essential to ensure the availability of resources to INDI and establish the necessary coordination mechanisms with the departmental government and other line agencies (agriculture, health and education) to ensure that resources available are used properly.

182. A key issue for rural indigenous communities is land tenure. INDI has made slow progress in the regularization, acquisition and titling of indigenous lands. It is important to highlight that only a small fraction of the lands claimed by indigenous communities are currently titled to indigenous peoples. It would be important to ensure that the land titling process continues. Indigenous lands should be demarcated and conflicts over lands disputed by colonist, large land owners and indigenous peoples need to be resolved by the proper judicial channels in light of existing legislation and international treaties that regulate indigenous rights.

183. Access to social infrastructure and social services is another priority for indigenous peoples. In 1992, the average infant mortality rate among indigenous communities was 106.7 per 1,000, almost 2.5 times the infant mortality rate for the country (43.3) or the rural areas (44.0). For only 27% of the indigenous families housing conditions were considered appropriate. Regarding water and sanitation, less than 5% of the families have access to potable water, about 30% get their water from dwells and 65% from open sources, 25% of the households do not have bathroom or latrine, 74% have latrines and only less than 1% have bathroom. Less than 3% of the households are connected to the power grid and 95% uses either candles or kerosene lamps. Improving the living conditions of the indigenous population is an urgent task. Existing experiences with community driven development initiatives among indigenous communities indicate that this could be a strategy to address some of these issues. It would be important to ensure that existing government programs as well as new ones take into account the specific characteristics and social infrastructure and social services demands of indigenous communities.

184. Paraguayan law does not discriminate against indigenous groups. However, inadequate enforcement of the law, particularly when indigenous peoples are in conflict with non-indigenous, severely curtails indigenous peoples rights. In this regard, it is important to strengthen indigenous representation by supporting indigenous organizations and promoting indigenous participation in policy discussions to facilitate the inclusion of their objectives and specific demands in policies and programs.

3.2.3. Community-driven development

185. The strong social ties that exist at the local level and the weak bridging social capital (discussed before) that is available, suggest the need for a decentralized demand-driven approach to poverty alleviation, highly participatory and with clear social auditing mechanisms to minimize potential leakages and the risk of clientelism. Community development initiatives give control of decisions and resources to community groups and provides a good framework for channeling resources directly to the community level to increase ownership by the communities of the investments.

186. Community driven development (CDD) activities facilitate channeling resources to the poor and vulnerable and would reduce the extent of intermediation –and associated administrative costs– between the central government and the participating local groups. Participation by beneficiaries in the selection, financing, execution, and operation and maintenance of CDD activities ensures that investments meet genuine community needs and leads to significant increases in social capital as communities have to collaborate and jointly decide what activities develop. Also, since criteria for targeting and eligibility are monitored jointly by the communities and responsible agencies the risk for political interference and misuse of funds is decreased substantially, ensuring that resources reach the poorest areas.

187. Community driven development requires strengthening community based organizations and governance processes that encourage effective collaboration between local governments, civil society, service providers, and community based organizations. However, local governments in Paraguay lack technical capacities and have little power in terms of decision making and budget allocations. The increased demands that CDD would place on local institutions, not only in terms of resources but also of participation in decision making will require improved inter-institutional coordination. Strengthening the capacity of local level governments (Department and Municipal) and civil society organizations for implementing CDD activities would have to be a priority for promoting community development.

188. Significant community participation in project implementation units has been identified as a key success factor of Bank-financed projects in Paraguay, for example, the 4th Water Supply and Sanitation project, the Natural Resources Management project, and the Maternal Health and Child Development project. Experiences from the Rural Water Supply and Sanitation project and the Secondary Education Improvement project showed that stakeholder participation contributed significantly to the success and long-term sustainability of these projects.

189. Future community-driven operations in the areas of basic service provision (e.g. water and sanitation) education and health, could be strengthened by expanding the existing experience with income generation activities and community support activities that would complement productive investments such as community organization and training, community facilities and municipal development (institutional strengthening). for example.

190. Efforts should be made to develop partnerships between the government, the private sector and civil society organizations to invest in community development activities. Similarly, it would be important to mobilize different political and social groups to promote public awareness, regarding the importance of participation and social accountability in local development. To this end, support to the community diagnostic and community planning activities initiated by USAID and local civil society organizations would greatly contribute to involve all relevant stakeholders and to identify viable community development activities to be supported as part of the Government's Poverty Reduction Strategy. Similarly, building upon the existing municipal

ordinance that established Community Development Councils, it would be important to support these councils with technical assistance and resources that would allow them to play a more active role in the planning and implementation of CDD activities.

191. CDD activities would be particularly efficient attacking rural poverty. CDD schemes in rural areas should seek to facilitate access to financial resources and technical assistance for diversifying agricultural production to increase the competitiveness of the small farmers. Existing cooperatives and small farmer groups could provide a basis for this endeavor finding ways of ensuring the integration of small farmers. The Natural Resources Management Project has shown the importance of working on conservation with the rural poor, providing alternatives for income generation and building the social capital of small farmers. Expanding this project would be a priority to recuperate deteriorated agricultural lands and to strengthen civil society in the countryside by working with existing organizations, not by promoting new parallel groups.

3.2.4 Accountability and governance

192. Though disenchanted with the quality and results of Paraguayan democracy, the poor have much to benefit from it. No other form of government allows the poor and marginalized the possibility to mobilize and demand social entitlements as does a democratic system. Proper leadership and talented management can help change organizational practices and norms, curbing patrimonial patterns of behavior and increasing social accountability for poverty alleviation.

193. Government information and statistics are not as readily available as they should be. Although over the years, the number of opinion surveys, research studies, project plans, publications, conferences, press reports and public discussions related to issues of poverty and social inequality has increased exponentially and the census bureau is considered a trustworthy institution, there is little information available regarding allocation and use of government resources and , decision making procedures. The civil society milieu has become stronger, more diverse and sophisticated; capable of coordinating national campaigns; mobilizing hitherto sectors of society ill represented; and disseminating information with much greater ease. There are many capable and honest leaders within civil society, well respected and influential in their opinions. Sharing of information, dialogue and cooperation between the state and civil society organizations needs to be strengthened. Establishing clear social accountability procedures and participatory monitoring and evaluation systems would contribute to that end.

194. Within the context of reforms needed to improve governance in Paraguay, social development inputs would focus on assisting in the design of mechanisms to increase the social accountability of Paraguay's political and public institutions and their programs. Social development components of a variety of projects and programs could focus on the design of specific mechanisms for citizen participation in the planning and budgeting of public programs and resources and the subsequent tracking and monitoring of these. This would improve citizen's control over the allocation and spending of public resources and would create accountability mechanisms that could help curb corruption and nepotistic behaviors.

195. Regarding the pending state modernization agenda, which would include among others the professionalization of the civil service, social development inputs would include implementing and improving mechanisms for denouncing, reviewing and punishing acts of corruption by state employees, to increase their public accountability. Along with the reform of the civil service it is essential to assist in the creation of a judicial career, grounded on solid merit-based criteria, as a way of depoliticizing judicial nominations and promotions. Within this context, social development inputs into the reform would focus on mechanisms which would increase the social

accountability of the judiciary by focusing on assisting in the establishment of an anti-corruption agency within the Judiciary, with relevant input from civil society monitoring groups; improving information system within the judiciary and the public access to this system, which should include judicial rulings and relevant statistics. This information will help the press and other monitoring groups follow developments in the judiciary with a sharper eye. Along with the reforms in the Judiciary, social development inputs would specifically address the issue of corruption through the continued support for the Anti-Corruption Council. To this end it would be important to consider strengthening the public audit agency (the *Contraloría General de la República*) with adequate resources, encouraging partnerships with civil society monitoring groups, and improving coordination with the *Tribunal de Cuentas* and the *Ministerio Público*.

3.2.5 Building human capital and decreasing vulnerability

196. Building human capital through improved access to better quality education and health services is key for decreasing vulnerability and poverty. Within this context, social development inputs contribute to human development by highlighting the heterogeneity of social groups, enhancing the understanding of the socio-cultural, political and institutional context in which human development takes place, identifying potential social constraints and facilitating the discussion of how these elements should be considered in the design of the interventions.

197. There is an urgent need to decrease the disparities in access to educational and health services among vulnerable groups in Paraguay. Improving education and health services in the rural areas is essential to expand the human capital of the rural poor and facilitate their participation in the labor market. In particular, the expansion of bilingual education for Guaraní speaking children in rural areas is essential.

198. Existing data indicates high levels of illiteracy among the various indigenous groups, ranging from about 40% among the Mataco-mataguayo groups to more than 70% among the Tupi-guarani. Less than 2% of the indigenous peoples have completed 6th grade (basic education). Only 66% of the 496 indigenous communities have primary schools. Paraguay has no specific educational policy for indigenous peoples. The existing bilingual educational program is not sufficient or appropriate to address the educational needs of indigenous populations. It would be important that, as part of the educational reform, specific attention would be given to the development of specific bilingual and bicultural curricula and pedagogic materials for indigenous peoples, as well as training to primary education teachers for indigenous communities.

199. Regarding the youth, it would be important to decrease their vulnerability to the most important social risks they face, specifically dropping out of school and teenage pregnancy. It would be essential to curve down the drop-out rates among the poor by providing monetary incentives to the families (alike the *Bolsa Scola* program in Brazil) to keep their children in school and providing targeted scholarships and access to credit to pursue higher education. Re-introducing drop-outs into the formal education system by providing alternative skill/vocational training would also have to be considered. Improving access to health services (insurance coverage for the youth) and, particularly, to reproductive health services would be essential to decrease teenage pregnancy, prevent drop-outs and facilitate the insertion of young women in the labor market.

