

# Paraguay

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RISK & COMPLIANCE REPORT

DATE: March 2017

<b>Executive Summary - Paraguay</b>	
<b>Sanctions:</b>	None
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	Compliance with FATF 40 + 9 recommendations US Dept of State Money Laundering assessment Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score)
<b>Medium Risk Areas:</b>	Failed States Index (Political Issues)(Average Score)
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b>            cotton, sugarcane, soybeans, corn, wheat, tobacco, cassava (tapioca), fruits, vegetables;            beef, pork, eggs, milk; timber</p> <p><b>Industries:</b>            sugar, cement, textiles, beverages, wood products, steel, metallurgic, electric power</p> <p><b>Exports - commodities:</b>            soybeans, feed, cotton, meat, edible oils, wood, leather</p> <p><b>Exports - partners:</b>            Uruguay 18.3%, Argentina 16.3%, Brazil 16.2%, Russia 11.8% (2012)</p> <p><b>Imports - commodities:</b>            road vehicles, consumer goods, tobacco, petroleum products, electrical machinery,            tractors, chemicals, vehicle parts</p> <p><b>Imports - partners:</b>            Brazil 24.1%, China 19.4%, Argentina 19.2%, US 11.4% (2012)</p>	

**Investment Restrictions:**

The Government of Paraguay (GOP) encourages foreign investment and most sectors are open for private investment.

Foreign and domestic private entities may establish and own business enterprises. Foreign businesses are not legally required to be associated with Paraguayan nationals for investment purposes.

There is no restriction on repatriation of capital and profits. Private entities may freely establish, acquire, and dispose of business interests.

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## Section 1 - Background

Paraguay achieved its independence from Spain in 1811. In the disastrous War of the Triple Alliance (1865-70) - between Paraguay and Argentina, Brazil, and Uruguay - Paraguay lost two-thirds of its adult males and much of its territory. The country stagnated economically for the next half century. Following the Chaco War of 1932-35 with Bolivia, Paraguay gained a large part of the Chaco lowland region. The 35-year military dictatorship of Alfredo STROESSNER ended in 1989, and, despite a marked increase in political infighting in recent years, Paraguay has held relatively free and regular presidential elections since the country's return to democracy.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Paraguay is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Latest FATF Statement - 21 June 2013

The FATF welcomes Paraguay's significant progress in improving its AML/CFT regime and notes that Paraguay has largely met its commitments in its Action Plan regarding the strategic deficiencies that the FATF had identified in February 2010. Paraguay is therefore no longer subject to FATF's monitoring process under its on-going global AML/CFT compliance process. Paraguay will work with GAFISUD as it continues to address the full range of AML/CFT issues identified in its Mutual Evaluation Report, particularly regarding further implementation of Special Recommendation VI and Special Recommendation IX.

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Paraguay was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Paraguay was deemed Compliant for 2 and Largely Compliant for 2 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

### US Department of State Money Laundering assessment (INCSR)

**Paraguay is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.**

#### OVERVIEW

Paraguay is a drug transit country and money laundering center. The Tri-Border Area, comprising Paraguay, Argentina, and Brazil, is home to a multi-billion dollar contraband trade that facilitates much of the money laundering in Paraguay. Transnational criminal organizations operating in these three countries are believed to launder the proceeds from narcotics trafficking and other illicit activities through banks and non-bank financial sector entities. Paraguay's progress in combating money laundering is impeded by widespread

corruption, burdensome bureaucracy, and the fear of reprisal against regulatory and supervisory authorities. The Government of Paraguay is taking steps to enhance interagency coordination, address pervasive corruption, prioritize effective legislative and judicial reform, provide training and resources, and demonstrate political will to investigate and prosecute the laundering of illicit funds.

## **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering occurs in both financial institutions and the non-bank financial sector, particularly in exchange houses. Large sums of dollars generated from both legitimate and suspected illicit commercial activity are transported physically from Paraguay to neighboring countries, with onward transfers to other destinations, including U.S. banking centers. Money launderers and transnational criminal syndicates are able to take advantage of Paraguay's financial system due to weak controls in the financial sector, porous borders, the continued use of bearer bonds, unregulated exchange houses, lax or no enforcement of cross-border transportation of currency, and ineffective and/or corrupt officials. In addition, while there are laws criminalizing public-sector corruption, private-sector corruption has not been criminalized.

Ciudad del Este (CDE) and nearby areas on Paraguay's border with Brazil and Argentina represent the heart of Paraguay's informal economy, and TBML occurs in the region. The area is well known for arms and narcotics trafficking, document forging, smuggling, counterfeiting, and violations of intellectual property rights, with the illicit proceeds from these crimes as sources of laundered funds. Cigarettes produced in Paraguay are smuggled across borders, largely to Brazil, Argentina, and Uruguay. Cigarette smuggling is used for money laundering purposes and the cigarette supply chain enriches criminal organizations and corrupt officials.

Paraguay does not have an offshore sector. Paraguay's port authority manages free trade ports and warehouses in Argentina, Brazil, Chile, and Uruguay.

## **KEY AML LAWS AND REGULATIONS**

Paraguay has KYC and STR regulations that apply to a wide range of entities. Though the regulations are comprehensive, there are gaps in implementation. For example, many STRs are poorly written and do not contain actionable information. The Anti-Money Laundering Secretariat, Paraguay's FIU, conducts outreach to reporting entities to explain, clarify, and improve STR reporting requirements.

There is no MLAT in force between Paraguay and the United States, though both are parties to various multilateral conventions which provide for cooperation in criminal matters. Paraguay has record exchange agreements with the United States and other jurisdictions.

Paraguay is a member of the GAFILAT.

## **AML DEFICIENCIES**

Paraguayan legislation covers legal persons and provides for enhanced due diligence for

PEPs. Paraguay is not subject to any international sanctions. It is difficult to track the government's effectiveness in implementing its AML regime due to the lack of centralized data.

The Government of Paraguay, through long-term engagement of international donors, is working to improve its AML regime and implement its strategic plan. Although the Attorney General's money laundering prosecution unit has had some success, the lack of a coordinated multiagency enforcement effort impedes broader achievements. To address this, the government has formed an interagency financial crimes working group with the goal of enhancing coordination on AML issues, including but not limited to, investigations and prosecutions, financial sector preventive measures, and asset forfeiture.

## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Although Paraguay's approach to improving AML implementation is uneven, the country continues to take steps to implement the 1988 UN Drug Convention and international standards. While Paraguay had fewer money laundering prosecutions in 2016 (three, compared to seven in 2015), it is important to note the number of convictions increased (five, compared to three in 2015).

Paraguayan authorities executed search warrants in November for one of the largest money laundering cases in Paraguayan history, reportedly totaling \$1.2 billion dollars and involving businesses in CDE. Less than a week later at the request of the defense, the Attorney General recused the entire 13-member prosecutorial team from the case. Though they were later reinstated, the defense is likely to appeal. The defendants reportedly used linked companies in the Middle East and China to falsely invoice large shipments for dispatch to CDE's airport – shipments that were never actually sent. The company then used the falsified customs documents to justify large deposits into the local banking system and initiate foreign transfers to "pay" for the fictitious shipments. This case follows the \$600 million ForEx money laundering case centered on currency exchange houses in CDE. Although authorities have charged 18 banking officials in the ForEx case, only four have been convicted, all low-level employees.

### **Current Weaknesses in Government Legislation (INCRS Comparative Tables):**

According to the US State Department, Paraguay does not conform with regard to the following government legislation: -

**Arrangements for Asset Sharing** - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

### **EU White list of Equivalent Jurisdictions**

Paraguay is not currently on the EU White list of Equivalent Jurisdictions



### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

### **Offshore Financial Centre**

Paraguay is not considered to be an Offshore Financial Centre

### US State Dept Narcotics Report 2017:

Paraguay faces various challenges in its efforts to reduce narcotics trafficking and production. Paraguay is the second largest marijuana producer in the Western Hemisphere, with the majority grown along the Paraguay-Brazil border and exported to Brazil and Argentina. It is also a transit country for Andean cocaine, primarily destined for Paraguay's neighbors or onward shipment to Europe and other overseas markets. Drug traffickers exploit the landlocked country's porous borders, clandestine airstrips, extensive internal waterways, and under-resourced, often corrupt law enforcement and judicial institutions. International criminal organizations operating along the Paraguay-Brazil border also continue to engage in arms trafficking, money laundering, counterfeiting, and other illegal activities linked to narcotics trafficking. In December 2016, Paraguayan authorities arrested six alleged-affiliates of the Mexico-based Sinaloa Cartel in Asuncion. According to media reports, the arrested individuals were allegedly seeking to establish a cocaine trafficking route from Colombia to Europe via Paraguay.

The volume of illegal drugs seized by the National Anti-Drug Secretariat (SENAD) and the Paraguayan National Police (PNP) declined in 2016 from the previous year. In 2016, SENAD seized and destroyed 276 metric tons (MT) of processed marijuana (compared to 362 MT in 2015) and 1.57 MT of cocaine (compared to 2.23 MT in 2015). The PNP seized and destroyed 137.6 MT of processed marijuana (compared to 148.3 MT in 2015), and seized 19 kilograms of cocaine (compared to 919 kg in 2015). Cannabis eradication also declined in 2016. SENAD eradicated 1,298 hectares (ha) of marijuana (compared to 1,995 in 2015), while the PNP eradicated 413 ha of marijuana (compared to 795 in 2015).

The United States and Paraguay are parties to an extradition treaty that entered into force in 2001. There is no mutual legal assistance treaty in force between Paraguay and the United States, though both are parties to various multilateral conventions which provide for cooperation in criminal matters.

The United States works closely with Paraguayan enforcement officials and provides technical support to Paraguay's efforts to disrupt drug trafficking organizations and strengthen legal and regulatory frameworks in a joint effort to combat drug trafficking and associated crimes, including money laundering, terrorist financing, and arms trafficking. The United States hosted multiple training events throughout 2016 and assisted with weapons tracing and exploiting seized cell phones. U.S. operational support facilitated drug seizures, arrests, and the presentation of cases for prosecution. Further efforts to enhance Paraguayan interagency coordination, improve the judicial system's ability to prosecute cases quickly and effectively, confront corruption, and strengthen law enforcement efforts would help to further deter narcotics production and trafficking.

### US State Dept Trafficking in Persons Report 2014 (introduction):

Paraguay is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Paraguay is a source country for women and children subjected to sex trafficking, and for men, women, and children subjected to forced labor. To a more limited extent, Paraguay is a destination and transit country for men and women subjected to forced labor and forced prostitution. Sex trafficking and domestic servitude of Paraguayan women and children within the country are two of the more common forms of trafficking. Transgender Paraguayans are vulnerable to sex trafficking. Some Paraguayan children work as domestic servants in exchange for food, board, and occasionally education or a small stipend in a system called *criadazgo*; many of these children are trafficking victims. Statistics released in 2013 indicate that around 47,000 Paraguayan children, mostly girls, are exploited in this system, and NGOs report that child domestic workers were highly vulnerable to sex trafficking. Indigenous persons are particularly at risk of being subjected to forced labor and sex trafficking, especially in the Chaco region, where some indigenous Paraguayans are reportedly subject to debt bondage on cattle ranches and in agriculture. Children engaged in street vending and begging and working in agriculture, mining, brick making, and ranching are vulnerable to human trafficking. An armed group reportedly recruits adolescent Paraguayans to provide logistical support. Paraguayan victims of sex trafficking and forced labor are found in Spain and in other countries, particularly other South American countries, including Argentina, Chile, Bolivia, and Brazil. Authorities have identified foreign victims of sex and labor trafficking in Paraguay, mostly from other South American countries. There are continued reports from NGOs that men from Argentina and Brazil engage in child sex tourism in Paraguay, including in the tri-border area and on fishing and river boats. Prosecutors continue to report that Paraguayan women are recruited as couriers of illicit narcotics to Europe and Africa, where they are subsequently coerced into forced prostitution. Bolivian labor trafficking victims transit Paraguay en route to Brazil, and press reports indicate that Chinese labor trafficking victims transit Paraguay en route to Argentina.

The Government of Paraguay does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government increased staffing for dedicated police and prosecutorial units, but the number of trafficking convictions decreased significantly in 2013 compared to 2012. Law enforcement efforts to address the large number of children in domestic servitude remained weak. Authorities continued to provide some protective services to female trafficking victims, but specialized victim services were limited, and authorities lacked a formal system to proactively identify trafficking victims or to refer them to care services. Trafficking-related corruption remained a serious concern.

### **US State Dept Terrorism Report 2015**

**Overview:** In 2015, the Government of Paraguay continued to cooperate with the United States on counterterrorism matters, and the U.S. Department of State's Antiterrorism Assistance program contributed to building Paraguay's counterterrorism law enforcement capacity. Paraguay continued to face challenges of ineffective immigration, customs, and law enforcement controls along its porous borders, particularly the Tri-Border Area (TBA) with

Argentina and Brazil. Illicit activities within the TBA remained potential funding sources for terrorist organizations, most notably Hizballah.

Since 2008, persons claiming to be part of the Paraguayan People's Army (EPP) – an internal criminal group dedicated to a socialist revolution in Paraguay – have been active in the northern departments of Concepcion and San Pedro. The group has been involved in violence designed to intimidate the population and government. The Government of Paraguay believes the EPP to be a small, decentralized group of 20 to 100 members. Additionally, the Armed Peasant Association (ACA), a splinter group of former EPP members reportedly expelled from the group over disciplinary issues in 2014, continued to operate in the Northern Departments as well. The ACA has a similar agenda and is currently believed to consist of six to eight members. Paraguayan authorities reported that most of the group's leadership was eliminated in a November 16 Paraguayan Joint Task Force operation. EPP/ACA activity consisted largely of isolated attacks on remote police and army posts, or against ranchers and peasants accused of collaborating with Paraguayan security services. Ranchers and ranch workers in northeastern Paraguay, including members of the Mennonite community, claimed the EPP frequently threatened both their livelihoods and personal security.

**2015 Terrorist Incidents:** The EPP and ACA conducted several high profile operations involving kidnapping, killings, and sabotage that received significant press coverage.

- In January, the EPP allegedly killed two long-time resident German nationals in Azotey, Concepcion Department.
- In February, the EPP allegedly attacked four police stations in Arroyito, Kuruzu de Hierro, and Yvy Yau, Concepcion Department.
- In March, the EPP allegedly killed three farmers in Tacuati, San Pedro Department.
- In July, the EPP allegedly killed five Paraguayan National Police (PNP) officers in Santa Rosa del Aguaray and Jaguarete Forest, San Pedro Department.
- In August, the EPP allegedly killed a ranch manager and kidnapped ranch employees in Tacuati, San Pedro Department.
- In August, the EPP claimed responsibility for the kidnapping of a Mennonite in Tacuati, San Pedro Department. He was believed to still be held by the EPP at year's end. Additionally, the EPP continues to hold police officer Edelio Morinigo, who was taken captive in April 2014.
- In August, the EPP allegedly destroyed a power line tower using an improvised explosive device (IED) in Tacuati, San Pedro Department.
- In September, the EPP claimed responsibility for killing two ranchers in Santa Rosa del Aguaray, San Pedro Department.

**Legislation, Law Enforcement, and Border Security:** Paraguay pursued individuals suspected of terrorist crimes under laws passed in 2010 and 2011. The Paraguayan government continued to make use of a 2013 counterterrorism law that allows for the domestic deployment of the Paraguayan military to counter internal or external threats. Counterterrorism functions are handled by the Paraguayan National Police Secretariat for

the Prevention and Investigation of Terrorism. Military forces and police officials continued to operate jointly in 2015 in the San Pedro, Concepcion, and Amambay departments, with limited success.

The Tri-Border region of Argentina, Brazil, and Paraguay continued to serve as a suspected funding source for terrorist groups, as the minimal police and military presence along these borders allowed for a largely unregulated flow of people, contraband, and money. Paraguay's efforts to provide more effective law enforcement and border security were hampered by a lack of interagency cooperation and information sharing, as well as pervasive corruption within security, border control, and judicial institutions.

Paraguay continued to participate in the Department of State's Antiterrorism Assistance program, which provided instruction and resources to assist Paraguay to build its capacity to secure borders and ports of entry to prevent the transit of terrorists and materiel.

**Countering the Financing of Terrorism:** Paraguay is a member of the Financial Action Task Force of Latin America, a Financial Action Task Force (FATF)-style regional body. Its financial intelligence unit, [Secretaría de Prevención de Lavado de Dinero o Bienes](#), is a member of the Egmont Group. Paraguay has both counterterrorism financing legislation and the ability to freeze without delay and confiscate terrorist assets. There were no terrorism financing convictions or actions to freeze in 2015.

Paraguay requires the collection of data for wire transfers. Significant quantities of money are laundered through businesses or moved in cash. The Paraguayan government registers and has reporting requirements for non-governmental organizations (NGOs) (including non-profits), and requires NGOs to set up internal monitoring and training regimes to guard against criminal or terrorism financing.

**International and Regional Cooperation:** Paraguay collaborated with Argentina and Brazil on border protection initiatives, regional exchanges, and discussions on counterterrorism and law enforcement projects. In 2015, there were working-level meetings between the Paraguayan and Brazilian Federal/Civil Police to increase cooperation. At the second meeting in November, some officers cited investigative successes through the unprecedented sharing of leads and criminal intelligence between the two services. Paraguay served as the 2015 Chair of the Organization of American States' Inter-American Committee Against Terrorism.

## International Sanctions

None applicable

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	30
World Governance Indicator – Control of Corruption	16

## Corruption and Government Transparency - Report by US State Dept.

Paraguayan law provides criminal penalties for official corruption; however, impunity impedes effective implementation. Historically, officials in all branches and at all levels of government have engaged in corrupt practices, and cases can spend years in the courts without any satisfactory resolution. Under the Cartes Administration, the GOP has taken several steps to combat corruption, including the creation of a transparent, internet-based government procurement system; the appointment of respected apolitical officials to key posts; and increased civil society input and oversight. In October 2013, the National Procurement Agency, the Civil Service Secretariat, the Auditor General, the Anticorruption Secretariat, and the Solicitor General signed an MOU to strengthen coordination among key players in the fight against corruption. Under the MOU, these Executive Branch institutions are working collaboratively on a National Anticorruption Plan.

The constitution requires all public employees, including elected officials and employees of independent government entities, to disclose their income and assets at least 15 days after taking office or being appointed and again within 15 days after finishing their term or assignment. A new law that went into effect in January 2014 requires that the employee include information on the assets and income of spouses and dependent children. The new law does not require officials to file periodically when changes occur in their holdings. Following the inauguration of the new government, the president, vice president, the 10 ministers of the executive branch and 22 other minister-rank and high-ranking employees of the Cartes administration filed their financial disclosure forms in compliance with the constitution.

Judicial insecurity and corruption in the judicial system hinders Paraguay's investment climate. Many investors find it difficult to enforce adequately contracts and are frustrated by lengthy bureaucratic procedures, limited transparency and accountability, and impunity.

Paraguay signed and ratified the United Nations Anticorruption Convention in 2005.

## Section 3 - Economy

Landlocked Paraguay has a market economy distinguished by a large informal sector, featuring re-export of imported consumer goods to neighboring countries, as well as the activities of thousands of microenterprises and urban street vendors. A large percentage of the population, especially in rural areas, derives its living from agricultural activity, often on a subsistence basis. Because of the importance of the informal sector, accurate economic measures are difficult to obtain. On a per capita basis, real income has stagnated at 1980 levels. The economy grew rapidly between 2003 and 2008 as growing world demand for commodities combined with high prices and favorable weather to support Paraguay's commodity-based export expansion. Paraguay is the sixth largest soy producer in the world. Drought hit in 2008, reducing agricultural exports and slowing the economy even before the onset of the global recession. The economy fell 3.8% in 2009, as lower world demand and commodity prices caused exports to contract. The government reacted by introducing fiscal and monetary stimulus packages. Growth resumed at a 13% level in 2010, the highest in South America, but slowed in 2011-12 as the stimulus subsided and severe drought and outbreaks of foot-and-mouth disease led to a drop in beef and other agricultural exports. The economy took another leap in 2013, largely due to strong export growth. Political uncertainty, corruption, limited progress on structural reform, and deficient infrastructure are the main obstacles to long-term growth.

### **Agriculture - products:**

cotton, sugarcane, soybeans, corn, wheat, tobacco, cassava (tapioca), fruits, vegetables; beef, pork, eggs, milk; timber

### **Industries:**

sugar, cement, textiles, beverages, wood products, steel, metallurgic, electric power

### **Exports - commodities:**

soybeans, feed, cotton, meat, edible oils, wood, leather

### **Exports - partners:**

Uruguay 18.3%, Argentina 16.3%, Brazil 16.2%, Russia 11.8% (2012)

### **Imports - commodities:**

road vehicles, consumer goods, tobacco, petroleum products, electrical machinery, tractors, chemicals, vehicle parts

### **Imports - partners:**

Brazil 24.1%, China 19.4%, Argentina 19.2%, US 11.4% (2012)



## Banking

While there have been several closings of local banks by the Superintendent of Banks over the past few years, Paraguayan operations of international banks or large regional banks are sound. The Paraguayan banking system is stronger and more profitable and stable than in past years. The Central Bank continues to improve prudential regulation with assistance from the International Monetary Fund. As of January 2010, there were 14 private banks operating in the market, and one state-owned bank. Macro-economic stability during the past years has led to a significant increase in private-sector deposits and loans. The top three private banks had 63.2 percent of the USD 178 million total utilities of the local private banking system in 2009. The system-wide level of non-performing loans in 2009 was 1.6 percent of total loans.

The financial sector regulated by the Central Bank also includes 11 finance companies dedicated to smaller consumer operations not served by banks. The banking system operates mostly on short to medium term credit (12 months is the usual maximum for commercial transactions, although private finance of vehicles and homes is available on longer terms) in both local and foreign currency. There is also a large cooperative sector in Paraguay which is self-regulated and does not fall under the purview of the Central Bank. Cooperatives may have as much as a third of total financial system assets, but cooperative assets are not included in Central Bank data.

Banks and finance companies are regulated by the Banking Superintendent, which is housed within, and is under the direction of, the Central Bank of Paraguay. Deposits are guaranteed up to 30 million Guaranies, approximately USD 6,031.36 at the yearly average exchange rate for 2009 (Guaranies 4,974 to the U.S. dollar). The Central Bank operates based on a modern law, 489/96, although it is not truly independent.

## Stock Exchange

Paraguay has a relatively small Asuncion capital market that began operating in 1993. As of 2009, the Asuncion Stock Exchange handled USD 99.2 million in transactions, compared to a volume of USD 79.6 million transactions in 2008. The number of companies traded is 87. The high cost of capital makes the market an attractive alternative, but the fear by family enterprises of losing control has tempered enthusiasm for public offerings. Most of the exchange's volume occurs in fixed income securities.

### 1. Openness to, and restrictions upon, Foreign Investment

The Government of Paraguay (GOP) encourages private foreign investment. Paraguay guarantees equal treatment of foreign investors under law 117/91 and permits full repatriation of capital and profits under law 60/90. Paraguay has historically maintained the lowest tax burden in the region, with a 10% corporate tax rate and a 10% Value-added Tax (VAT) on most goods and services.

The GOP recognizes the need to improve Paraguay's infrastructure. In 2013 Paraguay passed new legislation governing public-private partnerships (PPP), which the GOP hope will prompt an infrastructure boom and launch a new phase in the country's economic development. The GOP is expected to announce in 2014 PPPs for infrastructure modernization projects for the international airport in Asuncion, the Paraguay River, and three highways. Paraguay's electricity distribution and communications infrastructures are also in need of significant investment and upgrades. A 400-kilometer 500-kilovolt transmission line, two new sub-stations, and other major infrastructure improvements to the power grid are currently underway. More remains to be done for the power grid, especially around and within Asuncion. Paraguay also is in the process of seeking bids for extending communications lines to the countryside. These projects are usually open to foreign investors.

Paraguayan law supports maquila operations, with the value-add subject to a 1% tax rate. In most cases, inputs are allowed to enter Paraguay tax free, and up to 10% of production is allowed for local consumption after paying import taxes and duties. Maquila operations are not restricted geographically or by industry.

The WTO conducted a Trade Policy Review of Paraguay in 2011, which is available at [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp345\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp345_e.htm).

**TABLE 1:** The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	150 of 177	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2013	80 of 177	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing	2014	109 of 189	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>

Business Report "Ease of Doing Business"			
Global Innovation Index	2013	100 of 142	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	\$3400	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

**TABLE 1B - Scorecards:** The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) of \$4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

Indicator	Score
MCC Gov't Effectiveness*	12% - Not Passing
MCC Rule of Law	23% - Not Passing
MCC Control of Corruption	19% - Not Passing
MCC Fiscal Policy	88% - Passing
MCC Trade Policy	79% - Passing
MCC Regulatory Quality	50% - Not Passing
MCC Business Start Up	19% - Not Passing
MCC Land Rights and Access	55% - Passing
MCC Natural Resource Protection	42% - Not Passing

## 2. Conversion and Transfer Policies

No restrictions exist in Paraguay on the conversion or transfer of foreign currency. Law 60/90 permits the repatriation of capital and profits. There are no controls on foreign exchange transactions, apart from bank reporting requirements for transactions in excess of USD 10,000.

Paraguay is a member of the Financial Action Task Force against Money Laundering in South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation, conducted by the International Monetary Fund (IMF), can be found here: <http://www.imf.org/external/pubs/ft/scr/2009/cr09235.pdf>.

### **3. Expropriation and Compensation**

Private property has historically been respected in Paraguay as a fundamental right. However, there have been several cases in recent years of expropriations of land without prompt and fair compensation. In recent years groups of “landless” citizens have occupied several farms in order to press for agrarian land reform.

### **4. Dispute Settlement**

Law 117/91 guarantees national treatment for foreign investors. This law allows international arbitration for the resolution of disputes between foreign investors and the Government of Paraguay.

Under Paraguayan Law 194/93, foreign companies must demonstrate just cause to terminate, modify, or decide not to renew contracts with Paraguayan distributors. Severe penalties and high fines may result if a court determines that a foreign company ended the relationship with its distributor without first establishing that just cause exists, which sometimes compels Paraguayan distributors to seek expensive out-of-court settlements first. Nevertheless, cases are infrequent and courts have upheld the rights of foreign companies to terminate representation agreements after finding the requisite showing of just cause.

Paraguay is a member of the International Center for the Settlement of Investment Disputes (ICSID).

### **5. Performance Requirements and Incentives**

Paraguay grants investors a number of tax breaks under Law 60/90. Voting board members of any company incorporated in Paraguay must have legal residence, which takes a minimum of 90 days to establish, posing a potential obstacle to foreign investors.

Regarding customs procedures, Paraguay requires that specific documentation for each import shipment (e.g., the commercial receipt, certificate of origin, and cargo manifest) be certified by either the Paraguayan consulate in the country of origin or, by paying an additional fee, at the Ministry of Foreign Affairs in Paraguay. Paraguay also requires all companies operating in the country to contract the services of a customs broker. Customs broker fees are standardized by Paraguayan law.

Paraguay is not a signatory to the WTO Agreement on Government Procurement. Paraguayan law (4558/11) gives preference in government bids to locally produced goods even if they are up to 20% more expensive than imported goods. Public institutions in charge of large infrastructure projects historically pose difficulties for foreign investors. The Dirección Nacional de Contrataciones Públicas (DNCP or *National Directorate for Public Contracts*) exists to ensure transparency and fairness in public bids that exceed USD 150,000. American investors have described significant frustration during bidding attempts. Of the 15,299 bids held by the DNCP in 2013, only 91 were open to international companies. Of those, 41 were awarded to international companies, a much higher percentage than previous years. The Cartes Administration, which entered office in August 2013, has expressed interest in

increasing international participation in infrastructure projects and passed a PPP law to attract higher levels of international participation.

## **6. Right to Private Ownership and Establishment**

Foreign and domestic private entities may establish and own business enterprises. Foreign businesses are not legally required to be associated with Paraguayan nationals for investment purposes.

There is no restriction on repatriation of capital and profits. Private entities may freely establish, acquire, and dispose of business interests.

## **7. Protection of Property Rights**

### ***Real Property***

The 1992 constitution guarantees the right of private property ownership. While it is common to use real property as security for loans, the lack of consistent property surveys and registries often makes it impossible to foreclose. In some cases, acquiring title documents for land can take two years or more.

### ***Intellectual Property***

Paraguay is currently on the Watch List and under Section 306 monitoring in the U.S. Trade Representative's (USTR) Special 301 Report. The Government of Paraguay has taken positive steps toward strengthening IPR, particularly since President Cartes took office in August 2013. In October 2013, President Cartes signed the implementing regulation (Decree 460) for Law 4798 of 2012 that created the National Directorate of Intellectual Property (DINAPI). DINAPI is now the Paraguayan government authority responsible for the issuance and protection of copyrights, trademarks, patents, industrial designs, and geographical indications. Additionally, the law authorizes DINAPI's enforcement arm, the General Enforcement Directorate, to conduct administrative investigations and initiate proceedings at customs checkpoints and businesses. In December 2013, DINAPI granted pharmaceutical patents to two U.S. companies, the first patents reportedly granted since 2005. DINAPI has also undertaken outreach to the public, signed inter-institutional cooperative agreements to improve IPR protection and enforcement, and has stepped up enforcement operations, including at the border.

Ciudad del Este has been named in either the USTR Notorious Market List or the Special 301 Report for over 15 years. The border crossing at Ciudad del Este and the city itself have been the focus of U.S. and international attention as a hub for the distribution of counterfeit and pirated products in the tri-border region of Brazil-Argentina-Paraguay and beyond.

Concerns remain about inadequate protection against unfair commercial use of undisclosed test or other data generated to obtain marketing approval for pharmaceutical products and the shortcomings in Paraguay's patent regime. Law 3283/07 and Law 3519/08 require that pharmaceutical products and agrochemical products be first registered in Paraguay to be eligible for data protection. The law also limits data protection to five years instead of the more commonly accepted international standard of ten years. Additionally, law 2593/05 that modifies Paraguay's patent law has no regulatory enforcement. Because of

this, foreign pharmaceutical companies have seen their patented products openly replicated and marketed under other names by Paraguayan pharmaceutical companies.

For over a decade the United States maintained a Memorandum of Understanding (MOU) with Paraguay pertaining to IPR protection and enforcement. This MOU expired in April 2012, and negotiations were re-launched in March 2014.

Paraguay has ratified all of the Uruguay Round accords, including the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), and has ratified two World Intellectual Property Organization (WIPO) copyright treaties. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

## **8. Transparency of the Regulatory System**

The business registration process was modified in 2006 with U.S. assistance. The GOP instituted a coordinated system among all the offices involved, reducing the number of steps and the time to open a business to 35 days and lowering the cost to approximately USD 250. This is an improvement; however, some aspects of opening a business are still lengthy and costly, such as building health inspections and environmental licenses.

Historically, regulatory agencies supervisory functions over telecommunications, energy, potable water, and the environment are inefficient and opaque. Politically motivated changes in the leadership of regulating agencies negatively impact firms and investors. Corruption has historically been common in these institutions as time consuming processes provide opportunities for front-line civil servants to seek bribes to accelerate the paperwork. The Cartes Administration, which entered into office in August 2013, voiced its commitment to combatting corruption and has taken positive steps to promote transparency.

## **9. Efficient Capital Markets and Portfolio Investment**

Paraguay's banking system includes 16 banks with a total USD 16.5 billion in assets and USD 11.2 billion in deposits. Non-performing loans in the banking sector totaled just 2% of total loans in 2013. The banking system is generally sound but remains overly liquid. Long term financing for capital investment projects is scarce. Most lending facilities are short term.

Credit is available but expensive. High collateral requirements are generally imposed. The high cost of capital makes the stock market an attractive, although underdeveloped option. Paraguay has a relatively small capital market that began less than 20 years ago. As of December 2013, the Asuncion Stock exchange consisted of 108 companies, totaling USD 132 million in transactions. Many family-owned enterprises fear losing control, dampening enthusiasm for public offerings.

In 2011, Banco Bilbao Vizcaya Argentaria (BBVA) Paraguay raised USD 100 million through a private offering of 9.75 percent bonds that will mature on February 11, 2016. BBVA Paraguay will use the proceeds for long-term investment in agribusiness and reforestation in Paraguay. In 2012, Banco Continental S.A.E.C.A., one of the largest banks in Paraguay, issued debt for USD 200 million due in 2017. In January 2014, Banco Regional, the largest private local bank in Paraguay, issued debt for USD 300 million. These transactions are very important to the banking sector in Paraguay and its ability to access the international capital market.

The Government of Paraguay issued Paraguay's first sovereign bonds in 2013 for USD 500 million to accelerate development in the country. The issuance supported the government's effort to finance key infrastructure development programs designed to promote economic and social development and job creation. Projects include a four-lane highway linking Asuncion to Ciudad del Este, a 500kV line from the Yacyreta Dam to Villa Hayes, improvements to the national electricity grid, and upgrades to the waterway infrastructure.

#### **10. Competition from State Owned Enterprises**

Paraguay's State Owned Enterprises (SOEs) are active in the petroleum distribution, cement, electricity (distribution and generation), water, and land-line and cellular telecommunication sectors. In general, SOEs are monopolies with no private sector participation. Most operate independently but maintain an administrative link with line ministries, namely the Ministry of Public Works & Communications.

SOEs' corporate governances are weak. Only the Itaipú and Yacyretá bi-national hydroelectric dams have a board of directors. Other SOEs operate with politically appointed advisors and executives. Only the two bi-national dams are required to have an independent audit. The SOEs are often overstaffed and are an outlet for patronage, resulting in poor administration and services. The SOEs burden the country's fiscal position, running deficits most years.

#### **11. Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is growing with the support of Paraguay's largest firms. Additionally the private sector is taking measures to institutionalize ethical business conduct under initiatives such as the *Pacto Etico Comercial* (Business Ethics Pact). An initiative sponsored by the U.S. Department of Commerce, the *Pacto Etico Comercial* includes over 100 local, U.S., and international companies that committed to creating a code of ethics and undergoing a rigorous auditing process to reach certification.

#### **12. Political Violence**

Paraguay has not traditionally been affected by political violence. While Paraguay has been spared the large number of kidnappings that occur in neighboring Latin American countries, a few high profile cases have occurred in recent years, most of them attributed to purported members of the leftist Paraguayan People's Army (EPP). The GOP has responded to the EPP threat with combined military and police operations. Land invasions, marches, and organized protests occur, mostly by rural and indigenous communities making demands on the government, but these events rarely turn violent.

#### **13. Corruption**

Paraguayan law provides criminal penalties for official corruption; however, impunity impedes effective implementation. Historically, officials in all branches and at all levels of government have engaged in corrupt practices, and cases can spend years in the courts without any satisfactory resolution. Under the Cartes Administration, the GOP has taken several steps to combat corruption, including the creation of a transparent, internet-based government procurement system; the appointment of respected apolitical officials to key posts; and increased civil society input and oversight. In October 2013, the National Procurement Agency, the Civil Service Secretariat, the Auditor General, the Anticorruption

Secretariat, and the Solicitor General signed an MOU to strengthen coordination among key players in the fight against corruption. Under the MOU, these Executive Branch institutions are working collaboratively on a National Anticorruption Plan.

The constitution requires all public employees, including elected officials and employees of independent government entities, to disclose their income and assets at least 15 days after taking office or being appointed and again within 15 days after finishing their term or assignment. A new law that went into effect in January 2014 requires that the employee include information on the assets and income of spouses and dependent children. The new law does not require officials to file periodically when changes occur in their holdings. Following the inauguration of the new government, the president, vice president, the 10 ministers of the executive branch and 22 other minister-rank and high-ranking employees of the Cartes administration filed their financial disclosure forms in compliance with the constitution.

Judicial insecurity and corruption in the judicial system hinders Paraguay's investment climate. Many investors find it difficult to enforce adequately contracts and are frustrated by lengthy bureaucratic procedures, limited transparency and accountability, and impunity.

Paraguay signed and ratified the United Nations Anticorruption Convention in 2005.

#### **14. Bilateral Investment Agreements**

Paraguay has bilateral investment agreements or treaties with the following countries: Argentina; Austria; Belgium; Brazil; Chile; Costa Rica; Ecuador; El Salvador; France; Germany; Hungary; Korea; Luxembourg; the Netherlands; Peru; Romania; South Africa; Spain; Switzerland; Taiwan; the United Kingdom; Uruguay; and Venezuela.

#### **15. OPIC and Other Investment Insurance Programs**

The United States and Paraguay signed a 1992 investment guaranty agreement, allowing OPIC to begin full operations in Paraguay. OPIC has financed telecommunications, forestry, and various renewable energy projects. OPIC has also partnered with Citibank to support over USD 160 million in loans for small and medium sized enterprises (SMEs) and for micro finance loans.

Paraguay is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

#### **16. Labor**

With a population growth rate above 3% per annum and 70% of the population below the age of 35, job creation to meet the large and growing labor force is one of the most pressing issues for the Government of Paraguay. However, the weak education system limits the supply of well-educated workers and is an obstacle to growth.

Paraguay's labor code makes it very difficult to lay-off a full-time employee who has completed ten consecutive years of employment. Firms often opt for periodic renewals of "temporary" work contracts instead of long term contracts.

Paraguayan law provides for the right of workers to form and join independent unions (with the exception of the armed forces and the police), bargain collectively, and conduct legal



strikes. The law prohibits binding arbitration and retribution against union organizers and strikers. While the law prohibits anti-union discrimination and sets the financial penalty, employers are not required by law to reinstate workers fired for union activity, even in cases where labor courts fine firms for anti-union discrimination.

The minimum age for formal, full-time employment is 18. Adolescents between the ages of 14 and 17 may work if they have a written authorization from their parents, attend school, do not work more than four hours a day, and do not work more than a maximum of 24 hours per week. Adolescents between the ages of 16 to 18 who do not attend school may work up to six hours a day, with a weekly ceiling of 36 hours. The law also permits "light work" for children between the ages of 12 and 14. The government has not formally defined what constitutes permitted light work for children between ages 12 and 14.

### 17. Foreign Trade Zones/Free Ports

Paraguay is a landlocked country with no seaports but has numerous private and public inland river ports. About three-fourths of commercial goods are transported by barge on the Paraguay-Parana river system that connects Paraguay with Buenos Aires, Argentina and Montevideo, Uruguay. Paraguay has agreements with Uruguay, Argentina, Brazil, and Chile on free-trade ports and warehouses for the reception, storage, handling, and trans-shipment of merchandise.

### 18. Foreign Direct Investment Statistics

**TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

	Host Country Statistical source*		USG or International Statistical source		USG or International Source
<b>Economic Data</b>	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	\$24,000	2012	\$25,500	<a href="http://www.worldbank.org/en/country">http://www.worldbank.org/en/country</a>
<b>Foreign Direct Investment</b>	Host Country Statistical source*		USG or international statistical source		<a href="http://www.bea.gov/">http://www.bea.gov/</a>
U.S. FDI in partner	2012	\$2068	2012	\$2369	

country (Millions U.S. Dollars, stock positions)					
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	Not availabl e	Not availabl e	2012	-\$2	
Total inbound stock of FDI as % host GDP	2012	19%	Not availabl e	Not availabl e	

\* Host country statistical data source: [www.bcp.gov.py](http://www.bcp.gov.py)

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

Civil law system with influences from Argentine, Spanish, Roman, and French civil law models; judicial review of legislative acts in Supreme Court of Justice

### International organization participation:

CAN (associate), CD, CELAC, FAO, G-11, G-77, IADB, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, ITUC (NGOs), LAES, LAIA, Mercosur (suspended), MIGA, MINURSO, MINUSTAH, MONUSCO, NAM (observer), OAS, OPANAL, OPCW, PCA, UN, UNASUR, UNCTAD, UNESCO, UNFICYP, UNIDO, Union Latina, UNISFA, UNMIL, UNMISS, UNOCI, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO

## Section 6 - Tax

### Exchange control

There are no controls on foreign exchange transactions, apart from bank reporting requirements for transactions in excess of USD 10,000.

### Treaty and non-treaty withholding tax rates

Paraguay has signed agreements for the avoidance of double taxation of income from international shipping and/or air transport with Uruguay, Chile, Belgium, Germany and Argentina.

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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