



# SERVICES POLICY REVIEW

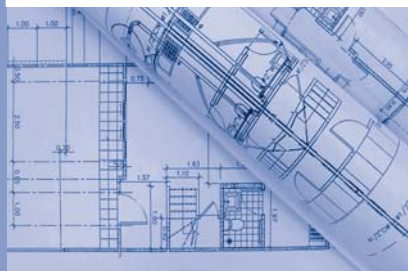


# PARAGUAY





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For further information on the Trade Negotiations and Commercial Diplomacy Branch and its activities, please contact:

Ms. Mina MASHAYEKHI  
Head  
Trade Negotiations and Commercial Diplomacy Branch  
Division of International Trade in Goods and Services, and Commodities  
Tel: +41 22 917 56 40  
Fax: +41 22 917 00 44  
[www.unctad.org/tradenegotiations](http://www.unctad.org/tradenegotiations)

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This publication was prepared by a team led by Mina Mashayekhi, Head of the Trade Negotiations and Commercial Diplomacy Branch (TNCDB) of UNCTAD. The team included TNCDB staff members and experts based in Paraguay. Staff members who participated in the drafting of this report are Bruno Antunes, Alberto Gabriele and Luisa Rodriguez. Experts in Paraguay included Gilda Arrellaga, international trade law expert, Agriconsulting Europe in Paraguay, and Tatiana Lopez, Economist and public policy expert.

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## ACRONYMS AND ABBREVIATIONS

ACEPAR	Paraguayan Steels S.A.
AFD	Financial Agency for Development
AFP	Agency for Pension Funds
ALADI	Latin American Integration Association
ANDE	National Administration of Electricity
ANEAES	National Agency of Evaluation and Accreditation for Higher Education
ANTEL	National Administration of Telecommunications (Uruguay)
ANTELCO	National Administration of Telecommunications
APAR	Paraguayan Association of Architects
APROCON	Association of Construction Professionals
ARCU SUR	MERCOSUR System for Accreditation of University Careers
ASSAL	Latin American Association of Insurance Supervisors
ASOBAN	Association of Banks of Paraguay
AWS	Amazon Web Services
BBVA	Banco Bilbao Vizcaya
BCP	Central Bank of Paraguay
BID	Inter-American Development Bank
BNF	National Development Bank
CAMPY	Chamber of Mobile Operators of Paraguay
CAPACO	Paraguayan Construction Chamber
CAPAVI	Paraguayan Chamber of Housing and Infrastructure
CAVIALPA	Paraguayan Chamber of Road Constructors
CERNECO	Centre for Regulation, Norms and Studies on Communication
CIAM	MERCOSUR Integration Commission for Agricultural Measuring, Agronomy, Architecture, Geology and Engineering
CMC	Council of the Common Market
CMTI	World Conference on International Telecommunications
CNB	Non-banking Correspondents
CNV	National Stock Exchange Commission
CONACYT	National Council for Science and Technology
CONATEL	National Council for Telecommunications
CONES	National Council for Higher Education
CONFEA-CREA	Regional Council for Engineering, Architecture and Agronomy
COPACO	Paraguayan Communications Company
COSIPLAN	South American Council of Infrastructure and Planning
CPI	Paraguayan Centre of Engineers
CPC	Provisional Central Classification of Products
DGEEC	General Directorate of Statistics, Polling and Census
EAP	Economically Active Population
ECLAC	Economic Commission for Latin America and the Caribbean
EDGI	Electronic Government Development Index
EEB	Basic School Education
FDI	Foreign Direct Investment
FEDAPAR	Federation of Associations of Parents of Educational Institutions of Paraguay
FEPRINCO	Federation of Production, Industry and Trade
FONACIDE	National Fund of Public Investment and Development
FONAVIS	National Fund of Social Housing
FOCEM	(MERCOSUR) Structural Convergence Fund
FSU	Universal Services Fund
FTAs	Free Trade Agreements
GATS	General Agreement for Trade in Services
GCI	Global Competitiveness Index

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GDP	Gross Domestic Product
GNB	Getin Noble Bank
GMC	Common Market Group
Gs	Paraguayan Guarani
GVCs	Global Value Chains
ICT	Information and Communication Technologies
IDI	Informatics Development Index
IFD	Institute for Teacher Training
IFS	International Featured Standards
INC	National Cement Industry
INCOOP	National Institute of Cooperatives
IPC	Consumer Price Index
IPS	Institute of Social Welfare
LTE	Long Term Evolution
MDGs	Millennium Development Goals
MEC	Ministry of Education and Culture
MERCOSUR	Southern Common Market
MFN	Most Favoured Nation
MHz	Mega Hertz
MIC	Ministry of Industry and Trade
MOPC	Ministry of Public Works and Communications
MSPBS	Ministry of Public Health and Social Welfare
MVNO	Mobile Virtual Network Operator
NAFTA	North American Free Trade Agreement
NAP	Network Access Point
NRI	Network Readiness Index
OECD	Organisation for Economic Cooperation and Development
PCP	MERCOSUR Protocol on Government Procurement
PEES	Economic and Social Strategic Plan
PNUD	United Nations Development Programme
PNT	National Telecommunications Plan
PPP	Public-Private Partnership
RANA	Network of National Agencies for Accreditation in MERCOSUR
REPSE	Register of Specialised Services Providers
RIACES	Ibero-American Network of Accreditation Agencies
ROA	Return on Assets
ROE	Return on Equity
SENATIC	National Secretariat on Information and Communication Technologies
SENAVITAT	National Secretariat of Housing
SGSI	Informatics Security Managing System
SGT 4	Working Sub Group N° 4 of MERCOSUR “Financial Aspects”
SIPE	Information System for State Procurement Providers
SMEs	Small and Medium Enterprises
SNEPE	National System of Evaluation of the Educational Process
SNPP	National Service of Professional Promotion
SOEs	State-Owned Enterprises
SPR	Services Policy Review
STP	Technical Secretariat of Planning
TISA	Trade in Services Agreement
UAA	Universidad Autónoma de Asunción
UCA	Universidad Católica de Asunción
UCSA	Universidad del Cono Sur de las Américas
UIT	International Telecommunications Union
UNASUR	Union of South American Nations

UNCTAD	United Nations Conference for Trade and Development
UNICEF	United Nations Children's Fund
UNINORTE	Universidad del Norte
UNINTER	Universidad Internacional Tres Fronteras
UPAP	Universidad Politécnica y Artística del Paraguay
USD	United States Dollars
US GAAP	US Generally Accepted Accounting Principles
UTCD	Universidad Técnica de Comercialización y Desarrollo
UTIC	Universidad Tecnológica Intercontinental
WEF	World Economic Forum
Wi-Fi	Wireless Fidelity
WTO	World Trade Organization

## EXECUTIVE SUMMARY

The contribution of the services sector in Paraguay is very important from the perspective of various parameters. It contributes more than 50 per cent of Gross Domestic Product (GDP) with leading sectors including distribution, communication, construction and transport. It contributes more than 60 per cent of employment. Distribution and social, community and personal services are important sectors from the perspective of employment. Leading sectors contributing to investment include finance, distribution, communication and transport. “Other business services” contribute to trade.

Strengthening the services sectors is important from the perspective of advancing towards development goals, according to Paraguay’s economic and development strategies. Paraguay’s development strategies emphasise universal access to housing, sanitation, water, health, education and energy (electricity). Transport, telecommunications, electricity, education and access to finance are also of critical importance to improving Paraguay’s overall competitiveness.

Paraguay has several achievements with regard to the overall framework of services policies. These include the creation of a services forum to coordinate policies and engage diverse stakeholders in policy-making, and solid regulation and prestige of regulatory agencies in some services sectors (such as telecommunications and financial services).

Discussions with stakeholders in the context of preparing this study revealed that improvements in the following areas could maximise development benefits in the sector:

- Supply-side capacity;
- Control and enforcement of existing regulation and formalisation;
- Inter-institutional coordination, particularly between the academic sector and the private sector;
- Collection and analysis of statistics;
- Regulation relating to quality standards, competition and consumer protection;
- Access to credit and financing; and
- Utilisation of trade agreements.

Turning to the sectors under review, Paraguay presents challenges due to its infrastructure gap, which affects prospects for economic and social development. These challenges are likely to generate opportunities for the construction sector in the coming years but require increased levels of investment. To support such investment, the government of Paraguay is planning a number of development and regulatory improvements. Examples of these improvements include the approval of a Law on Public Private Partnerships (PPPs), which guarantees certain public works be financed by the private sector with sovereign bonds, and rules promoting the establishment of foreign investment in Paraguay and the formation of consortiums among local and international companies. At the institutional level, this interest is also reflected in concrete actions to optimise the management capacity of the Ministry of Public Works and Communications (MOPC), to support the management of infrastructure projects.

Providers of construction services face challenges related to informality, a shortage of skilled personnel and an unstable supply of construction inputs. The main challenge related to policies in this sector is ensuring access to finance, particularly in connection with housing. In the regulatory domain, shortcomings include insufficient regulation of construction works and the coexistence of different types of standards and incoherencies relating to the preferential treatment of domestic services suppliers.

Exports to the Southern Common Market (MERCOSUR) are limited by the impossibility of fulfilling existing norms for professional practice and of activating mechanisms for mutual recognition at the professional level. This is due to a lack of a Law of Professional Practice, through which private associations would have oversight of professional practice, and to difficulties in executing contracts won in MERCOSUR due to the prohibition on introducing national machinery and personnel.

Paraguay faces an increasing demand for education services, given its outlook for economic development and growth, which will require skilled workers. The state does not have sufficient resources to cover this demand in spite of a constitutional mandate to provide funds for education. Although the educational reform of the early 90s increased overall access to education, shortcomings persist in terms of the proportion of the employed population with a low educational level, universal access (to the third cycle of basic school education, to secondary education and to schooling of students above 14 years of age), and the quality of education, particularly in the sphere of public education.



The main shortcomings and inadequacies identified in relation to policy, regulatory and institutional frameworks in this sector include the following:

- Insufficient financing for public education, fragmented use of National Fund of Public Investment and Development (FONACIDE) resources by municipalities and high costs of private education;
- Weaknesses regarding the quality assurance framework in the sector;
- A current regional framework that does not allow professional activities to be practised in spite of existing regional regulations on the recognition of undergraduate degrees.

In recent years, the Paraguayan financial services sector has achieved positive results (in terms of growth in contribution to GDP, adequate capitalisation, solidity of the system, low indebtedness and business profitability), in an open regulatory framework providing market access and free capital mobility and in a favourable macroeconomic environment. The private sector has been progressively consolidated, and the increased participation of foreign banks has brought capitalisation, technology, good corporate practices and high standards.

In spite of the progress and achievements in these areas, shortcomings were observed in connection with goals related to financial inclusion, access to credit and financial deepening. The system has not been able to lower interest rates, provide longer-term financing and increase access to finance for SMEs. Public banking is failing to fulfil its role of supporting productive development, due to its low level of assets and because a high proportion of its resources are destined for consumption. Other issues affecting development in this sector include the lack of an insurance and savings culture, together with a disperse social security system that is lacking regulation, which runs counter to promoting long-term investment.

The main challenges of the sector relate to financial inclusion, the regulation of new sectors and services (particularly in the insurance subsector), and the strengthening of institutional frameworks, particularly in connection with the supervision of the cooperative system.

The telecommunications services sector has grown steadily in Paraguay in recent years, especially in the area of mobile telephony. However, Paraguay still faces significant obstacles and limitations in telecommunications. Internet access is still very limited due to high costs, the low purchasing power of most of the population and low internet coverage. As a result, Paraguay is not taking full advantage of the potential of the internet and broadband as an enabler for the use of Information and Communication Technologies (ICT) to support productivity and diversification. Goals set by the government for the development of ICT promote efforts to overcome these shortcomings in the long-term.

The interaction with stakeholders and interviews conducted in the course of this study revealed that possible areas for further developing the policy framework include updating some policies to promote the use of new technologies, developing alternatives to further lower costs of access to the internet, and increasing broadband to enable applications in specific sectors such as education and telemedicine.

Proposed regulatory improvements include updating legislation to take technological developments into account, implementing competition regulation and consumer protection, and strengthening regulations against illegal informal activities. Institutional shortcomings related to duplication in functions of regulatory bodies suggest the need for greater coordination between agencies and with the private sector.

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## INTRODUCTION

Economic and trade statistics clearly demonstrate the importance of the services sector. The services sector accounted for almost 71 per cent of global GDP value added in 2011<sup>1</sup> and the contribution of services to GDP in developing countries averaged 52 per cent during the period 2002-2012.<sup>2</sup>

Trade in services has become increasingly important to both developed and developing economies. Since the 1980s, world trade in services has expanded at a faster rate than trade in merchandise and, today, many developed economies produce more services than goods. In 2011, commercial services exports grew 11 per cent to USD 4.1 trillion, 29.82 per cent coming from developing countries and 2.85 per cent from transition economies.<sup>3</sup> In 2012, services represented 14 per cent of total exports of goods and services from developing countries. From 2000 to 2013, their share in world services exports rose from 23 per cent to 30 per cent. The growing importance of services trade is also reflected in the growth of Free Trade Agreements (FTAs) which include commitments relating to services.

A vast body of research undertaken by UNCTAD and other organisations<sup>4</sup> demonstrates that services can contribute significantly to enhancing productivity and economic competitiveness. In fact, the increased prevalence of services trade and economies have been instrumental for sustained world trade growth, as the sector helps improve efficiency and competitiveness in other sectors, including manufacturing and agriculture. Many of these services inputs have the potential to increase productive backward and forward linkages, to promote the integration of SMEs in the economy, and to facilitate innovation and technological capabilities, thus promoting the transformation of the economy towards more inclusivity and higher value-added activities.

This potential, together with the intangible nature of several services activities, enhances integration into regional and global value chains (GVCs). Services activities are pivotal for GVCs as many services – financial, business, ICT, logistics and infrastructure – are incorporated into the gross value of exported goods as inputs, and often capture a substantial proportion of value-addition. Measuring trade in value-added terms, services accounted for 45 per cent of the value of world merchandise exports in 2009. Exports in modern exportable business and ICT services have outpaced other services. These modern sectors exhibited strong economies of scale and externalities absorbing highly-skilled labour. These mechanisms are very relevant to the proposed development goals for the post-2015 agenda, which include concerns related to technology, innovation, SMEs, productivity, diversification into high value-added sectors and integration into global and regional value chains.

For the reasons mentioned above, efforts to develop domestic and export-oriented service industries can play a meaningful role in promoting the long-term competitiveness of industries, in enhancing human capital development and in promoting growth and employment, ensuring that economies are more resilient to external shocks and fostering profound structural changes in production, consumption and trade patterns.

Given the enabling and driving role that governments typically play in the development of service economies, it is useful for policymakers to devise national services development strategies. Moreover, to ensure buy-in and support, as well as to generate desirable spill-in and spill-over effects among related economic sectors, the development of these strategies should take place through participative consultations at the national level with all key actors, including parastatal institutions, potential and existing foreign and domestic investors, labour groups and academia. The inclusion of the latter two is particularly relevant for the development of services strategies given the need to ensure adequate labour transformations and the enhanced levels of human capacity needed to support the growth of the services workforce.

Mindful of this, UNCTAD SPRs are designed to assist countries in improving their regulatory and institutional frameworks, and in utilising trade policies as an instrument to advance national objectives and interests. By reviewing economic and trade policy, and regulatory and institutional frameworks characterising the services sectors, SPRs can play an instrumental role in providing policymakers, regulatory authorities and other stakeholders with an improved understanding of the dynamics of particular services sectors in an economy and of issues currently confronting these sectors. In turn, this

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<sup>1</sup> World Bank. World Development Indicators database.

<sup>2</sup> UNCTADstat.

<sup>3</sup> UNCTAD Handbook of Statistics 2012.

<sup>4</sup> See, for example, UNCTAD 2014, UNCTAD 2011, and WTO 2013.

can form the basis for the development of effective reforms to the regulatory and policy frameworks that underpin these sectors. Ultimately, this can pave the way for policy reforms that advance both sectoral objectives and broader national economic and social interests.

The government of Paraguay, through the Ministry of Industry and Trade (MIC), with the assistance of UNCTAD, initiated the SPR of Paraguay. The outcome of this SPR is this report. This report has been developed in close communication and collaboration with MIC and a broad range of national government, business and civil stakeholders. The objectives of this report are:

- To assess, in general terms, the current state of development in the services sector;
- To identify strengths, weaknesses, opportunities and challenges in specific services sub-sectors;
- To identify or determine policy options, including regulatory, institutional and sector-specific trade policy reform measures that can enhance the contribution of services to the advancement of national developmental objectives;
- To articulate ways to ensure the sustainability of the development gains occasioned by services sector reforms, including in their contribution to the achievement of the national Millennium Development Goals (MDGs);
- To identify specific measures aimed at strengthening capacities to engage effectively in trade in services and trade in services negotiations.

## **A. Methodology**

The research process underpinning the Paraguay SPR began with the preparation of a desk study by UNCTAD. This study was used as the basis for discussion at the National Stakeholder Workshop staged in Asuncion on 24 and 25 April 2014. This multi-stakeholder workshop provided a platform for discussions that focused on the issues, challenges and opportunities confronting key services sectors in Paraguay.

Thereafter, a national team of experts embarked on a research process that involved extensive engagement with key stakeholders in Paraguay. This research process drew on the content of the UNCTAD desk study, together with a comprehensive body of statistics, reports, previous studies, policy instruments and regulations. In turn, the engagement process was conducted through interviews with key government agencies involved in the design of policies pertaining to the services sector and to services providers.

The experts' research findings were presented during the second National Stakeholder Workshop held in Asuncion, on 1 and 2 September 2014. This workshop provided the opportunity to critically review the SPR findings and conclusions relevant to policy, and to obtain further inputs from stakeholders. Discussions led to further refinement and validation of the recommendations to be submitted to the government and other relevant actors. The recommendations provide the basis of strategies for the development of the service sector and also for the identification of concrete actions and benchmarks for further services reforms.

## **B. Sectoral Coverage**

As an initiator of this process, MIC suggested four services sectors to form the focus of the SPR, which are of particular interest to Paraguay:

- Construction services and associated professional services (architecture and engineering);
- Education services;
- Financial services;
- Telecommunication services.

MIC identified these as sectors holding the potential to contribute significantly to the future growth and development of Paraguay's economy.

## **C. Structure of the Publication**

This study is structured as follows. Chapter I presents an overview of Paraguay's economy. Chapter II contains an overview of the services sector in Paraguay and examines existing trade policies for the expansion of services, particularly referring to trade negotiations. Chapters III, IV, V, and VI analyse key aspects of the sectors reviewed.

Finally, in chapter VII, a set of recommendations is presented, based on the findings drawn from the desk research and consultative engagements with key stakeholders. The recommendations are separated into a series of general recommendations applicable to the services sector as a whole, together with recommendations specific to each of the four service sectors.





**PART I**

**UNCTAD DESK STUDY:**

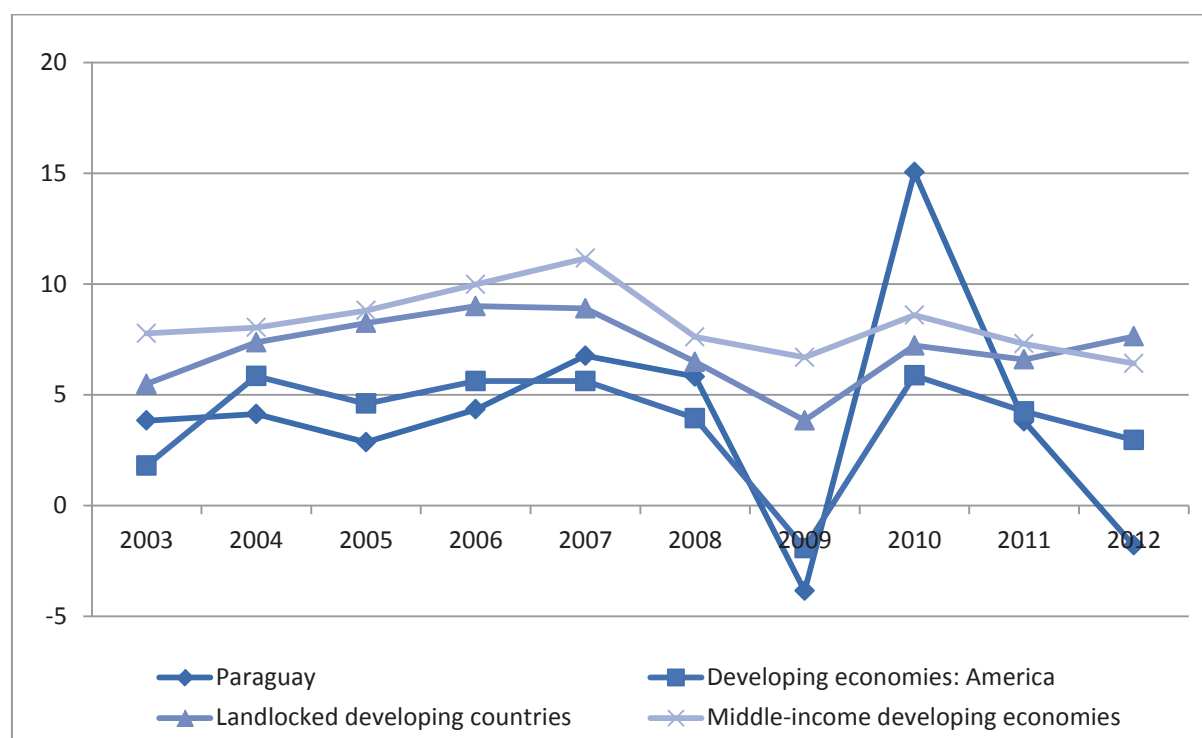
**PARAGUAY ECONOMIC AND SERVICES OVERVIEW**

## CHAPTER I: ECONOMIC OVERVIEW OF THE SERVICES SECTOR

### A. Performance

The GDP of Paraguay grew from 2003 to the global economic and financial crisis in 2008 and 2009, recovered in 2010, and decelerated afterwards. In this regard, the growth path in Paraguay was not very different from other Latin American developing economies in the previous decade. It also presented similar trends to the average for middle-income developing economies and landlocked developing countries. The output in the country decreased from USD 22.89 billion in 2011 to USD 22.73 billion in 2012. The real GDP growth rate was 1.8 per cent in 2012, in contrast to the average for countries in the region, where GDP still had a positive growth rate (see figure 1).

**Figure 1: Selected Countries' Annual Average real GDP Growth Rate, 2003-2012<sup>a</sup> (Percentage)**



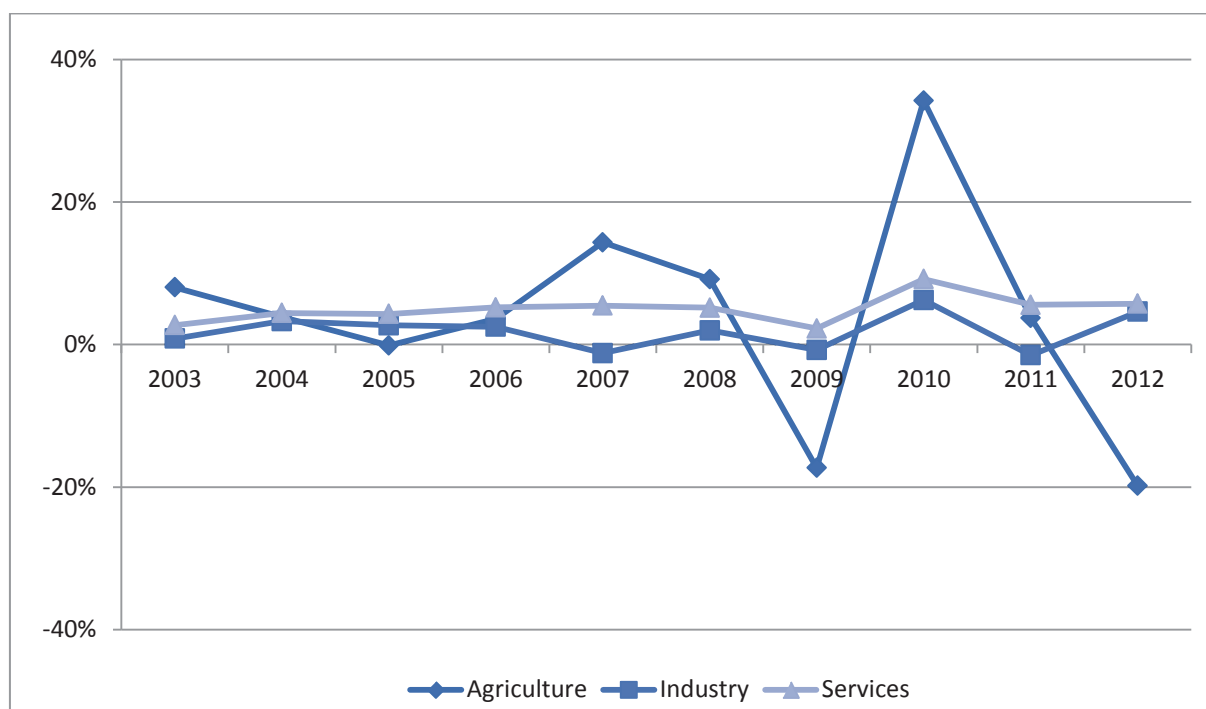
Source: UNCTADStat, consulted on 20 Feb 2014.

<sup>a</sup> Estimated for 2012.

To understand the performance of GDP in Paraguay over the last two years, it is important to analyse the performance of its underlying sectors. After its recovery from the crisis in 2010, the output of agricultural activities plunged in 2011 and most severely in 2012, with a negative sectoral real GDP growth rate of almost 20 per cent (see figure 2). This is mainly due to the severe drought that hit the country at the end of 2011 and beginning of 2012 (ECLAC, 2013). This effect was attenuated by countercyclical fiscal policies, with a nominal increase in government spending of 32 per cent in 2011. The Central Bank of Paraguay (BCP) estimates that there was positive growth in agriculture in 2013. Estimates for real GDP growth in industry and in services are also positive, resulting in an overall positive growth of real GDP.

#### 1. Services and GDP

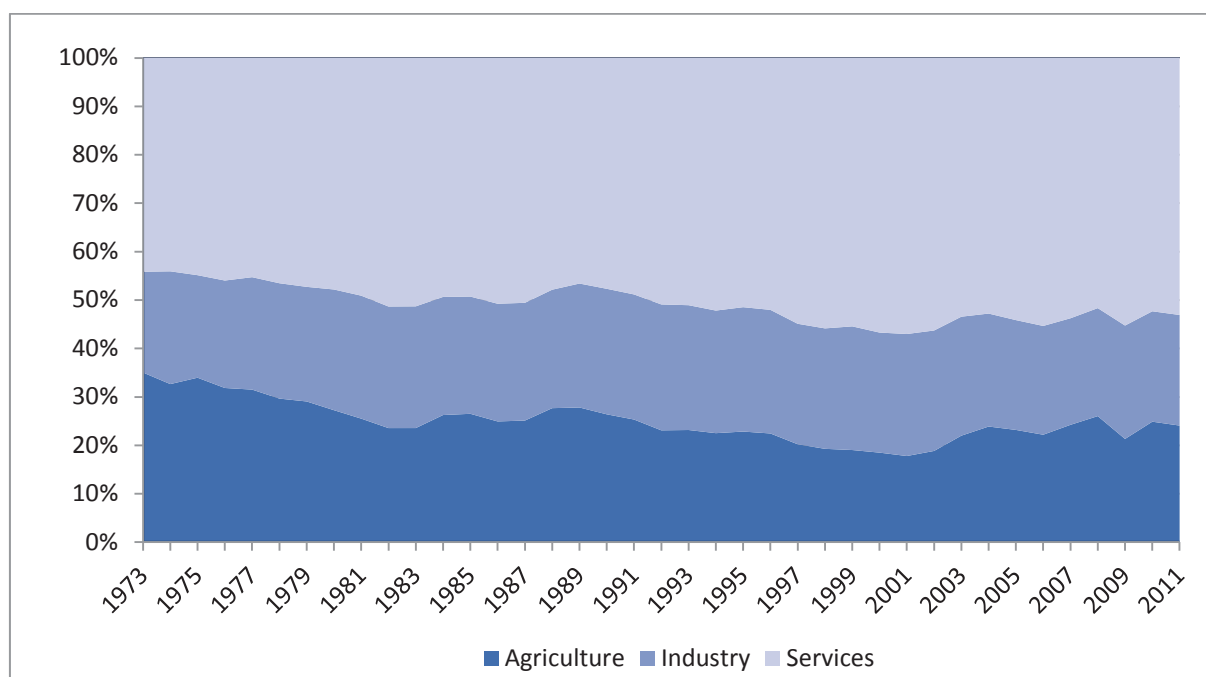
Services always recorded positive real GDP growth in the period 2003-2012, even during the international economic and financial crisis (see figure 2). Furthermore, services account for the largest share of GDP, representing more than 50 per cent in every year of the period between 2003 and 2012, with the highest contribution above 60 per cent in 2012. In the same period, agriculture contributed between 25 and 30 per cent of real GDP, and industrial activities contributed between 12 and 16 per cent. Observing a longer time series, between 1973 and 2011, the increasing importance of services in the economy becomes more evident (see figure 3). This is a common feature of the growth processes of developing countries.

**Figure 2: Paraguay: Real GDP Growth Rate by Type of Activity, 2003-2012<sup>a</sup> (Percentage)**

Source: BCP, consulted on 26 Feb 2014.

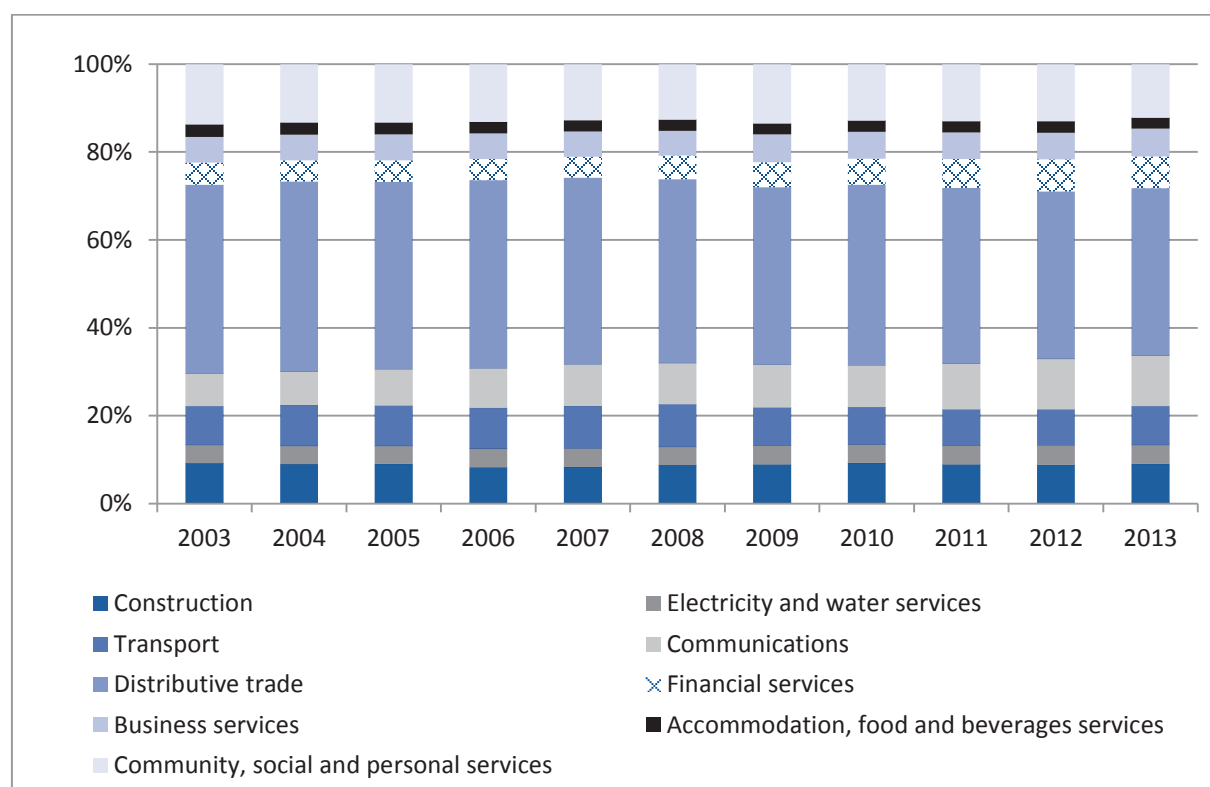
<sup>a</sup> From 2011 onwards, values are preliminary.

Within services, the predominant sector is distribution, including wholesale and retail trade, accounting for about 40 per cent of the total contribution to real GDP of the commercial services under consideration (see figure 4). Other relevant services sectors included community, social and personal services, communication services, construction and transport services, each contributing between 9 and 12 per cent. The type of activities that have grown most are communications and financial services, with compound annual growth rates higher than 10 per cent between 2004 and 2013.

**Figure 3: Paraguay: Distribution of Real GDP by Type of Activity, 1973-2011 (Percentage)**

Source: UNCTADStat, consulted on 28 Feb 2014.

**Figure 4: Paraguay: Distribution of Real GDP of Commercial Services by Type of Service, 2003-2013<sup>a</sup> (Percentage)**



Source: BCP, consulted on 26 Feb 2014.

<sup>a</sup> From 2011 onwards, values are preliminary.

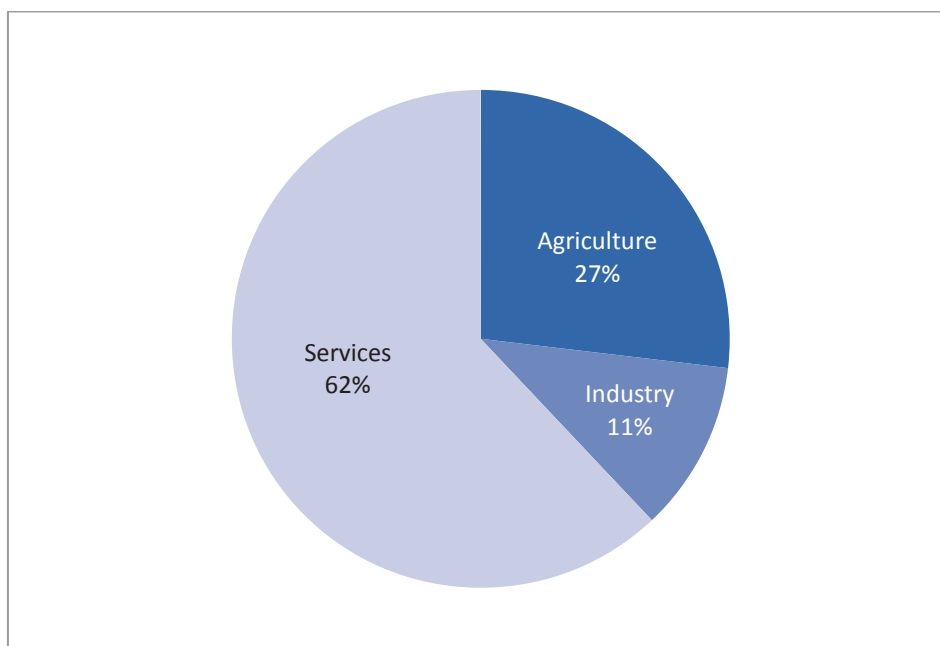
Most of the services activities that contribute most to GDP have low (community and social services) or medium productivity (wholesale and retail trade and construction). Only transport and communication services have high productivity. On the other hand, the activities that have grown most (communications and financial services) have high productivity.<sup>5</sup>

## 2. Services and Employment

Employment distribution also reflects the importance of the services sector.<sup>6</sup> Tertiary activities account for more than 60 per cent of people employed in 2010, while agriculture employs almost 30 per cent of workers and industry only around 10 per cent (see figure 5). It is relevant to note that the services sector exhibits the highest participation of female workers, with almost 45 per cent in 2010 (see figure 6). These trends have been relatively stable since at least 2006, both for the distribution of employment by type of activity and for the participation of women in employment by type of activity.

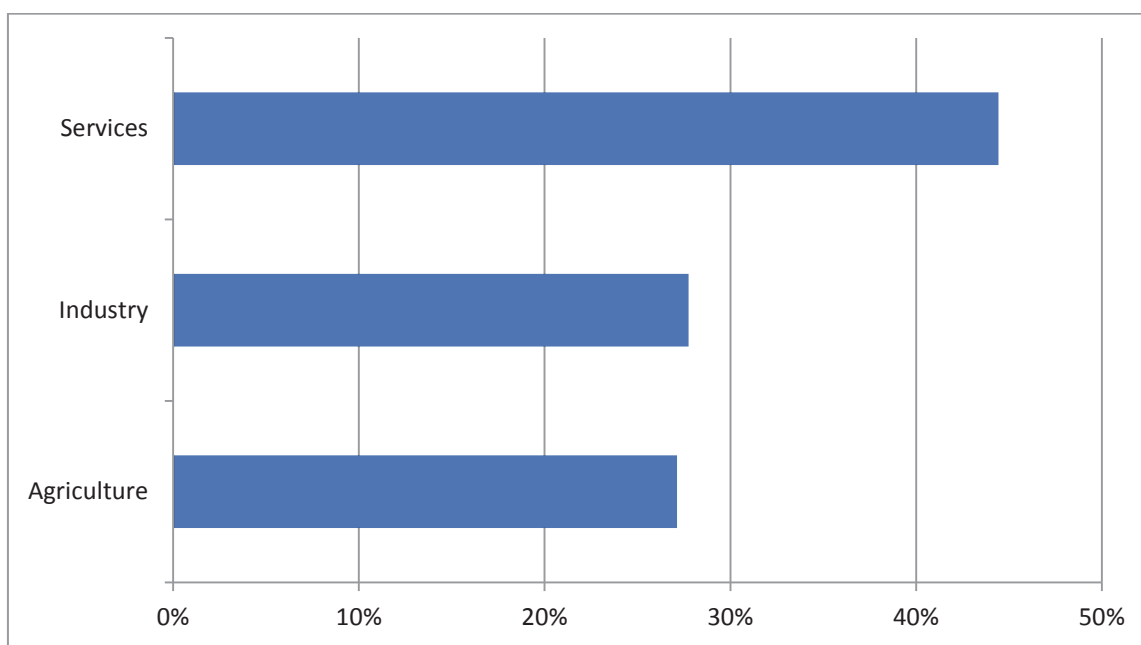
<sup>5</sup> Levels of productivity are determined by applying the concept of GDP per active person to a sample of 11 Latin American countries. Results presented refer to 2008. This sample did not include Paraguay but represented in the same year 89.2 per cent of GDP and 85 per cent of employment in Latin America and the Caribbean (ECLAC, 2011).

<sup>6</sup> It is important to note that more than 80 per cent of active persons were informally employed in Paraguay in 2011 (UNDP, 2013), which limits the reach of employment analysis based on the country's data on formal employment.

**Figure 5: Paraguay: Distribution of Employment by Type of Activity, 2010 (Percentage)**

Source: General Directorate of Statistics and Census (DGEEC) of Paraguay, consulted on 26 Feb 2014.

Distribution services and community, social and personal services stand out, with 40 and 35 per cent respectively, when analysing employment by type of commercial services activities in 2010 (see figure 7). This confirms the relevance of these activities already revealed in the breakdown of real GDP by type of services (see figure 4). Within the services sector, for the same year, the activities with the highest participation of female workers are community, social and personal services (around 65 per cent), and distributive trade, accommodation, food and beverage services (around 45 per cent). Financial services have a participation of female workers of around 35 per cent. The trends have been somewhat stable since at least 2006, both for the distribution of employment by type of commercial services activities and for the participation of women.

**Figure 6: Paraguay: Participation of Women in Employment by Type of Activity, 2010 (Percentage)**

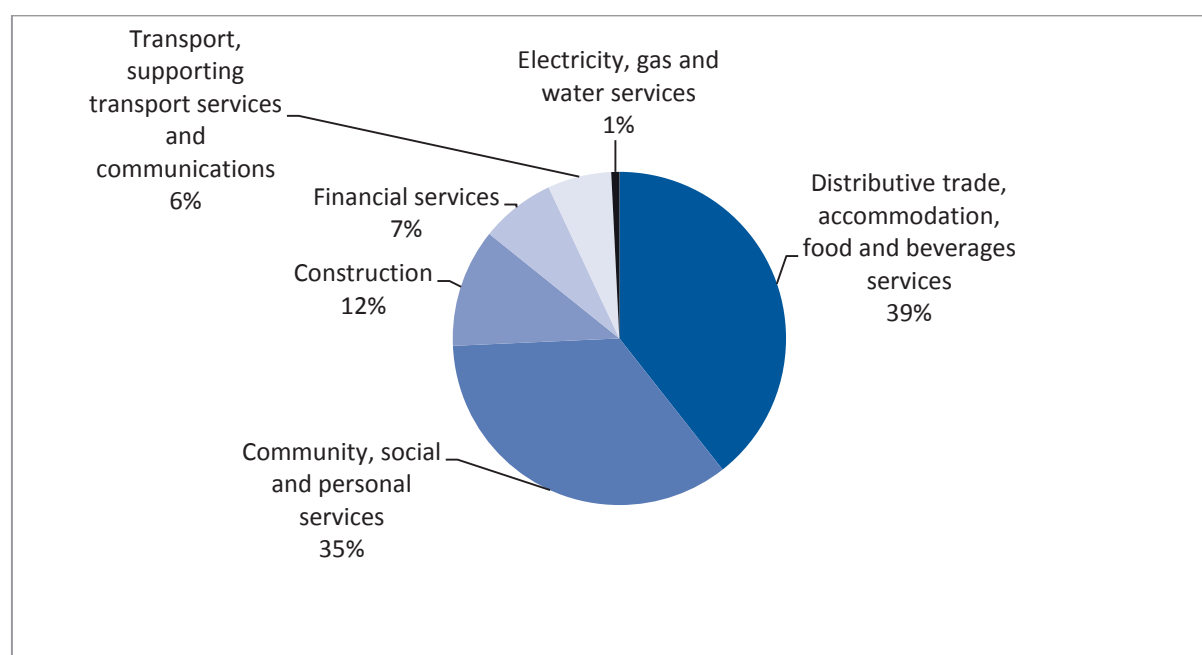
Source: DGEEC, consulted on 26 Feb 2014.

As in the analysis of contribution to GDP, it is relevant to note that services activities that contribute most to employment have low (community and social services) or medium productivity (wholesale and retail trade). The participation of women workers is divided between activities of low (community and social services) and high productivity (financial services).<sup>7</sup> Economic and gender public policies need to take into consideration not only the contributions to GDP and employment but also productivity analysis to promote the reduction of structural heterogeneity.

### 3. Services and Investment

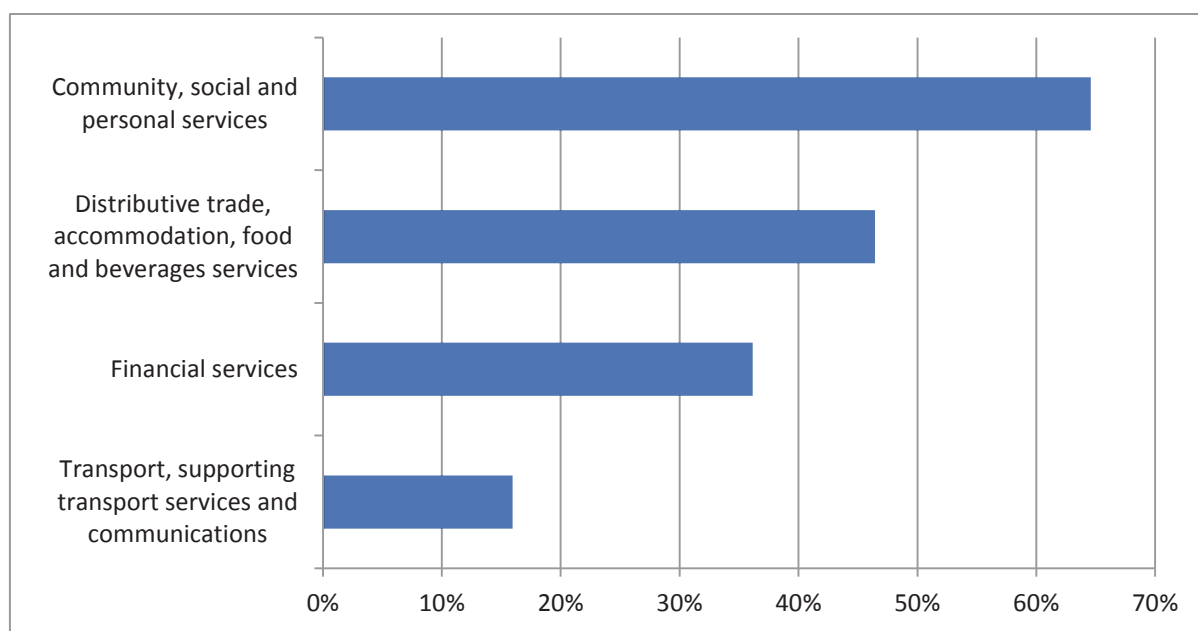
The investment level in Paraguay, measured by gross capital formation, was relatively stable from 2002 until 2006, with gross capital formation close to 20 per cent of nominal GDP. As a percentage of GDP, investment fell afterwards, even more under the impact of the international crisis, only regaining its 2006 level in 2011. This reveals some underperformance in comparison with the average for developing countries in the region (see figure 9). In the period between 2003 and 2012, Foreign Direct Investment (FDI) was around a modest 1 per cent of GDP, although growing roughly 10 per cent. In the same period, remittances were stable at around 4 per cent of GDP (see figure 10).

**Figure 7: Paraguay: Distribution of Employment by Type of Services Activity, 2010 (Percentage)**

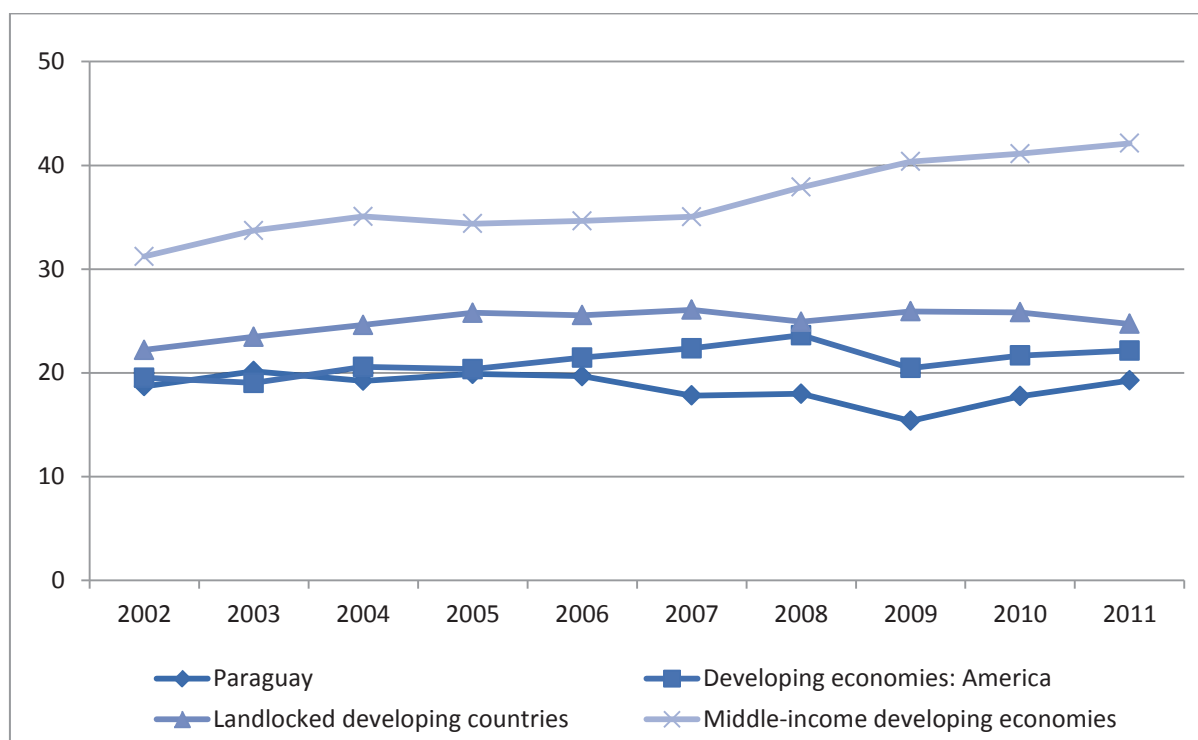


Source: DGEEC, consulted on 26 Feb 2014.

<sup>7</sup> Sectoral levels of productivity are drawn from the previously mentioned analysis of 11 Latin American countries (ECLAC, 2011).

**Figure 8: Paraguay: Participation of Women in Employment by Type of Services Activity, 2010 (Percentage)**

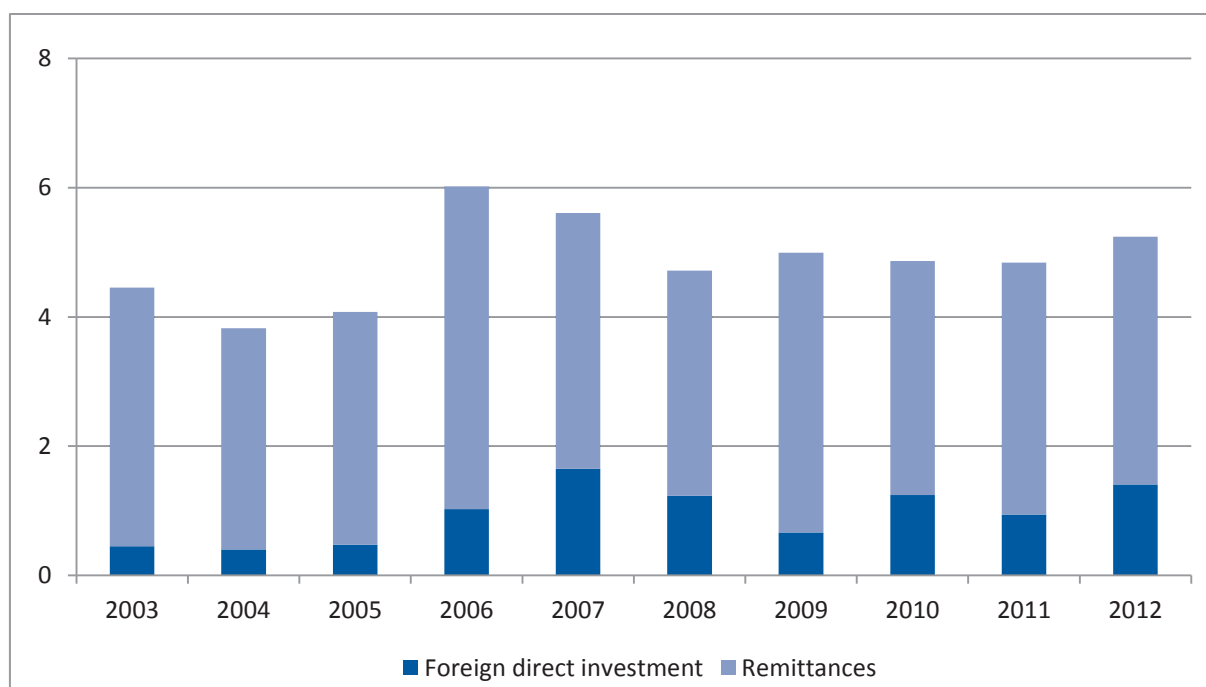
Source: DGEEC, consulted on 26 Feb 2014.

**Figure 9: Selected Countries: Gross Capital Formation, 2002-2011 (Percentage of GDP)**

Source: UNCTADStat, consulted on 25 Feb 2014.



**Figure 10: Paraguay: Inflows of Foreign Direct Investment and Remittances, 2003-2012<sup>a</sup> (Percentage of GDP)**

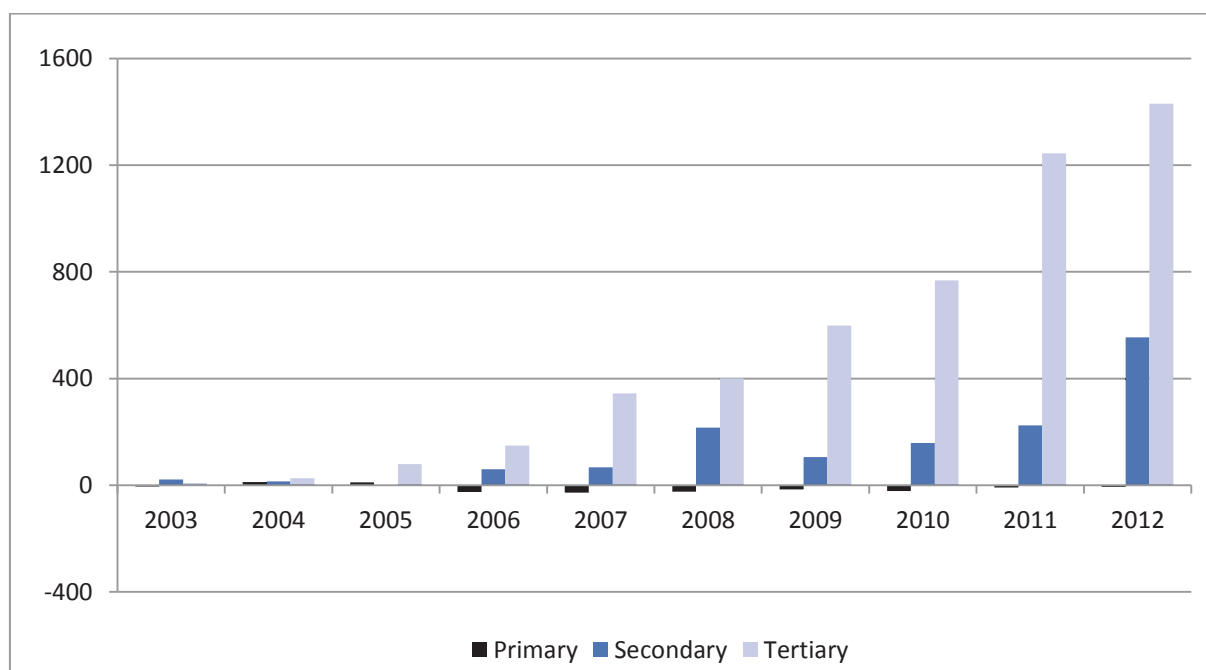


Source: UNCTADStat, consulted on 21 Feb 2014.

<sup>a</sup> Estimated remittances data for 2012.

Services attracted more FDI in the period between 2003 and 2012 than other sectors (see figure 11). In this period, the accumulated FDI in services was USD 1.4 billion while FDI in industry was USD 0.5 billion. It was also in the services sector that FDI grew most. In the same period, the services activities that attracted most FDI were financial services, with an accumulated value of USD 660 million; distribution services with USD 470 million; communication services with USD 190 million and transport with USD 170 million (see figure 12).

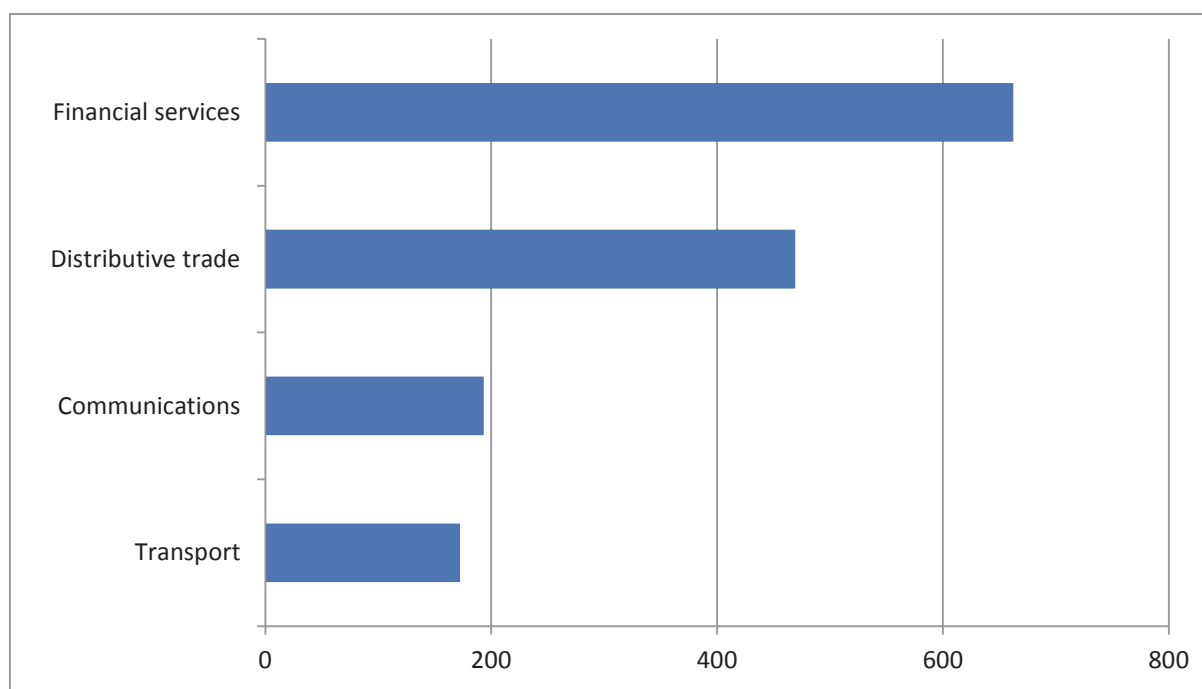
**Figure 11: Paraguay: Accumulated Foreign Direct Investment by Type of Activity, 2003-2012<sup>a</sup> (Million USD)**



Source: BCP, consulted on 26 Feb 2014.

<sup>a</sup> Estimated for 2011 onwards.

**Figure 12: Paraguay: Main Accumulated Flows of Foreign Direct Investment by Type of Service Activity, 2003-2012<sup>a</sup> (Share in Total Cumulate Flows)**



Source: BCP, consulted on 26 Feb 2014.

<sup>a</sup> Estimated for 2011 onwards.

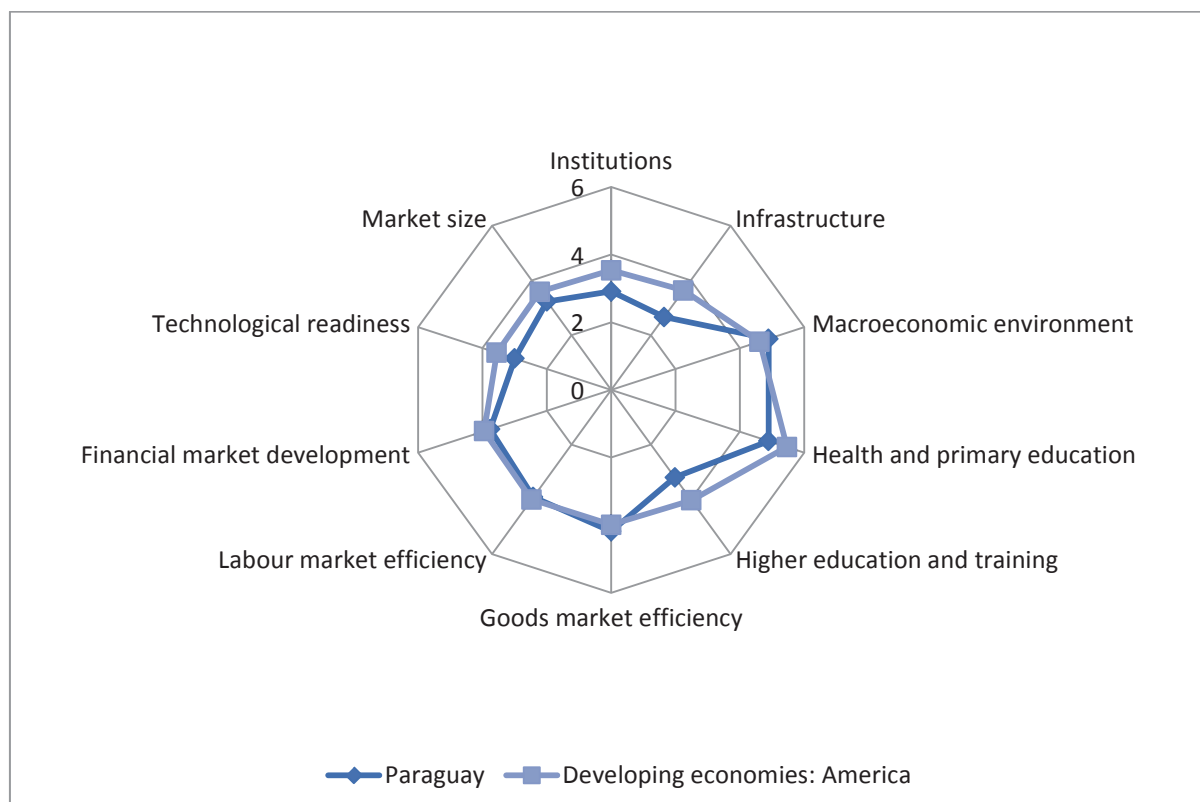
To reorient public spending to address persistent investment gaps, in particular in infrastructure and education, the National Fund for Public Investment and Development (FONACIDE) and the Fund for Excellence in Education and Research were created in 2012 through Law 4758. This law requires that more than 80 per cent of income from sales to Brazil of energy surplus from the hydroelectricity plant of Itaipu is invested in infrastructure, education and research (ECLAC, 2013; Congress of the Republic of Paraguay, 2012).

#### 4. Services and Competitiveness

The analysis of the competitiveness pillars from the WEF Global Competitiveness Index (GCI)<sup>8</sup> reveals that Paraguay lags behind in most areas compared to other countries in the region. Moreover, the gap is largest in infrastructure and in higher education and training (see figure 13). This is in line with the priorities defined by the government of Paraguay for this SPR, which analyses education and some infrastructure services sectors.

<sup>8</sup> The GCI is a weighted average of several components, each measuring a different aspect of competitiveness. These components are grouped into 12 pillars which are considered to contribute in an important and non-mutually exclusive way to competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness and market size. Each component is scored between 1 and 7, with 7 representing the maximum contribution to competitiveness.

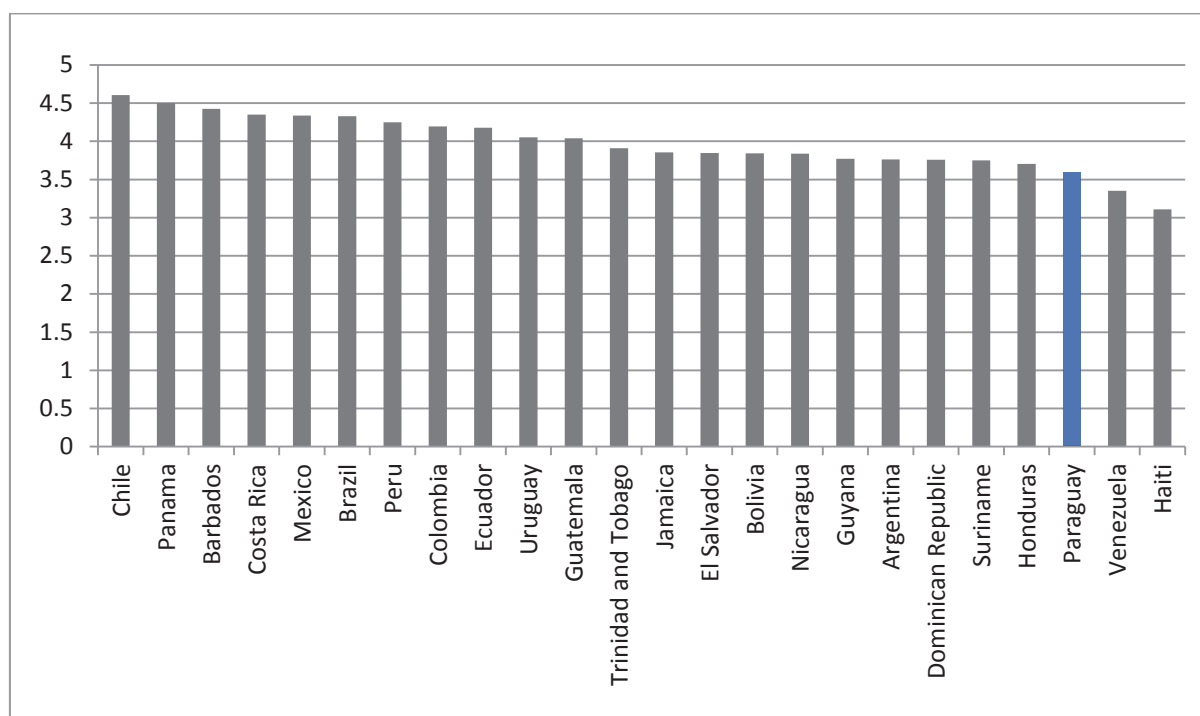
**Figure 13: Paraguay and Developing Economies in America: Competitiveness Pillars from the Global Competitiveness Index, 2013-2014**



Source: UNCTAD, based on data from WEF.

Paraguay presents low scores in relation to institutions and infrastructure, but has higher scores in macroeconomic environment and health and primary education. This reveals a heterogeneous performance in these pillars which, according to the GCI framework, reflect basic requirements. In the pillars measuring efficiency, Paraguay performs slightly better on goods, labour and financial markets, but shows poorer results for higher education and training, technological readiness and market size. On the one hand, according to this information, priority areas to increase competitiveness should include sectors analysed in this SPR: infrastructure and education. On the other hand, attention should also be given to improving the institutional framework and technological readiness.

It is relevant to note that the underperformance of Paraguay in most of the GCI's competitiveness pillars places the country in a low position in the competitiveness ranking in comparison to other countries of the region (see figure 14).

**Figure 14: Selected Countries: Global Competitiveness Index, 2013-2014**

Source: UNCTAD, based on data from WEF.

## B. Government Strategic Priorities Related to the Services Sector

The government of Paraguay has published two reference documents with public policy proposals, the Public Policy for Social Development Proposal 2010-2020 and the Economic and Social Strategic Plan (PEES) 2008-2013. Each of these documents highlights the importance of promoting equality in the country through necessary changes in society and with an economic growth model that includes social inclusion and human development dimensions.

The Public Policy for Social Development Proposal defines priority goals that are closely linked to the MDGs. These goals address issues related to promoting equality, poverty, indigenous communities, health, education, housing, food security, employment and provision of water and sanitation services (Government of Paraguay, 2010). The PEES presents a vision where economic growth is fuelled by human development and, conversely, fosters social inclusion by translating surplus from productive activities into wellbeing for the people with no exclusions. This process draws from the appropriate combination of capacities, incentives and institutional framework to promote economic growth, more and better investment in social areas and, among others, the diversification of the productive structure. Some of the pillars to support these objectives are sound macroeconomic policies, a strong and safe financial system, more efficient state-owned enterprises (SOEs), developed infrastructure, stronger competitiveness with an improved business and investment climate, more employment and the fight against poverty and all forms of social exclusion (Government of Paraguay, 2008).

Both documents set out priorities that are relevant for an analysis of the services sector. They provide an important context for this SPR as examples of how the government envisages some services as tools for pursuing inclusive growth and equality.

Recognising the abovementioned competitiveness restrictions, these documents make reference to the need to strengthen competitiveness by providing infrastructure, transport and logistics services, skilled labour and access to financing. This is particularly important for strengthening productive value chains that facilitate access for all companies, including SMEs, to an adequate provision of productive resources. Defined public policy priorities include attracting investment from the private sector for the development of infrastructure. They also include the management, conservation and maintenance of public infrastructure with the participation of private companies, local authorities and community organisations (Government of Paraguay, 2010). This relates to the focus of this SPR on telecommunication and, since access to financing is central to these endeavours, to financial services.

The government has also identified the need to improve living conditions as a contribution to the aforementioned human development goals. This refers not only to good access to services but also to reducing the deficit of housing availability. This deficit was estimated to be 800 thousand houses, of which 100 thousand correspond to the need to build new houses and 700 thousand to houses that require improvement. One of the factors explaining this deficit is the reduced interest of the private sector and of the financial sector in building and financing social housing (Government of Paraguay, 2010). Accordingly, defined public policy priorities include the development of services,<sup>9</sup> more availability of social housing and the progressive implementation of a financing system for social housing. This is aligned with the priorities defined by the government of Paraguay for this SPR, where construction, financial and communication services are analysed.

The PEES defines priorities for the development of several infrastructure services. The development of the energy sector, for instance, requires an expansion of transformation and distribution networks, with a focus on universal access. In fact, it is considered critical to extend electricity distribution networks to population living in rural areas. The reduction of technical losses in the electrical network is also deemed necessary (Government of Paraguay, 2008).

The transport sector requires investment in road infrastructure, seeking its expansion and maintenance. According to the PEES, Paraguay has one of the least developed road networks in the region, especially taking into account the size of the country, and with severe maintenance issues. It also refers to the importance of attending to universal access objectives, through the construction and maintenance of rural roads, and to integration goals, by physically integrating the road network with the infrastructure of neighbouring countries. In this context, the government defines priorities such as the improvement of the regulatory and institutional framework and the development of investment capacity, including through PPPs (Government of Paraguay, 2008). These efforts are particularly relevant for a landlocked country, where transport costs may be 50 per cent higher than in other countries (ECLAC, 2009). This has a strong impact not only on the costs of transporting exports but also on the imports of intermediate goods and capital goods which, being more expensive, affects production costs, investment attraction and technology transfer.

The government has defined education as a public policy priority. In the Public Policy for Social Development Proposal 2010-2020, reference is made to universal access, equal opportunities and the progressive and inclusive effects associated with education that promotes employment in vulnerable and excluded populations (Government of Paraguay, 2010). Initiatives in the country include a literacy programme aiming to insert people that do not know how to read or write into education processes and into the labour market. This is also aligned with the priorities defined for this SPR, in which education is analysed.

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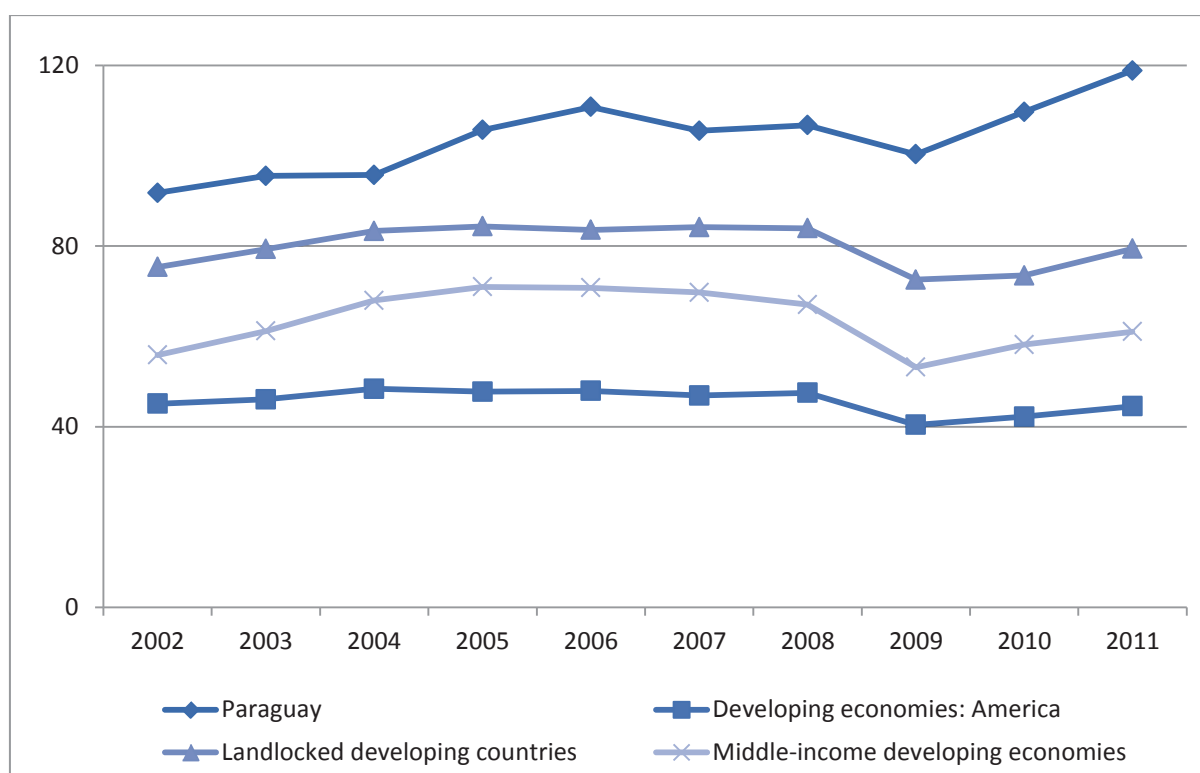
<sup>9</sup> Here, services include several elements that contribute to broader good living conditions: water and sanitation, energy, health, education, mobility and transport, communications, sports and leisure.

## CHAPTER II: TRADE OVERVIEW OF THE SERVICES SECTOR

### A. Contribution of the Services Sector to Trade

International trade is very important for Paraguay. The sum of exports and imports has exceeded 100 per cent of nominal GDP since 2005, which is above the average for countries in the region and also for middle-income countries and landlocked developing countries (see figure 15). It is also relevant to note that the sum of exports and imports in Paraguay, as a percentage of GDP, increased more than the average for the presented groups of countries in the period between 2002 and 2011, with an annual compound growth rate of 3 per cent.

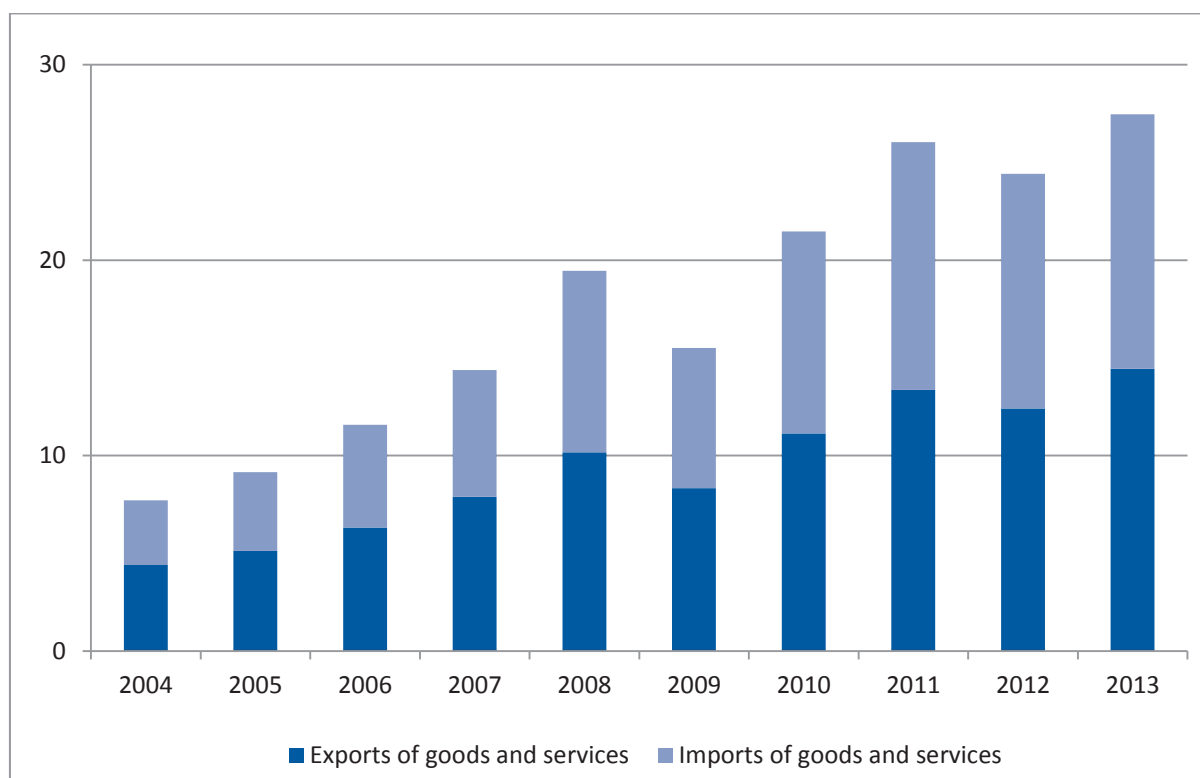
**Figure 15: Selected Countries: Sum of Imports and Exports of Goods and Services, 2002-2011 (Percentage of GDP)**



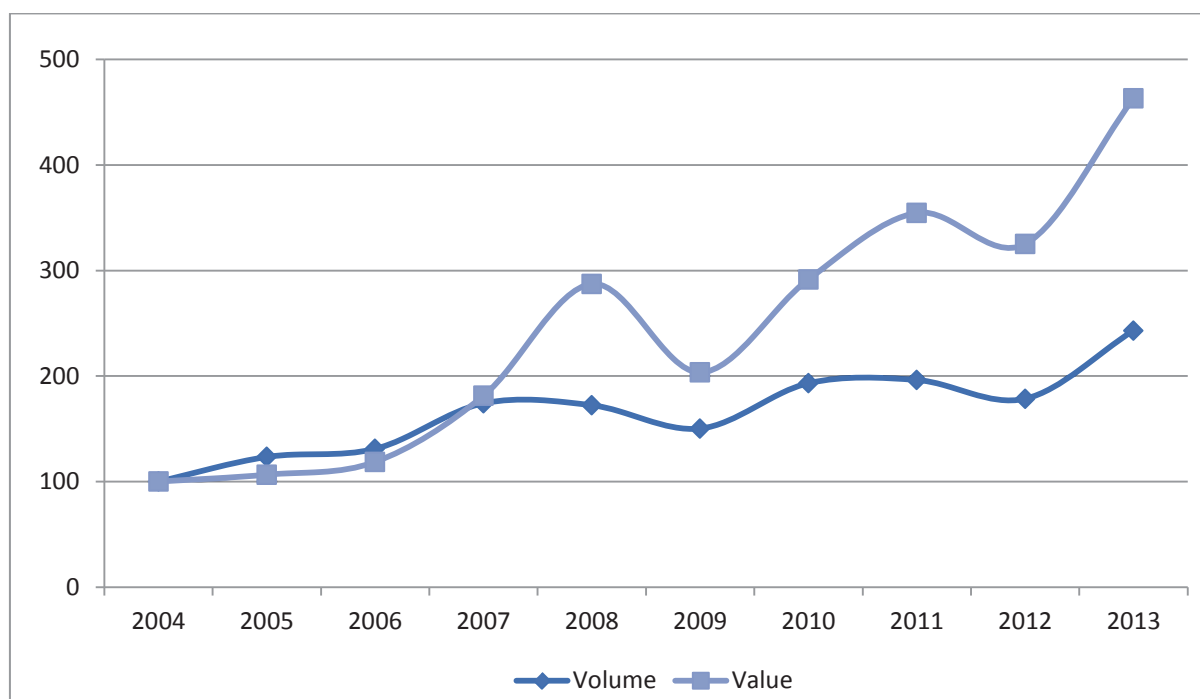
Source: UNCTADStat, consulted on 25 Feb 2014.

The sum of exports and imports of goods and services had a compound annual growth rate of more than 14 per cent in the period between 2004 and 2013. With a few exceptions, there was continuous growth in both exports and imports (see figure 16). In 2013, exports reached over USD 14 billion while imports arrived at a value of USD 13 billion. Regarding exports of goods, values have been increasing more than volumes (see figure 17), indicating that growth is also connected to increase in prices and correspondent volatility.

Although declining from representing 75 per cent of destination markets in 2004 to 40 per cent in 2013 (see table 1), the main destination markets for Paraguay's exports are still the MERCOSUR countries, especially Brazil (see figure 17 and figure 18). This is aligned with efforts to diversify destination markets. Exports to Russia grew more than 40 per cent in the same period, representing 10 per cent of Paraguay's exports in 2013. Exports to the European Union and to the countries of the Latin American Integration Association (ALADI) not belonging to MERCOSUR grew more than 30 per cent between 2004 and 2013. Each of these exports represented more than 10 per cent of global exports from Paraguay in 2013.

**Figure 16: Paraguay: Imports and Exports of Goods and Services, 2002-2011 (Billion USD)**

Source: BCP, consulted on 7 March 2014.

**Figure 17: Paraguay: Evolution of Exports of Goods in Volume and Value, 2004-2013<sup>a</sup> (Index 2004=100)**

Source: BCP.

<sup>a</sup> From 2012 onwards, volumes are preliminary. From 2011 onwards, values are preliminary.

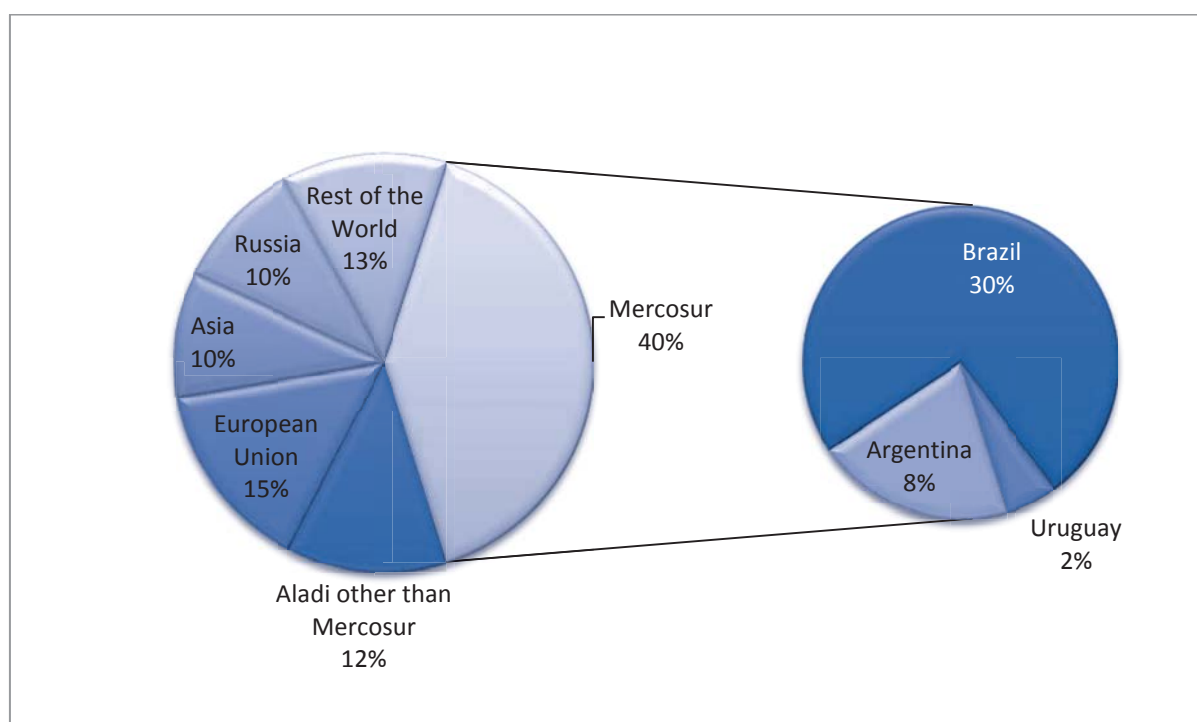
**Table 1: Paraguay: Exports by Destination Market, 2004-2013<sup>ab</sup> (Percentage)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	12.0	11.9	12.6	18.6	20.7	10.9	8.5	8.9	8.1	8.2
Brazil	47.3	48.9	47.5	43.9	34.1	44.1	33.7	32.1	39.1	30.0
Uruguay	15.5	15.0	10.3	1.6	2.0	1.2	1.0	1.1	1.4	2.1
ALADI other than MERCOSUR	3.2	4.1	7.4	10.2	14.4	14.4	16.6	14.5	9.1	12.3
European Union	3.4	3.3	3.5	10.7	9.4	10.2	18.1	19.8	14.6	14.8
Asia	4.5	4.6	2.9	5.7	7.8	6.9	7.0	9.3	7.5	9.6
Russia	1.4	3.2	6.5	3.0	5.1	4.9	6.6	5.2	9.7	10.0
Rest of the world	12.9	9.0	9.4	6.4	6.5	7.3	8.5	9.1	10.5	12.8

Source: BCP, consulted on 26 Feb 2014.

<sup>a</sup> From 2012 onwards, values are preliminary.

<sup>b</sup> ALADI other than MERCOSUR comprises the following countries: Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Panama and Peru.

**Figure 18: Paraguay: Exports by Destination Market, 2013<sup>ab</sup> (Percentage)**

Source: BCP, consulted on 26 Feb 2014.

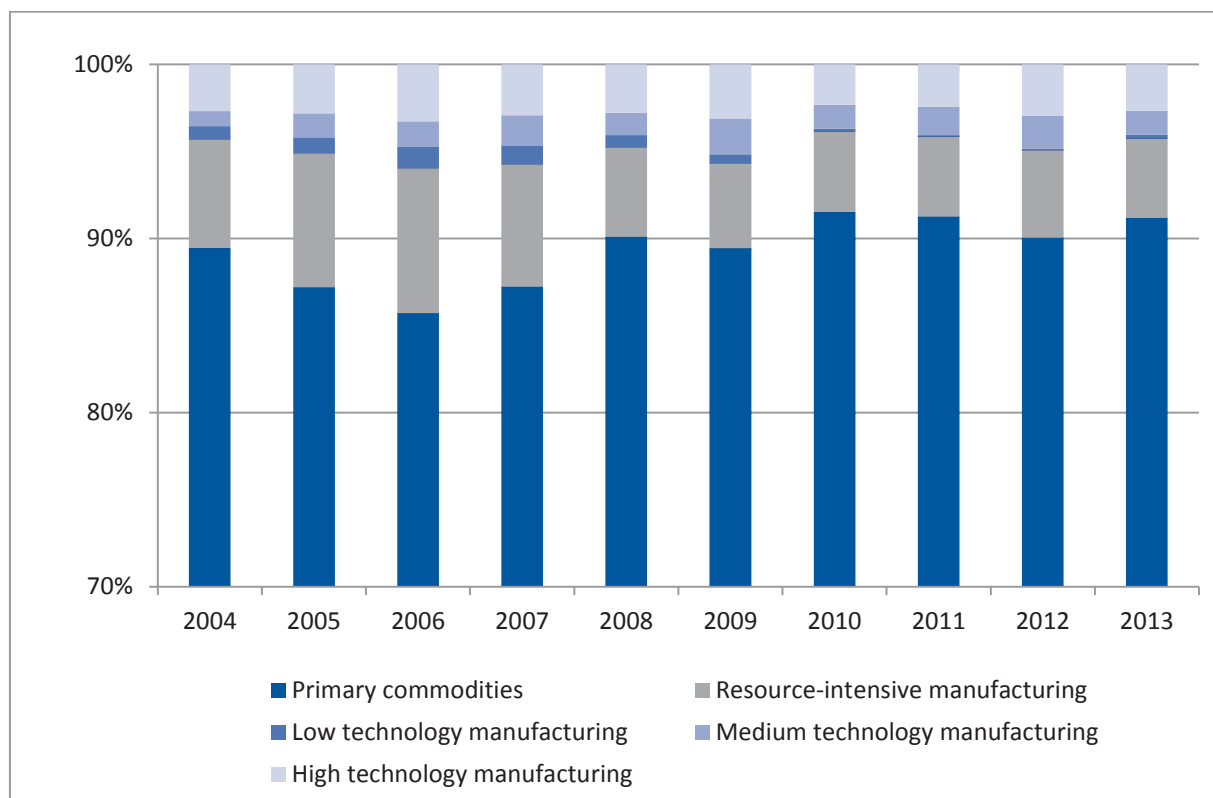
<sup>a</sup> Values are preliminary.

<sup>b</sup> Mercosur includes data from Argentina, Brazil and Uruguay. ALADI other than MERCOSUR includes data from the following countries: Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Panama and Peru.

Most exports of goods have been exports of commodities, followed by exports of resource intensive manufacturing products. The contribution of manufacturing products with low, medium and high levels of technology is very low (see figure 19). This insufficient diversification brings vulnerability due to price volatility and uncertainty of commodity markets as well as natural and other events that may hamper commodities performance. The severe drought that hit the country in the end of 2011 and beginning of 2012 is an example of an event which had a strong effect on agricultural and total output (see figure 1 and figure 2). It also had an impact on exports of commodities, which decreased 9 per cent in 2012. It is relevant to underline that some services provide inputs that contribute to value-addition in other economic activities, and have the potential to influence the export profile. This may be part of the strategic vision for the services sector.



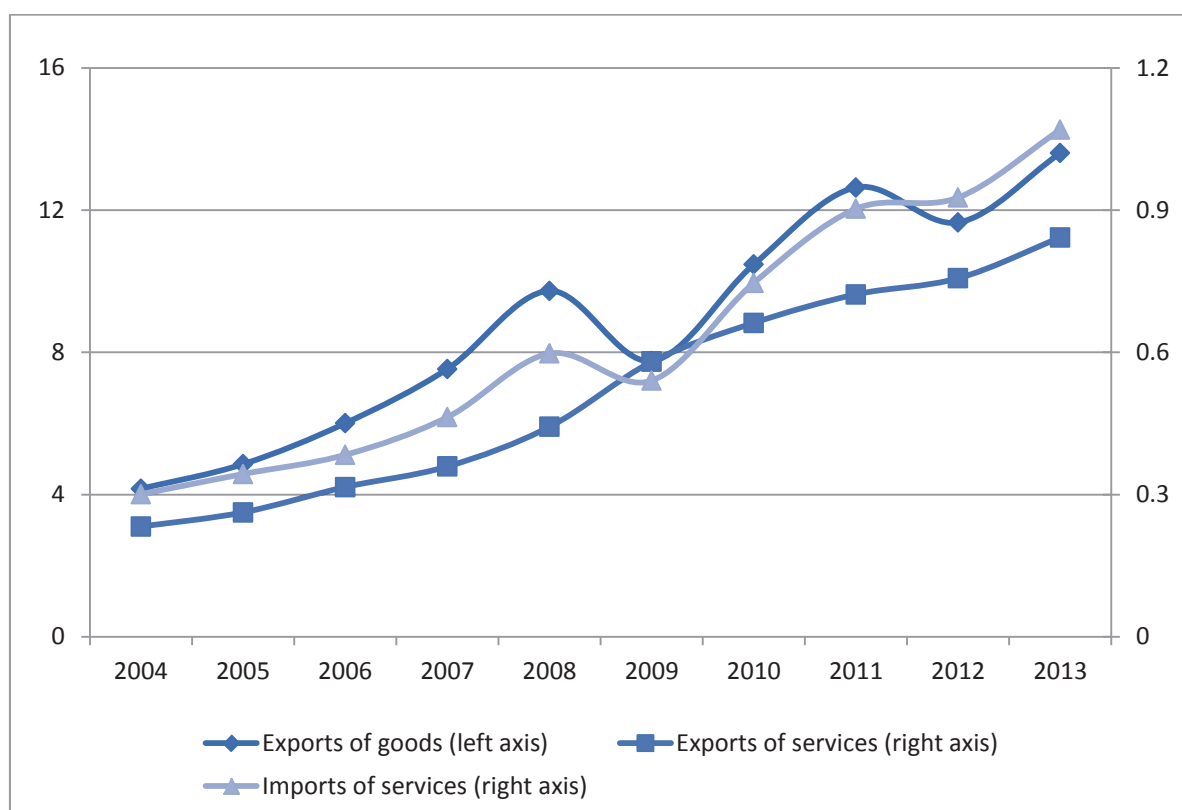
**Figure 19: Paraguay: Global Exports Grouped According to Technology Intensiveness, 2004-2014 (Percentage)**



Source: UNCTADstat, consulted on 31 August 2014.

In the period between 2004 and 2013, Paraguay's services exports contributed much less than goods to Paraguay's total trade. In 2013, services represented 5.8 per cent of total exports and 8.2 per cent of total imports. Still, services exports increased with a compound annual growth rate of 15.4 per cent. With a slightly higher growth rate than goods exports, which have grown in the same period with a compound annual growth rate of 14.1 per cent, services exports have grown steadily and did not decrease during the international crisis at the end of the last decade, unlike goods exports (see figure 20). This resilience of the services sector, also revealed in the output trend, highlights the importance of considering the services sector as an option for trade diversification policies. Although the services trade balance was negative in almost every year of this period, in contrast to trade in goods, services exports had a compound annual growth rate slightly higher than services imports between 2004 and 2013 and grew steadily throughout the period.

Analysing the breakdown of services exports by service sector between 2004 and 2013, it is relevant to note that transport and travel are the fastest growing commercial services categories, with an annual compound growth rate of 17.6 and 16.4 per cent in the same period, respectively. Furthermore, these activities accounted for the biggest shares of commercial services exports: 44.2 and 32.4 per cent respectively in 2013 (see figure 21). Financial services reduced their share from 4.5 to 0.4 per cent of commercial services exports over the same period.

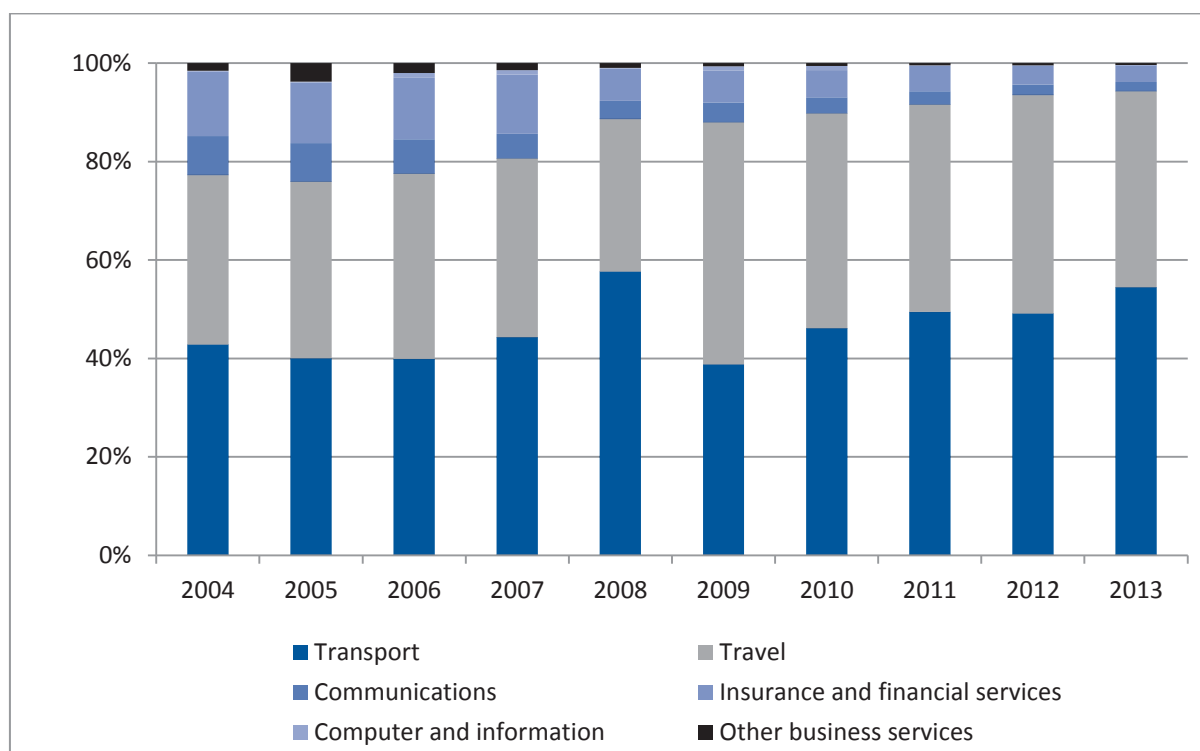
**Figure 20: Paraguay: Exports of Goods and Services and Imports of Services, 2004-2013 (Billion USD)**

Source: BCP.

The negative trade balance of services exports between 2004 and 2013 is mainly due to contributions from transport services, which present the biggest trade deficit in this period. Travel has made a positive contribution from 2009 onwards and communication services also contributed with a smaller trade balance surplus. Insurance and financial services, royalties and licence fees, and other business services present trade deficits in this period.

## B. National Policies for the Expansion of Services Exports

When considering what policies to adopt to promote trade and investment in specific sectors, countries can consider the following options: autonomous or unilateral liberalisation based on domestic reforms and conducted outside of any trade forum; bilateral/regional liberalisation; or multilateral liberalisation in the context of the WTO. In the case of trade in services, the literature suggests that policy reforms have been mostly unilateral and that trade agreements have not been very successful in achieving services liberalisation. This may reflect the fact that in many services sectors, governments wish to maintain policy flexibility to pursue key national policy objectives and to preserve the right to reverse a policy in the case of unexpected circumstances or if the expected benefits are not forthcoming.

**Figure 21: Paraguay: Distribution of Commercial Services Exports, 1981-2012 (Percentage)**

Source: Central Bank of Paraguay.

Given the wide range of services and the numerous institutions and agencies in charge of relevant policy-making and regulation, reviewing countries' liberalisation commitments and cooperative arrangements under various trade agreements is a useful starting point in drawing the picture in terms of trade-related objectives in services and actual market access conditions. The following section describes Paraguay's services liberalisation commitments under various fora and the on-going services negotiations in which it is involved.

### 1. Trade Openness in Paraguay's Overall Strategies

Promoting trade, for Paraguay, is a means to expand the market for domestic enterprises, which is particularly important given the limited size of the national economy, perceived by policymakers as providing limited business opportunities and capacity to generate employment. Thus, the participation of Paraguay in trade agreements and trade negotiations is part of a broader and long-term strategy aimed at diversifying the productive structure, developing its export offer and consolidating markets for Paraguay's products, to increase the quantity and improve the quality of employment,<sup>10</sup> and to reduce poverty and exclusion.

Paraguay recognises confronting challenges to maximising gains from trade. Maximising benefits from participation in different integration schemes and international trade fora implies tackling the "pending agenda",<sup>11</sup> which relates to the need to implement, in parallel to trade liberalisation, measures to promote the competitiveness of domestic sectors. For instance, promoting competitiveness, for Paraguay, means improving business facilitation (i.e. ensuring access to finance and reducing operating costs as well as entry and exit barriers); promoting investment in education and technology to improve productive processes; investing in transport infrastructure; promoting production chains and an export-oriented mentality as well as associativity, standardisation and quality standards in SMEs.<sup>12</sup>

Paraguay's objectives with regards to trade agreements and negotiations include improving market access conditions in international markets, and harmonising rules and regulations in areas not directly linked to trade but that can have an influence on competitiveness in other markets. Paraguay has also advocated for duly recognising asymmetries and other challenges, such as its landlocked status, that may

<sup>10</sup> Paraguay's vision regarding trade negotiations and agreements taken from MIC website (<http://www.mic.gov.py/v1/node/598>).

<sup>11</sup> Source: MIC website (<http://www.mic.gov.py/v1/node/598>).

<sup>12</sup> Source: MIC website (<http://www.mic.gov.py/v1/node/598>) and National Development Plan.

have an impact on deriving benefits from trade agreements. Paraguay is of the view that participating effectively in trade negotiations, integration processes and in other international fora regarding services requires coordinating and harmonising the views of public and private stakeholders.<sup>13</sup>

## **2. Paraguay's WTO Commitments and Participation in WTO Negotiations**

The specific services commitments undertaken by Paraguay in the context of the Uruguay Round relate to two of the twelve general sectors defined in the Services Sectorial Classification List, namely financial and tourism services. Paraguay did not specify any horizontal commitments. Paraguay did not deposit any list of exemptions to Most Favoured Nation (MFN) treatment under Article II of the GATS. Paraguay did not take part in the negotiations on basic telecommunications and financial services that followed the Uruguay Round.<sup>14</sup>

When compared to the rest of its MERCOSUR partners, Paraguay has fewer services commitments in terms of the number of sectors with WTO commitments. Out of 12 services sectors, Argentina undertook commitments in six sectors, Brazil in seven and Uruguay in six. In addition, Argentina ratified the IV Protocol on Telecommunications and Uruguay participated in the extended negotiations on financial services and as a result broadened its commitments in this sector. Argentina, Brazil and Uruguay have MFN exemptions.

In 2003, Paraguay submitted an initial services offer within the framework of the Doha Round negotiations, in which it indicated that it was prepared to consider adopting new commitments in the business services category (computer and related services) and travel agencies.<sup>15</sup> Paraguay has not submitted any proposals in the context of ongoing WTO services negotiations.

Paraguay is currently participating, as an observer, in negotiations<sup>16</sup> for a plurilateral Trade in Services Agreement (TISA). TISA aims to achieve an agreement of comprehensive scope<sup>17</sup> that delivers: (i) ambitious liberalisation commitments, which correspond as closely as possible to actual practice and provide opportunities for improved market access and delivery; and (ii) new and enhanced regulations pertaining to trade in services. TISA negotiations encompass potential new regulations on government procurement, domestic regulation, transparency, subsidies, licensing procedures and access to telecommunication networks.

## **3. Services Commitments Within MERCOSUR**

### **(a) Services Trade Commitments in MERCOSUR**

MERCOSUR's Montevideo Protocol was approved in 1997, with the objective of liberalising trade in services between Argentina, Brazil, Paraguay and Uruguay. Services are traded under four modes of supply, based on national treatment and MFN treatment. Mode 1 (cross-border supply) covers services flows from the territory of one country into the territory of another country (e.g. banking or architectural services transmitted via telecommunications or mail). Mode 2 (consumption abroad) refers to situations where a service consumer (e.g. tourist or patient) moves into another member's territory to obtain a service. Mode 3 (commercial presence) implies that a service supplier from one country establishes a territorial presence, including through ownership or lease of premises, in another country's territory to provide a service (e.g. domestic subsidiaries of foreign insurance companies or hotel chains). Mode 4 (presence of natural persons) consists of persons of one country entering, on a temporary basis, the territory of another country to supply a service (e.g. accountants, doctors or teachers). Argentina enacted the protocol in 2002, and Brazil and Uruguay in 2005. As per the provisions of the protocol, it entered into force after the third ratification was deposited, on 7 December 2005. In the case of Paraguay, the protocol recently entered into force on 22 September 2014.

The Montevideo Protocol established a programme for the liberalisation of trade in services between MERCOSUR countries by no later than December 2015. The liberalisation process is implemented through lists by sectors in which countries indicate their commitments and, for each mode, the conditions

<sup>13</sup> Decree 4201 of 14 April 2010, which created the National Services Forum.

<sup>14</sup> WTO (2011). Trade Policy Review of Paraguay. Secretariat Report.

<sup>15</sup> TN/S/O/PRY of 11 April 2003.

<sup>16</sup> Together with: Australia, Canada, Chile, Colombia, Costa Rica, European Union, Hong Kong, China, Iceland, Israel, Japan, Korea, Liechtenstein, Mexico, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, Switzerland, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, Turkey, Uruguay and the United States.

<sup>17</sup> With no a priori exclusions of any sector or mode of supply.

and limitations in terms of market access and national treatment. Seven rounds of negotiations took place through MERCOSUR's Common Market Group and Services Group.

The lists of commitments resulting from the VII round of negotiations were approved in December 2009. They included commitments in communication services, including post and telecommunication services, financial services and energy distribution services. They also included commitments in relation to tariff and non-tariff barriers for transport services by all modes, including air, water, road and railroad (MERCOSUR, 2009).

The schedule of commitments of Paraguay from the VII Round of negotiations is not yet in force, pending completion of internal administrative arrangements for its entry into force. This list includes partial commitments in the following service sectors<sup>18</sup> (besides commitments related to the two sectors undertaken in the WTO): real estate; leasing or rental without an operator; advertising; consulting; placement and supply of personnel; repair services of medical, precision and optical instruments, watches and clocks, on a fee or contract basis; building-cleaning; packaging, telecoms and cultural and entertainment services.

### **(b) Other services-Related Commitments and Cooperation Schemes in MERCOSUR**

Several other instruments complement MERCOSUR's commitments relating to the services sectors described above. For instance:

- Decision No. CMC 25/03<sup>19</sup> regulates mechanisms for temporary professional practice, including mutual recognition of qualifications and conditions for temporary licences;
- Decision No. CMC 16/03<sup>20</sup> establishes the creation of a visa and other common rules related to the temporary movement of physical persons that are service providers in MERCOSUR;
- Decision No. CMC 32/04<sup>21</sup> contemplates provisions aimed at reducing obstacles and facilitating business activities within MERCOSUR.

MERCOSUR also envisaged the design of regional policies and regulations on competition, government procurement and subsidies that would apply to services sectors.<sup>22</sup> Currently, Paraguay is participating in the negotiation of a maritime transport agreement within MERCOSUR.<sup>23</sup>

MERCOSUR also has regional cooperation mechanisms that promote integration through the modernisation of regional transport and communications infrastructure (Initiative for the Integration of South American Regional Infrastructure, IIRSA), or through financing to improve competitiveness and social cohesion (MERCOSUR's Structural Convergence Fund, FOCEM). Paraguay has benefitted from these mechanisms, obtaining technical and financial assistance for projects relating to several service sectors. For example, by 2011, under FOCEM Paraguay had received financing for projects of close to USD 116 million in areas such as refurbishing and upgrading of highways, support for microenterprises, construction and upgrading of drinking water and sanitation systems and sealing roads (WTO, 2011).

### **(c) Assessing Services Commitments in MERCOSUR**

Notwithstanding the services-related commitments mentioned above, several barriers to trade in services persist in MERCOSUR.

For example, in the professional services sector, although the lists of commitments consider the provision of professional services and the movement and permanence of certain professionals in other countries of the sub-region (MERCOSUR, 2009), several limitations to market access remain. Work visas are necessary in Argentina, Brazil and Uruguay, and a foreign company must be established in the country in Brazil and in Paraguay to provide services. Mutual recognition processes are not possible between Paraguay, Argentina and Brazil. This is because Argentina and Brazil (the main markets of interest for Paraguay's professional services) are of the view that mutual recognition can only be implemented among recognised professional associations.

<sup>18</sup> List of specific commitments of Paraguay derived from the VII Round of services negotiations in MERCOSUR, available at ALADI website: <http://www.aladi.org/nsfaladi/nuevostemas.nsf/91e6c272a38e2e800325706c00687c81/51071885d11687c10325768e006039d2?OpenDocument>.

<sup>19</sup> Available at: <http://www.sice.oas.org/trade/mrcsrs/decisions/dec2503s.asp>.

<sup>20</sup> Available at: <http://www.sice.oas.org/trade/mrcsrs/decisions/dec1603s.asp>.

<sup>21</sup> Available at: <http://www.sice.oas.org/trade/mrcsrs/decisions/dec3204s.asp>.

<sup>22</sup> MERCOSUR (2009). Comercio de Servicios en el MERCOSUR: Estado actual y potencialidades.

<sup>23</sup> WTO (2011). Op. cit.

Several limitations exist with respect to specific sectors. For instance, in Paraguay there is a 50 per cent limit on foreign capital in telecommunication providers. Maritime transport in Paraguay and in Uruguay has to be provided by companies established in the country with a national majority of capital. Companies must be established in Argentina, Brazil and in Paraguay in order to supply road transport services. Under the Agreement on International Land Transport (ATIT) between Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay, access to international cargo road transport is given to participating countries, subject to reciprocity (MERCOSUR, 2009).

The prevalence of barriers to trade in services liberalisation within MERCOSUR is possibly related to challenges achieving deeper integration that MERCOSUR has faced, including low levels of economic interdependence and asymmetries within the bloc, which have an impact on the significance of regional trade and the role it plays in each country's external trade.<sup>24</sup> In the context of this study, the following aspects can be directly linked to areas of concern regarding regional trade in services:

- Lack of enforcement of regional regulatory frameworks and decisions, due to commitments that are not automatically incorporated into national legal frameworks;
- Lack of regional cohesion with respect to the identification of regional needs and priorities in the services sector.

#### 4. Participation in Other Trade Agreements

##### (a) Trade Liberalisation Agreements and Negotiations

Paraguay, through MERCOSUR, has a trade agreement in force with Chile, which is the only trade agreement containing services commitments that go beyond those undertaken in the WTO. The services protocol to this agreement was signed in 2009. MERCOSUR members assumed commitments separately. Paraguay generally undertook partial commitments (mainly under modes 2 and 3 in several sectors), except for tourism and franchising services, which encompassed broader commitments. The table below summarises Paraguay's commitments:

Horizontal commitments	<ul style="list-style-type: none"> <li>• Limitations on land owner ownership in border areas.</li> <li>• Requirement for foreign companies to be established in Paraguay.</li> <li>• Mode 4 is unbound, except for temporary stays in the case of categories (managers, executives, specialists, business visitors) involved in investment and entrepreneurship initiatives.</li> </ul>
Computer and related services	<ul style="list-style-type: none"> <li>• Liberalised modes 2 and 3.</li> </ul>
Real estate services	<ul style="list-style-type: none"> <li>• No market access restrictions under mode 2.</li> <li>• No national treatment restrictions under modes 2 and 3.</li> </ul>
Other business services	<ul style="list-style-type: none"> <li>• Includes partial commitments in: leasing or rental without an operator; placement and supply of personnel; repair; building-cleaning and packaging services.</li> <li>• Liberalised modes 2 and 3 for these subsectors.</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>• Mode 3, subject to licensing requirement in some subsectors.</li> </ul>
Distribution services	<ul style="list-style-type: none"> <li>• Liberalised modes 2 and 3 for wholesale and retail services.</li> <li>• For franchising: modes 1, 2 and 3.</li> </ul>
Education services	<ul style="list-style-type: none"> <li>• Liberalised modes 2 and 3 for primary education.</li> <li>• For secondary education, only mode 2.</li> </ul>
Health and other social services	<ul style="list-style-type: none"> <li>• Liberalised only under mode 2.</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>• Fully liberalised - all modes of supply.</li> </ul>
Transport	<ul style="list-style-type: none"> <li>• Water and road transport services with limitations.</li> </ul>

Source: ACE 35-53, retrieved from MERCOSUR website.

However, these commitments have not been enforced by Paraguay, because internal administrative arrangements for this Protocol to enter into force have not been completed.<sup>25</sup>

Paraguay, through MERCOSUR, is currently participating in trade negotiations with the European Union (EU). The objectives of these on-going negotiations specifically mention trade liberalisation in services.

<sup>24</sup> See: Molteni et al, 2011; Vaillant, 2007; and Doctor, 2011.

<sup>25</sup> Ministry of Foreign Affairs of Chile/DIRECON (2012). Evaluación de las relaciones comerciales entre Chile y MERCOSUR a dieciséis años de la entrada en vigencia del Acuerdo de Complementación Económica.

Therefore, the final outcome of bloc-to-bloc negotiations between the EU and MERCOSUR is expected to encompass a specific chapter on trade in services and right of establishment<sup>26</sup> and schedules of commitments. These negotiations were re-launched in May 2010 and, since then nine negotiating rounds have taken place.

**(b) Other Agreements**

Paraguay has signed other agreements that refer to objectives related to services but do not contain trade liberalisation commitments with respect to services. The following table summarises services-related provisions.

Israel	<ul style="list-style-type: none"> <li>Objectives include: promoting investment and trade in services.</li> <li>Suggests achieving this by “broadening reciprocal knowledge” through marketing and commercial promotion activities.</li> </ul>
Peru	<ul style="list-style-type: none"> <li>Objectives include: facilitating trade in services; promoting investment as well as cooperation (economic, energy, scientific, technological and in the area of physical infrastructure).</li> <li>Refers to an eventual dialogue for future liberalisation and expansion in trade in services.</li> </ul>
MERCOSUR - Bolivia Complementation Agreement	<ul style="list-style-type: none"> <li>Objectives include: cooperating to facilitate trade in services; facilitating mutual investments; promoting the activities of multinational companies in services sectors and promoting scientific and technological cooperation.</li> </ul>

Source: OAS. Foreign Trade Information System. Portal of trade agreements in force (available at: [http://www.sice.oas.org/agreements\\_e.asp](http://www.sice.oas.org/agreements_e.asp)).

The MERCOSUR-Chile agreement also mentions, among its objectives, promoting the development and use of physical infrastructure, with special emphasis on establishing links between the two coasts; promoting and boosting reciprocal investments between economic operators of the signatory countries; and promoting complementarity and cooperation in the economic, energy, scientific and technological fields.

Paraguay has established trade frameworks with Jordan, Turkey, Morocco, Syria, South Africa and Pakistan. These trade frameworks aim to establish conditions and mechanisms to negotiate eventual free trade agreements, but do not specifically mention trade liberalisation in services.

Paraguay is also currently participating, through MERCOSUR, in negotiations with Canada, the Gulf Cooperation Council, Korea, Panama, the Central American Integration System (SICA) and Singapore. The objectives of these ongoing trade negotiations and agreements do not specifically mention trade liberalisation in services, although the Singapore-MERCOSUR objectives refer to “promoting economic relations in the areas of trade in goods, services and investment”.<sup>27</sup>

These agreements encompass trade policy objectives in a broader context of political dialogue and economic cooperation with these partners. The interests and objectives of Paraguay in the context of these dialogues emphasise two areas that could relate to services development and trade such as technology (transfer of technology, technology cooperation and capacity-building in the area of technology) and transport (integration of land, river, sea and air links)

<sup>26</sup> Source: MIC website - "Acuerdos en Negociación" (<http://www.mic.gov.py/v1/node/601>).

<sup>27</sup> *Ibid.*

**PART II**

**RESEARCH BY**

**NATIONAL EXPERT TEAM:**

**SECTOR-SPECIFIC ANALYSIS**



## **CHAPTER III: CONSTRUCTION SERVICES AND ASSOCIATED PROFESSIONAL SERVICES (ARCHITECTURE AND ENGINEERING)**

### **A. Introduction**

The construction industry (which is equivalent to “Construction and related engineering services” in the WTO terminology) is a multi-dimensional activity primarily aimed at constructing buildings or physical infrastructure projects (e.g. highways, ports and utility systems), including ancillary tasks such as additions, alterations, maintenance and repairs.

Specialised engineering and architectural services are a key component of the overall set of tasks needed for the operations of the construction industry. These specialised services provide blueprints and designs for buildings and other structures, and a wide range of planning, design, construction and management services for building structures, installations and civil engineering works.

The need for policy planning and regulation in this sector is quite evident, given its link with multiple economic activities and with key infrastructural and capital-intensive sectors. As a supplier of physical infrastructures, the construction sector has links to many different markets and activities, including mining, petroleum and petrochemicals, power generation, manufacturing, water and utility distributions systems, sewerage/waste, transportation and telecommunications. The justification for state intervention is also based on the link between sector and public policies related to access to housing and to public health, as well as the labour-intensive nature of this sector.

The construction industry is relatively fragmented, with few dominant players in most sectors, whether analysed by industry or country. The industry’s market structure is expected to change slowly over time, with a few very large firms at the top and many small and medium-sized players serving niche markets.

Construction firms are usually managed at a fixed place of business, but they usually perform their activities at multiple project sites. Production responsibilities in this sector are usually specified in contracts with the owners of construction projects (prime contracts) or contracts with other construction establishments (subcontracts).<sup>28</sup> Engineering and architecture services are provided by specialised teams working as part of construction firms, or outsourced to local or foreign professional services providers. The latter, in turn, can act as individual providers or organise themselves into specialised or multitasking services enterprises.

Construction is a very large and important industry: it accounts globally for around one-tenth of the world’s GDP and 7 per cent of employment (WTO 2014). Emerging economies already constitute over half of the global construction market, and their weight is bound to increase further. China has been the largest construction market since 2010, overtaking the US, and India will overtake Japan as the third-largest construction market by the early 2020s.<sup>29</sup> The regional market for construction services was estimated at USD 550 million in 2012, with good longer-term growth prospects. The construction market in Latin America is dominated by Brazil, but a few smaller markets, such as Chile, Panama and Peru, are performing quite well.

Trade in engineering services used to be almost exclusively provided by developed countries, led by the US. More recently, developing countries have increased their participation in trade in engineering services due to improvements in education, the commodities boom, advances in information technology and outsourcing trends.

### **B. Description and Performance of the Sector**

#### **1. Evolution**

Monitoring the evolution of the sector in Paraguay is difficult given the scarcity of statistics. According to the Central Bank of Paraguay (BCP), there are no statistics registering exports or imports of construction services. Statistical data is also lacking regarding FDI in this sector. The only two sources are a monthly

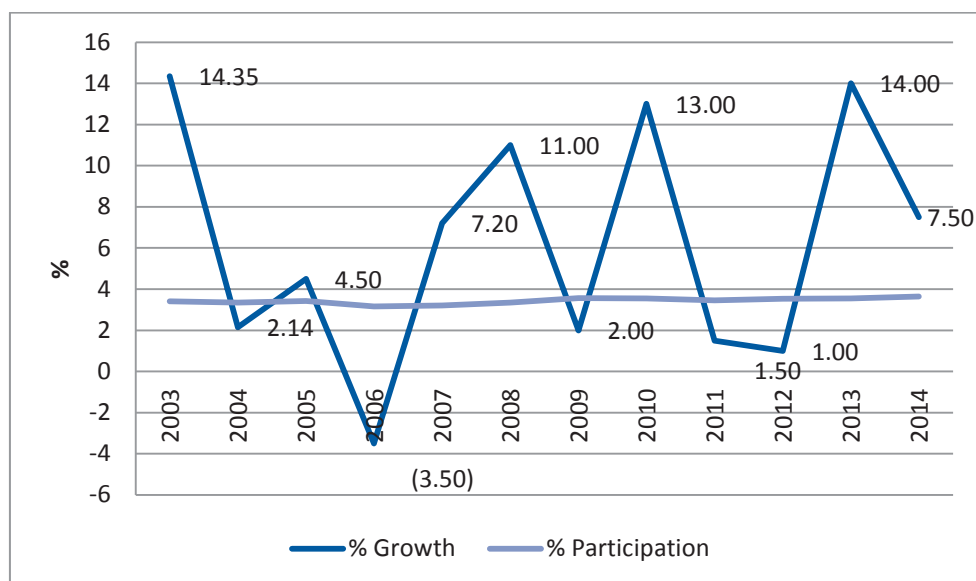
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<sup>28</sup> U.S. Bureau of Labor Statistics, 2014.

<sup>29</sup> See Shilling, 2013 and PWC, 2013.

magazine edited by CAPACO, which contains, among other specialised articles, a list of materials, areas and prices that are very useful for the sector, and data on the contribution of the sector to GDP, compiled by the BCP using statistics related to sales of materials for the sector.

**Figure 22: Participation and Growth of the Construction Sector in GDP (Percentage)**



Source: Data from BCP.

The contribution of the sector to GDP provides insights into the evolution of the construction sector in Paraguay (see figure 22). In 2014, the contribution of the sector to GDP was 3.6 per cent, generating an annual added value equivalent to USD 1,745 million. Figure 22 shows that this percentage has remained stable during the latest decade. This number is low, compared to the regional average, which is estimated to be 6 per cent, according to ECLAC data from 2012.<sup>30</sup> Except for 2006, the sector registers positive growth rates in Paraguay. The evolution in sectoral performance is deeply influenced by the macroeconomic climate and public management.

The construction sector employed 6.5 per cent of the active population in Asuncion and the urban areas of the Central Department during the first trimester of 2014, according to the last Report of the Continued Poll on Employment of the DGEEC.<sup>31</sup> This percentage was equivalent to 83,000 workers, 98 per cent of which were male. These numbers include formal and informal workers but do not differentiate between them. Informal employment in urban areas in Paraguay remains high, at 57 per cent, compared to the average of Latin America.<sup>32</sup>

## 2. Characteristics of the Provision of these Services in Paraguay

### (a) Main Characteristics

There are 579 providers of construction services registered in the Paraguayan Chamber of the Construction Industry (CAPACO). These include providers of civil works, housing programmes, construction of hospitals, schools and other public buildings, expert reports and guidance to city governments. According to information provided by this chamber, three companies have turnovers above USD 30 million per year; 10 companies between USD 20 and 30 million per year; 30 companies between USD 10 and 20 million per year; and the rest are small, mostly family, companies. In addition, 22 companies are registered in the Paraguayan Chamber of Road Builders Corporations (CAVIALPA).

There is no accurate data on architecture and engineering services in Paraguay because official statistics absorb these into wider categories of services. This is because these professional services are highly integrated and interrelated with construction activities and/or other services rendered to construction

<sup>30</sup> ECLAC (2013). Statistical Yearbook for Latin America and the Caribbean. Available at: [http://www.cepal.org/publicaciones/xml/6/51946/4Estadisticas\\_economicas.pdf](http://www.cepal.org/publicaciones/xml/6/51946/4Estadisticas_economicas.pdf).

<sup>31</sup> The Continued Poll on Employment ("Encuesta Continua de Empleo") is performed in urban areas of Asuncion and the Central Department, which represents 40 per cent of the National EAP and 60 per cent of the Urban EAP.

<sup>32</sup> Perry et al. (2007). Informalidad: escape y exclusión. World Bank.

companies. The provision of architecture and engineering services is characterised by a majority of small firms, especially in the case of architects. However, both functions are combined in larger companies. 2,051 engineers, out of a total of 4,000,<sup>33</sup> have registered with the Paraguayan Centre of Engineers (CPI).

According to CAPACO, Paraguayan companies have developed their supply capacity through joint ventures, participating in large infrastructure projects such as the construction and maintenance of hydroelectric dams to international technical standards. In spite of the lack of trade statistics, CAPACO mentions that Paraguayan construction companies are able to export construction services in this manner. They have also developed their supply capacity through subcontracts to local companies by foreign companies, for the development of public infrastructure works.

Even though exports of professional services in the sector are not registered in the services balance, CAPACO asserts that Paraguay trades construction services without movement of persons or companies (under mode 1), and through professionals providing services abroad (under mode 4). Some companies are venturing into the region and into Africa, as in the case of OGA, a company that has a commercial presence in Mozambique (exporting under mode 3). Nevertheless, it is important to reiterate that there is no official statistical data about this.

### **(b) Issues Affecting Services Providers**

Providers of construction services face challenges related to informality, a shortage of skilled personnel, an unstable supply of construction inputs and barriers to trade.

#### *Informality*

A high level of informality characterises the provision of construction services and the hiring of work force in the construction sector in Paraguay. Subcontracting work (to masons, painters, plumbers, floor layers, electricians, carpenters and ironworkers, among others) is a common practice in the sector to lower costs. Many of these subcontracted service providers are natural persons, not formally organised as companies. Since they work independently without fixed production units, their activities are not recorded in the economic census. Most of the construction work related to housing in Paraguay is performed by informal services providers, which include builders with no formal qualifications who work without the support of architects and engineers.

This informality has many implications. It creates a great degree of evasion of taxes and social security charges, particularly among SMEs, leading to unlawful competition among formal and informal services providers. In addition, informality also leads to violations of social security rules, labour laws and regulations on malpractice.

This informality stems from the ad hoc subcontracting system utilised in the sector, a lack of regulation and enforcement weaknesses related to regulatory oversight and coordination among different institutions (IPS, Taxation, Ministry of Justice, professional registries, etc.)

#### *Shortage of Skilled Personnel*

The shortage of skilled personnel represents both a weakness and a threat to the development of construction companies in Paraguay. According to CAPACO and interviewed construction companies, there is currently a deficit of professionals such as technicians, topographers and personnel specialised in the management of equipment in many areas. In addition, the country needs twice as many engineers as it has, since there is demand for at least 1,000 engineers graduating per year, but currently only 250 engineers graduate per year.<sup>34</sup> In architecture, the number of professionals meets market needs.

This opinion is corroborated by several studies and indicators. For instance, the poll conducted by Investor in 2012<sup>35</sup> revealed that construction companies perceived difficulties satisfying their demand for the following categories of personnel: supervision and professional staff (60 per cent), specialists and machine operators (40 per cent), and assemblers, administrative staff, foremen and technicians (20 per cent).

<sup>33</sup> Source: Paraguayan Centre of Engineers.

<sup>34</sup> Information provided by CPI during the second SPR workshop held in Asuncion.

<sup>35</sup> Investor (2012). Macroeconomic Report of the Construction Sector.

Turning to professional services, the 2012 study on the Project for an Engineering School of the Catholic University in the Guaira Campus<sup>36</sup> indicates that the economic growth of the country will require at least 3,000 engineers and 10,000 operation technicians and middle management professionals in the next decade, which means doubling the number currently existing.

**Table 2: Personnel Requests for Engineers Made by Companies to the Engineering School of the National University Between 03/05/11 and 18/09/12**

Engineering Specialisation	Quantity	Percentage
Civil	81	33.6
Electro mechanic	53	22.0
Industrial	39	16.2
Mechanic	19	7.9
Electric	13	5.4
Electronic	12	5.0
Chemical	5	2.1
Informatic	5	2.1
Mechatronic	4	1.7
Telecommunications	3	1.2
Environmental	2	0.8
Geographic Sciences	2	0.8
Hydraulic	1	0.4
Sanitation	1	0.4
Systems	1	0.4
<b>Total</b>	<b>241</b>	<b>100</b>

Source: Peralta, Carlos (2012). Project: School of Science and Technology, Catholic University, Campus Guairá.

The request for graduated engineers from different national companies to the Engineering School of the National University (FIUNA) between 15/05/2011 and 18/09/2012 is indicative of the shortage of engineers. During this period, companies requested a total of 241 engineers with different specialisations. Civil engineers stand out, accounting for 33 per cent of the requests, while electro-mechanic engineers account for 22 per cent and industrial engineers for 16.2 per cent. It is noteworthy that 100 per cent of FIUNA graduates are employed and most final year students (in their eighth to tenth semester) are also employed.

According to the Association of Construction Professionals (APROCONS), the shortage of skilled personnel in the construction sector is a common problem in all Latin American countries that have experienced significant economic growth which has not been accompanied by the professionalisation of human resources, as is the case in Paraguay.

In construction services, the training offered by the National Service for Professional Promotion, SNPP,<sup>37</sup> is good but generic and unspecialised. It is also insufficient<sup>38</sup> to cater for the growing demand for professionals in the sector. To a great extent, the market has promoted the training of construction professionals through practice. In addition, many of them emigrate to Argentina, Brazil, Chile and Spain looking for higher salaries and demand.

The low proportion of engineering university graduates in relation to the growing demand is partly due to insufficient preparation during secondary education, particularly in maths and physics. This impedes candidates' access to formal higher education in this area in recognised universities, which offer a very demanding curriculum to safeguard the quality of education received by the graduates. In recent years, some universities have emerged that offer less demanding curriculums and degrees that are not recognised by MEC, some of which have been accused of selling degrees.

<sup>36</sup> Peralta, Carlos (2012). Project: School of Science and Technology, Catholic University, Campus Guairá.

<sup>37</sup> SNPP is an entity dependent on the Ministry of Work, Employment and Social Security. Its activities, initiated in 1972, are aimed towards the goals of the government's employment policy, and trying to meet the demands of the labour market as regards capacity building.

<sup>38</sup> MEC (2012). Report on Higher Education in Paraguay.

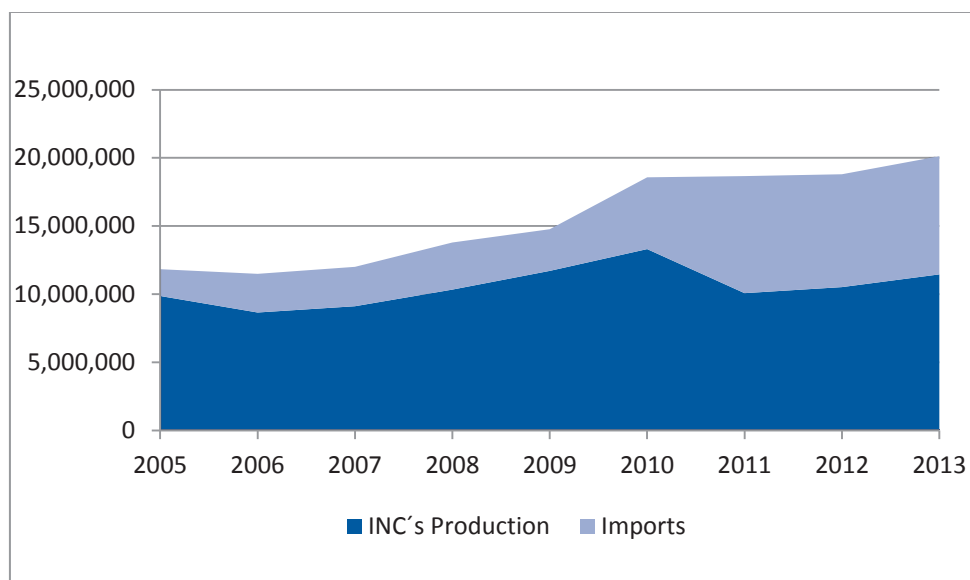
Aiming to improve the qualifications of Paraguayan workers in the construction sector, the Paraguayan Industrial Union (UIP) reached an agreement in April 2012 with SRH Holding, University of Applied Sciences of Heidelberg (Germany).<sup>39</sup> This entailed the creation in Paraguay of the Paraguayan-German University, offering courses such as Business Engineering and Industrial Engineering, which are related to construction. In addition, CAPACO is working towards an alliance with the European Union for the education of personnel, and CAVIALPA has signed an agreement with the SNPP for new capacity-building programmes.

#### *Unstable Supply of Construction Inputs*

The supply of primary inputs for the sector, such as cement and iron rods, is unstable due to problems in the main producing companies in Paraguay. Paraguay produces these primary inputs through the Nacional Cement Industry (INC) and Paraguayan Steels (ACEPAR). INC is a public company created in 1969 that produces cement, acting as a monopoly. It operates at a loss, due to its inability to make new investments and to an excess of personnel. It also periodically interrupts production due to technical malfunctions due to old equipment and energy shortages.<sup>40</sup> According to audits by the Controller General, INC suffers from operational inefficiencies, as well as weak administrative, accounting and financial controls. Pressure from labour unions, lack of strategic planning and administrative instability also affect this company.

The demand for cement is approximately 80,000 bags per day. CAPACO estimates that it will double in the next five to seven years, due to momentum that the government aims to give to the construction of infrastructure and a boom in private investment. According to INC, the company can produce 72,340 bags per day, which would allow it to meet a great part of the demand. However, it has been producing an average of 40,000 bags per day in the last years. The main suppliers of imported cement are Argentina, Chile and Uruguay. Even though imported cement has a lower quality and is cheaper than locally produced cement, importers sell it at the same price. There are occasional speculation periods, where there is shortage of product and price increases. The government is currently aiming to strengthen and modernise INC to generate positive financial results, as well as providing transparency to its management.

**Figure 23: INC's Production and Imports of Cement (in 50 kg bags)**



Source: Information provided by INC.

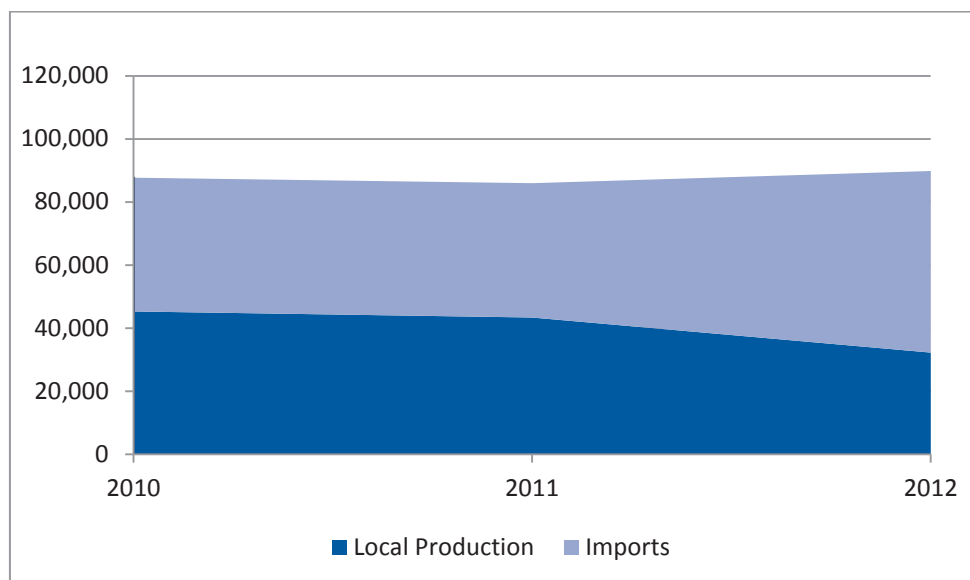
Regarding iron rods, the Centre of Metal Industries (CIME) estimates local demand to be around 9,000 to 10,000 tonnes (of rods) per month or an average of 110,000 tonnes per year. Given ACEPAR has the capacity to produce 120,000 tonnes per year, the company could fulfil local demand. However, due to management problems, its production was first reduced to 16 per cent, and then completely stalled. According to the Economic Census of 2011 performed by the DGEEC, there are 14 economic units of basic production of iron and steel. Eight of them are large and medium-sized and six of them are micro or

<sup>39</sup>[www.upa.edu.py](http://www.upa.edu.py).

<sup>40</sup> Borda, Dionisio (2008). ¿Eficiencia del Gasto Público en Paraguay? KAZ.

small-sized. One of the large companies is AIPSA, with the capacity to produce 24,000 tonnes per year. Given ACEPAR's situation, Paraguay imports iron rods from 20 countries, the major provider being Argentina, as well as Brazil, Chile and China.

**Figure 24: Annual Local Production and Imports of Iron in Paraguay 2010-2012 (Tonnes of Iron Rods)**



Source: Data from BCP and Marangatu System.

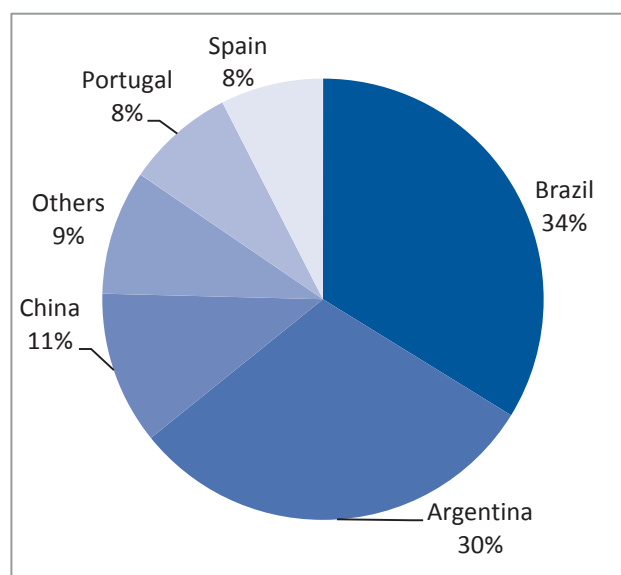
Other low value-added products such as tiles, stone and plaster are mostly imported from Argentina, Brazil, Portugal, Spain and China, as local production is scarce. Higher value-added products and accessories such as wood, screws, nuts, doors, windows, plates and pipes are mostly imported from China, Argentina or Spain. In 2013, imports of low value-added and high value-added inputs amounted to USD 42 million.

**Table 3: 2013 Imports by Paraguay of Construction Inputs (USD)**

Construction inputs	Import Value
Cement	16,461,223
Screws, nuts and bolts	14,467,239
Blinds, doors, windows and frames	3,628,402
Plates, profiles and pipes	3,287,722
Preparations for hardwood floors conservation	1,218,788
Brick and tiles	1,167,842
Faucets	791,169
Stone and lime	749,983
Piping accessories	320,651
Plaster	46,334
<b>TOTAL</b>	<b>42,139,353</b>

Source: BCP figures.

**Figure 25: Origin of Imports of Paraguay of Construction Inputs (Percentage Share)**



### Barriers to Trade in Services

According to CAPACO, exports of construction services to the MERCOSUR region are hindered by factors that are not related to the competitiveness of companies, and are therefore perceived as barriers

to trade in services. For example, requirements for the provision of these services in Brazil and Argentina include:

- Establishment of the company in these countries (commercial presence);
- Transfer of specialised professionals and personnel;
- Temporary admission of equipment;
- Transfer of money as capital contributions or loans obtained in the country of origin;
- Recognition of professional degrees.

Examples of barriers related to these requirements include the fact that a company's seniority in the market is only recognised from the moment it was established in the country (its international experience or its experience in its country of origin are not considered). This factor impedes companies from establishing credibility as a provider of competitive services. Another example relates to the case of some Paraguayan companies that won bids at the regional level, but had difficulties in the execution of the works, due to the prohibition on temporary admission of machinery (capital goods indispensable to fulfil the contract and diminish costs) and barriers impeding the movement of specialised national personnel. They reported being subject to restrictive bureaucracy regarding permits and licenses needed to render services as per the contracts. They also indicated facing non-tariff restrictions and technical regulations that had an impact on the execution of works and purchase of inputs.

## **C. Policy, Regulatory and Institutional Frameworks**

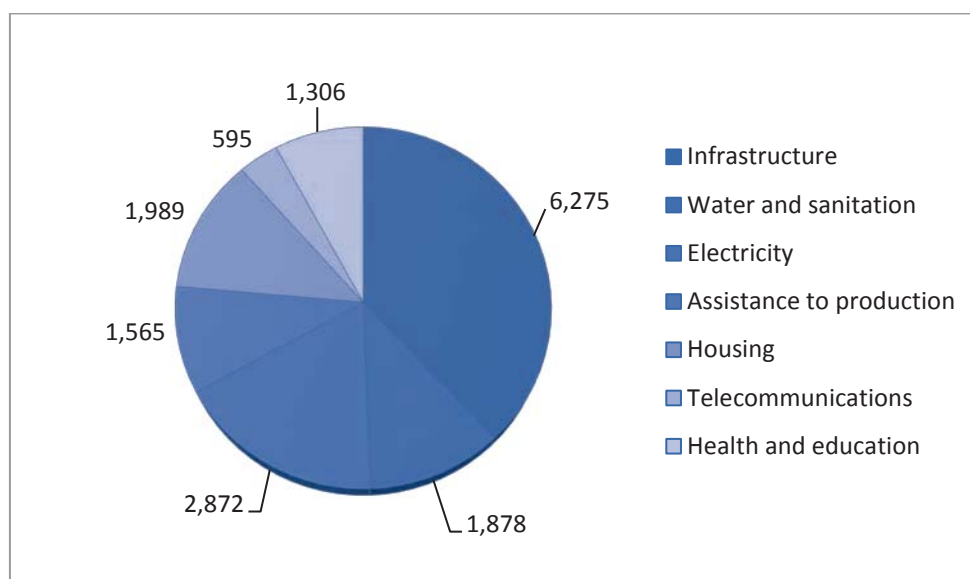
### **1. Policy Framework**

There is no specific policy for the construction sector as a whole. However, demand for construction services is closely linked to policies related to the development of infrastructure. The government of Paraguay recognises the need to address infrastructure gaps affecting the country's competitiveness and development goals. As mentioned in Chapter II, several policy priorities aimed at infrastructure development have been defined. These include increasing access to social housing, expanding electricity networks, improving maintenance and integrating the road network with the infrastructure of neighbouring countries. In sum, overcoming infrastructure-related challenges in Paraguay would provide a favourable environment for the development of the construction sector in coming years.

The main challenge in this area relates to investment. The infrastructure needs of Paraguay exceed the public budget, particularly given the size of the economy, low tax collection capacity and low income levels of the population. According to estimates by the government of President Horacio Cartes,<sup>41</sup> in the diverse areas linked to infrastructure development, the country needs to invest USD 16,480 million in infrastructure during the period 2014-2018, as detailed in figure 26. This amount exceeds the budget that MOPC controlled in 2013 (below USD 200 million), as well as the investment capacity of private banks, which was USD 10,000 million in 2014.

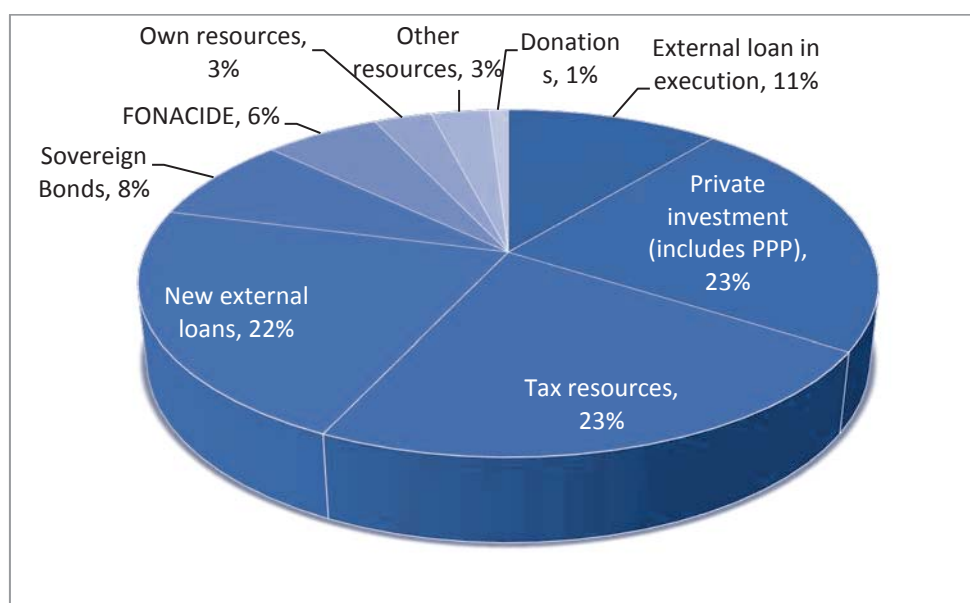
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<sup>41</sup> Source: Ministry of Finance (2013), public presentations by the Minister of Finance, Mr. German Rojas.

**Figure 25: Breakdown of Required Investments per Sector in Paraguay (Millions USD)**

Source: Ministry of Finance (2013), public presentations by the Minister of Finance, Mr. German Rojas.

To overcome this, the Law on Public-Private Partnerships (PPPs) was recently approved to promote the financing of the necessary works through private means. In addition, other forecasted external sources of financing include tax assignments and sovereign bonds, as shown in figure 27.

**Figure 26: Sources for financing Required Infrastructure in Paraguay (Percentage Share)**

Source: Ministry of Finance (2013), public presentations by the Minister of Finance, Mr. German Rojas.

The specific situation of the housing sector is illustrative of the challenges of developing specific policies aimed at infrastructure development, given investment shortcomings.



### Box 1: Overcoming the Housing Deficit in Paraguay

SENAVITAT estimates that, during the period 2011-2020, an investment of USD 13,000 million was needed to overcome the housing deficit in Paraguay.

The National Plan for Habitat and Housing in Paraguay (PLANHAVI), adopted in 2011, established targets to overcome the housing deficit by 2020. These targets included increasing the construction of new homes from 10,000 to 50,000 per year and increasing activities related to the improvement and expansion of existing housing.

Several programmes were put in place to promote access to finance for social housing. The National Fund for Social Housing (FONAVIS) and the Development Financial Agency (AFD) were created to provide a stable source of financing for the construction of social housing and to administer some of these programmes. AFD, for example, provided long-term funds to commercial banks to facilitate access to finance for housing. To implement these programmes, PLANHAVI set out an increased budget allocation for public institutions. Other initiatives sought to mobilise private financing agents.

In spite of these mechanisms and initiatives, two years after the plan was adopted an important gap remained between investment targets to achieve housing policy goals and real investment. SENAVITAT estimated that the real availability of public and private financing allows, in 2014, for the building of a maximum of 7,000 to 10,000 new homes per year.

Several factors contributed to this situation, including an overestimation of funding coming from multilateral institutions to finance AFD programs and institutional weaknesses related to project execution and implementation.

An important shortcoming observed is the inability of existing subsidies and institutions (private banks, but also AFD) to reach the beneficiaries that need housing the most. In contrast, families with relatively higher incomes have benefitted from existing programmes.

This situation poses the threat of an increased housing deficit in Paraguay in the coming years.

Sources: Infran (2012), PLANHAVI and SENAVITAT (2014).

## 2. Regulatory Frameworks

### (a) Regulations Pertaining to Construction Services

Regulations related to this sector in Paraguay are limited only to public works. They include:

- Law 2051/2002 on Government Procurement, which aims to use government procurement as a tool to promote the competitiveness of the sector and to ensure free competition. It establishes a system of purchases by the public sector, regulating the planning, programming, budgeting, contracting, execution, payments and control of acquisitions and rental of all kinds of goods, the contracting of services in general, of consultancy services and of public works and services related to these.
- Law 1618/2000 on Concessions for Public Works and Public Services, which has had a very limited application.
- Law 4727/2012, which grants a 20 per cent margin of preference to local companies, but has not been applied given that it is pending regulation by MIC.

Two recently approved laws related to the financing of infrastructure have generated a lot of interest. Law 5074/2013 establishes modalities for public works, and offers sovereign financial guarantees. This feature aims to reduce the risk associated with investment in public works related to infrastructure and to improve access to financing.

Law 5106/2013 on PPPs was adopted in 2013 to encourage the participation of private companies in the improvement of public infrastructure and services that had, until then, been provided only by state entities. This includes building roads, electric transmission lines and infrastructure related to water, sanitation, energy and airports, dredging and maintenance works in the river Paraguay and installing short-distance trains.

This law also seeks to overcome burdensome procedures, which act as a disincentive to investment, and to speed up the execution of public works. Other policy goals motivating this regulation include sharing the risk associated with infrastructure development and increasing employment.

Another important goal pursued through this legislation is increasing domestic productive, technological and operational capacities as well as experience with standards in public tendering processes. To achieve this objective, the law envisages joint ventures among local and international companies.

Interviews conducted in the course of this study with representatives of the private sector<sup>42</sup> revealed that some of them believed this instrument was an effective means to achieve the goals described above. However, some of them perceived threats and challenges in achieving these goals. These representatives were of the view that:

- *There is too much expectation regarding the amounts to be invested by the private sector, as the law's regulations set out a maximum of 10 per cent of state participation.*
- *It may increase the price of works at the expense of the final consumer. The works will end up being more expensive through private loans as the private sector needs a return on its investment. In contrast, the government has access to more favourable financing conditions. For example, the interest rates of international financial organisations are around 2 per cent, while private credit is more expensive, considering the return on investment rate is between 12 to 15 per cent, and the country risk in credit concessions.*
- *The PPP law is considered a setback in terms of transparency because some of its provisions contradict Law 2051/2002, which provides for citizen oversight. In contrast, the PPP law has a different oversight regime given its private investment component.*
- *The law will not lead to improving the quality of domestic services providers nor the transfer of technology, in view of the subcontracting practice prevailing in the sector. Their opinion is based on the fact that currently, foreign companies participating in bids related to construction generally end up subcontracting to local companies once they obtain the bid, which means that there is no transfer of know-how, no value addition or improvement in quality to local companies. Therefore, in their view, it is likely that under the PPP scheme, local construction companies will participate mainly as subcontractors or minority partners.*

Turning to regional regulation, MERCOSUR's Government Procurement Protocol (PCPM)<sup>43</sup> seeks to guarantee transparency and non-discrimination for all party states in tendering processes and/or contracts performed by public entities. Paraguay has not ratified the protocol yet, and therefore is not in force. The PCPM is being studied for its possible revision.

#### **(b) Regulations Pertaining to Professional Services Associated with Construction Services**

There are some legal requirements for registration to exercise professional services associated with the construction of public works in Paraguay. As listed below, architects and engineers must be registered:

- In MOPC's professional registry or, in the case of engineers, in the Paraguayan Centre of Engineers, which has been outsourced this function. Other professionals related to the construction sector, such as geologists, topographers and agricultural surveyors also need to register with MOPC.
- In the Register for Companies Providing Specialised Services (REPSE).
- In the Register of State Providers, if they are providing their services to the state.

In the context of MERCOSUR, regional regulation exists pertaining to trade in professional services. For instance, Decision 25/2003 on Professional Practice in MERCOSUR regulates the mutual recognition among party states for professional practice.

#### **(c) Assessment of Shortcomings and Inadequacies**

The interaction with the private sector and other stakeholders in the course of this study revealed that the legal framework of this sector is insufficient and that legislative change is needed in the following areas.

##### *Regulation of Professional Practice and Access to MERCOSUR Markets*

In spite of Decision 25/03 on Professional Practice in MERCOSUR, Paraguay is currently not able to access the regional market through mutual recognition. The reason for this relates to the way these provisions were negotiated. Ministries that demand professional registry for certain professions participated in the first stage of negotiations (about the requisites for the mutual recognition). In the case

<sup>42</sup> Representatives from CAPACO and in CAVIALPA.

<sup>43</sup> The structure and principles of the PCPM were based on the WTO Plurilateral Government Procurement Agreement, of which Paraguay is not a party. It is also based on NAFTA and EU experiences of government procurement.

of Paraguay, MOPC participated in this stage, as construction professionals (engineers and architects) must register there.

For the second stage, which relates to the implementation of mutual recognition between professional entities, institutions granting professional registration are required to be professional associations under public law. This is due to demands made by Argentina and Brazil, which have this type of professional permits, and are the main markets of labour interest in the region. In the case of Paraguay, there is no mandatory requirement for registration with professional associations. In fact, there is no law that regulates professional practice with effective controls to avoid illegal practice or to provide consumer protection mechanisms.

A first attempt to pass a law in this respect (Draft Law 5195/2014 of Professional Association) was made in June 2014. The congress passed this law but it was vetoed on June 10, by Decree N° 1767/2014 of the executive branch, arguing that it was unconstitutional and restrained free competition.

It is important to note that stakeholders perceive that there is an asymmetric market opening from Paraguay vis-à-vis its regional partners due to insufficient domestic regulation and low domestic enforcement capacity. Overcoming this problem requires tackling the pending national and regional agenda for the recognition of degrees, defining professional competencies, monitoring professional practice and application of common ethical norms in this sector, ensuring reciprocal implementation by other countries.

#### *Insufficient Regulation of Construction Works and Coexistence of Different Types of Standards*

The research and interviews conducted in the course of this study revealed that there is a regulatory gap in connection with private and public construction works in Paraguay. For example, regulation related to land use and urban planning and to environmental impact assessments are non-existent in Paraguay. The same is true for standards to ensure the safety of construction workers, for standards regarding necessary security controls depending on the type of works or for specifications for public works at the national level, or regulation related to civil responsibility.

Different technical standards coexist in relation to the construction of buildings. Although such standards are adequate in Asuncion, this is not the case in other municipalities. Municipal provisions regarding this type of construction are neither centralised nor harmonised. This lack of harmonised construction standards stems from municipal autonomy. In the case of industrial construction, where “turn-key” projects by foreign companies feature prominently, the use of foreign standards is widespread.

Interaction with private sector stakeholders pointed to the fact that new construction technologies cannot be adequately applied in Paraguay due to the absence of a law enabling their utilisation. This is the case, for example, for large construction projects requiring the use of very large capital goods, which may move from the construction site to neighbouring sites.

#### *Preferential Treatment of Domestic Services Suppliers*

There is regulatory contradiction between the provisions of Law 4727/12, which stipulates preferential treatment for domestic operators in public tenders, and Law 4558/11, which expressly states that in international tendering processes, national preference is not applicable. A recent case that brought this contradiction to light was a tendering process (won by the Korean company Ilsung Construction) where national preference was not applied. In this case, MOPC’s Contracting Unit stated that, according to Law 4558/2011, local companies competed under the same conditions as foreign companies.

The PPP law generated expectations regarding the preferential treatment of domestic suppliers. In this sense, the private sector proposed changing a provision that required that, in the case of joint ventures between a domestic and national company, all partners meet required indicators and experience. In their opinion it is enough that one of the parties fulfils the requisites, as they interpret the joint venture as a scheme where partners complement each other and therefore these requisites should not be cumulative.

### **3. Institutional Frameworks**

There is no specific institution that oversees the construction sector as whole. MOPC sets the regulatory framework for public works, which generates a high proportion of demand for construction services. Access to housing is linked to public policies set out by SENAVITAT.

The most important associations related to the construction sector are the Paraguayan Chamber of Construction (CAPACO), Paraguayan Chamber of Vial Constructors (CAVIALPA) and the Paraguayan Chamber for Housing and Infrastructure (CAPAVI). At the professional level, there are the Paraguayan Centre of Engineers and the Paraguayan Association of Architects (APAR).

A regional institution, the MERCOSUR Integration Commission for Agricultural Surveying, Agronomy, Architecture, Geology and Engineering (CIAM) has a mandate<sup>44</sup> to work towards the harmonisation of professional legislation.

#### **(a) Assessment of Shortcomings and Inadequacies**

##### *Enforcement of Existing Regulations and Controls Related to Professional Services*

The enforcement of existing regulations and controls linked to professional services is considered deficient. The interaction with stakeholders and interviews conducted in the course of this study revealed that this lack of enforcement relates to insufficient monitoring of the fulfilment of registry demands, labour laws, tax impositions and other market formalities. This situation produces, in the view of some domestic constituencies, market displacement from local personnel and domestic companies to foreign workers and companies, causing unrest in the industry.

In the view of the stakeholders consulted, this lack of enforcement stems from insufficient coordination by the governmental entities in charge of oversight of migration-related issues (Migration Directorate) and of issues pertaining to the interface between migration and labour policies (Ministry of Justice).

##### *Implementation Capabilities*

The discussions in both seminars with stakeholders highlighted institutional weaknesses within MOPC in the management of construction projects linked to public works. These deficiencies related mainly to three spheres: (i) drafting projects, (ii) planning and monitoring the execution of works, and (iii) control.

In the drafting of pre-projects, feasibility studies and projects, stakeholders reported that terms and conditions for public tenders are frequently ill-defined regarding technical specifications. This has resulted, in the past, in works adopting specifications used abroad, that are excessively expensive and inadequate for the geographic and climatic reality of Paraguay.<sup>45</sup> In the opinion of stakeholders consulted, this is due to an insufficient number of technicians being involved in the drafting of projects. Some stakeholders were of the view that a consultation process where the private sector could be allowed to provide technical opinions on projects could also prove useful, as the private sector is not currently allowed to advise the government on these matters.

Deficiencies in the planning and monitoring of execution of works can be observed in the frequent delays in the completion of works and in infrastructure works that are left unfinished. In some cases, experts attributed this to unclear implementation plans and in other instances to lack of foreseeability in budgetary execution.

Shortcomings in terms of the monitoring of works related to due process in public tenders. Stakeholders reported instances where one provider is responsible for the feasibility study of the project and the execution of the project itself, raising concerns about potential negative effects on competition, as it may result in higher costs. Stricter controls related to the market, to identifying reasonable prices and declaring void processes where bidders may have agreed on prices were also considered important. To a certain extent, stakeholders perceived that this situation derived from a lack of regulation related to controls for works execution and supervision at the national level.

They also noted that project financiers exercise too much influence in the preparation of public tenders, and on their terms and conditions. In their view the state should reserve this right and be able to define terms and conditions without external pressure, for instance when it wants to limit bidding to the national level. Local capacity should be enhanced through public policies, given that foreign companies winning tenders end up subcontracting local companies, and transfer of know-how does not take place.

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<sup>44</sup> Decision 25/03.

<sup>45</sup> The example of tenders for the National Administration for Electricity (ANDE) related to the coating of electric pylons is illustrative of this situation.

During the second workshop, representatives from MOPC agreed with this diagnosis and indicated that they had recently bid and hired an international consultancy firm to implement a project management unit to improve the management of infrastructure goals and implement a new model for the management of construction works, encompassing training for employees.

Several stakeholders voiced concerns about the use of funds set aside for infrastructure in FONACIDE. In their view, decentralisation, i.e. the use of such funds by municipalities, leads to management problems. In their opinion, the use of such funds should be centralised, for better planning and control of expenses and effectiveness.

#### D. Construction Services and Associated Professional Services: an Analysis of Strengths, Weaknesses, Opportunities and Threats

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Experience of domestic services providers, obtained in dams/hydroelectric public works through joint ventures.</li> <li>• Massive employment generation potential of semi-skilled workers.</li> <li>• Existence of a policy framework and concrete projects to develop public infrastructure (i.e. master plan for housing, transport and logistics).</li> </ul>	<ul style="list-style-type: none"> <li>• Instability of supply of inputs and materials by local producers.</li> <li>• Lack of statistics about the sector (including on trade).</li> <li>• Scarcity of skilled human resources in specialised fields.</li> <li>• Institutional weaknesses associated with the execution of infrastructure projects.</li> <li>• Deficiencies in the supervision and enforcement of existing regulations.</li> <li>• Insufficient regulation regarding new technologies, security, urban planning and environmental impact and weak technical regulation and standardisation.</li> <li>• Weak regulatory enforcement of professional practice.</li> <li>• Limited access to (main) regional market.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Solid economic environment.</li> <li>• Favourable environment to develop the construction sector, due to ongoing plans for the development of infrastructure.</li> <li>• Recent regulation to promote investment (through PPPs and sovereign guarantees).</li> <li>• Increasing private investment in the sector.</li> <li>• Increased presence of foreign services suppliers (due to the crisis in home countries such as Spain and Argentina) may lead to improved technical expertise of domestic services providers.</li> <li>• Joint ventures among foreign and domestic companies may lead to knowledge transfer.</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient public expenditure on physical investment affects growth of the sector.</li> <li>• Instability of supply of domestic inputs may lead to instability of prices in those key inputs.</li> <li>• Some domestic services providers feel threatened by foreign ones that are increasingly present in the market and may be competing under unfair conditions (informal activities).</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Required spill-ins from other sectors:</b> Education, financial, industry (construction inputs).</li> <li>• <b>Anticipated spill-overs into other sectors:</b> Housing/real estate, energy, transport, water, sanitation.</li> <li>• <b>Key stakeholders:</b> Services operators, chambers, ministries and/or regulating agencies in charge of transport, education, financial services, housing, electricity and water, agencies in charge of migrant labour, parliament.</li> </ul>	

## CHAPTER IV: EDUCATION SERVICES

### A. Introduction

According to the WTO Sectorial Classification List of Services (W/120), education services encompass five categories: primary education services, secondary education services, higher education services, adult education services, and a residual category: other education services. The formal education system includes primary, secondary and higher education. In the “higher education” category there is a distinction between post-secondary education which leads to a degree or its equivalent and courses that do not (i.e. professional and technical education). The other two categories, adult education and other education services, are provided mostly outside the formal education system. The expansion of this sector has also produced a surge in a group of complementary activities in sectors such as testing and evaluation, and contracting and placement of students (including those which facilitate studies abroad).

Basic education provides capabilities that constitute a minimum necessary requirement for properly “functioning” as a citizen, revolving around knowledge, skills and culture in a broad sense. Virtually all countries acknowledge that access to basic education is a key human right. Providing universal primary education is one of the eight MDGs, which have been set to be achieved everywhere by 2015, according to a blueprint agreed by all the world’s countries and the world’s leading development institutions. Most countries have actually committed to achieving universal enrolment in primary education by 2015, and in many countries, it is compulsory for children to receive primary education. Moreover, it has been proven that each country’s degree of access to basic literacy and education (especially of women) is strongly and positively correlated to its degree of achievements of almost all other MDGs, among them goal 1 (eradicating extreme poverty and hunger) and goal 2 (reducing child mortality).

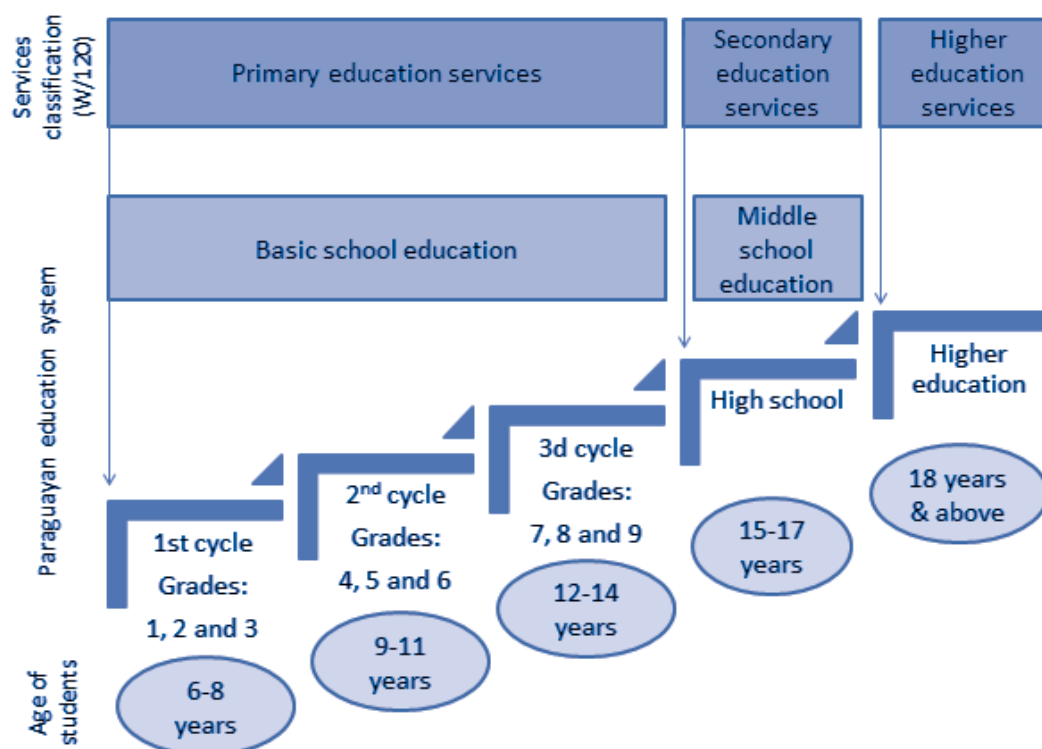
Education services can be provided both by private and public agents. Education services are at the same time a public good and (at least as far as basic education is concerned) an essential human right and basic service. Moreover, education policies must necessarily take into account considerations of equality and fairness (relating to dimensions such as class, gender, race and geography) and the fact that strong economies of scale characterise this sector.

Therefore, the role of the state in the area of education services is paramount. In this context, the main responsibility of governments, both in developed and developing countries, is that of ensuring universal access to basic education, chiefly via free (or quasi-free) public provision of this key service. Other crucial policy goals include promoting higher education and ensuring equality of opportunities in accessing it, as well as strengthening the national research and development system.

### B. Description and Performance of the Sector

Primary education services, as defined in the W/120, correspond in the Paraguayan education system to three cycles of basic school education (EEB). Figure 28 offers an illustration of the correspondence between services categories as per the WTO/120 and the structure of the formal Paraguayan education system.

**Figure 27: Correspondence Between Categories of Education Services, the Structure of the Paraguayan Education System and Age of Students**



Source: OEI "Sistemas Educativos Nacionales: Paraguay" (OEI website).

## 1. Provision and Demand of Education Services in Paraguay

### Providers of Primary and Secondary Education Services

The provision of the first and second cycles of EEB is through 8,273 educational institutions, 4,469 for the third cycle and 2,513 for secondary education. Small institutions are predominant in these cycles: in both the public and private sector, 85 per cent of educational institutions register fewer than 200 students. In contrast, educational units with over 400 students represent only 4 per cent of the totality of enrolments. Data regarding the provision of the third cycle of EEB and secondary education services shows that 49 per cent of educational institutions have fewer than 200 enrolments. This could be related to low density and high population dispersion in the country.

Public agents are the main providers of primary and secondary education services in Paraguay, accounting for 80 per cent of enrolled students. The participation of the private sector increases with educational level, as table 5 shows. It corresponded, in 2012, to 7.6 per cent in the first and second cycles, to 8 per cent in the third cycle and to 15.6 per cent of high school education. Some of the private agents receive subsidies from the state. This category is referred to as private-subsidised education and considered separately, as a third sector.

**Table 4: Providers of Primary and Secondary Education Services in Paraguay According to Size and Sector (Percentage)**

Size/ number of enrolments	1 <sup>st</sup> and 2 <sup>nd</sup> cycles of EEB				3rd cycle of EEB				High school			
	Pub.	Priv.	Priv.- subs.	%	Pub.	Priv.	Priv.- subs.	%	Pub.	Priv.	Priv.- subs.	%
Fewer than 50	36	31.6	13.2	34	51.8	52.6	29.1	50	45.2	37.2	21.7	43
50 to 199	50.7	53.1	53.2	51	42.6	41.2	60	44	45.4	49.7	66.5	47
200 to 399	9.7	11.8	25.6	11	4.6	4.9	10	5	6.4	10.5	10.6	7
More than 400	3.5	3.6	8	4	1	1.4	1	1	3.0	2.6	1.2	3
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: MEC (DGPE and SIEC), 2012.

**Table 5: Students Enrolled According to Education Sector (2012)**

Sector	Basic school education (1st and 2nd cycles)		Basic school education (3rd cycle)		Middle school education		Total	%
	Quantity	%	Quantity	%	Quantity	%		
Public	650,864	81.1	263,987	79.9	190,807	76.8	1,105,658	80.0
Private	60,759	7.6	26,328	8.0	38,815	15.6	125,902	9.1
Private-Subsidised	90,918	11.3	40,082	12.1	18,977	7.6	149,977	10.9
<b>Total</b>	<b>802,541</b>	<b>100.0</b>	<b>330,397</b>	<b>100.0</b>	<b>248,599</b>	<b>100.0</b>	<b>1,381,537</b>	<b>100.0</b>

Source: MEC (DGPE and SIEC), 2012.

The increased participation of private agents, particularly in the third cycle of EEB and high school is the main observable trend in the long-term evolution of the provision of primary and secondary education services in Paraguay. This is mainly due to the lower public provision in the third cycle of EEB, which is covered by an increasing number of private institutions offering middle school education. Between 2004 and 2013, an increasing number of families opted for private and private-subsidised education. According to information from the DGEEC, the Permanent Survey of Households for 2004 registered 16.6 per cent of the 6 to 18 year old population as attending private educational institutions, while in 2013 this percentage increased to 20.3 per cent.

#### *Providers of Higher Education Services*

Providers of higher education services in Paraguay include: universities, higher education institutes and institutes for third-level vocational education. Private agents are predominant among providers of higher education services in Paraguay.

In 2011, Paraguay had 54 universities, out of which 46 were private and 8 were public.<sup>46</sup> The 46 private universities offer 200 degrees in 83 cities in the 17 departments of the country. Those with a higher number of branches are “Universidad Politécnica y Artística del Paraguay” (UPAP) with 54 branches, “Universidad Técnica de Comercialización y Desarrollo” (UTCD) with 32 branches, “Universidad del Norte” (UNINORTE) with 18 branches and “Universidad Internacional Tres Fronteras” (UNINTER) with 17 branches.

Law 4995/2013 defines higher education institutes as institutions specialised in a specific area of knowledge, which means that they provide training in one sole area. For instance, the “Instituto de Bellas Artes” provides artistic education, which encompasses visual arts, design, theatre and dance. In 2011, Paraguay had 38 of these institutes, out of which eight were public and 30 private.<sup>47</sup>

The law mentioned above defines institutes for third-level vocational education as institutes providing professional training and retraining in different areas of practical and technical knowledge. They encompass teacher training institutes and technical professional institutes. In 2011, Paraguay had 127 teacher training institutes (out of which 94 were private and 33 were public), and 194 technical professional institutes, out of which 162 were private and 32 were public.

<sup>46</sup> MEC, available at : <http://www.mec.gov.py/educacionsuperior/entradas/291613>.

<sup>47</sup> *Ibid.*



**Table 6: Number of Institutes for Third-Level Vocational Education per Department and Sector**

Department	Teacher training institutes			Technical professional institutes		
	Public	Private	Total	Public	Private	Total
Alto Paraguay	0	0	0	0	0	0
Alto Paraná	0	10	10	1	12	13
Amambay	0	1	1	0	1	1
Boqueron	1	1	2	0	3	3
Caaguazú	3	6	9	2	14	16
Caazapá	3	0	3	2	7	9
Canindeyú	1	0	1	0	2	2
CAPITAL (Asuncion)	1	18	19	9	79	88
Central	1	32	33	4	39	43
Concepcion	1	1	2	1	2	3
Cordillera	3	3	6	0	4	4
Guairá	3	8	11	1	7	8
Itapúa	4	5	9	5	14	19
Misiones	3	1	4	2	9	11
Ñeembucú	1	1	2	3	3	6
Paraguarí	2	5	7	2	13	15
Presidente Hayes	1	0	1	0	3	3
San Pedro	5	2	7	0	10	10
<b>Total</b>	<b>33</b>	<b>94</b>	<b>127</b>	<b>32</b>	<b>162</b>	<b>194</b>

Source: MEC (2012) "Datos sobre la Educación Superior en el Paraguay".

Note: Teacher training in the seven regional education centres in Encarnacion is not included in this table.

Institutes for third-level vocational education show geographic concentration (see table 6). The departments of Asuncion, Central, Guaira and Alto Parana have a greater number of teacher training institutes. The departments of Asuncion, Central, Itapua, Caaguazu and Paraguari have a greater number of technical professional institutes.

The provision of higher education services in Paraguay also includes post-secondary education leading to technical high school diplomas and middle school vocational training.

The main observable trend in the long-term evolution of higher education services in Paraguay relates to the increased proportion of private agents in terms of number of educational establishments and in terms of enrolled students. The number of enrolments in the private system increased from 54 per cent in 2005 to 81 per cent in 2011.<sup>48</sup> The fact that entering private universities is easier than public ones, along with a higher number of people entering formal education, explain this increase.

Another interesting trend regarding the provision of higher education services relates to new commercial opportunities that have emerged for providing post-graduate education using ICT. In this sense, the selling of post-graduate courses to Brazilian students is noteworthy.<sup>49</sup> New institutional mechanisms, encompassing more and diverse associates, among them education institutions and companies, have enabled franchises and academic partnerships and trade, through the mode of supply of consumption abroad.

<sup>48</sup> MEC (2012). Data about higher education in Paraguay.

<sup>49</sup> Based on local press, as well as on complaints by the Ministry of Education of Brazil in MERCOSUR's Council of Ministers of Education (concerning low standards in postgraduate degrees), echoed by the Coordinator of the Network of University Professionals.

### *Issues Confronting Services Providers*

Providers of primary and secondary education services are affected by low wages and lack of professionalisation.<sup>50</sup> Teachers' salaries are barely higher than the minimum salary, both in the public and private sectors. In addition, in the private sector, teachers are generally not paid during holidays.

Teaching in Paraguay has not been professionalised, given that there is no system of incentives attracting the best candidates and motivating them to upgrade their skills and increase their responsibility vis-à-vis communities. In fact, scores assigned to experience, merit and qualifications are low, and there is no evaluation mechanism to assess good performance. Teachers' salaries are barely linked to the quality of the work performed.<sup>51</sup>

Providers of higher education services are confronted with quality issues, derived from the impact of the university regulatory context. This has generated a perception of low quality in university education, particularly in the private sector.<sup>52</sup>

### *The demand for Education Services in Paraguay*

In Paraguay almost 85 per cent of the total population (i.e. more than 3 million people) are economically active and are between 15 and 65 years old. This represents an opportunity for promoting growth and economic development. It also represents a challenge given that people joining the workforce demand access to education, exerting pressure on the labour market and on education services. At present, the educational needs of the young are higher than before, and the increasing number of young people entering the labour market require more schooling, better quality of education and a labour market-oriented education.

This increasing demand is illustrated by the fact that from 1994 until 2011, over 600,000 students joined the educational system, which represented a 70 per cent increase in students, higher than the rate of population increase (46 per cent). This trend is also demonstrated through the school attendance ratio, shown in table 7, which shows an increasing trend, except in the case of the 10 to 14 year old category.

**Table 7: School Attendance Ratio per Age of Students (Percentage)**

School attendance	2009	2010	2011	2012	2013
5-9 years old	90.4	91.5	91.2	92.6	93.6
10-14 years old	94.5	94.7	95.8	95.6	96.5
15-17 years old	73.3	71.1	77.6	78.9	81.4

Source: DGEEC, Permanent Survey of Households, 2013.

In spite of the increasing school attendance ratio, other indicators point to an unsatisfied demand for education services in Paraguay. For example, in Paraguay 81 per cent of the working population currently completed less than 12 years of study, as shown in table 8.

The goal of universal access is far from being achieved in Paraguay for the third cycle of EEB and for high school education. The gross enrolment ratio in these categories was 78 per cent and 60 per cent respectively for 2012. In contrast, the first and second cycles of EEB, measured by the same indicator, achieved 92 per cent enrolment in 2012.

School enrolment decreases after 14 years of age, with a significant reduction starting from 18 years of age, as shown in figure 29, illustrating the specific enrolment ratio.<sup>53</sup> School enrolment is highest among students of 7 years to 14 years of age.

<sup>50</sup> Instituto Desarrollo (2013). "Informe de Progreso Educativo Paraguay 2013".

<sup>51</sup> *Ibid.*

<sup>52</sup> Source: polls carried out within the framework of the IADB Project to Support to Science, Technology and Business Innovation (Britos, Sergio -2012- Study on Estimation of Demand).

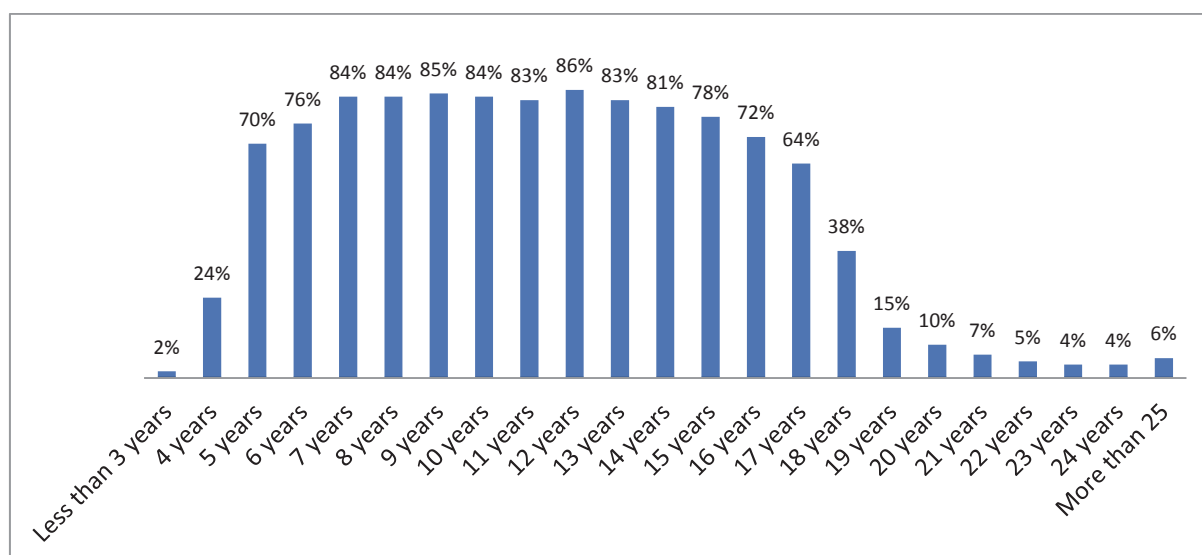
<sup>53</sup> This indicator registers the percentage of students by age, enrolled in any education level, with respect to the rest of the population of the same age.

**Table 8: Working Population, by Area of Residence and Sex, According to Years of Study (Percentage)**

Years of study	Total			Urban			Rural		
	Total	Mal.	Fem.	Total	Mal.	Fem.	Total	Mal.	Fem.
Total	3,246,904	1,910,271	1,336,633	1,939,468	1,084,689	854,779	1,307,436	825,582	481,854
Without instruction	2	1.8	2.4	1	0.9	1	3.6	2.9	4.8
1 to 3 years	9.9	10.1	9.6	5	5	5.1	17.1	16.8	17.6
4 to 6 years	30.3	30.9	29.4	20.3	20.7	19.7	45.2	44.4	46.5
7 to 9 years	16.2	18	13.5	16.1	17.7	13.9	16.3	18.4	12.8
10 to 12 years	23.7	24.3	22.9	31.6	33.3	29.4	12	12.5	11.3
13 to 15 years	9.7	8.6	11.3	13.7	12.4	15.3	3.7	3.6	4
16 to 18 years	8.1	6.2	11	12.3	9.7	15.5	2	1.5	3%
not available	0.1	0.1	0	0.1	0.2	0.1	-	-	-

Source: DGEEC, Permanent Survey of Households, 2012.

Note: Does not include the departments of Boqueron and Alto Paraguay. Includes pre-primary education.

**Figure 28: Specific Enrolment Ratio, Paraguay 2012**

Source: MEC (DGPE and SIEC), 2012.

These indicators suggest there is a deficit: (i) in the level of education of the population; (ii) in primary education (in the third cycle of EEB) and in secondary education; and (iii) in the schooling of students above 14 years of age. Overcoming these deficits will require continued and increasing investment in the coming years.

## 2. Assessing the Performance of the Education Sector in Paraguay

### Comparing Paraguay with Other Countries

The Paraguayan population under 25 years old has a lower proportion of completed secondary education, as well as a lower rate of enrolment in tertiary education, than most Latin American countries, as observed in table 9.

**Table 9: Level of Education and Gross Enrolment Ratio of the Population in Several Latin American Countries 2002-2011 (Percentage)**

	Country	Human Development Index (HDI)	Population with at least secondary education (% , ages 25 and older)	Gross enrolment ratio 2002-2011		
				Primary	Secondary	Tertiary
Very high human development	Chile	40	74	106	88	59.2
	Argentina	45	56	118	89	71.2
High human development	Uruguay	51	49.8	113	90	63.3
	Venezuela	71	52.4	103	83	78.1
	Peru	77	52.9	109	92	35
	Brazil	85	49.5	127	101	36.1
	Ecuador	89	36.6	114	80	39.8
	Colombia	91	43.1	115	96	39.1
Medium human development	Dominican Republic	96	42.5	108	76	34
	El Salvador	107	37.5	114	65	23.4
	Bolivia	108	44.5	105	80	38.6
	<b>Paraguay</b>	<b>111</b>	<b>36.9</b>	<b>100</b>	<b>67</b>	<b>36.6</b>
	Honduras	120	19.8	116	73	18.8
	Nicaragua	129	37.6	118	69	18
	Guatemala	133	14.8	116	59	17.8

Source: UNDP. Report on Human Development 2013.

Indicators from the Global Competitiveness Report (GCR) 2014-2015 place Paraguay in the last place in relation to quality of primary education, quality of the education system and quality of maths and science education. Comparing these indicators with prior GCRs, Paraguay shows a slight improvement in scores regarding these indicators, as shown in table 10. Scores with respect to internet access in schools also show improvement.

**Table 10: Paraguay Rankings in WEF GCR Indicators Related to Education Services**

	GCR 2008-2009		GCR 2011-2012		GCR 2014-2015	
	Rank/134	Score 1-7 (7=best)	Rank/142	Score 1-7 (7=best)	Rank/144	Score 1-7 (7=best)
Quality of primary education	131	N/A	137	2.0	140	2.1
Quality of the education system	134	N/A	138	2.2	139	2.3
Quality of maths and science education	130	N/A	137	2.2	138	2.3
Quality of school management	127	N/A	130	3.1	129	3.1
Internet access in schools	134	N/A	133	2.3	122	2.9
Local availability of specialised research and training services	131	N/A	118	3.1	133	3

Source: WEF, GCR.

### Using Different Benchmarks to Assess the Sector at the National Level

Several national indicators can shed light on the problematic issues confronting the sector, for instance in terms of students needing to repeat years, efficiency in the use of resources and quality. Some of these indicators allow a comparative assessment between public and private agents, as well as an assessment of gender impact and geographical differences.

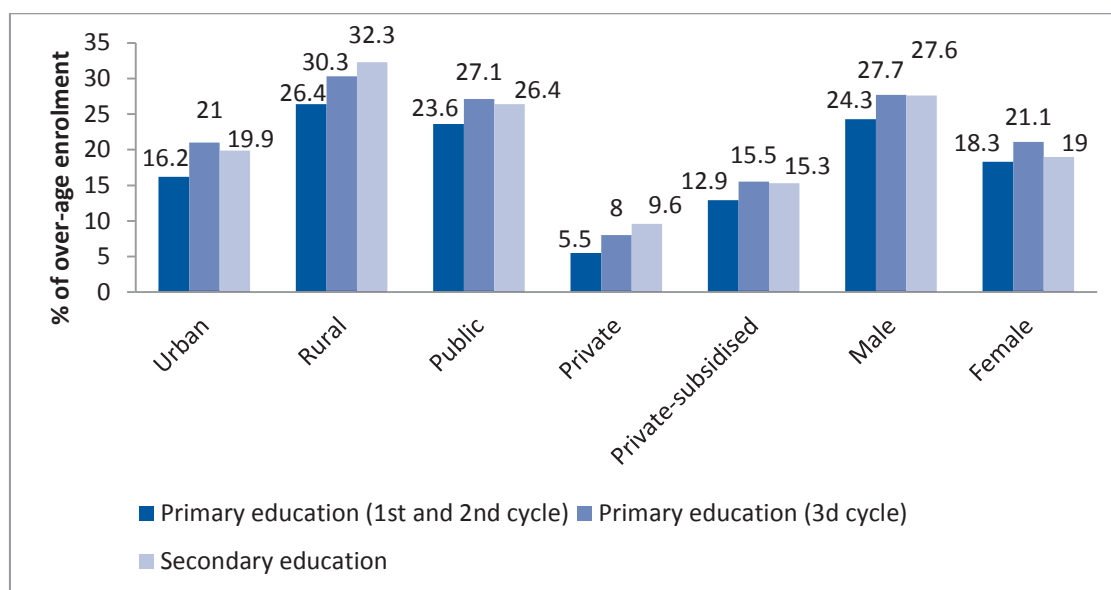
A significant percentage of students in primary and secondary education have ages that are different to those officially established for the corresponding cycles. This could be due to late enrolment or successive repetitions of school years. As shown in figure 30, the percentage of overage enrolment is higher in rural areas, public education and among male students.

School repetition indexes are significantly higher in the first and second cycles of primary education and in rural areas. They are higher in public education and among male students, as shown in figure 31.

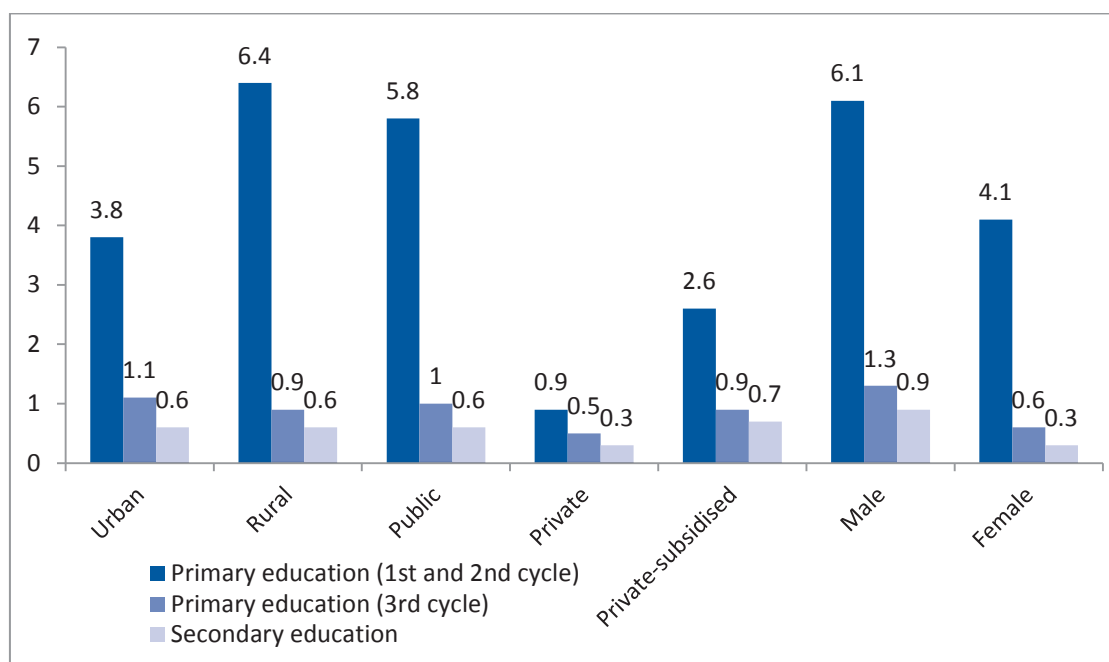
The average number students per section can be used to measure efficiency in the use of resources. The average of students per section is higher in all educational levels of the private-subsidised sector, as shown in table 11.

On average, the number of students per section in the country is considered adequate for learning. An analysis of this indicator by geographical area shows that it is higher in the urban sector than in the rural sector, as shown in table 12.

**Figure 29: Overage Enrolment per Education Level, Sector, Gender and Geographic Location, 2007 (Percentage)**



Source: IDB (2012). El Sistema Educativo Paraguayo en Cifras.

**Figure 30: Repetition Index According to Education Level, Sector and Location (2005)**

Source: IDB (2012). El Sistema Educativo Paraguayo en Cifras.

**Table 11: Average Number of Students per Section According to Education Sector (2012)**

Sector	Basic school education		Middle school education
	1st and 2nd cycle	3d cycle	
Public	17	19	21
Private	19	20	19
Private-Subsidized	22	24	24
<b>Average per educational level</b>	<b>17</b>	<b>20</b>	<b>21</b>

Source: MEC (DGPE and SIEC), 2012.

**Table 12: Average Number of Students per Section According to Geographic Location (2012)**

Geographic location	Basic school education		Middle school education
	1st and 2nd cycle	3d cycle	
Urban	22	23	23
Rural	13	15	16
<b>Average per educational level</b>	<b>17</b>	<b>20</b>	<b>21</b>

Source: MEC (DGPE and SIEC), 2012.

## C. Policy, Regulatory and Institutional Frameworks

### 1. Policy Frameworks

Three main instruments define the main policy objectives for the education sector in Paraguay: the Constitution, the educational reform started in 1994 and the National Education Plan 2024. The Constitution of Paraguay sets out the right to an integral and permanent education for all citizens. It stipulates objectives such as eradicating illiteracy, providing occupational training, eliminating educational

content of a discriminatory nature and guaranteeing the right to learn, equality of opportunities in the access to benefits from education, and the freedom to teach without further requirements than suitability and integrity. The Constitution establishes the mandatory and free nature of primary education. It also indicates that the state shall foster secondary, technical, agricultural, industrial and higher education.

The most recent educational reform in Paraguay started in 1994. Priority action spheres included strengthening basic knowledge and skills (encompassing reading, writing, calculus and problem solving) and learning how to “learn, do, be, coexist and start up a business”. The reform envisages a special focus on improving creative skills, so as to prepare people for employment. To achieve this, the reform seeks to intensify contact between the educational system and companies, following the principle that school must prepare people for work.

The reform programme seeks to overcome the low level of achievement in EEB, by minimising the incidence of factors that negatively affect educational performance. To achieve this, mass training programs for teachers have been implemented.

The National Education Plan 2024 defines three goals for the sector: ensuring i) equal opportunities so that everyone has access under conditions that allow completion of the different levels and modalities of education; ii) quality of education at all levels and modalities of education; and iii) a participative, efficient and effective management of educational policies at the national, departmental and local levels.

The above-mentioned instruments have had a decisive role in achieving an increase in enrolment at all educational levels in Paraguay since 1994.

#### *Assessment of Shortcomings and Inadequacies*

The main shortcomings identified in the course of this study and during the interaction with stakeholders with regard to policy frameworks are insufficient financing for public education and high costs of private education.

In Paraguay, the National Constitution of 1992 established a minimum assignment for education of 20 per cent of the nation’s general budget, which is respected but not fully executed. The execution reached 92 per cent in 2013 and 87 per cent in 2012, according to the Financial Report of the Finance Ministry for those years (see table 13).

**Table 13: Budgetary Execution of MEC 2010-2013**

Year	Current Budget		Executed Budget		Executed/Current Budget (%)
	Amount USD	Growth (%)	Amount USD	Growth (%)	
2010	853,536,316		795,078		93%
2011	1,030,082,405	21%	937,534,292	18%	91%
2012	1,257,630,670	22%	1,100,110,355	17%	87%
2013	1,267,453,302	1%	1,169,451,532	6%	92%

Source: Integrated System of Financial Administration (SIAF) MEC.

Note: Corresponds to the global budget, includes transfers to decentralised entities.

The cost of access to private institutions is based on the free market, and is inaccessible for most of the population. This is why educational centres subsidised through public and private, national and international funds have increased participation in Paraguay. A public debate arose in 2012 regarding the cost of education, where the Federation of Associations of Parents of Students of Educational Institutions of Paraguay (FEDAPAR) lobbied in favour of public regulation, so as to control prices and facilitate access to private education for a higher number of households.<sup>54</sup>

## **2. Regulatory Frameworks**

Annex 2 presents a list of laws and regulations applicable to the education sector in Paraguay.

<sup>54</sup> See La Nación 2012.

### *Assessment of Shortcomings and Inadequacies*

Successive changes to legal instruments and institutional mandates related to the creation of universities led to an increase in the number of private universities in a period of uncertainty about quality oversight. Law 136/1993 provided that universities shall be created by law and that Congress will authorise their operation, after a favourable and founded opinion issued by the Council of Universities, before which universities must obtain accreditation, fulfilling minimum requisites. In 2006, Law 2529/2006 modified Law 136/1993, eliminating the need for a “favourable and founded” opinion from the Council of Universities. Besides, it added that the opinion of the Council is not binding.<sup>55</sup>

Thus, higher education entered a period of creation of universities, without the proper control of the regulating entity overseeing the quality of education and the physical conditions in which it is provided. From 2006 until 2010, when the Law reinstated the need for the favourable opinion of the Council of Universities for the creation of universities, 25 private universities were created, out of the 46 existing in 2011.<sup>56</sup> The enrolment rate in private universities increased from 54 per cent in 2005 to 81 per cent in 2011.<sup>57</sup>

The impact of this regulatory situation generated a perception of low quality in university education, particularly in the private sector. Degree courses offered by some private non-traditional universities present severe shortcomings in connection with accreditation. In some cases, universities that are accredited are missing the accreditation at the level of faculty or academic programme, therefore offering fraudulent degrees. International fora related to education and professional services have referred to the phenomenon of non-accredited degrees at below market prices as the “educational dumping of Paraguay”.

The current regional framework does not allow professional practice in spite of existing regional regulation on the recognition of undergraduate degrees (see Annex 2). Licenses are required for this purpose. In MERCOSUR, discussions about the mechanisms to revalidate degrees in the sphere of education have been de-linked from professional practice. The problem lies in the fact that processes of harmonisation of degree courses, revalidation and recognition of degrees at the regional level entail a long-term process of negotiation and implementation. In these processes, the incorporation of degree courses is progressive and slow and may not cover all courses. Mutual recognition agreements among educational institutions are a similar objective that is comparatively easier to achieve, and may have a positive influence on regional trade in education services.

### **3. Institutional Frameworks**

The constitution emphasises that the organisation of the educational system<sup>58</sup> is an essential responsibility of the state. The regulatory entity for the general education regime is the Ministry of Education and Culture (MEC), which dictates the basic curriculum of the national educational system, with the exception of universities and higher education institutes.<sup>59</sup> Institutes for third-level vocational education are regulated by MEC.

The National Council of Higher Education (CONES) is responsible for proposing and coordinating policies and programmes for higher education. The Minister of Education and Culture is a member of the Board of CONES. It is in charge of making decisions on the creation and termination of universities and superior institutes. These decisions must be based on a technical report and are binding for the National Congress.

The National System of Evaluation of the Education Process (SNEPE) monitors the implementation of educational reform and generates data on students’ academic achievements. This data is based on measurements at the end of each level of primary education and secondary education. SNEPE provided valuable information about the quality of education and the limitations of the educational system during the implementation of the educational reform.

The National Agency of Evaluation and Accreditation for Higher Education (ANEAES) certifies the quality of higher education, in all its components. Despite being linked to MEC through the General Direction of Higher Education, ANEAES has technical-academic, administrative and financial autonomy for fulfilling its

<sup>55</sup> In the view of several stakeholders, these changes were due to the interests and lobbying of certain business groups.

<sup>56</sup> Based on data from MEC <http://www.mec.gov.py/educacionsuperior/entradas/291613>.

<sup>57</sup> MEC (2012) “Datos sobre la Educación Superior en el Paraguay”.

<sup>58</sup> Encompassing the public and private sectors, as well as school and extra-curricular activities.

<sup>59</sup> Universities and higher education institutes are autonomous according to the law. Therefore they are allowed to determine their objectives, goals, plans and programmes, their forms of government, administer funds and establish partnerships with similar institutions.



functions. Its mission is to evaluate and accredit the degree programmes set out in the law of higher education, i.e. approximately 1,500 programmes, although many can be grouped into broader categories.

ANEAES is a member of the MERCOSUR mechanism for programme accreditation. It participates in MERCOSUR's Network of National Accreditation Agencies (RANA). It is also a funding and Directive Committee member of the Ibero-American Network of Accreditation Agencies (RIACES).

The National Council on Education and Culture (CONEC) is responsible for recommending reforms and policies related to culture and promoting their implementation.

#### *Assessment of Shortcomings and inadequacies*

The interaction with stakeholders and interviews conducted in the course of this study revealed that the main shortcomings and inadequacies in relation to the institutional frameworks for education services in Paraguay include: (i) the fragmented management of FONACIDE resources by municipalities; and (ii) weaknesses in MEC, CONES and ANEAES which affect their capacity to fulfil their quality assurance mandates.

FONACIDE resources are managed by municipalities due to municipal autonomy, leading to a fragmented national education budget and weak coordination with MEC, particularly in relation to infrastructure and school meals programmes.

MEC is only able to sporadically perform the quality controls that are under its responsibility, such as evaluation tests on students or teachers, because of human resource and financial constraints that affect its supervisory function.<sup>60</sup> Access to financial and operational resources for the fulfilment of CONES' responsibility to issue binding decisions on the creation of new universities is still in process and will only start to be implemented from the new fiscal year (2015).

Accreditation is an important tool to achieve quality in education. Currently this process covers a low proportion of existing degree programmes. Discussions held during both workshops pointed to insufficient funding but also weak capacity to apply sanctions in case of non-compliance, concluding that MEC, ANEAES and CONES must be institutionally strengthened to fulfil their role regarding accreditation.

## **D. Education Services: an Analysis of Strengths, Weaknesses, Opportunities and Threats**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Increasing demand and enrolment of students, particularly in primary education.</li> <li>• Increase in permanence in the basic level of education.</li> <li>• Wider access to education through the increase in provision by private providers.</li> <li>• Implementation of SNEPE enables evaluation of quality of education, advancements in educational reform and limitations of the educational system.</li> <li>• Adequate number of students per section, according to existing regulations and learning.</li> <li>• Increasing student retention in all the higher levels of basic and middle education, mainly in the private sector.</li> <li>• High ranking in the quality of education offered by the National University of Asuncion at accessible costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Lower quality in education in relation to the quality of primary education, quality of the education system and quality of maths and science education.</li> <li>• High proportion of employed population with a low educational level.</li> <li>• Budgetary resources are insufficient to finance the development of the public educational system and its performance is deficient.</li> <li>• Low student retention in middle education in the public sector. A high proportion of young people are not attending any educational centre.</li> <li>• Low salary level and lack of performance evaluation system for teachers.</li> <li>• Most degree programmes are not yet subject to mandatory accreditation.</li> <li>• Cases of fraudulent degrees.</li> <li>• Budgetary and administrative weaknesses of ANEAES and CONES that limit their ability to fulfil their objectives in relation to quality assurance.</li> </ul>

<sup>60</sup> Based on information communicated by MEC representatives during interviews conducted in the course of this study.

	<ul style="list-style-type: none"> <li>• Low enforcement and weak capacity to apply sanctions in case of non-compliance with existing regulations and particularly regarding quality assurance in newly created educational institutions.</li> <li>• Fragmented management of FONACIDE resources by municipalities, which has a negative impact on educational performance.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Outlook of economic development and growth, which will require skilled workers, and hence, an increase in education demand.</li> <li>• Potential for development of private education.</li> <li>• Middle class wishing to access quality higher education.</li> <li>• Use of ICT in the educational sector, which entails the potential development of ICT tools for online education and for trade in services through cross-border supply.</li> <li>• Increasing international mobility of students, programmes and institutions at the tertiary level, which creates new commercial opportunities such as franchises and harmonisation of academic programmes as well as greater interaction with foreign educational institutions.</li> <li>• The deficiency of the quality of education in Paraguay may generate high direct and indirect profitability for investment in education.</li> <li>• Educational gap in Paraguay makes it eligible for international and regional aid.</li> </ul>	<ul style="list-style-type: none"> <li>• Successive changes to legal instruments and institutional mandates related to the creation of universities suggest that education lobbies are strong in Paraguay and it might prove challenging to advance the process of reform towards more active surveillance in quality assurance.</li> <li>• Negative image in relation to tertiary education (low prices at the expense of quality), particularly in private universities.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Required spill-ins from other sectors:</b> Financial.</li> <li>• <b>Anticipated spill-overs into other sectors:</b> All sectors.</li> <li>• <b>Key stakeholders:</b> MEC, ANEAES, CONES, professional associations, services providers of primary, secondary and higher education services, parliament.</li> </ul>	

## CHAPTER V: FINANCIAL SERVICES

### A. Introduction

Financial services encompass (i) insurance services, and (ii) banking and other financial services. Insurance services include the provision of different types of insurance to non-residents by resident companies, and vice versa. Insurance services are divided into five categories: life insurance and pensions, transport insurance, other direct insurance, reinsurance and auxiliary insurance services. Banking and other financial services include financial intermediation and auxiliary services provided by banks, stock exchanges, factoring companies, credit card companies and other businesses.

Financial services are highly regulated. Policymakers often pursue policy objectives such as maximising the capacity of the sector to stimulate growth and development of the real economy, while minimising public costs and the appropriation of excessive financial rents by private agents. Other priority policy objectives include protecting consumers, ensuring the integrity and stability of the financial system, promoting universal access to financial services and ensuring access to credit for SMEs and consumers.

### B. Description and Performance of the Sector

#### 1. Evolution

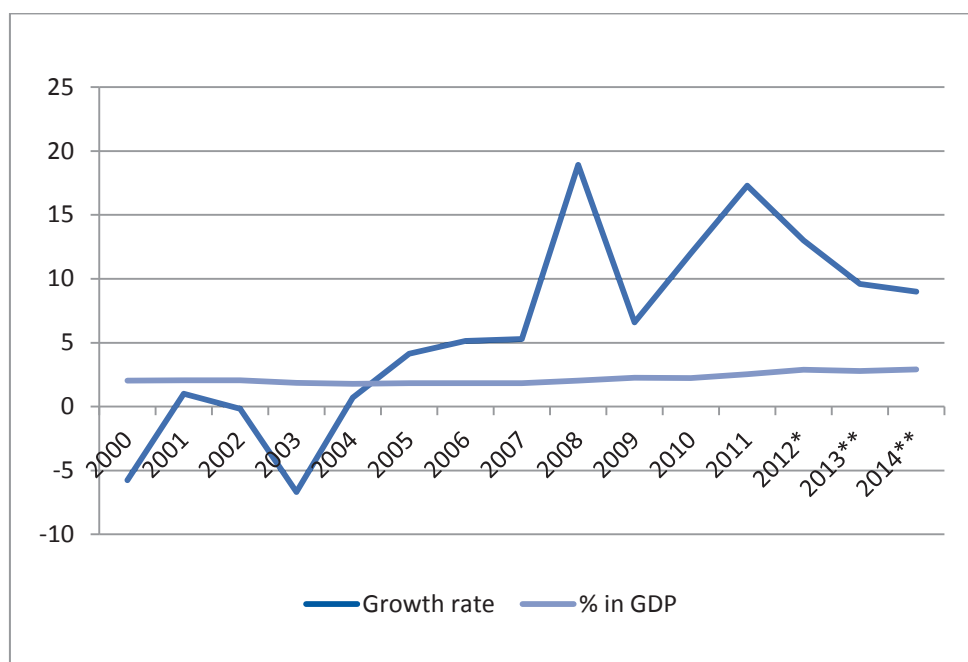
The financial sector in Paraguay is a small but expanding component of the country's economy. In March 2014 the sector represented 2.8 per cent of GDP, with a tendency to grow. From an average growth of -2.9 per cent at the beginning of the last decade, which was due to the financial crisis that affected Latin America, the sector has grown at an average rate of 9.3 per cent in the last 10 years (see figure 32). This is a result of macroeconomic stability, achieved by the consensus between Congress and the executive branch on balancing fiscal results, renegotiating foreign debt and achieving stability in prices, currency exchange rates and solidity in international reserves. The insurance sector contributed 1.2 per cent of the country's GDP.<sup>61</sup>

#### 2. Domestic Providers of Financial Services

Providers of financial services in Paraguay include banks, financial entities, cooperatives, general deposit warehouses, exchange houses, insurance companies and stock exchanges. The assets of these companies amount to USD 23 thousand million, out of which 78 per cent corresponds to banks, followed by cooperatives (14.8 per cent), financial entities (4 per cent), insurance companies (1.7 per cent) and exchange houses (0.4 per cent). Another actor is the Asuncion Stock Exchange, which in 2013 performed operations for a total amount of USD 133 million. Linked to the stock exchange, there are six brokerage firms, four risk assessment firms, 40 companies that have public stock offerings and 27 companies that issue debt titles. There is a notably low presence of public banking, which represents 5 per cent of the assets of the financial system, through the National Development Bank (BNF).

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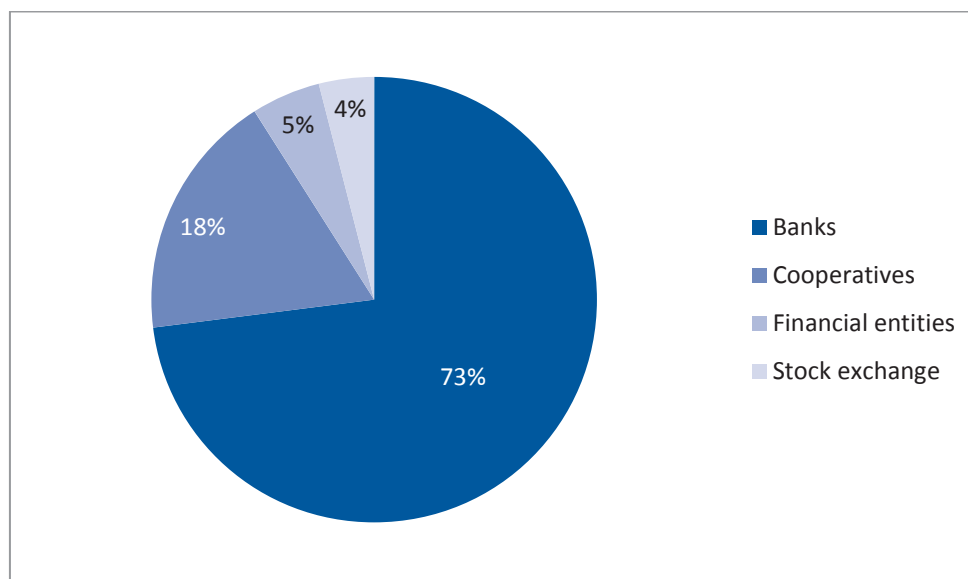
<sup>61</sup> BCP (2014). Statistical Annex.

**Figure 31: Financial Services: Contribution to GDP and Growth Rate (Percentage)**

Source: BCP (2014). Statistical Annex, March 2014.

\* Preliminary data.

\*\* Projected.

**Figure 32: Credit Distribution Among Financial Services Providers\* (Percentage)**

Source: BCP Bulletins (except for "Insurance" where bulletins are from 2013) and Cooperative Census 2011.

\*Data for banks up to March 2014, insurance up to December 2013 and cooperatives up to December 2010.

According to this structure, banks provide 73 per cent of credits, cooperatives 18 per cent, financial entities 5 per cent, while the stock exchanges showed an incipient development, with 4 per cent of total credits.

**Table 14: Financial Entities in Paraguay by Category, Assets and Percentage Share (in the Formal Financial Paraguayan Market)**

Financial entities	Description	Number	Assets (thousand Gs.)	Assets (thousand million USD)	% share
Banks	Direct foreign branches	3	3,791,935	862	3.7%
	Majority foreign-owned	4	30,384,081	6,905	29.7%
	Majority locally owned	8	41,709,047	9,479	40.8%
	State	1	4,668,249	1,061	4.6%
Financial entities	Commercial	11	4,002,966	910	3.9%
	Fondo Ganadero	1	106,833	24	0.1%
General warehouses	Deposit	4	199,329	45	0.2%
Exchange houses	Commercial	32	391,625	89	0.4%
Insurance companies	Local capital	32	1,742,953	396	1.7%
	Foreign capital	3			
Cooperatives	Saving and credit Type A	26	15,168,561	3,447	14.8%
	Production Type A	20			
	Other Type A	3			
	Savings and credits types B and C	567			
<b>Total</b>			<b>102,165,579</b>	<b>23,219</b>	<b>100.0%</b>

Source: 2014 Bulletins of BCP (except for "Insurance" where the bulletins are from 2013) and Cooperative Census 2011.

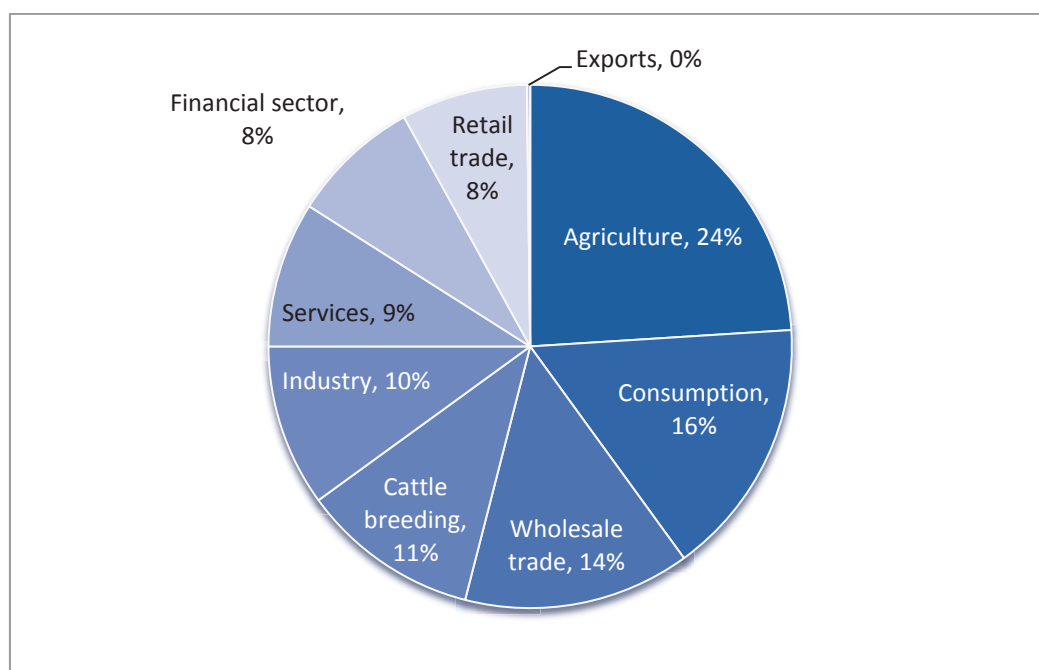
### Banks

Most banks in Paraguay rely on local capital (58 per cent). Foreign services providers have a significant presence (42 per cent). Some of these are from neighbouring countries and others from outside the region, including Banco de la Nación Argentina, Banco do Brasil, Citibank, Itau, Sudameris, BBVA and GNB. Four banks control 62 per cent of banking assets. Two of them are local (Regional and Continental), with 34 per cent of assets and two are foreign (Itau and BBVA), with 28 per cent. Paraguay is one of the most profitable markets for both local and foreign banks in the region, offering a rate of return on assets of 2.7 percent and a rate of return on equity of 28 per cent (2011).<sup>62</sup>

Between 2004 and 2014, credit granted by banks grew by 800 per cent, maintaining a low level on the non-performing loan ratio, which by March 2014 was equivalent to 2.2 per cent. This growth was possible due to an injection of local capital but also, in recent years, to foreign capital and experience. According to interviews conducted, the private sector is of the view that the presence of foreign banks in Paraguay has brought capitalisation, technology, good corporate practices and high standards (such as US GAP and AIFS), allowing clients to use global banking and generate business opportunities beyond the domestic market.

The main beneficiary of credit from the banking system is the agricultural sector. As figure 34 shows, this sector corresponds to 24 per cent of the total credit, followed by consumption (16 per cent), wholesale trading (14 per cent) and cattle breeding (11 per cent). Credit to the agricultural sector affects credit activity and refinancing and has a general effect on the Paraguayan economy (GDP, taxes, unemployment, etc.) due to the exposure of this sector to cyclical fluctuations. According to ASOBAN and BCP, in recent years, this sector has gained experience in the management of this risk, reducing its effects on financial indicators.

<sup>62</sup> BCP (2013). Informe de Estabilidad Financiera, June 2013.

**Figure 33: Credit Provided by the Banking System per Sector, 2014**

Source: BCP Bulletins.

A smaller credit market has emerged in the last decade, through Vision and Familiar banks, which together account for 9 per cent of financial assets. They are inclusive banking initiatives and compete in the micro-credit sector with cooperatives. This is reflected in their credit portfolio, which mainly relates to consumption (38 per cent) and retail trading (32 per cent). Compared to other banks, they have a different and more expensive administrative structure, due to a higher number of branches, which requires more staff. The management of analysis and recovery required for micro-credit is also riskier. Hence, their non-performing loan ratio (3.8 per cent) is higher than that of other banks (2.1 per cent). Their expenses to deposits ratio is also higher, at 12 per cent compared to 4.7 per cent for other banks.

### Cooperatives

Cooperatives emerged in Paraguay as a way to ease access to financial services for large segments of the population. A great percentage of the rural population, mainly with low incomes and high levels of informal employment, generated a process of constituting cooperatives, seeking a more personalised service and a broader choice of services than banks. Services provided by cooperatives encompass training and community services, including solidarity activities and entertainment. Cooperatives are non-profit entities, based on the principles of mutual aid and inclusiveness. Their clients include small businesses and unipersonal companies. The benefits and surpluses produced by cooperatives belong to their associates.

The registry of the Cooperative Institute (INCOOP) includes 977 cooperatives classified by level of supervision as follows: Type A (with assets over Gs. 50,000 million), Type B (with assets over Gs. 5,000 million to 50,000 million) and Type C (with assets lower than Gs. 5,000 million). Type A cooperatives manage 88.72 per cent of total assets, 86.18 per cent of loans and 88.52 per cent of savings (Insfran, 2012). However, not all cooperatives registered in INCOOP are active. According to the Cooperative Census 2011, there are 450 cooperatives,<sup>63</sup> with 718 branches in Paraguay.

<sup>63</sup>The Cooperative Census used the following criteria to identify active cooperatives: a) being a legal entity, b) developing productive activities, and c) having financial statements at the close of the 2011 financial year-end.

**Table 15: Classification of Cooperatives per Type and Level of Supervision (2014)**

	Type A	Type B	Type C	TOTAL
Cooperative associations	3	2	7	12
Cooperatives of production	20	14	214	548
Cooperatives of saving and credit	26	52	515	593
Other types	3	14	107	124
<b>TOTAL</b>	<b>52</b>	<b>82</b>	<b>843</b>	<b>977</b>

Source: INCOOP register of cooperatives.

Cooperatives have a significant presence in Paraguay. They include 1,410,313 associates, representing 46 per cent of the economically active population (EAP) and regularly registering significant increase rates in the number of associates. 95 per cent of associates belong to savings and credit cooperatives, where membership is determined by institutional, sectorial or territorial characteristics. 61 per cent of cooperatives have fewer than 500 associates, while 26 cooperatives have more than 10 thousand associates.

The cooperative system maintains a high level of short-term liquidity. The system is managed through mainly short-term deposits from its associates. There are few investment instruments to capture long-term funding and few cooperatives use other means of financing such as the capital market or external financing.

#### *Financial Entities*

According to BCP bulletins, there are 11 financial entities. Financial entities require a minimum capital of Gs. 20,000 million (USD 4.5 million) to be authorised to operate. In March 2014, they held a credit portfolio equivalent to USD 798 million, mainly related to consumption (30 per cent), agriculture (14 per cent), wholesale trading (13 per cent), services (11 per cent) and retail trading (10 per cent).<sup>64</sup> Their interest rates are higher than banks because they cannot provide certain financial services, for instance current accounts. Hence, their deposit costs are higher.

#### *Insurance Companies*

There are 35 insurance companies in Paraguay, out of which three are foreign.<sup>65</sup> The largest company in the market, MAPFRE, holds 19.5 per cent of premiums, followed by Aseguradora del Este (11.2 per cent) and La Consolidada (9.7 per cent). These three companies have 40.3 per cent of the market. The next seven companies have almost 28 per cent of the market. Thus, the 10 main insurance companies accumulate 70 per cent of premiums. The remaining 30 per cent of premiums correspond to 23 other companies, each of which individually represents less than 2.7 per cent of the market.

Regarding the cost of premiums, rates are not regulated, but are determined by the market, which is quite competitive. Coverage is not regulated either, but a proportionality principle exists.<sup>66</sup>

The main insurance segments are automobiles (49 per cent), group life (11 per cent), fire (8 per cent) and agribusiness (7 per cent). The rest is diversified in several risks related to the industrial and commercial sector. A single company can manage different insurance segments. The importance of life insurance to cover the risk of death of a debtor, as well as collective life and health insurance for companies and their workers, has increased in recent years.

#### *Public Banking*

Public banking encompasses a first-tier bank (BNF), a second-tier bank (AFD) and a financial entity (the Fondo Ganadero). The portfolio of BNF mostly focuses on consumption (54 per cent), representing a higher share than credit for the productive sector (41 per cent). This appears to contradict the mission of this institution, which is to facilitate competitive development through efficient services for financing national production.

BNF has high operational costs compared to private banking, mainly in personnel. BCP's statistical bulletins show that average operational expenses over deposits of private banking are 4.87 per cent, while

<sup>64</sup> Based on BCP data.

<sup>65</sup> Sancor (Argentina), Mapfre (Spain) and AIC, a captive insurance company for agribusiness.

<sup>66</sup> Damage must be liquidated considering the proportion between the insured capital and the real value at the moment of the incident.

BNF registers 6.34 per cent. Although its non-performing loan ratio has decreased to below the system's average, it is now increasing.

### 3. *Assessing the performance of the financial sector in Paraguay*

#### *Overall Stability and Solidity of the System*

The macroeconomic stability achieved by Paraguay places it in position 63 out of 148 countries, according to the GCR 2013-2014. In this context, Paraguay achieved a better ranking than its neighbours Uruguay, Brazil and Argentina. Local and foreign institutions acknowledge this stability, as well as the solidity of the Paraguayan financial system. The IMF notes low levels of arrears, high banking profitability and an adequate capitalisation level in the banking sector in Paraguay.<sup>67</sup>

Paraguay has witnessed a gradual strengthening of the Guarani and stability of the dollar, which has generated confidence in deposits in local currency, increasing total deposits from 30 per cent at the beginning of the last decade, to 55 per cent in recent years. Even though this represents an improvement in confidence in the Paraguayan economy, the financial sector has not achieved other important goals for the development of the economy, such as increasing the term of financial instruments and reducing interest rates.<sup>68</sup>

Standard & Poor's Ratings classifies the banking sector in Paraguay in Group 9<sup>69</sup> in its Country Risk Assessment of the Banking Industry (BICRA), along with other economies in the region like Bolivia and Uruguay. The reason for this is lack of dollarisation of deposits and credits in dollars, and other factors including weak institutional frameworks in terms of financial supervision; vulnerability of the economy to political dynamics; concentration of credits in clients and sectors; weak payment culture and a lack of implementation of international standards. These analyses demonstrate macroeconomic and financial achievements, on the one hand, and weaknesses of the system, on the other.

#### *Financial Inclusion, Access to Credit and Financial Deepening*

In spite of the recent progress mentioned above, banking systems are not well developed in terms of capacity to expand access to credit to a potential universe of national economic agents, both compared to the region and to other middle-income countries in the region. Indeed, several indicators point to an unsatisfied demand for financial services in Paraguay.

In terms of persons having access to the financial sector, Paraguay has 4 million adults who can access financial services, representing 60 per cent of the total of the total population (DGEEC).<sup>70</sup> In 2013, the banking coverage index was 30 per cent (as a proportion of debtors in the EAP) and 26.73 per cent (as a proportion of depositors in the EAP).

Of the number of adults with access to financial services, fewer than 1 million access the banking system as debtors, thus a market of 3 million people remains to be developed.<sup>71</sup> When considering the indicator related to the number of debtors per 1,000 adults in Latin America, Brazil leads the list with 750 and Argentina with 603. In Paraguay this figure is 299. However, the number of debtors in the Paraguayan financial system increased by 23.1 per cent in semester terms, from 851,497 in December 2012 to 920,768 in June 2013.

According to the indicator measuring financial deepening, credits (from the banking sector) in Paraguay represented 46.5 per cent of GDP in 2013. Thus, the level of financial deepening in Paraguay is at an intermediate level with respect to the region, i.e. similar to Peru, Colombia and Mexico, but below the more developed financial sectors of Chile and Brazil.<sup>72</sup>

<sup>67</sup> "Declaración de la Misión del FMI al Paraguay en el marco de las consultas anuales del Artículo IV del FMI en Diciembre de 2013" (<http://www.imf.org/external/spanish/np/ms/2013/121813s.htm>).

<sup>68</sup> 80.5 per cent of the banking fundraising and 84 per cent of the deposits are for a duration below one month. The excess liquidity produced by these short-term deposits reduces passive interest rates, thus discouraging savings and long term placements.

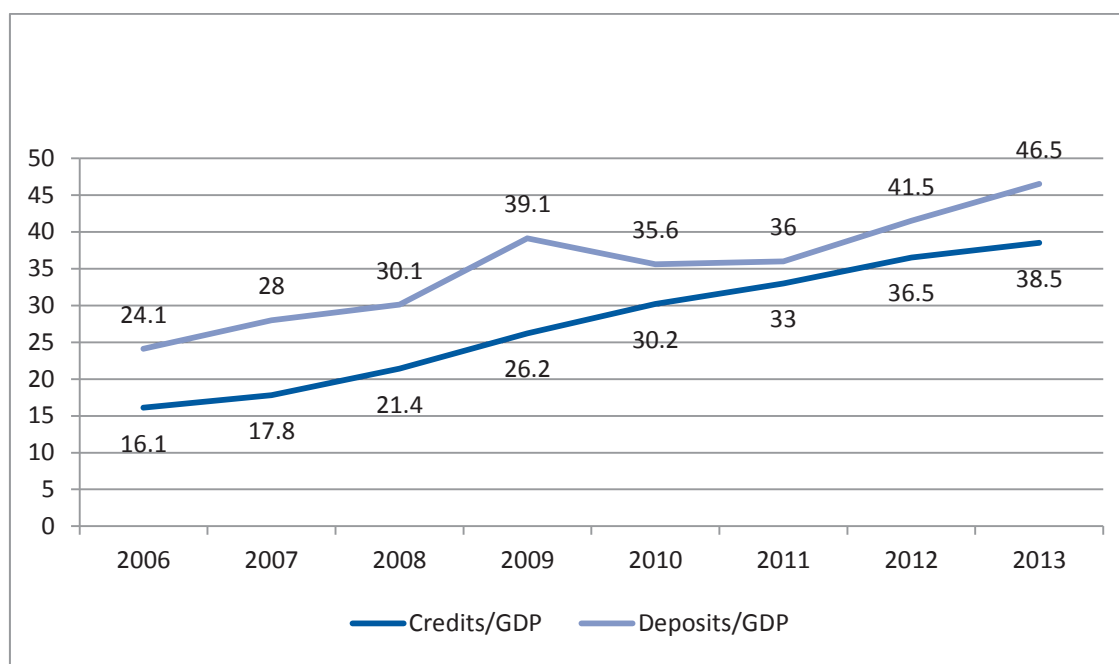
<sup>69</sup> BICRA uses a scale of 1 to 10, which ranges from the banking systems with the lowest risk (group 1) to those with the highest risk (group 10).

<sup>70</sup> Indeed, out of the 6.6 million people who make up the population of Paraguay, 1.6 million are poor, without sufficient income to participate in the financial system, and 5 million people have an income that is higher than the cost of the basic consumption basket (76 per cent of the total population). Of these, 80 per cent are older than 18 years old.

<sup>71</sup> Calculations based on data from the BCP Report on Financial Stability (June 2013).

<sup>72</sup> BCP (2013) Report of Financial Stability, June 2013.

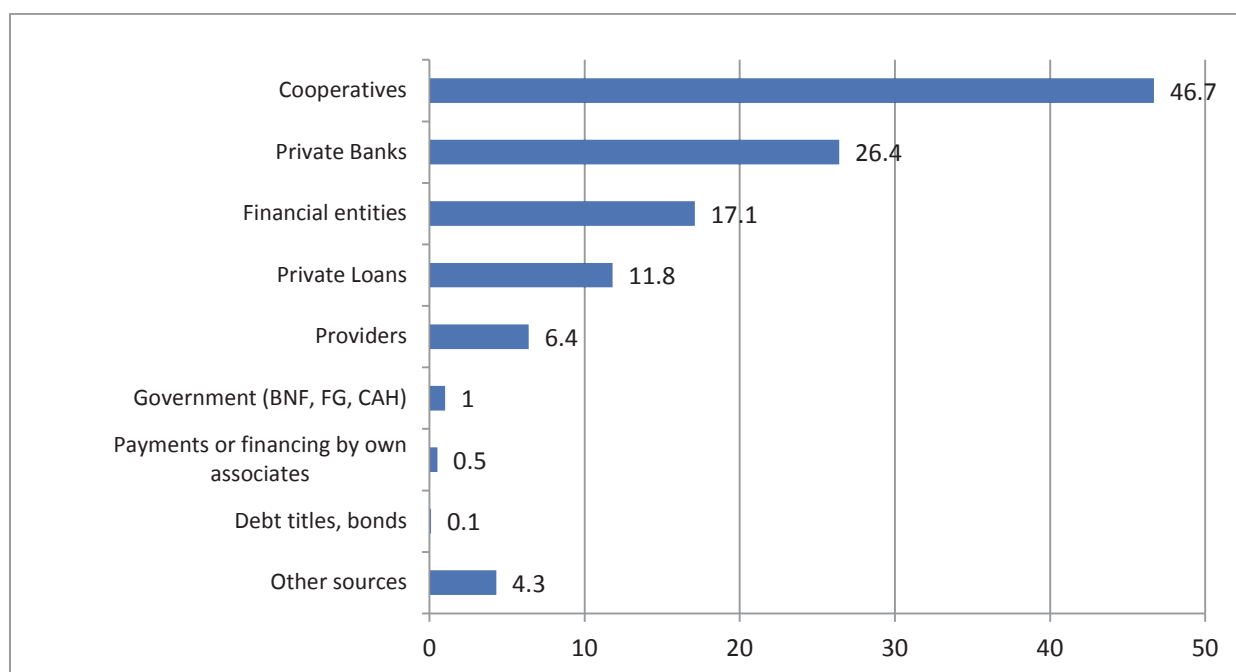


**Figure 34: Financial Deepening in Paraguay: Evolution for the Period 2006-2013 (Percentage)**

Source: BCP Report on Financial Stability, June 2013.

Turning to indicators measuring businesses' access to credit, only 50.3 per cent of companies were granted credit in 2011.<sup>73</sup> Out of these, 44.7 per cent were medium-sized companies and 27.2 per cent were SMEs. Although credit measured in volume comes mainly from the banking system, the largest number of credits are performed through cooperatives (46.7 per cent), followed by banks (26.4 per cent), financial companies (17.1 per cent) and private lenders (11.4 per cent). This is a result of the focus that cooperatives have on microbusinesses and consumers, which are larger in number, but not in volume of credit. This situation is not related to the level of interest rates, which, according to available information, are higher in financial entities than in banks. In the case of cooperatives, having access to AFD resources has allowed them to lower interest rates. 77 per cent of credits are utilised for the acquisition of materials in the local market, and 22 per cent for equipment or business extension.

<sup>73</sup> Economic Census of 2011.

**Figure 35: Economic Units that Received Credits, Loans or Financing Received (Percentage)**

Source: DGEEC (2011) Economic Census.

The following causes explain the lack of access to banking credit:<sup>74</sup> the lack of need (54.4 per cent), the non-fulfilment of requisites (21.4 per cent) and high interest rates (18.3 per cent). In addition, many companies do not have a bank account. This is the case, for example, for 92.7 per cent of SMEs, 51.3 per cent of medium-sized companies and 11.8 per cent of large companies.<sup>75</sup> Most companies perform their financial transactions through cooperatives.

## C. Policy, Regulatory and Institutional Frameworks

### 1. Policy Frameworks

Paraguay's priorities in this sector include two objectives: (i) developing a solid financial system, able to offer quality services to all economic actors, without exclusions,<sup>76</sup> and (ii) strengthening mechanisms to control risks. The Paraguayan financial services sector has evolved in an open environment, where (i) domestic and foreign companies have free capital mobility and (ii) there are no limitations for the participation of foreign capital or nationality requirements for managers and shareholders.

With regard to insurance services, the reform is evolving towards encompassing objectives such as (i) developing financial instruments to manage agricultural risks, and (ii) developing social insurance, for example insurance aimed at covering risks associated with becoming an orphan or unemployed.

#### *Assessment of Shortcomings and Inadequacies*

The Paraguayan financial system has done well with regard to the first objective. In recent years, there have been positive results in terms of high returns, solidity, low arrears and liquidity, in an open regulatory environment and favourable macroeconomic environment. However, there is a shortcoming in the achievement of the second objective, measured through lower interest rates, longer term financing and deposits to promote savings, and productive development and increased access to finance for SMEs. Some of the obstacles impeding the achievement of the second objective are developed in the following sections.

<sup>74</sup> DGEEC (2011). Economic Census.

<sup>75</sup> *Ibid.*

<sup>76</sup> PEES 2008-2013.

## 2. Regulatory Frameworks

Annex 3 presents a list of laws and regulations applicable to the financial sector in Paraguay.

### (a) Overview of the Regulatory Environment for Providers of Financial Services in Paraguay

#### *Banks*

The Paraguayan banking regulatory environment is based on BCP's policies and on the regulatory functions of the Banking Superintendence. The regulatory framework establishes that banks, financial and other credit entities must obtain an authorisation from BCP once the Superintendence provides a favourable decision authorising them to exercise their activities. The opening of a bank, financial or other credit entity is authorised if there is a minimum capital of Gs. 40,000 million (equivalent to USD 9 million), amounts that are updated according to the inflation rate.

The main provisions are listed below:

- All entities in the financial system must be limited liability companies, except for entities created by a specific law and branches of foreign banks.
- Foreign capital in financial entities is not subject to limitations, nor to nationality requirements for board members and shareholders.
- Foreign investment in financial entities receives the same treatment as national capital.
- Branches of foreign banks may perform their business like all other banks, including in relation to bank fundraising. Local offices of foreign banks cannot perform bank or wire transfers with natural or legal persons residing in Paraguay.
- Public banks must compete in equality of conditions with private banks and may not receive preferential treatment from BCP.
- Shareholders holding a percentage of shares in a bank granting them operational control or decisive influence on the corporate will may not hold more than 20 per cent of the stock in another bank or financial or credit entity.
- The minimum ratio (adjusted to risk) between the net worth of a financial entity and the total worth of its total assets and its contingency reserves is set at 8 per cent.
- A bank may participate as a main shareholder in an insurance company.

These provisions suggest an open regulatory environment, allowing market access and ensuring non-discriminatory treatment.

Ongoing initiatives by the BCP in relation to the regulatory environment for banks include: creating a credit bureau to balance information asymmetry that contributes to increased financial spread, a Guarantee Fund Act and cooperation with the Consumer Secretariat to launch financial education projects. The congress is currently reviewing legislation regarding money orders, financial transfers and financial education.

#### *Insurance Companies*

The conditions for obtaining authorisation to provide insurance services in Paraguay include:

- Being legally established in Paraguay, i.e. being a limited liability company or a branch of a foreign company;<sup>77</sup>
- Having as sole purpose the performance of insurance activities, including the granting of guarantees on third-party transactions;
- Having a minimum required capital (equivalent to USD 500,000);
- Ensuring that managers are considered legally competent;
- Ensuring that health insurance schemes abide with technical requisites established by the law; and
- Presenting balances for the last five years, and demonstrating solvency margins at least equal to those required of national insurance companies, in the case of foreign companies.

<sup>77</sup>According to Paraguayan insurance legislation, branches of foreign companies are administrative units of a foreign insurance company which have autonomy, a differentiated equity and their own records.

Currently, all reinsurers operating in Paraguay do so from abroad. They are not required to establish a local office nor operate through an agent or broker, although this practice is frequent. The conditions for obtaining an authorisation to provide reinsurance services in Paraguay include:

- Being registered with the Insurance Superintendence;
- Having a capital of USD 2,500,000 for each of the insurance segments the company operates in;
- Accrediting international qualifications or presenting a valid authorisation certificate issued by the regulatory agency in its country of residence;
- Covering very large risks through consortiums of national companies instead of through single companies.

Insurance and reinsurance companies established in the country are required to account for and maintain: (i) a margin of solvency, (ii) a minimum technical equity (or own uncommitted assets) in line with the parameters established by the Insurance Superintendence, and (iii) a guarantee fund above 30 per cent of its own uncommitted assets.

These companies can freely establish premiums and fees for services rendered. However, for the life insurance branch, it is indispensable to provide information on the technical basis that will be used to determine the premiums. Insurance companies are subject to supervision visits before balance sheet dates and to external audits.

The multi-risk analysis is complex. A commission was recently created to perform the analysis and the ideal plan for indicators, and a new accounting system was established. Currently, there are three risk qualifiers operating in the market.

The activities of insurance auxiliaries are also regulated. The Insurance Superintendence supervises this activity and keeps a record of insurance and reinsurance intermediaries, claims liquidators and external auditors. Registering with the Insurance Superintendence is mandatory to practise these activities.

Ongoing initiatives by the Insurance Superintendence in relation to the regulatory environment for insurance companies include a project to create a regulatory entity for pension funds, updating insurance law to consider technological advancements, and a project to extend the use of insurance to small and medium-sized producers.

#### *Financial Entities*

The requirements for financial entities include:

- Having draft articles of association, an investment project and internal systems of control and audits;
- Presenting a list of shareholders, indicating their contribution to share capital and information about the moral and economic solvency of the members of the board and of administrative bodies;
- Having a minimum capital of Gs. 20,000 million in 2013 (equivalent to 4.5 million dollars);
- Having a ration above 10 percent between (i) effective assets and (ii) assets and contingent operations weighted for the various risks;
- Maintaining a legal reserve equivalent to 100 per cent of their capital, constituted through annual transfers of at least 20 per cent of net profits, applied to cover operational losses.

The establishment of branches of foreign companies has the same requirements. In such cases, they must provide an authorisation from the parent company and from the regulatory agency in the country of origin, which must follow international monitoring standards.

Transforming a financial entity into a bank requires more than an increase in capital. It requires gradually increasing the capacity and experience to manage complex operations and instruments. The experience in Paraguay shows that this process is difficult, even for companies with a long standing experience. Some companies overcame this difficulty through mergers.

Ongoing initiatives by the Banking Superintendence in relation to the regulatory environment for financial entities include adopting new regulations on the opening of financial entities, on improving in situ and extra situ supervision and on reinforcing the supervising capacity of the Superintendence. This will be achieved by creating a Department of Financial Stability, improving credit risk evaluations, establishing limits on exposure to risk and improving internal control systems in financial entities.

### *Cooperatives*

All cooperatives are subject to control, supervision and, eventually, intervention, according to indicators enabling an “early warning system”. They must submit reports to the Central Risk Unit. Cooperatives are not subject to all requisites applicable to other financial institutions, although they sell similar products, competing with other financial institutions in the market.

In order to overcome this apparent imbalance, an ongoing initiative is seeking to create a guarantee fund that is established by law. The resources for its creation will come from the state through World Bank funding. This fund will be managed jointly by representatives of BCP, the Ministry of Finances and INCOOP. Similarly, the creation of a Cooperative Bank of Savings and Credit is in process. The Central Unit of Cooperatives started working in June 2014 for Type A cooperatives and its extension to other cooperatives will be gradual.

### *Recent Regulations Related to Promoting Financial Inclusion*

In 2011, the BCP issued a regulation allowing financial transactions through third parties, defining them as natural or legal persons that have the required authorisation of the financial entities to provide financial services, under the denomination “Non-Banking Correspondents (CNB)”. These companies are not dependent on banks or financial entities. The services of CNBs allow the number of financial transactions to increase, especially in areas or regions where, due to their geographical characteristics, branch services are difficult. Therefore, CNBs fulfil an important task, i.e. intermediating between the inhabitants of a region and financial entities, in different operations, such as withdrawals, deposits, payment of basic services and single-signature credits.

In July 2013, BCP issued a regulation on basic savings accounts. These accounts facilitate access to banking deposits, by not requiring minimum amounts to open them or minimum average balances. They can be opened without the physical presence of the client, through electronic media such as mobile telephones. The maximum amount to be credited in these accounts monthly may not exceed 6 minimum monthly salaries.

According to banking representatives, the experience of online banking has been positive, but still needs to evolve. For instance, payment through mobile telephony must be regulated, so that users fulfil certain formal requirements and the system is transparent. In spite of this, basic savings accounts may become a powerful force to improve access to banking services by people with low incomes, young people and others who do not have access to bank savings accounts.

### ***(b) Assessment of Shortcomings and Inadequacies***

The only regulatory gap identified with regard to the banking sector in the course of this study related to a law on financial conglomerates at a consolidated level, which does not currently exist in Paraguay.

However several shortcomings were identified with respect to insurance, particularly regarding sectors that are not currently covered by insurance. Work accidents are not regulated, and neither is unemployment. Hence, these insurances lack the proper legal basis to develop. School education insurance is also underdeveloped and controlled by the private sector. Retirement and pension funds lack an adequate regulatory regime, which would allow them to participate more in the development of the financial and capital market.

Interviews conducted with stakeholders revealed that the lack of an insurance culture was an important factor in understanding regulatory shortcomings in this sector. They noted that to overcome this, some subjects related to insurance were being introduced at tertiary education level. They referred, for instance, to cases such as life insurance and traffic accident insurance, where although there is a regulatory framework, it had proven difficult to implement. Insufficient statistics, which are required for the analysis, measurement and assessment of risks, was also mentioned as an important obstacle.

## **3. Institutional Frameworks**

There are several supervisory bodies for the financial sector.

The Central Bank of Paraguay (BCP) is an autonomous technical organism whose mission is to preserve the stability of the currency value, promote effectiveness and stability of the financial system and fulfil its role as bank of banks and financial agent of the state. It ensures the stability of the currency value and has

a monopoly on the emission of currency in the country. To achieve these goals, it has many responsibilities in monetary, financial, credit and international exchange matters.

The Banking Superintendence is in charge of regulating and controlling banking and financial companies, exchange houses, and private and public general deposit warehouses. The insurance superintendence is part of the structure of BCP. The Central Risk Unit of this superintendence evaluates risk information about clients. Financial entities are required to provide risk-related information to this unit, keeping it up-to-date.

The main function of the Insurance Superintendence is to guarantee the financial and technical capacity of market operators and the proper administration of risks and resources in the sector (including the elaboration of sectorial policy, regulation, oversight and guarantee of the fulfilment of the corresponding legal dispositions in the sector)<sup>78</sup> Although this superintendence depends on the board of BCP, it has functional and administrative autonomy. There is also a specific superintendence responsible for the oversight of health insurance, the Health Insurance Superintendence, which is part of the Health Ministry.

The National Institute of Cooperatives (INCOOP) is the authority responsible for the supervision and implementation of provisions regulating cooperatives. 70 per cent of its budget comes from cooperatives and 30 per cent from the state. INCOOP has 126 employees. It is subject to the authority of the Controller General and to the legal regime for public officers.

The National Stock Exchange Commission regulates the stock exchange market.

In the area of public banking, Fondo Ganadero provides technical assistance and credit to small and medium-sized cattle breeders, although its resources are limited. AFD provides long-term funding to first-tier financial entities. It has had a positive impact on the real estate market, by granting loans for housing to social sectors that have a good ability to pay. To achieve this, it required enough capital and at a low cost in local currency and received funding in foreign currency through multilateral credit organisations. The Credito Agrícola de Habilitacion (CAH) provides credit assistance services, as well as technical and management services to farmers and craftsmen with low income levels, who are unable to access the benefits of other credit institutions and are grouped in cooperatives, associations and other social forms.

Financial entities are grouped under the Association of Financial Entities (ADEFI), and banks under the Association of Banks of Paraguay (ASOBANC). Insurance companies are grouped under the Paraguayan Association of Insurance Companies. Through the Insurance Consulting Council, associations of insurance companies, insurance brokers, and loss adjusters issue opinions to the Insurance Superintendence on proposed legislation and accounting rules and on issues related to insurance activity. However, not all banks and not all insurance companies are affiliated with these associations.

#### *Assessment of Shortcomings and Inadequacies*

The interaction with stakeholders and interviews conducted in the course of this study revealed that the main shortcomings and inadequacies regarding the institutional frameworks for financial services in Paraguay include the following:

- Public banking partially fulfils its role of supporting the productive sector, not just due to its low level of assets, but also because a high proportion of its resources are used for consumption.<sup>79</sup>
- There is insufficient regulatory oversight of cooperatives by INCOOP. Cooperatives have deficiencies in their financial analysis and control systems, which is why improved supervision and control are priorities for their development in Paraguay. Shortcomings in supervision derive from (i) governance issues (i.e. authorities are chosen through an internal process whereby candidates emerge from the cooperative directive itself, therefore suggesting a self-regulation scenario), and (ii) the large number of cooperatives to be overseen.
- Some of the existing institutions require strengthening. This is the case, for instance, for CAH, which needs to improve its staff of technical professionals and also of Fondo Ganadero, which needs to strengthen its human resources.
- Some regulatory entities are currently inexistent. There is no regulatory entity for supervision or retirement and pension funds.

<sup>78</sup> WTO 2013, p.125.

<sup>79</sup> In addition, some stakeholders consulted in the course of this study were of the view that the potential of public banking was not maximised because of inefficient administrative management.

## D. Financial Services: an Analysis of Strengths, Weaknesses, Opportunities and Threats

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Macroeconomic stability, free capital mobility and an open economy for investments.</li> <li>• Competitive financial market and high profitability indicators of the Paraguayan financial system.</li> <li>• Foreign banking has helped consolidate the local financial system.</li> <li>• Controlled indebtedness (non-performing loan ratio).</li> <li>• Strong cooperative system, guided by principles of inclusiveness and mutual aid.</li> <li>• Financial supervision helps preserve the system's stability.</li> </ul>	<ul style="list-style-type: none"> <li>• Small market size and scale.</li> <li>• Operational management is inefficient in the financial system in general, which is noted in the high interest rates and administrative costs.</li> <li>• An important percentage of credit is destined to the agribusiness and agro-exporter sector, therefore it is subject to fluctuations in the agricultural cycle which may affect the levels of indebtedness associated with the sector and the liquidity of the system.</li> <li>• Financial operations are short-term, mainly capturing savings, which impedes the development of long-term financial instruments necessary for the growth of the productive sector.</li> <li>• Lack of access to the banking system for population with low resources and/or located in isolated rural areas, due to cultural barriers and formal requirements for opening accounts and approving loans.</li> <li>• Public banking partially fulfils its role of supporting the productive sector, since a great proportion of its credits are destined to consumption. The possibilities of public banking are not maximised, in part due to inefficient administrative management.</li> <li>• Institutional weaknesses of several institutions in the system, including INCOOP.</li> <li>• Lack of culture promoting the use and development of insurance.</li> <li>• Regulatory shortcomings, mainly in provisional insurances, pension insurances, accidents at work, life insurance, unemployment and education insurance.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Incorporation of technological solutions for the banking system may contribute to financial inclusion.</li> <li>• Ongoing initiatives to promote financial education.</li> <li>• Ongoing initiatives to improve the regulatory environment to reduce risk exposure and improve the supervision of financial entities and insurance services.</li> <li>• Ongoing initiative, in the banking sector, to create a credit bureau to reduce financial spread.</li> <li>• Credit portfolio showing a tendency to increase.</li> </ul>	<ul style="list-style-type: none"> <li>• High spread levels, due to problems of information asymmetry, administrative inefficiency and the strong monopoly still held by financial entities.</li> <li>• Higher non-performing loan ratio in public banking and micro credit.</li> <li>• Low development level of capital markets, limiting the system's development.</li> <li>• High interest rates.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Required spill-ins from other sectors:</b> Education.</li> <li>• <b>Anticipated spill-overs into other sectors:</b> All productive sectors.</li> <li>• <b>Key stakeholders:</b> BCP, Banking Superintendence, Insurance Superintendence, Health Insurance Superintendence, INCOOP, National Stock Exchange Commission, domestic and foreign services providers present in the Paraguayan market, consumers associations, associations grouping providers of financial services.</li> </ul>	

## CHAPTER VI: TELECOMMUNICATION SERVICES

### A. Introduction

Telecommunications are broadly defined in the GATS Annex on Telecommunications as “the transmission and reception of signals by any electromagnetic means”. The GATS Sectorial Classification List of services disaggregates telecommunications into 14 subsectors. Throughout the past decade, the introduction of new transmission technologies has led to a convergence between broadcast, telecommunication and information technologies, blurring the distinction between basic and value-added services but also between telecommunications and other sectors and sub-sectors covered by the GATS.

This sector is characterised by a high degree of competition at the global level and by liberalisation. It is a sector that is rapidly evolving, largely as a result of a uniquely fast rate of technical progress.

From a development perspective, the telecommunications sector is key to improving productive and managerial efficiency, as it can reduce progress costs, improve the provision of public services, and improve the productivity and export prospects of SMEs and overall technological progress. The state plays an important role as a regulator. Key policy and regulatory objectives in the sector include: ensuring universal access, ensuring fair competition and protecting consumers.

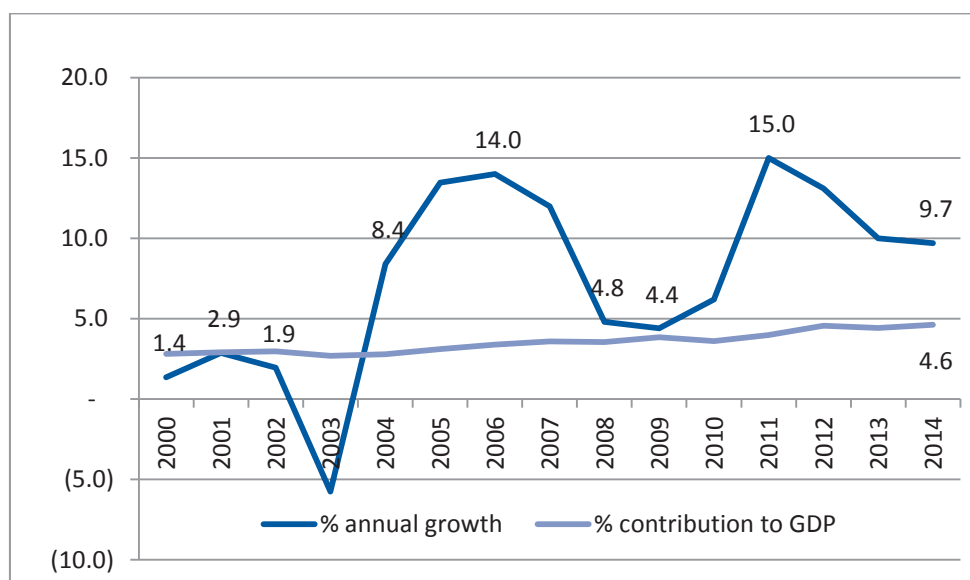
### B. Description and Performance of the Sector

#### 1. Evolution

According to information from BCP, the communications sector (including telecommunications and postal services) grew at an average annual rate of 10.1 per cent over the past 10 years. BCP estimates the sector will grow 9.7 per cent in 2014, reaching a 4.6 per cent share of GDP for 2014, with a growing and stable trend.

The market for telecommunication services is increasing in Paraguay due to increasing mobile teledensity.<sup>80</sup> Before 2012, 95 per cent of telephone lines in the country were mobile and 5 per cent fixed. Fixed teledensity in Paraguay shows no growth and is among the lowest in the region (6.1 per cent) due to its high fixed costs. Mobile operators provide telephone services in rural and urban areas, supplying the unmet demand.

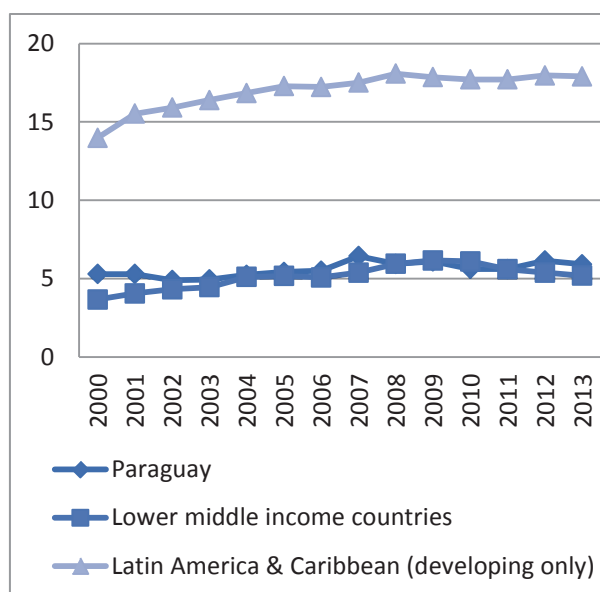
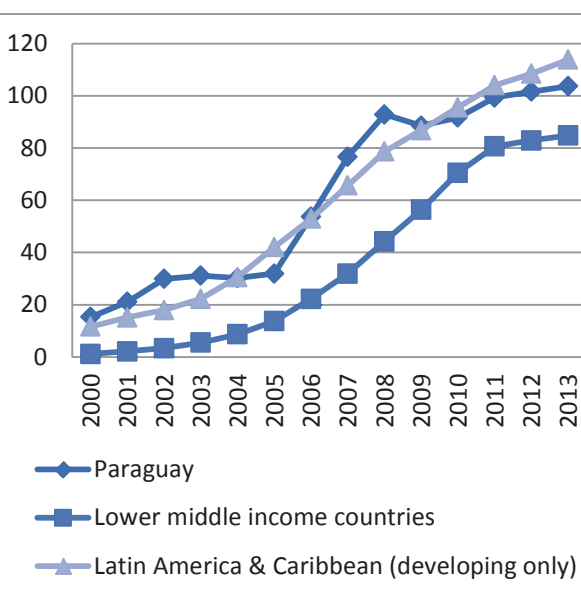
**Figure 36: Growth and Contribution of Communications to GDP (Percentage)**



Source: BCP data.

<sup>80</sup> Number of telephone lines per 100 people.



**Figure 37: Fixed Telephone Lines (per 100 People)****Figure 38: Mobile Telephone Subscriptions (per 100 People)**

Source: World Bank, WDI 2014.

## 2. Telecommunications Provision and Demand in Paraguay

### (a) Providers of Telecommunication Services

The Paraguayan Communications Company (COPACO SA) has a de facto monopoly over fixed telephone services (encompassing local fixed telephony as well as domestic and international long distance calls). According to interviews conducted with key stakeholders from this sector, the service related to international long distance calls suffers from a lack of appropriate technology, management and monitoring tools.

Mobile services are provided by four companies: COPACO and three private companies with foreign capital. Internet services are also provided by these four companies, but also by another 58 companies, some of which are interconnected with neighbouring countries, or target specific markets such as the corporate market. Cable TV services are offered by companies that cover markets according to their geographical location. Tigo has the biggest market share, covering the Central Department and Asuncion, where 35 per cent of the population is located.

Mobile operators arise through foreign investments from international groups (see table 16). The country's largest company is Tigo, covering 54 per cent of customers nationwide. This share is due to a business strategy (called the "Club effect") that allows the company to provide free telephony for corporate and family groups,<sup>81</sup> and to bundle products and other promotions.

**Table 16: The four mobile operators participating in the Paraguayan Chambers of Mobile Operators (CAMPY)**

Brand	Company	Group	Country
Tigo	TELECEL	Millicom International Cellular S.A., with 43 million clients in 14 markets of Latin America and South Africa	Sweden
Claro	CLARO	America Móvil, with 224 million clients in 18 countries in America	Mexico
Personal	NÚCLEO	67.5% TELECOM Group and 32.5% ABC Telecomunicaciones	Italy
Vox	HOLA PARAGUAY	COPACO S.A.	Paraguay

Source: websites from the cited companies.

<sup>81</sup> Calls are free within the group, but calls to people outside the group are not.

**(b) Demand**

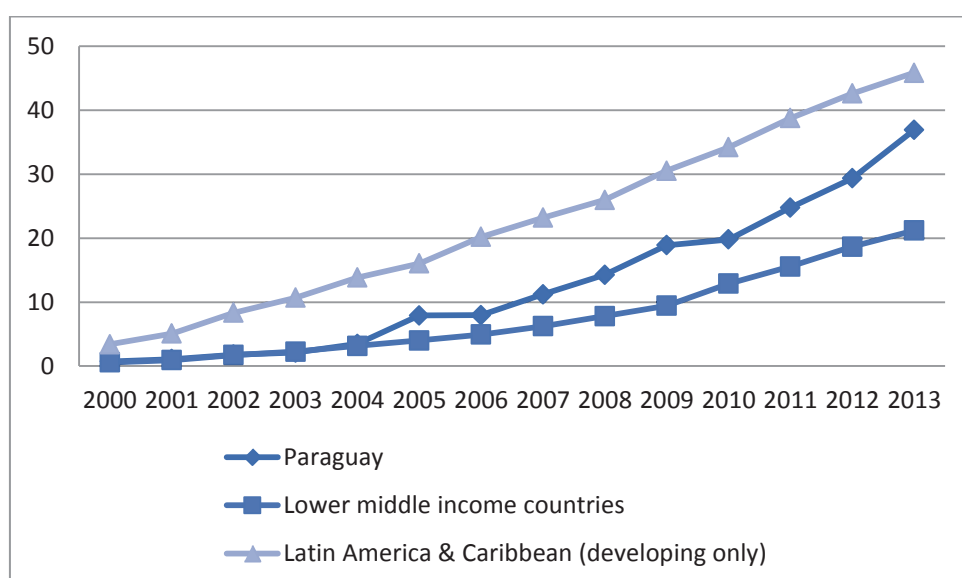
Several indicators suggest an unsatisfied demand for telecommunication services in Paraguay. Internet penetration remains particularly limited.

*Internet Use*

In 2013, 29.3 per cent of the population over 10 years old had internet access.<sup>82</sup> Although data shows an increase in internet use in Paraguay, the country is below the average for Latin America in terms of number of internet users, as shown in figure 40.

The digital divide is due to the cost of internet access, which is inaccessible for the majority of the population. Even though the cost has fallen, the cost of accessing internet in Paraguay, at USD 19 a month<sup>83</sup> is among the highest in the region, after Bolivia, and also compared to MERCOSUR. This rate is equivalent to 4.5 per cent of the minimum wage, in a context where 37.5 per cent of the working population earn less than a living wage. This cost will remain high due to the country's landlocked situation, which makes it dependent on neighbouring countries to interconnect with submarine cable networks, increasing operating costs.

**Figure 39: Internet Users (per 100 People)**



Source: World Bank, WDI 2014.

The low internet coverage also explains the digital divide in Paraguay. This is caused by a lack of access to a computer or smartphone. In 2013, 29 per cent of households had a computer at home, and although 92 per cent of the population had a mobile phone, smartphones were not accessible to the majority of the population (DGEEC 2013). However this could change in the near future as companies are currently selling smart phones without a long-term contract, taking into account the fiscal incentives to encourage investment and establishment of foreign companies in Paraguay discussed below.

Internet use by companies remains limited. According to the 2011 Economic Census, 86.4 per cent of the total of medium and large-sized economic units<sup>84</sup> use internet, and 28.8 per cent have a website or presence on a website. These economic units use internet services for a variety of purposes such as: finding information on banking and financial operations (79 per cent and 54.8 per cent respectively); receiving online orders for products and/or services to customers (46.9 per cent); and shipping orders for products and/or services to suppliers of the company (44.8 per cent). Internet is also used (by 40.4 per cent of economic units) to perform enterprise management functions (such as planning, organisation, management or control), and to perform government procedures (34.8 per cent). Internet use for promotion and advertising is low (30.8 per cent).

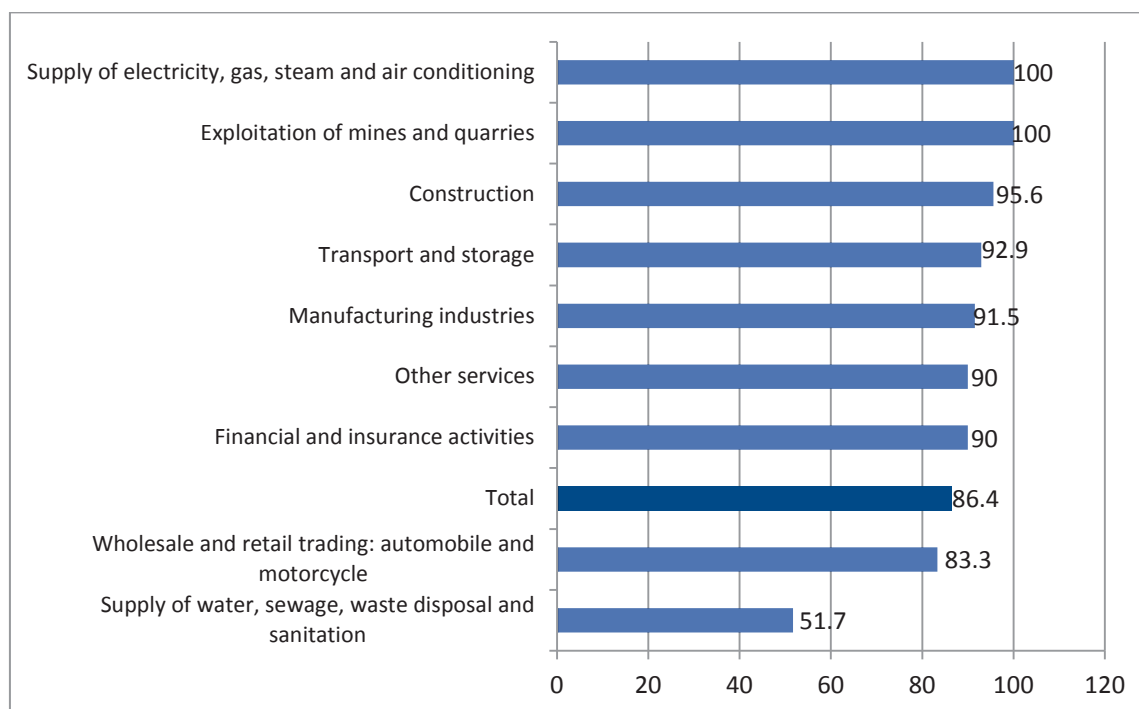
<sup>82</sup> World Bank, WDI 2014.

<sup>83</sup> ECLAC (2012). Observatorio Regional de Banda (ORBA).

<sup>84</sup> The Census is performed among units with establishments, whether formal or informal, but it does not interview most informal establishments and people who operate independently.

The same source examined the distribution of companies using internet services, per sector of economic activity. It indicated that 100 per cent of companies engaged in activities related to electricity, gas, steam and air conditioning, and mining and quarries use internet services. The use of internet by companies in construction, transport and storage, manufacturing industries and financial and insurance services is above the average national level (86.4 per cent). In contrast, sectors such as water supply, sewerage and waste management activities sanitation (51.7 per cent), and wholesale and retail trade repair of motor vehicles and motorcycles (83.3 per cent) are below the average.

**Figure 40: Economic Units Using Internet, According to Area of Activity (Percentage)**



Source: Economic Census 2011.

Internet use for e-government purposes also remains limited. According to indexes from the United Nations measuring e-government<sup>85</sup> and e-participation,<sup>86</sup> Paraguay is still at an early stage of development. The indexes for years 2014, 2010 and 2005 show an improvement in the average score of middle-income countries from Latin America and the Caribbean and of Paraguay, but Paraguay remains below the average.

### *Broadband*

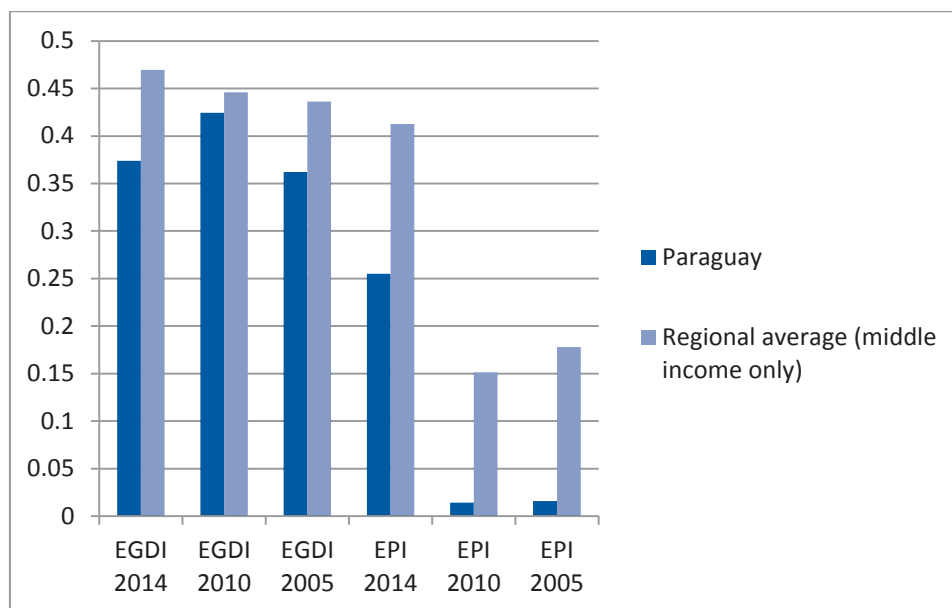
The broadband service in Paraguay is lagging behind regional standards, in terms of broadband penetration (5.43 per 100 people in Paraguay in 2011, compared with 27.62 in MERCOSUR and 18.38 in Latin America and the Caribbean) and in terms of average speed of fixed broadband (0.64 Mbps in Paraguay, compared with 1.37 in MERCOSUR and 2.18 in Latin America and the Caribbean).<sup>87</sup> This means that Paraguay is not taking advantage of the potential of broadband as an enabler for the use of ICT in favour of productivity and diversification.

<sup>85</sup> The E-Government Development Index (EGDI) incorporates access characteristics, such as infrastructure and educational levels, to reflect how a country is using information technologies to promote access and inclusion of its people.

<sup>86</sup> The E-Participation Index (EPI) focuses on the use of online services to facilitate the provision of information by governments to their citizens ("e-information sharing"), interaction with stakeholders ("e-consultation"), and engagement in decision-making processes ("e-decision making").

<sup>87</sup> IDB (2014). Paraguay: Estrategia del BID con el País 2014-2018.

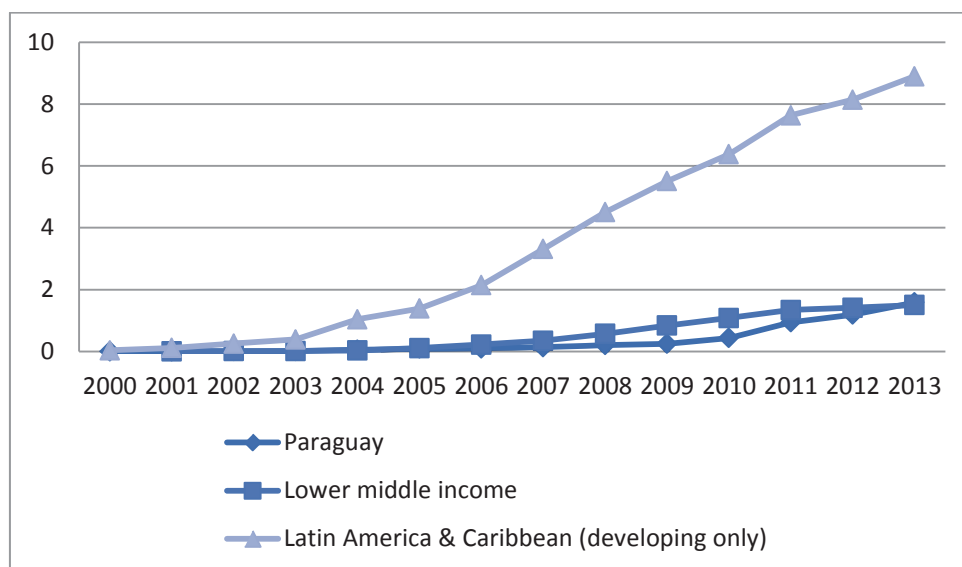
**Figure 41: E-Government and E-Participation Indexes in Latin America and the Caribbean and Paraguay (2014, 2010 and 2005)**



Source: UNDESA, United Nations E-Government Development Database (UNeGovDD).

This situation is partly due to the monopoly period of COPACO, when the public company had exclusive broadband purchasing capacity. Since 2009, companies can buy directly from international dealers (through cross-border international connections). From that year onwards the growth of broadband has increased steadily, as shown in figure 43.

**Figure 42: Fixed Broadband Internet Subscribers (per 100 People)**



Source: World Bank, WDI 2014.

### Access to Technology

The World Economic Forum's Network Readiness Index (NRI) measures the performance of economies in leveraging ICT to boost competitiveness and wellbeing by analysing and evaluating the role of individuals, business and government, as well as the macroeconomic and regulatory environment. Between 2002 and 2011, Paraguay was one of the countries showing greatest progress, although the country remains below the regional average.<sup>88</sup>

<sup>88</sup> WEF, Global Information Technology Report, 2002-2003 and 2010-2011.

2G technology has nearly 100 per cent coverage throughout the country, while 3G coverage reaches about 40 per cent nationwide. There is a massive programme of expansion and upgrading of telecommunications infrastructure from 2G to 3G technology, so it is estimated that in 2015 3G will reach all districts of the country, increasing by 60 per cent.

## C. Policy, Regulatory and Institutional Frameworks

### 1. Policy Frameworks

The National Telecommunications Plan (PNT) and the ICT Strategic Plan are the main policy frameworks guiding the development of the sector in Paraguay.

#### (a) National Telecommunications Plan (PNT) 2011-2015

The PNT, developed by CONATEL, encompasses goals such as increasing universal access, developing infrastructure, increasing internet affordability and promoting fair competition and a competitive environment.

Increasing universal access has been an important goal pursued by Paraguay in the telecommunications sector. Between 2009 and 2011, the policy framework to pursue this goal was the “Paraguay Conectado 2013” programme. It was replaced by the PNT 2011-2015, which was more ambitious in terms of goals and projects.

PNT seeks to influence infrastructure development. In this sense, long-distance fibre optic cables are key to ensuring broadband (wired or wireless) access in various locations. PNT 2011-2015 sets the target of investing USD 150 million to install 1,000 km of long distance optical fibre (per year). Installing 5,000 km of optical fibre would allow the 2015 goal of 50 per cent of households with broadband access to be achieved at the end of the five-year plan, reaching at least 200 municipalities.

Providing subsidies through the Universal Service Fund (USF) to install the necessary infrastructure in areas where expansion of services is not commercially viable is an important component of this strategy. The allocation of subsidies takes place through tenders. The winning company uses these funds to develop infrastructure in poor areas. Resources allocated from 2009 until June 2014 through the USF amounted to Gs. 78,310 million (USD 17.8 million), achieving access to fibre optic internet for 216 out of 248 municipalities in 2014. In 2015, this number is expected to increase to 230.

The total coverage of this programme has been affected by the rejection, by some municipalities, of installation of antennas due to the potentially harmful effects on health. Although companies’ feasibility calculations for providing services to municipalities with lower incomes could be negative, once investments were made, services procurement and consumption were higher than expected, generating positive financial results nationwide.

PNT also sets out an investment policy aimed at increasing internet affordability by reducing the cost of access to international fibre optic. It encompasses measures such as:

- Launching satellite TV services and LTE services, which have already stimulated consumer demand in these advanced technology niches. The adoption of the digital television system standard<sup>89</sup> is cited as a PNT target which has already been achieved.
- An auction for AWS spectrum in the 1700MHz and 2100MHz bands to be held in the first half of 2015, which is expected to increase competition in the mobile market.
- Plans to install free Wi-Fi networks in public places or 50 places of entertainment in 36 municipalities (in 2014) and support to provide broadband and data services to the public health system.

<sup>89</sup> Japanese-Brazilian ISDB-TV or SBTVD.

Promoting fair competition and a competitive environment is also an important PNT goal. In this regard, CONATEL is in the process of revising regulations in the sector in order to alleviate asymmetries and market imperfections. Examples of concrete actions in this respect include: (i) reviewing the National Plan of Frequency Allocations; (ii) spectrum reallocation in cases of non-use; (iii) strengthening supervision in the process of authorising TV channels to avoid concentration in a person or economic group; and (iv) encouraging the shift from analogue TV to digital TV, including measures to prevent and correct market concentration.

Table 17 describes the progress achieved under this Plan in various indicators.

**Table 17: PNT Progress**

INDICATORS	2012	2013	GOALS FOR 2015
Investments	-	-	USD 150 million per year
Inter-urban fibre optic (FO)	14,222	b)	1,000 km per year
Mobile teledensity	101.81% a)	105.12% a)	100%
% of mobiles with broadband	b)	b)*	50%
% of localities with mobile	99.16%	99.70%	95%
Fixed teledensity	6.16%	6.52%	10%
Fixed broadband teledensity	1.76%	2.33%	10%
International exit (Gb/s) actual	20.99%	30.39%	40%
FO-connected municipalities	129	140 (out of 247)	200
Municipalities with broadband	179	221 (out of 247)	200
Broadband penetration	27.80%	28.30%	50%
Municipalities with digital TV	1	1	200
Penetration of digital TV	0	0	50%

Source: CONATEL.

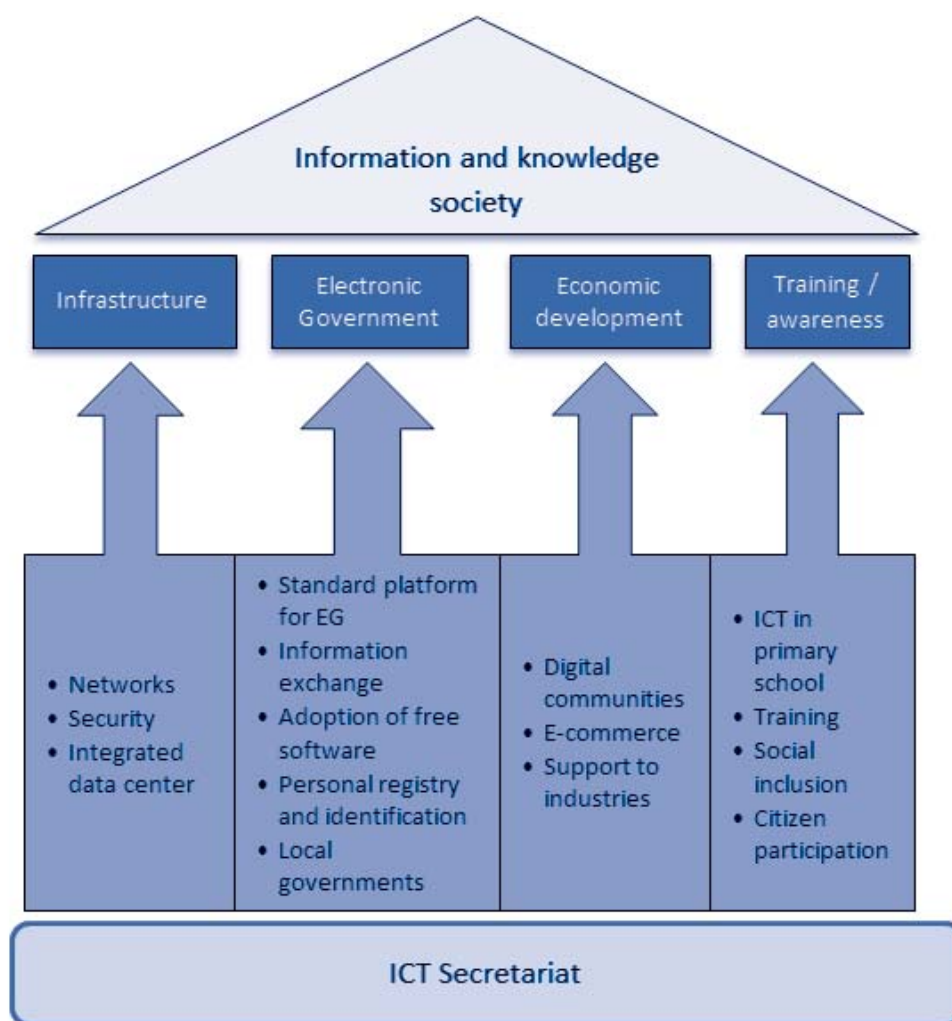
a) Exceeded target.

b) Data being processed by CONATEL.

### **(b) ICT Strategic Plan**

The ICT Strategic Plan, adopted in 2011, is a roadmap aimed to concretise the strategy of transforming ICT as an enabler for achieving long-term sustainable development in Paraguay. Priority areas of the ICT Plan are grouped under 4 pillars, as shown in figure 44. Table 18 identifies medium and long-term actions foreseen in the Plan.

Figure 43: Paraguay ICT Strategic Plan, Strategic Priorities



Source: Margarita Rojas (2013). "Propuesta de políticas públicas en Tecnologías de la Información y Telecomunicación".

**Table 18: Medium and Long-Term Actions Set Out in ICT Strategic Plan**

Strategic area	Mid-term actions	Long-term actions
E-government	<ul style="list-style-type: none"> <li>Administrative management (Government to Government, G2G): educational information, electronic transactions.</li> <li>Services for citizens (Government to Citizen, G2C): social services.</li> <li>Services for companies (Government to Business, G2B): business support, foreign trade.</li> </ul>	<ul style="list-style-type: none"> <li>G2C: migration services, employment services, legal information.</li> <li>G2B: logistical services, intellectual property.</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>Finalising the ICT security structure and operation.</li> <li>Integrating sectors with the Paraguayan cloud.</li> </ul>	<ul style="list-style-type: none"> <li>Integrating sectors with the Paraguayan cloud.</li> </ul>
Development of human resources	<ul style="list-style-type: none"> <li>National policy for ICT certification.</li> <li>ICT industry linked to curriculum of universities.</li> </ul>	<ul style="list-style-type: none"> <li>ICT study programmes in secondary schools.</li> </ul>
Awareness-raising	<ul style="list-style-type: none"> <li>Collection centres for second-hand PCs.</li> <li>Digital inclusion in communities.</li> </ul>	<ul style="list-style-type: none"> <li>Digital inclusion in communities.</li> </ul>
ICT Industry	<ul style="list-style-type: none"> <li>Supporting the development of manufacturing for the ICT sector.</li> <li>BPO industry.</li> <li>Supporting SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>Promotion and marketing of Paraguayan brands.</li> </ul>
E-commerce	<ul style="list-style-type: none"> <li>Supporting SMEs.</li> <li>Deployment of e-commerce standards.</li> </ul>	<ul style="list-style-type: none"> <li>Supporting the globalisation of e-commerce.</li> </ul>
Research and development	<ul style="list-style-type: none"> <li>Supporting the development of R&amp;D projects.</li> <li>Importing technological processes.</li> <li>Intellectual property rights management</li> <li>Process management through an information system.</li> </ul>	<ul style="list-style-type: none"> <li>Link between research centres and the market (of goods and services).</li> </ul>
Regulatory frameworks	<ul style="list-style-type: none"> <li>Laws providing incentives for the ICT industry and for e-commerce.</li> </ul>	<ul style="list-style-type: none"> <li>Supporting and implementing complementary actions required to achieve the results proposed in PNT.</li> </ul>
ICT organisation	<ul style="list-style-type: none"> <li>Developing a system for evaluation and monitoring of goals and actions proposed in the PNT,</li> <li>Integrating institutions with the government's Centre of Integrated Data.</li> </ul>	

Source: Margarita Rojas (2013). "Propuesta de políticas públicas en Tecnologías de la Información y Telecomunicación".

The ICT Strategic Plan has achieved positive results so far. For example, in the area of ICT use to achieve social inclusion and economic development, the Tekoha Pilot Project led to the development of a portal<sup>90</sup> encompassing an e-commerce module that allowed six communities<sup>91</sup> to showcase their culture and products. In terms of e-government, an Information Exchange System has been developed to share Department of Identification and Civil Registry data among different government institutions. A similar example of data-sharing is the RUVIG record of victims of family violence, which interconnects the Ministry of Women, National Police and Ministry of Health and Welfare.

#### *Assessment of Shortcomings and Inadequacies*

To date, despite the remarkable progress, especially in the area of mobile telephony, Paraguay still faces significant obstacles and limitations in the telecommunications sector. The policy framework set by the government for the development of the telecommunications and ICT sector promotes efforts to overcome, in the long-term, the main challenges of the sector. The interaction with stakeholders and interviews conducted in the course of this study revealed that possible areas for further developing the policy

<sup>90</sup> www.tekoha.net.

<sup>91</sup> Yataity, Caazapa, Carapegua, Quiindy and two native indigenous communities of Alto Paraguay: Tomaraho and Ybytoso.



framework include updating some policies to promote the use of new technologies, developing alternatives to further lower internet access costs and increasing broadband to enable applications in specific sectors (such as education and telemedicine).

## **2. Regulatory Frameworks**

Annex 4 presents a list of legislations and regulations applicable to the telecommunications sector in Paraguay.

The provision of telecommunications services requires a concession, license or authorisation for the establishment and operation of services, which depends on the nature of service. Concessions are granted for basic services (utilities). Broadcasting services and value-added services (mobile and internet) require a license, and other services (e.g. amateur radio, emergency or small-coverage broadcasting) are subject to an authorisation. Certain telecommunications services are reserved for the state (radio weather services, air navigation, river, maritime and aerospace, distress and safety).

The Law on Telecommunications establishes a system of free competition for all telecommunications services. The current regulatory framework encourages foreign companies and investment in the sector through exemptions from tax and customs duties. In March 2009 the market received a major boost with the publication of regulations that liberalised international access to internet. Since then, internet service providers may have direct international fibre access. This has encouraged new service providers and internet users have benefited in terms of price and speed of service.

### *Assessment of Shortcomings and Inadequacies*

The interaction with stakeholders and interviews conducted in the course of this study revealed that the main shortcomings and inadequacies regarding the regulatory frameworks for telecommunication services in Paraguay include the following:

- The 1995 telecommunications law does not take into account relevant technological developments, for instance aspects related to internet governance, cybercrime and regulation pertaining to digital TV.
- The Competition Law is very recent and therefore has not yet been fully implemented. It requires closer coordination with CONATEL.
- There is a lack of a legal framework to penalise informal activity in the sector related to amateur radio and illegal broadcasting, which had led in certain instances to interference affecting security, for example in areas near airports.
- There are insufficient regulations for consumer protection, particularly regarding mobile internet and cable services membership contracts.

## **3. Institutional Frameworks**

CONATEL is an autonomous body linked with the executive branch through the MOPC. Its main tasks include: administrative and technical regulation of the sector; planning, programming, controlling and monitoring of telecommunications; managing the radio spectrum; approving technical standards; regulating and supervising the granting of concessions, licenses and authorisations; proposing tariff regimes and tariff rates; establishing terms and conditions governing interconnection contracts; overseeing the introduction of new technologies; and preventing anti-competitive and discriminatory behaviours in the sector and artificial prices and rates. CONATEL is widely considered to be a solid institution, due to its level of organisation, its regulatory capacity and its skilled human resources. Its directorate is made up of five members: a president and four directors, designated by the executive branch in each presidential term.

The Presidential Commission for Information Technology and Communication (SENATICs) was created in 2010 to promote the uptake of advanced ICT. It is responsible for defining policies and strategies for ICT products and promoting development in the area of ICT for application in different fields of industry. The Secretariat for Information and Communication Technologies (SETICs) was created on April 9 2012, as the institution responsible for the execution of the ICT Strategic Plan.

COPACO is a state-owned company created in 2001, which inherited a solid infrastructure from its predecessor, the National Telecommunications Administration (ANTELCO). As a public company, it is subject to the Public Procurement Law.

CONATEL and the Secretariat for Consumer Defence have joined efforts to improve mechanisms for consumer protection. For example, an agreement is currently being negotiated between CONATEL and the Secretariat of Consumer Defence to monitor complaints, improve transparency in membership contracts and allow consumers to summarily terminate them. Since 2012, a process of self-regulation has been initiated by some operators to respond to consumer complaints, which has led to positive results in terms of considerably reducing the time to process complaints by some operators and eliminating automatic subscriptions.

The General Division of Digital Signature and Electronic Commerce of the Ministry of Trade is responsible for regulating electronic transactions and certifying operators in this area.

All (mobile) companies are grouped under the Paraguayan Chamber of Mobile Operators (CAMPY), which allows them to coordinate activities for the development of the sector.

#### *Assessment of shortcomings and inadequacies*

The interaction with stakeholders and interviews conducted in the course of this study revealed that the shortcomings and inadequacies in relation to the institutional frameworks for telecommunication services in Paraguay include the following:

- Duplication of functions in regulatory bodies, which delay public proceedings when setting up a company in the country. Another example of this is the overlap, perceived by private sector stakeholders, between the functions of SENATICS, CONATEL and the General Directorate of Digital Signatures.
- COPACO's management and administration problems which affect its efficiency.

### **D. Telecommunication Services: an Analysis of Strengths, Weaknesses, Opportunities and Threats**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• The Telecommunications Plan clearly identifies the main challenges ahead for the sector and determines goals to gradually overcome them.</li> <li>• Exponential growth of mobile telephony in particular and the industry in general.</li> <li>• Consolidated regulatory and institutional framework, telecommunications being a traditionally regulated industry.</li> <li>• Practice of deregulated internet prices by CONATEL.</li> </ul>	<ul style="list-style-type: none"> <li>• Service rates are relatively expensive compared to the region due to the high cost of international interconnection.</li> <li>• Incipient consumer defence mechanisms.</li> <li>• Insufficient infrastructure.</li> <li>• The country is landlocked, therefore it accesses fibre optic through Argentina and Brazil.</li> <li>• The Telecommunications Law is from 1995, and does not take into account the dynamics of the sector.</li> <li>• Insufficient statistics and scattered data that are difficult to access by the general public.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Suitable environment for foreign direct investment in terms of tax exemptions and non-discriminatory treatment.</li> <li>• New services can emerge as a result of improved access to telecom services (as a result of on-going initiatives), of improved access to networks (as a result of ongoing initiatives), and of increased demand for spectrum resources.</li> <li>• New operators of virtual cellular network (MVNO), once regulated, will open opportunities to new entrants.</li> </ul>	<ul style="list-style-type: none"> <li>• Sector is sensitive to political situations. CONATEL Directory is appointed by the executive branch.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Required spill-ins from other sectors:</b> financial, construction.</li> <li>• <b>Anticipated spill-overs into other sectors:</b> education, health as well as other productive sectors.</li> <li>• <b>Key stakeholders:</b> MIC, SETICs, SENATICs, MOPC, CAMPY, telecommunication services providers.</li> </ul>	



**PART III:**

**RECOMMENDATIONS**

## CHAPTER VII: RECOMMENDATIONS

### A. Cross-Sectoral Recommendations

#### 1. Policy Framework

In order to support incipient development in the capacity to provide services and overcome deficiencies in services that affect competitiveness, active policies are needed. Achieving a strategic vision that is clearly articulated and coherent, with sufficient human resources, financial services and a roadmap for action, requires multidisciplinary efforts among diverse governmental and non-governmental actors.

Strategies aimed at improving productivity and value addition in services could include developing productive clusters, by promoting intra-firm cooperation using a value chain approach. Promoting development of specific sectors through services could include promoting specific support services. For instance, promoting support services such as certification and testing, design, marketing, market research, packaging, research and development, technical assistance, transfer of technology, rental of equipment and machinery, logistics, marketing, transport and warehousing could be of interest considering the main products exported by Paraguay (i.e. commodities).

Overcoming informality is an important component of a strategy to generate solid linkages and spill-over effects between the services sector and the rest of the economy, and is particularly important from the perspective of promoting SME development. In this context, the following policies could be relevant:

- Tax reform that reduces and harmonises the tax burden for SMEs;
- Facilitating procedures related to export and to commercial contract law, and streamlining and centralising procedures to reduce operating costs and barriers to entry and exit;
- Developing incentives to formality;
- Training and capacity-building (standards).

Investment funds, venture capital to support start-ups and incubators<sup>92</sup> can contribute to improved access to finance, particularly for infrastructure development and SMEs.

Although in the course of this study, discussions focused on developing the capacity to provide services at the domestic level, some stakeholders also referred to the need to develop awareness regarding service export interests. In fact, several stakeholders reported sporadic cases of exports, for example, of construction services (mode 3 and 4), education (mode 1 and 2), finance (mode 3) and telecommunications (mode 3). Measures to develop export awareness could include: strengthening trade support institutions, improving the connections between private sector trade interests, and developing enterprise support schemes, to prepare companies to export services.

#### 2. Regulatory Framework

The main regulatory weaknesses identified in the course of this study relate to the enforcement of existing regulations, consumer protection, quality control and the supervision of professional practice. The following suggestions could prove useful to overcome these difficulties and were discussed with stakeholders:

- Developing a national quality system, encompassing (i) an institutional framework and specific procedures for quality control of services operators, and (ii) capacity-building programmes for operators.
- Procedures to make more expeditious denunciations regarding malpractice by services operators and mechanisms to settle claims regarding illegal services provision.
- Standardising professional registries, promoting a professional collegiality law and improving coordination among entities responsible for trade, employment and migration, in connection with the registration of foreign professionals providing their services in Paraguay.

<sup>92</sup> Schemes where SMEs receive direct services from the government in strategic sectors. ICT incubators are specially designed to extend networks, facilitate exchange of ideas, information and knowledge and assisting management and technological development.

### 3. Institutional Framework

In order to improve the collection of statistical data, discussions among stakeholders highlighted the importance of reinforcing the role of MIC as a compiler of statistics, and improving dialogue with sector-specific chambers that are already collecting data and the Central Bank, to ensure consistency. The possible need for regulations that oblige service providers to provide statistical information to MIC was discussed, as well as the merit of deepening cooperation with Brazil, which has developed a computerised system and a tool for the formulation, monitoring and assessment of services policies and intangibles (SISCOSERV).

Institutional weaknesses affect resource management functions (for instance in the case of FONACIDE) as well as implementation, monitoring and surveillance functions (as in the case of ANEAES and the Ministry of Planning). Capacity-building initiatives were recommended to overcome these. The usefulness of compiling a databank of services policies and practices from other countries was also underscored by stakeholders, particularly regarding systems to improve coordination and inter-institutional coherence and to generate consensus among consumers, service providers and investors. Improved coordination among stakeholders was also deemed necessary to gather the needs of businesses, particularly regarding capacity-building initiatives and support policies for their development.

### 4. Trade Negotiations, Regional Trade Cooperation and Promoting Services Exports

In discussions held during the preparation of this study an apparent contradiction emerged between the fact that (i) Paraguay is a restrictive country regarding the scheduling of commitments in all negotiating fora, and (ii) Paraguay is very open de facto, as market access and discriminatory measures are relatively non-existent.

Several factors explain this contradiction. The lack of regulation in certain service sectors discourages authorities from making commitments without prior regulation.<sup>93</sup> The comparative lower level of services commitments in trade agreements vis-à-vis other countries also reflects a special and differential treatment of Paraguay.

Insufficient enforcement of commitments and advancement of services matters in RTAs also explain this situation. Protocols or commitments derived from MERCOSUR are not applied due to regulatory divergences (for example in licensing procedures) and several limitations persist in several services sectors, particularly affecting trade in professional services. This suggests the need for a more expeditious way to deal with barriers in a systematic manner or for considering harmonising regulation. In fact, a weak synergy with regional partners for development and trade services was also observed, for example, regarding the adoption of common standards, developing complementarities to promote trade and economies of scale.

Unilateral liberalisation, insufficient regulation and statistics (to measure trade impact), as well as weaknesses in services policies in Paraguay have led to a perception of a lack of utilisation of trade opportunities and a defensive position vis-à-vis trade negotiations. Paraguay perceives that commitments from trading partners do not translate into actual market access or economic benefits. This perception also relates to the issue of incorporating the results of negotiations into the domestic sphere, revealing the need for increased dialogue between trade constituencies and parliament.

The limited development of electronic commerce was also mentioned as a factor affecting the further development of trade in services.

The following recommendations have been proposed and discussed with stakeholders:

1. Strengthening the capacity to identify, assess and monitor risks and offensive trade interests. There could be scope to increase export awareness and develop an offensive trade agenda, making sure stakeholders are aware of the need to diversify trade patterns. This objective could be achieved by improving (i) knowledge about standards and barriers in the main export markets, and (ii) interaction with the academic sector to generate research on these topics from a Paraguayan perspective, i.e. by encouraging students to pick services trade and negotiations as topics for thesis research.

<sup>93</sup> For Paraguay relevant regulation should be in place in parallel with or before undertaking liberalisation in some sectors. This fact can be appreciated from the "additional commitments" column in the list derived from the 7th MERCOSUR Round, where Paraguay refers to future development and entry into force of regulation pertaining to postal, professional and telecom services.

2. Promoting activities at the regional level to enhance mutual recognition, and promoting regional projects for the development of infrastructure and for regulatory cooperation.
3. Developing payment methods and regulation related to payment through electronic means.

The following tables include recommendations relating to each sector that have been proposed and discussed with stakeholders.

## B. Construction Services and Associated Professional Services (Architecture and Engineering)

Area requiring improvement	Recommendations
Strengthen the strategic vision in the sector	<ul style="list-style-type: none"> <li>• Establishing a national system of territorial and urban planning.</li> <li>• Reinforcing public-private cooperation forums on construction.</li> <li>• Developing a national plan encompassing investment, concrete guidelines, capacity-building and technical assistance, particularly targeting municipalities.</li> </ul>
Unstable supply of construction inputs	<ul style="list-style-type: none"> <li>• Strengthening the capacities of local providers (companies producing inputs or providing construction-related services and construction companies) through business reengineering plans.</li> <li>• Assessing the feasibility of incorporating private capital into INC or of majoritarian private participation in its administration council.</li> </ul>
Ensuring access to finance for housing	<ul style="list-style-type: none"> <li>• Developing long-term financing instruments focused on middle-class demand, for instance, through public policies applied by the AFD, BNF or other private entities.</li> <li>• Promoting technology transfer and foreign investment in the production of prefabricated materials, using local inputs and capacity.</li> </ul>
Shortage of skilled personnel	<ul style="list-style-type: none"> <li>• Promoting an increase in the number of professionals in related services, coordinating with education regulatory entities so as to emphasise basic subjects (maths, calculus, physics, etc.) and provide a structure of admissions quotas in the respective degree programmes according to the needs of the labour market and the productive sector.</li> <li>• Training human resources in road development and public works, operation of machinery and graders through SNPP, international technical assistance, agreements with universities, companies' autonomous training and internships.</li> <li>• Lobbying both public and private entities to improve media and public perception and generating awareness of the importance of the bill on professional practice and of professional ethics codes to guarantee quality in professional services in this sector.</li> </ul>
Coexistence of different types of standards and insufficient regulation of construction works (in relation to new technologies, safety issues, environmental impact, licences, horizontal regulation, etc.)	<ul style="list-style-type: none"> <li>• Revising the whole regulatory framework encompassing: municipal licences, environmental licences, work sites safety rules, permits and regulatory supervision aiming for a unified national system for construction rules.</li> <li>• Developing specific rules for construction related to public works.</li> <li>• Promoting legislation and enforcement of civil responsibility and safety in the whole construction process, including technical regulations on raw materials, safety rules for construction workers and for civil engineering works.</li> </ul>
Transfer of know-how from foreign companies through consortiums with local companies	<ul style="list-style-type: none"> <li>• Establishing requisites, in the terms and conditions for public tenders, on hiring local personnel, training and procurement of construction inputs.</li> </ul>
Maximising opportunities for domestic companies	<ul style="list-style-type: none"> <li>• Implementing competition law so as to avoid predatory practices in the market.</li> <li>• Creating opportunities for local companies to profit from public investments in infrastructure, through granting preference to</li> </ul>

	<p>national operators, as required by the law on national preference.</p> <ul style="list-style-type: none"> <li>• Harmonising the legislation on national preference or issuing a binding legal opinion that determines its application (whether abiding to Law 4558/11, under the principle of <i>lex posterioris</i>, or maintaining the application of the previous law under the principle of <i>lex specialis</i> due to the limited reach (national tenders) of Law N° 4727/12).</li> <li>• Implementing Law N° 4727/12 granting a 20% margin of preference to local companies that has still not been implemented by MIC.</li> </ul>
Informality in the sector and deficiencies in supervision and enforcement	<ul style="list-style-type: none"> <li>• Demanding that companies that are providers of services to the state comply with requisites of solvency and experience according to the magnitude of the project (minimum capital, guarantee, due compliance clause). This demand should not only apply to the prime contractors but also to suppliers and subcontractors.</li> </ul>
Institutional weaknesses of regulatory agencies in the management of infrastructure projects	<ul style="list-style-type: none"> <li>• Improving the capacity of the state to manage and control infrastructure projects, through project management units, strengthening prefeasibility supervision and international technical assistance.</li> </ul>
Lack of statistics	<ul style="list-style-type: none"> <li>• Building a system of statistics on the sector coordinating among BCP, DGEEC (STP), municipalities, MOPC, and industry associations, so as to widen the data base regarding prices, supply and demand, providers of services and construction inputs.</li> </ul>
Limited access to regional markets	<ul style="list-style-type: none"> <li>• Renegotiating the PCPM so that it comprises not only a guarantee of non-discrimination during the bidding process but also procedures regarding the execution of contracts of public works, enabling personnel and machinery of the awarded company to enter the market under non-discriminatory conditions.</li> <li>• Promoting the approval of the Montevideo Protocol, Decision No. 25/03 on Mutual Recognition, and the Decision on Business Facilitation so as to benefit from the rights they confer to Paraguayan companies and professionals to access the regional market.</li> </ul>

### C. Education services

Area requiring improvement	Recommendations
Strategic framework for education	<ul style="list-style-type: none"> <li>• Designing a Policy of Higher Education, under the leadership of CONES, defining “national development plans” to which services operators in the sector must be subject.</li> <li>• Improving alignment of educational provision with the needs of the productive sector, for instance, through strengthened coordination mechanisms and inter-institutional agreements encompassing Integral Centres of Technological Education and relevant stakeholders linked to production and trade (including UIP, FEPRINCO, MIC, chambers, SNPP), international technical assistance and internships.</li> <li>• Improving educational reform in the following aspects: equality of opportunities to access education; improving the quality and strengthening quality assurance frameworks; ensuring education in both official languages; mainstreaming scientific and technological knowledge as well as civic education and social awareness in educational contents, programmes and teaching methodologies; improved training profile for teachers; and construction of new educational proposals with the participation of teachers' unions and encompassing continued education.</li> </ul>



<p>Raising awareness of consumers about the importance of effective quality assurance control systems and about the existing educational provision</p>	<ul style="list-style-type: none"> <li>• Raising awareness in public opinion and of businesses about the benefits of accreditations in the education system. Undertaking media campaigns to influence public opinion to generate citizen pressure to reject non-accredited degrees.</li> <li>• Establishing the obligation to publish information about accredited careers and universities. Making this information available and disseminating it widely to inform consumers.</li> <li>• Establishing an obligation to have accredited degrees for careers as civil servants in professional categories. Establishing a similar obligation for contests and public biddings in the case of one-person businesses and for becoming a member of the Judicial Council.</li> <li>• Centralising information, which is currently disperse and not up-to-date, about careers and education nomenclature, under the leadership of CONES. This would allow better supervision, consumer information and keeping a record of degree programmes and work opportunities, giving continuity to the on-going process of elaboration of the Map of Educational Provision by MEC.</li> </ul>
<p>Addressing issues affecting quality in education</p>	<ul style="list-style-type: none"> <li>• Improving infrastructure (laboratories, libraries) and teachers' training programmes. Enforcing performance evaluation of teachers and quality requisites in teachers' training (i.e. Masters degrees for full time professors in universities).</li> </ul>
<p>Reinforcing the regulatory frameworks for quality assurance.</p>	<ul style="list-style-type: none"> <li>• Rejecting the draft law which aims to modify Law 4995/13 eliminating the requirement for a decision by the Council of Universities to create universities.</li> <li>• Regulating distance learning to establish minimum standards of quality, so that online degree programmes can be accredited.</li> <li>• Reinforcing provisions on the prevention and penalisation of professional malpractice by improving the draft Law of Professional Practice, through a by-law, or through a code of professional ethics.</li> </ul>
<p>Reinforcing the institutional frameworks for quality assurance.</p>	<ul style="list-style-type: none"> <li>• Involving the private sector (especially unions) more actively in the implementation of the Law of Higher Education in designing and implementing quality control mechanisms.</li> <li>• Better control of professional registries held by the state, registering professionals issued from accredited educational institutions and degree programmes so as to safeguard the quality of education.</li> <li>• Strengthening MEC, ANEAES, CONES in their supervision, regulation and quality control of the educational system, by envisaging more and better qualified human resources as well as budgetary, infrastructure and equipment resources for the follow-up and improvement of on-going programmes.</li> <li>• Progressively applying, and as soon as possible, mandatory accreditation for all degree programmes, ensuring ANEAES has the budgetary and operational capacity to achieve this objective.</li> </ul>
<p>Enabling the exercise of professional activities in this services sector within the MERCOSUR region and promoting cooperation with trading partners</p>	<ul style="list-style-type: none"> <li>• Harmonising educational profiles at the regional level (MERCOSUR) to ensure mutual recognition and trade in professional services in the region.</li> <li>• Regulating the cross-border provision of education services, for instance, through agreements between education institutions from the country and foreign ones, which would also benefit local companies through the transfer of know-how. OECD directives for the quality of cross-border higher education<sup>94</sup> could be adapted for their eventual incorporation into Paraguayan law.</li> </ul>

<sup>94</sup> These directives, published by the OECD, recommend practices and encourage governments, both from countries of origin and host countries, to establish mechanisms for accreditation and guarantee of the quality of all the institutions acting in their territory.

## D. Financial services

Area requiring improvement	Recommendations
<p>Financial operations are short-term, mainly capturing savings, which impedes the development of long-term financial instruments that are necessary to support the productive sector</p>	<ul style="list-style-type: none"> <li>• Improving interaction and coordination among the regulatory entities (National Stock Exchanges Commission, Central Bank, Ministry of Finances and INCOOP) and between the public and private sector, towards concerted goals in this area.</li> <li>• Undertaking a strong campaign of promotion and education to raise awareness about financial instruments like trusts, factoring, leasing and derivative products.</li> <li>• Improving regulation related to the stock market. BCP could have a more active role, and issue titles and bonds, as well as promote purchases abroad (there is a high demand for investment funds but a shortage in issuance of securities).</li> <li>• Promoting regulatory mechanisms allowing the capitalisation of local companies with social security resources from diverse institutions through the Stock Exchange Market.</li> <li>• Generating long-term financial resources through the reform of the pension system, for instance, unifying the existing systems (IPS, retirement fund of the financial system, Yacyretá, Itaipú) to create one single fund and one institution that operates in the financial market, with long-term placements.</li> <li>• Redirecting and maximising the role of the BNF, implementing mechanisms for the financing of production, taking advantage of the wide network of branches in the country and its experience in field projects.</li> <li>• Studying, in coordination with BCP, alternative mechanisms (secure and profitable) for investing resources from retirement and pension funds, so that these are invested in the long term.</li> <li>• Introducing credit rating agencies, and a rating system for the financial system.</li> <li>• Promoting the training of human resources in economics and finance specialised in risk management and in the development of alternative financing schemes.</li> </ul>
<p>Lack of secondary securities market limits investment decisions in the primary market</p>	<ul style="list-style-type: none"> <li>• Introducing more dynamism and liquidity in the capital market will favour the development of alternative sources of financing for housing. Faced with liquidity needs, issuing banks could resort to this market to liquidate mortgages.</li> <li>• Studying the possibility of authorising banks as stock market depositaries, promoting the secondary market and unifying the stock exchange at a regional level (as is the case with Peru, Colombia and Chile or with Uruguay and Rosario).</li> <li>• Adopting a more proactive attitude (by the stock exchange and exchange houses) regarding stock exchange education (media campaigns, dissemination of information), to increase trust in their transactions, particularly among corporate investors.</li> </ul>
<p>Lack of access to the banking system by population with low resources, due to cultural barriers and formal requirements (to open accounts and approve loans), as well as because a high proportion of the population are located in isolated rural areas or affected by informal employment</p>	<ul style="list-style-type: none"> <li>• Developing initiatives which aim simultaneously at financial inclusion, balancing indebtedness with payment capacity and formalisation, like in the case of Colombia, for example, where the obligation to have bank accounts is linked to social and gender benefits, or the case of Uruguay, where all salaries must be paid through bank accounts (hence it is impossible to hire without an account) and a differentiated VAT system was established for payments through credit cards.</li> <li>• Developing banking regulations for microcredits to facilitate access to credit to people with lower incomes, facilitating access to banking services and to credit.</li> <li>• Regulating clearing houses (envisaging their constitution in USD) and banking digitalisation (checks, accounting, etc.).</li> </ul>

Lack of an insurance culture. Regulatory gaps in provisional social security insurances	<ul style="list-style-type: none"> <li>• Generating a regulatory framework for insurance related to work accidents, unemployment, retirement and pension funds, life insurance and education insurance.</li> </ul>
Public banking partially fulfils its role of supporting the productive sector. A great proportion of its credits is used for consumption.	<ul style="list-style-type: none"> <li>• Generating public policies for the improvement of institutional aspects such as: <ul style="list-style-type: none"> <li>○ low impact of public banking as a provider of mortgage loans,</li> <li>○ lack of state initiatives for the development of infrastructure in peripheral areas,</li> <li>○ absence of a governmental or private agency specialised in providing mortgage insurance so as to reduce the risk exposure of banks.</li> </ul> </li> <li>• Establishing a system of syndicated loans among several co-financing banks, for projects requiring significant investment (for instance, for PPPs for infrastructure development), which would receive benefits according to their contribution.</li> </ul>
An important percentage of credit is destined to the agribusiness and agro-exporting sector. Therefore, it is subject to fluctuations of the agricultural cycle which may affect the levels of indebtedness associated with the sector and the liquidity of the system	<ul style="list-style-type: none"> <li>• Evaluating the possibility of regulating guarantee funds and legal reserves to increase the capitalisation capacity.</li> </ul>
Institutional shortcomings: 1) In INCOOP (governance issues and large number of cooperatives to be overseen) 2) Lack of regulatory entity for supervision of retirement and pension funds.	<ul style="list-style-type: none"> <li>• Ensuring the independence of INCOOP through changes in their electoral process (presidency and directorate); or entrusting regulatory and supervisory functions to an independent body (for instance, in the sphere of BCP).</li> <li>• Creating an institution under the structure of the IPS for the surveillance of pension funds.</li> </ul>

## E. Telecommunication services

Area requiring improvement	Recommendations
Regulatory updates regarding new technologies and other initiatives to face emerging challenges related to data protection	<ul style="list-style-type: none"> <li>• Developing specific guidelines and sectoral policies regarding new technologies.</li> <li>• Adopting an overarching Law of the Internet, to complement and integrate scattered regulation (such as the law of electronic commerce, cybercrime, personal data, and certain provisions by CONATEL). Examples of interest include: the Law on Digital Antennas TV (Brazil), the Training Centre in Broadband (Nicaragua) and connection policies in public places (Mexico).</li> <li>• Regulating mobile virtual operators.</li> <li>• Engaging (SENATIC and other entities) in an inter-institutional dialogue on the use of data centres that can provide back-up services in the event of a contingency, rent equipment or servers for the Paraguayan state.</li> <li>• Centralise, standardise governmental databases and provide IT security in order to cut costs, share technology and ensure an information security management system throughout the state digital content.</li> </ul>
Duplication in functions of regulatory bodies, revealing the need for greater interagency coordination and with the private sector	<ul style="list-style-type: none"> <li>• Maintaining a constructive dialogue between (a) different governmental agencies with responsibilities in this sector, (b) public and private sector, and (c) among the regulator, operators and consumers through the creation of forums to discuss policies and regulatory initiatives.</li> </ul>
Internet services rates are relatively expensive compared to the region due to the high cost of international	<ul style="list-style-type: none"> <li>• Promoting PPPs for fibre optic wiring, interconnection in public schools and increased broadband to develop telemedicine.</li> </ul>

interconnection and the practice of unregulated prices (for internet services) by CONATEL. Insufficient infrastructure to cater for increased demand for spectrum resources and network access demand	<ul style="list-style-type: none"> <li>• Introducing regulatory changes to enable the leveraging of the electricity grid (power lines of ANDE) so that telecommunications providers can reach underserved areas.</li> <li>• Obtaining funding to develop infrastructure through Itaipu or through photovoltaic energy providers (given ANDE's operational and budgetary limitations).</li> <li>• Using underground cables in public works as an option to develop infrastructure to expand telecommunications access. Incorporating provisions for buried ducts and pipelines in the terms and conditions for future public works related to road extension,<sup>95</sup> to develop future underground fibre optic wiring.</li> <li>• Fostering the creation of Net Access Points at the local level.</li> <li>• Implementing control mechanisms (by CONATEL) for invoices by operators affecting the collection of their contributions to the FSU.</li> </ul>
Insufficient statistics and scattered data	<ul style="list-style-type: none"> <li>• Promoting transparency regarding services and fair market-driven prices to induce cheaper prices for international interconnection and roaming. Useful references include policies achieving cheaper roaming in Mexico, and reducing fixed-to-mobile tariffs in several countries in the region.</li> <li>• Coordinating (STP-DGEEC, SENATIC and others) a consensual and systematic approach to compiling statistics in the sector.</li> </ul>
Competition law is not yet fully implemented, and competition policies require closer coordination with the regulating agency (CONATEL)	<ul style="list-style-type: none"> <li>• Applying regulatory, equal competition and sector development policies. Useful examples in this area include: the Special Fiscal Regime Tax for the development of broadband and digital cities that promote internet links and fibre optic tenders (Brazil), spectrum auctions (Colombia), regulation regarding reference offers to provide different services to access fixed and mobile networks (Mexico), setting minimum speed rates for internet connection and advertising this rate for transparency (various countries), spectrum return in merger cases (Colombia).</li> <li>• Strengthening the capacity of the regulatory agency in terms of surveillance and the implementation of measures for market equilibrium.</li> </ul>
Insufficient consumer defence mechanisms, particularly regarding abusive practices pertaining to membership contracts	<ul style="list-style-type: none"> <li>• Strengthening consumer protection mechanisms, maintaining inter-institutional coordination among CONATEL, the Secretariat for Consumer Protection, COPACO and other operators.</li> </ul>
Insufficient regulation against illegal informal activities	<ul style="list-style-type: none"> <li>• Regulatory improvements to formalise the sector, for example in the field of broadcasting and amateur radio. Identifying and punishing interference caused by informal broadcasting in strategic activities such as radar airspace and national security.</li> <li>• Regulating broadband interference caused by private activities such as broadcasting, digital TV, and vice versa.</li> <li>• Regulating the installation of mobile antennas, and implementing stronger penalties for illegal connections. Working in coordination with the Public Attorney's Office to introduce criminal sanctions in case of recurrence.</li> </ul>
Institutional shortcomings related to duplication in functions of regulatory bodies	<ul style="list-style-type: none"> <li>• Strengthening SENATICs to improve content development for education purposes. Coordinating dissemination initiatives between SENATICs and CERNECO (media and broadcasting).</li> <li>• Promoting local content in educational services, developing educational software plans according to national and subnational needs.</li> </ul>

<sup>95</sup> Such as the planned expansion of routes 1, 2, 6 and 7 and their secondary roads.



## **ANNEXES**

## ANNEX 1: List of Interviews Conducted

	<b>Institution</b>	<b>Name</b>	<b>Post</b>
1	ANEAES	Raul AGUILERA MENDEZ	President of the Governing Council
2	ANEAES	Gabina GAVILAN	Secretary General
3	ANEAES	Norma MARECOS	Executive Director
4	APAR	Maria Luz CUBILLA	President
5	ASOBANC	Rodrigo HAITTER	Financial Manager
6	BBVA	Raymundo MENDOZA	Finance Director
7	BCP	Eduardo FESCHENKO	Director of International Economy
8	BCP	Raul ALDERETE	Intendence of Financial Stability
9	BCP	Nicolasa VERA	Intendence of Inspection
10	BCP	Miguel MENDEZ	Intendence of Financial Risks
11	BCP	Francisco Ruben VERA	Insurance Superintendence
12	CAPACO	Oscar RUBIANI	Director
13	CAPACO	Jorge REGUEIRO	Member of the Council
14	CONATEL	Diego MIRANDA	International Division
15	CONATEL	Rafael OLMEDO	Department Head
16	CONATEL	Oscar DUARTE	Planning Unit
17	CONATEL	Ruben RUIZ PAJON	Advisor to the Technical Management Unit
18	CONATEL	Maria Angelica CANO	International Relations
19	CONATEL	Miguel PASTORE	Chief of Department, ICT Development
20	CPI	Maria Teresa PINO	Vice-Dean, Engineering Faculty
21	Gonzalez Acosta & Wood	Victor GONZALEZ ACOSTA	President
22	INCOOP	Hugo CABALLERO	Director of projects and technical assistance
23	MEC	Norma VERA DE GOMEZ	Division of higher education
24	TELECEL S.A.	Carlos DIAZ ROSSI	Head of institutional relations
25	TELECEL S.A.	Miguel ALMADA	Deputy general manager for legal affairs

## ANNEX 2: List of laws and regulations applicable to the education sector in Paraguay

- **Law 4995/13 of higher education**
- defines and categorises providers of higher education services. It stipulates that degree programmes taught in universities shall have a minimum duration of 4 years, equivalent to 2,700 hours.
- determined that decisions made by CONES regarding the creation and termination of universities and higher education institutes shall be binding for the National Congress.
- **Law 4758/2012** created the National Fund for Public Investment and Development (FONACIDE) and the Fund for Excellency of Education and Research.
- **Law 4370/2011** of Private Teachers.
- **Law 3973/2010** partially modified article 1 of Law 2529/2006, reinstating the need for the favourable opinion of the Council of Universities for the creation of universities.
- **Law 2529/2006** modified articles 4, 5, 8 and 15 of Law 136, eliminating the need for “favourable and founded” opinion of the Council of Universities for the creation of universities and indicating that “the Council opinion will not be binding”.
- **Law 2072/2003** created the ANEAES.
- **Law 1725/2001** established the Statute of the Educator. This law regulates teaching practice in the public sector according to the different educational levels of the national system of compulsory formal education.
- **Law 1264/1998 (General Law on Education)**
- Further refined the goals of national education, setting principles and general objectives in this area.
- Regulated the management, organisation and structure of the national educational system.
- Determined the basic participation rules and responsibilities of educational communities and institutions, and the forms of financing public education and other functions in the system.
- Defined the institutional mandate of CONEC.
- **Resolution 4/1998** encompassed several norms issued by the Council of Universities.
- **Law 136/1993 Law of Universities** established that universities, both private and public, shall be created by Law.
- **Law 28/1992** declared bilingual education mandatory, including both Spanish and Guarani in the educational curriculum.
- **Regional legal instruments:**
- **Memorandum of Understanding on the implementation of an experimental mechanism for the recognition of undergraduate university degrees in MERCOSUR countries** (19 June 1998) constitutes the basis of the system of university degrees in the region, through a system of degree programme accreditation. Accreditation is harmonised in the sphere of the Regional Accreditation of University Careers of MERCOSUR (ARCU-SUR), signed by MERCOSUR, Chile, Bolivia and Venezuela, which enables mutual recognition of university degrees.
- **MERCOSUR agreement on continued post-degree studies** stipulates that undergraduate degrees granted within MERCOSUR are accepted as valid for this purpose.
- **MERCOSUR agreement of educational integration** for training human resources at the postgraduate level. This agreement facilitates and promotes institutional cooperation among higher education centres.
- **Decision 5/99 of admission of titles and university degrees** allows for the exercise of academic activities within MERCOSUR.



### ANNEX 3: List of laws and regulations applicable to the financial sector in Paraguay

- **Resolution BCP 8/2014** on electronic means of payment.
- **Resolution 11102/2013** of INCOOP established a new regulatory framework for cooperatives of savings and credit.
- **Resolution 11343/2013** of INCOOP established a regulatory framework for cooperatives of savings and credit.
- **Resolution BCP N° 1/12** for the use of Payment System of Paraguay (SIPAP).
- **Resolution BCP N° 17/2010**
- **Resolution SS.SG N° 013/2010** established participation percentage limits for the suspension of the minimum accounting equity of reinsurance companies.
- **Resolution BCP N° 24/2010** defines requirements for constitution of banking entities.
- **Law 3899/2009** regulates risk-qualifying companies under the supervision of the Insurance Superintendence.
- **Law 2334/2003** (Law of Guarantee Funds) created the Fund of Deposits Guarantee, and establishes a process of resolution of entities based in the transfer of active and passive portfolios, so as to resolve the liquidation of an entity in a proper and efficient form.
- **Law 2283/2003** and **2945/2004** regulate the constitution and functioning of pawnshops.
- **Law 2157/2003** created INCOOP as the regulatory entity of all cooperatives at the national level. INCOOP is defined as “a legal entity of public law, autonomous and autarchic, of indefinite duration”. Its direction and administration is undertaken by a Directive Council, whose President is elected by the Executive Branch, from a group of three candidates elected by the National Assembly of Cooperatives.
- **Law 1284/1998** on the Stock Market.
- **Law 1163/97** regulates the establishment of commodity exchanges.
- **Law 1036/1997** creates and regulates securitisation companies.
- **Decree 14052/1996** regulated law 438/194.
- **Law 921/1996** of Trust businesses.
- **Law 861/1996** (General Law of Banks, Financial and other Credit entities) established the minimum capital required for financial entities and the fact that this amount shall be updated annually, considering the Consumer Price Index.
- **Law 827/1996** (Law of Insurance) created the Superintendence of Insurance and the Insurance Consulting Council. This law contains the general sectorial regulations, including procedures for the establishment, functioning and liquidation of insurance companies. It also regulates the constitution of reinsurance companies in Paraguay.
- **Law 811/1996** of investment equity funds.
- **Law 489/1995** (Law of the Central Bank of Paraguay) established the functions of the BCP through an organic charter. This law defines the fundamental objectives of BCP.
- **Law 701/1995** specifying the subject of prohibition on sales with repurchase agreements.
- **Law 438/1994** on cooperatives.

## ANNEX 4: List of laws and regulations applicable to the telecommunications sector in Paraguay

- **Resolution N° 871/2014** on user protection.
- **Law 4989/2013** creating SENATICS and **Decree 11624/2013** regulating its functions.
- **Law 4868/2013** on e-commerce.
- **Resolution 339/2011** on number portability.
- **Resolution 190/2011** Regulation of the Internet Access Services and Data Transmission. Liberalised international access to the internet.
- **Law 4427/2011** on incentives for the assembly of high technology goods (to incorporate national value added to parts and raw materials).
- **Resolution 133/2008**. “Regulation of Competition Defence and Procedure to Settle Conflicts in the Telecommunications Regulatory Sphere” prohibits abuse of dominant position and collusive behaviours that prevent, restrict or distort effective competition. For this, the regulation lists, non-exhaustively, anticompetitive practices and defines general guidelines for CONATEL’s assessment on whether an economic concentration operation produces restrictive effects on competition or produces a dominant position. The authorities noted that this regulation has been scarcely applied.
- **Law 3439/2007** and **Law 2051/2003** (public procurement law)
- **Resolution 1499/2006** establishes that 20% of FSU resources must come from the commercial exploitation rate paid by operating companies.
- **Law 2478/2004** modifies Law 642/1995.
- **Resolution 034/2002** on universal services. Regulates the Universal Service Fund (USF), created by Law 642/1995 Act, which is administered by CONATEL.
- **Decree 16761/2002**. General Regulation on Tariffs regulates article 92 of Law 642/95. Empowers CONATEL to establish the structure and levels of tariffs for telecommunications services. There are two tariff regimes: the “price cap” and “reasonable control”. Public services (local and national and international long distance) are subject to the “price cap” regime, through which CONATEL introduces ceilings for different types of services. These prices are set in the concession contract and are updated every five years.
- **Decree 14135/1996** regulating Law 642/1995. Article 6 establishes the obligation for telecommunications operators to their services to any area under concession or license, promoting the integration of remote areas that are furthest from urban centres.
- **Law 642/1995**. Law of Telecommunications. Sets free access to all telecommunications, except those reserved for the state. Lays down general rules for the various modes of supply of telecommunications services, tariffs and interconnection, among others. The same law classifies telecommunications services into three: (i) “basic services” that are public services (local fixed telephony, domestic long distance and international long distance calls); (ii) “broadcasting services” (radio broadcasting, television and communication cable, among others) and (iii) “other services” (including mobile telephony, internet and other value-added services).

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