

Development of an anti-crisis plan



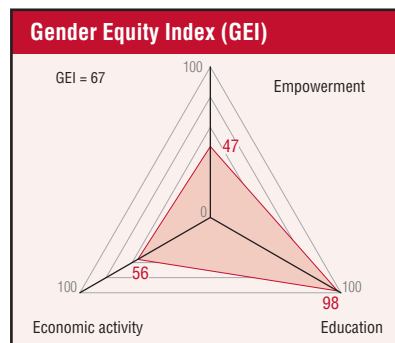
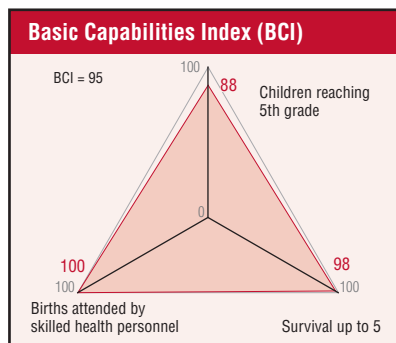
Despite the serious setbacks expected as a result of the international financial crisis, the outlook for Paraguay could be worse. The country has a low level of external debt (due in part to the difficulty of previous governments in implementing earlier loans), a respectable level of international reserves, and an economy largely based on exporting agricultural commodities. A small country such as Paraguay, which produces food and clean energy and has plenty of fresh water and fertile land, has comparative advantages that can and should be strengthened.

Decidamos (Let's Decide) Campaign
Genoveva Ocampos

At first, the crisis created by the financial disaster in Northern countries was perceived as a remote issue with little effect on Paraguay. However, in the wake of one of the most devastating regional droughts in years, it has become evident that these two disasters will have a major influence on any projects planned by the Patriotic Alliance for Change Government that took office in 2008. They will also hobble the new Government in vital negotiations, such as the attempt to obtain a fair price for the energy that is produced by the bi-national Itaipú dam and used by Brazil.

It is still hard to gauge the full impact of the twin disasters and, therefore, to determine what government responses would have any likelihood of success. However, the need to abandon the cruel, opportunistic approach and improvisation of previous governments is clear. The transition involves a process of relearning the art of governance. In the current crisis, the Government must exercise extreme caution in discerning trends and formulating countervailing policies. For example, the 2009 national expenditures budget was based on Government economic projections that have proven to be overly optimistic. In the space of a few months, growth plunged from 5% to 2% and then to 1.7%. Some analysts believe that official predictions are still too rosy, and expect GDP to decline 2%. This would lead to a fiscal deficit, although this is no longer seen as a problem.

A UNDP-UNICEF-UNFPA Report on the Investing in People programme, issued in early 2009,¹ cautioned the Government to take measures to avoid an increase in poverty and extreme poverty in 2009 that would jeopardize the achievement of the Millennium Development Goals. Design problems and appalling management of social programmes, along with a decade of neglect of the rural sector, have helped swell the ranks of the poor by 1 million, according to official statistics. Due to increased unemployment, a fall in income and a reduction in remittances, the proportion of the population below the poverty line soared from 35.6% in 2007 to 40.3% in 2009, while the proportion who are extremely poor climbed from 19.4% to 22.8%—the intermediate target for 2008



was 13%.² Some experts fear the current crisis could increase their numbers by another 300,000.

Early estimates project 80,000-100,000 jobs will disappear³ – approximately the number of new jobs Paraguay needs to create each year just to meet the demand for decent employment among rural workers and young people. Currently, 35% of the economically active population is unemployed or underemployed and 70% of salaried workers earn less than the legal minimum wage. Only 15% of Paraguayans have some kind of health insurance. This dire situation is a legacy of the long rule by the Colorado Party, which had supported Alfredo Stroessner's dictatorship.

Soy producers, known as “Braziguayans” because of their origin, were the first to demand State help. Until recently, they had benefited from agricultural mechanization and an export boom that accompanied the global jump in oil prices and expectations generated by the biofuel frenzy. In recent months, however, these producers, the country's most dynamic export sector, have watched while drought, low productivity, a drop in world prices, and the withdrawal of transnational companies that provided financing have shredded their profits. Initially, soy producers asked for financing to cover 50% of their harvest, at an estimated cost of USD 500 million. The sum needed was reduced by half when more precise projections of the cost of refinancing credits and sowing the next crop were available, however even the lower amount was far beyond the available resources of either the Government or the private financial sector. Many organizations also questioned whether this financial support would be the best use of limited public resources at a time when so many sectors need assistance.

Credit was already scarce and expensive by the end of 2008. In the 12 months ending in November 2008, its cost had doubled to around 30%. Interest rates for agriculture jumped 50%, from 10% to 15%.⁴ The cost of dollar and long-term loans in areas such as housing are sky high. This has hamstrung economic revival efforts across the economy.

The downturn has squeezed foreign trade as well. Imports of used cars from Iquique, Chile, domestic appliances from China and other goods are down. So are exports, hurt by the drop in consumer demand for the manufactured products (e.g., leather linings for cars) and increasing protectionism in destination countries, particularly Argentine barriers to textile imports. The drought has also played a role. After deferring dredging operations for too many years, the lower water level in the Paraguay River has made river transport more difficult and expensive.

When it proposed the 2009 budget, the Government looked forward to a 25% increase in revenue. A few months later, equalling the 2008 level would be considered a great achievement. In this economy, increasing the overall level of taxation from its current 11.6% of GDP (one of the lowest on the continent) would be difficult. Various proposals have been put on hold, including a minimum tax on extraordinary profits of soy producers (which they vehemently oppose); reform of the agricultural income tax; re-assessment of land values (to increase revenues for local governments); and the introduction of a personal income tax.⁵

1 UNDP/UNICEF/UNFPA. “Investing in People programme.” Study on the impact of the crisis on poverty indices in Paraguay.

2 *Última Hora*, 17 January 2009.

3 *Ibid.*

4 *ABC Newspaper*, 29 December 2008, 20 January 2009.

5 *ABC Newspaper*, 6 October 2008; *Última Hora*, 18 October 2008

Government response to the crisis

Following a period of doubt and assertion, the Government has been preparing a cautious, phased, realistic anti-crisis strategy based on rationalizing and reinforcing available resources.⁶ This strategy is being implemented in four phases:

Phase 1, beginning October 2008

Introduction of monetary measures to ensure the liquidity of the banking system and fiscal measures to streamline expenses and increase income. These measures include:

- Conditional reduction of legal reserves required on deposits, whether in the form of guaraní (the Paraguayan currency) or dollars. This is expected to motivate banks to capture long-term savings and free up resources to finance or re-finance productive loans.
- Reduction of interest rates on instruments of monetary regulation so that banks “make their money work”; that is, increase the amount of credit they offer.
- Central Bank support for the guaraní when the dollar began appreciating. This has had both positive and negative effects: it penalizes importers but can help exporters. In addition, devaluation of the guaraní could make debt payments more expensive.

Phase 2, beginning January 2009

Introduction of an expansive fiscal policy. The plan is to implement an expansive budget, with increased spending on public works (paving roads, building bridges) and social policies intended to create employment and protect vulnerable sectors from the crisis. Initial estimates envisioned a budget deficit of USD 300 million. The Government made a commitment to regularly review stimulus expenditures; both budgetary increases (public works of around USD 100 million to 200 million) and conditional transfers (involving between 17,000 and 120,000 beneficiaries).

Phase 3, beginning February 2009

Introduction of measures to satisfy the financial and credit needs of productive sectors. The strategy is to strengthen the Financial Agency for Development credit portfolio, with the goal of generating more opportunities for medium- and long-term refinancing and public financing for small and medium producers. State spending will give priority to domestic production.

Phase 4 (in design stage)

Multilateral contingency credits. Some of these are already under review. Others have preliminary approval or will be submitted to Parliament. These credits, allocated to roads and production (Inter-American Development Bank), as well as agricultural production and water (World Bank), will require a review of methods of awarding public/private contracts, as well as improvements in budgetary implementation.

In developing the Anti-Crisis Plan for parliamentary consideration, the Government has expanded its discussions with various sectors of society— political and parliamentary parties, private sector representatives and civil society organizations. Even so, it has not won unanimous agreement on either the value of the proposed measures or their likely effectiveness in mitigating the impact of the crisis. Some groups argue that the plan must be implemented in any case, since it will fund loans that have already received commitments or where approval has been delayed. Others feel that final decisions on the contingency loans from multilateral banks should be contingent on a thorough review of their beneficiaries and cost, as well as how effectively they reinforce public expenditures.

To complicate matters, new demands for government financing are springing up, though they are difficult to justify and/or satisfy. For instance, wage increases were requested by public service unions in 2008, echoing demands of private sector workers, in addition to the soy producer pleas for immediate refinancing and soft credit. Longstanding demands for land, food self-sufficiency and revitalization of the rural economy are also resurfacing in the countryside.

The controversy among interest groups is heightened by opposition to conditional cash transfers to the most vulnerable sectors voiced by business entrepreneurs and opportunist politicians. These transfers are more generous and available to more people than under the previous administration, which increased competition for them and complicated access. Conditional transfers are justifiable in “exceptional times” and until better alternatives can be introduced. However, they are not a panacea nor are they easy to allocate fairly, since it is hard to discriminate between the poor and the destitute based on income alone, and everybody is affected by inadequate education and public health services characterised by low coverage and/or poor quality. Furthermore, Paraguay’s transfers will not be sufficient, and their effective implementation will depend on the Government’s ability to deal with issues of method and measurement, as well as all kinds of local pressures.

The Government still has to develop the political will and strategy it needs to build a parliamentary majority in a country where political parties are floundering in a crisis of leadership, mediation and representation. Its primary challenge is to neutralize the retrograde forces in Colorado Party, which has already announced its intention to ignore the anti-crisis plan; this could lead to a parliamentary boycott.

The civil society response

The first sectors to complain about Government policies were those that had benefitted from the prior Government’s neoliberal policies and market integration: agro-exporters, industrialists, importers and advertising executives. With few exceptions, business sectors have limited themselves to demanding more information on the scope of the crisis and voicing complaints, rather than suggest-

ing alternatives. They also make excessive demands, which are quickly seen to be illegitimate. The soy producers, for example, insisted that the Government not only to cover their losses, but also provide enough funding to maintain their level of production and profit through public subsidies. They earned extraordinary profits in the previous cycle, thanks in part to speculation in the future market for agricultural commodities that accompanied the promotion of biofuels in many countries.⁷ This is a sign that the crisis could lead to an impasse or to the reinforcement of earlier resource allocation plans that should really be replaced.

The irresponsibility and myopia of the right-wing opposition is leading it to oppose the anti-crisis plan, simply to damage the new centre-left Government. At the other end of the spectrum, demands of worker and peasant organisations could be manipulated by left-wing parties inside and outside the Government, or by elements of the media that want to confuse the public for their own reasons.

Some groups denounce the anti-crisis proposals as neoliberal measures that will lead to damaging and unnecessary foreign indebtedness or benefit banks, international finance and the rich. However, this is not the time to allow ideological considerations to prevent efforts in dealing with a critical situation that is largely a legacy of poor public administration and unresolved structural issues, which will become increasingly important in the future.

Civil society organizations such as the Coordinating Committee for Child and Adolescent Rights and Decidamos (Let’s Decide), which have formed the Alliance for Investment in Childhood and Adolescence, contribute to publicizing the effects of the crisis on vulnerable children and adolescents and offer specific proposals in policy debates on the issue.

An anti-crisis plan might not be an ideal solution, but it is necessary. Given the country’s previous record in planning, just putting it into practice would mean progress. Its success will depend on a thorough understanding of inherited problems, as well as those emerging in this new, chaotic and unpredictable era. In any event, the crisis could provide the impetus to economic, social and environmental reforms and strengthen the State’s administrative capacity and ability to take control of the country’s future. This, in turn, could facilitate greater participation of civil society in the public sphere. ■

⁷ Grassroots International, Letter to President Obama: financial market speculation in food production. Available from: <www.grassrootsonline.org>.

⁶ *Última Hora*, 31 January 2009.