

## ■ PARAGUAY

# The time has come for budget transparency



The distribution of land and income has been so skewed that inequality is among the most extreme in Latin America. Six decades of Colorado Party rule produced no policies to promote opportunities and diminish the social, economic and environmental degradation inflicted by the market. The new Government should focus on the fulfilment of rights and the promotion of capabilities. Public funds should be spent with greater transparency and civil society must participate in determining how they are managed. This is the only way to ensure that the people's money will be spent for the benefit of the people.

DECIDAMOS, Campaña por la Expresión Ciudadana  
Hugo Royg

The Paraguayan economy has grown steadily since 2003, climbing more than 6% in 2007. Agriculture is the most dynamic sector, benefiting from both favourable international conditions and an excellent climate for farming. More land is being cultivated, productivity is increasing and prices are higher. As a result, profits are surging faster than they have for many decades.

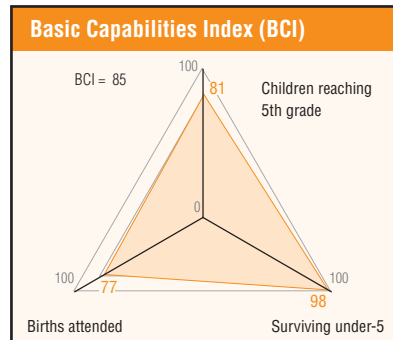
These profits go into the bank accounts of a relatively small group. Among cattle farmers, it flows to those who have modernized their technology and gained access to long term credits. In farming, it benefits new investors: Argentine companies that moved to Paraguay to escape tougher economic restrictions at home, Brazilian investors and immigrants in cooperatives, and an emerging group of Paraguayan entrepreneurs who have decided to diversify their investments.

The new agriculture is based on vast, highly mechanized farms, often on newly cultivated land. The Environment Secretariat has given out deforestation permits liberally, leading to a degradation of the environment that will endure for generations. The large farms require only a small, skilled labour force. Small proprietors and the vulnerable are being pushed off the land and into the swelling poverty belts of the cities. The unemployment rate climbed from 9.3% in 2003 to 11.1% at the end of 2006; about 25% of the workforce was underemployed (DGEEC, 2007a).

### The contribution of public policies to development

The top priority of the ruling party (Colorado Party) was to stay in power by winning the April 2008 presidential elections.<sup>1</sup> In the course of the last five years, four different Ministers of Finance were appointed. None of them had links to the ruling party, but all shared a commitment to the Government's three macroeconomic priorities: a balanced budget, fiscal

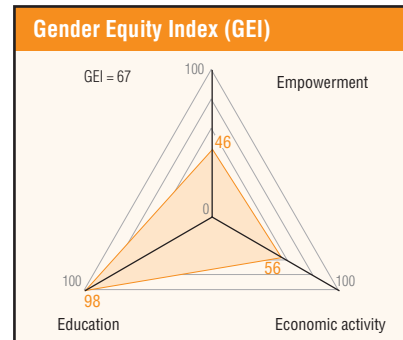
1 Nevertheless, this strategy failed to achieve its primary goal. Former Catholic bishop Fernando Lugo won the presidency in April as the candidate of a coalition of left and centre left parties and organizations, ending more than six decades of hegemonic rule by the Colorado Party.



reform and restoration of the country's reputation as a debtor that made its payments on time.

The 2004 tax reform was highly regressive. As economists have pointed out, it broadened the tax base by raising revenues primarily from indirect levies. The burden fell mainly on the middle class and the poor. Paraguay still has no income tax. The Government also negotiated with creditors and succeeded in slashing the debt from 70% of the GDP in 2002 to 28% in December 2006.<sup>2</sup>

The impact of Government policies on poverty was hard to determine. The proportion of the population below the poverty line dropped from 41.4% in 2003 to 38.2% in 2006. The decline in the percentage of the population living in extreme poverty was more significant, plunging from 20.1% in 2003 to 15% in 2006 (DGEEC, 2007b). Government expenditures on the poor remained low. They consisted of highly targeted, paternalistic conditional income transfers designed to reach only 5.6% of the population. It is unclear whether even that many actually received assistance. The Government has made virtually no effort to provide the poor with land or employment. The inequities in land distribution and income are among the most extreme in Latin America.



State institutions count on economic resources that are spent in actions that only apparently address poverty or guarantee the exercise of certain rights (health, education), but do not actually respond to public policy actions aimed at improving the living conditions of the population. The very fact that public money is spent on necessary and politically correct instruments or actions implies neither effectiveness nor consistency. What is more, the current levels of poverty confirm that the state structure is compatible with a reality of poverty and inequality which remains unchanged, given that since introducing a regressive tax structure in a country that is growing the only people who are taxed are those who have less. Therefore, given its characteristics, the expenses heighten inequality.

### The political agenda: merely policy development and international agreements

In economic policy, like most of Latin America, Paraguay has pursued a strategy of economic integration, liberalizing its finances and removing protective barriers to its market in conformity with the Washington Consensus.

For decades, the Government has maintained power through a strategy of clientelism. It allocates

CHART 1. The numbers of poverty

Poor (EPH 2005)	2,230,202 persons
Extreme poor	902,294 persons
Non extreme poor	1,327,908 persons
Population benefiting from poverty eradication programmes. 2008 Budget	162,000 persons
Coverage	5.6%

Source: Own calculations based on data from the Central Bank of Paraguay (BCP-CAPECO).

2 Own calculations with data taken from the Central Bank of Paraguay's Economic Reports of several years.

privileges and assistance to its supporters, and the rest of the population gets nothing. This system has made it difficult for Paraguayans to exercise their full rights of citizenship, and prevented them, in some cases explicitly, from developing their social capital, including relationships that would strengthen their ability to participate in the democratic process. Despite the challenges to opposing this system, seeds of change have begun to take root.

Since 1990, Paraguay has opened its doors to the world in all areas – financial, economic, environmental, political, social and cultural. This new direction is illustrated by the State's willingness to accept international commitments to human rights. In addition to the Universal Declaration of Human Rights, the country has signed the Convention on the Elimination of All Forms of Discrimination against Women, the Earth Summit, the International Conference on Population and Development, the World Conference on Women, the World Summit for Social Development, the United Nations Conference on Human Settlements HABITAT II, the Convention on the Rights of the Child, the World Education Forum, the World Summit on Sustainable Development, and the Millennium Declaration. The Government has modified laws and institutions to comply with these commitments, though more remains to be done.

The Government has created a legal and institutional framework for reducing gender inequality. It has expanded girls' access to primary school, and opportunities for women in teaching, the health sector and public administration. Nevertheless the scope of improvements has been narrow. In spite of being better educated, women suffer salary discrimination and higher levels of unemployment and underemployment. In occupations such as domestic work, de facto and even legal discrimination is common. Gender bias remains embedded in the discourse of politicians and bureaucrats.

Efforts to improve conditions for specific marginal and excluded social groups, such as low income women and children, have not been part of the political agenda. The failure to provide urgently needed resources is most glaring in its neglect of the indigenous population, the Guarani-speaking population, the young, old people and people with disabilities. The Government has made no effort to evaluate the impact of the spending it does offer to ameliorate the effects of poverty.

Civil society organizations can play a significant role by demanding that all of these issues become part of the public agenda.

**CHART 2. Millennium Development Goals in Paraguay**

MDGs	Reports	
	Civil society	United Nations System
Goal 1	Will not be met	Insufficient progress
Goal 2	May be met	Compatible progress
Goal 3	May be met	Compatible progress
Goal 4	Will not be met	Insufficient progress
Goal 5	Will not be met	Insufficient progress
Goal 6	Will not be met	Insufficient progress
Goal 7	Will not be met	Insufficient progress

Sources: Paraguay Sin Excusas. *Objetivos de Desarrollo del Milenio. Informe Alternativo de la Sociedad Civil-Paraguay 2000/2005*. Asunción, 2005; United Nations System. *Objetivos de Desarrollo del Milenio. Informe Paraguay*. Asunción, 2005.

Despite some progress, the country remains far from meeting the Millennium Development Goals (MDGs). Chart 2 shows projections of what is likely to be achieved, developed by both civil society and the United Nations.

### Recommendations

- Revise the development model of the country. Until now, the Government has been simply observing a socio-economic process driven by market forces; the new Government should develop policies that reduce or compensate for social, economic and environmental damage they cause and strengthen opportunities for all.
- The new Government budget must give priority to programmes that realize human rights and strengthen people's capabilities.
- Public policies must be revised to reduce inequities, rather than promote them.
- Transparency must become an integral part of public policy development and implementation to wrest government policy and administration out of the control of bureaucrats and put it in the hands of Paraguayan women and men.
- Civil society must have greater input in determining government expenditures. The public sector's current structure was developed for the benefit of individuals, not to serve the people's needs. Transforming this system will require citizen involvement in the management process. ■

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