

PARAGUAY

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 82

Small Program Statement

January 1980

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USAID/Paraguay

SMALL PROGRAM STATEMENT

Planning Period FY 1982-86

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I. RATIONALE

"Tranquility" is a popular word in Paraguay. It is frequently used by the current regime to suggest that the Stroessner government has brought stability to the Paraguayan scene, and to contrast the apparent absence of internal strife with the unsettled conditions in many other Latin American countries. Yet there is reason to question the depth and durability of the peaceful surface seen by most observers of this relatively unknown country.

The ruling Colorado Party shows signs of internal strain. Forces unsympathetic to the regime display an increasing disposition to test the limits of the government's tolerance of overt criticism. Though the government has not forsaken the use of arbitrary arrest and confinement to punish particularly outspoken critics, international reaction to human rights abuses has sensitized the government to the risks of reverting to extreme repressive measures. Thus there is more latitude for open criticism, which is regularly forthcoming from the independent press and the pulpit.

One of the major themes of the critics is the unequal distribution of the benefits of Paraguay's economic boom. Just below the apparently peaceful surface there are increasing currents of social tension and discontent, stirred by the popular recognition that a small group of well placed individuals,

professing patriotism and progress, are busily engaged in the rapid accumulation of private wealth and a gaudy display of conspicuous consumption. The government tends to regard such criticism as "destabilizing", and appears unwilling to recognize the contribution to this growing instability made by its own incapacity to respond to the forces for change. But some change in the political scene is a virtual certainty during the planning period of this SPS. President Stroessner's term of office ends in 1983 and he has suggested that he will not accept another term. If he does withdraw, the struggle to select a successor can be expected to create additional internal strains. Even if he decides his country still needs him, his cabinet of old men is unlikely to survive intact. In any event the forces for change are destined to become stronger.

It is in the U.S. interest to support the evolution of a stable democratic government in Paraguay. A necessary condition of such an outcome is a more equitable distribution of the benefits of growth. Bilateral assistance, which enables the U.S. to maintain contact with and support the forces for change, is the major policy instrument available for that purpose. By being on the scene the AID Mission facilitates contact between Paraguayans seeking to promote equitable development and representatives of external assistance agencies, and enables the U.S. to respond quickly to sudden changes in the political situation.

Although the rationale for an AID presence is political, the program we propose in this document is development oriented and will address economic issues. The AID objective will be to demonstrate to all Paraguayans the importance and feasibility of broadening the new economic prosperity to include the poor, and to make and maintain contact with a diversity of groups within Paraguayan society. This will require a program that is large enough to be both credible and capable of responding to changing circumstances.

II. GENERAL ANALYSES

A. Analytical Description of the Poor

The general characteristics of poverty in Paraguay have been known for some time. While no systematic study of national income distribution has been made, partial studies in 1970-71 revealed that the highest five percent of income earners received 31 percent of the income, while the lowest 40 percent received only nine percent. Despite an impressive growth in GNP and a corresponding increase in per capita national income in recent years, the highly skewed character of income distribution has not changed.

A 1977 USAID study of 2,352 rural households* sought to profile the poor, examining not only the extent of poverty in rural

* Some households were situated in small towns since many small town dwellers are chiefly engaged in farming or an agriculturally related job.

areas but also such characteristics as where the poor live, how they support themselves, and the extent to which they have access to land, medical services, and educational opportunities. Major findings of the study are briefly summarized in the following paragraphs.

1. Income

The survey estimated the income of all household members, including proceeds from wages and from sales of agricultural products, animals, processed and manufactured goods, and other goods and services. Using our threshold definition of poverty in Paraguay--\$300* per capita--75% of rural households reporting income in 1977 qualified as poor. Furthermore, 53% reported annual income of less than \$150*.

2. Location

The rural poor are dispersed throughout five geographical regions of Eastern Paraguay. These are: a) the minifundia zone, often referred to as the Central Zone, encompassing the older farming areas close to Asunción; b) the cattle region, a mixed minifundia/latifundia area covering an area south of Asunción; c) Itapúa, a modernizing area in the southeast undergoing rapid economic expansion; d) the Eje Norte (northern axis), an older settlement area; and e) the new colonization region encompassing three departments along the northeastern border with Brazil.

* Exchange rate: 134 = \$1, the average free market rate in 1978.

77% of all households in the minifundia zone are below the poverty level, while 55% have incomes less than \$150 per person. In the Eje Norte the figures are 75% and 60%. Together the minifundia zone and the Eje Norte account for 65% of the rural poor in the five areas and for this reason are receiving the most attention from A.I.D.

3. Living Conditions

Poor people in Paraguay, as anywhere else in the world, suffer from inadequate housing, sanitary facilities, nutrition, employment, health facilities, and educational opportunities. The study shows, for example, that only seven percent of households surveyed had an improved outdoor latrine and only 19% cooked their meals off the ground. Data from other sources indicate high infant mortality rates (85 per thousand live births) in rural areas and low access to health services among the rural poor (51% used such services in 1974). Other figures could be quoted, but the general picture of poverty as reflected in how the poor live is clear.

4. Occupation

There is an apparent correlation between a rural household's occupation and the probability it is poor. The USAID study indicates that a household reporting farming as the main economic activity is more likely to earn less than \$150 per capita than one primarily doing nonfarm work. Furthermore, the

poorest farm households are those growing cotton as the main crop. Most of these households cultivate less than five hectares.

Although farm households appear to be relatively worse off than those supported by nonfarm work, the vast majority of nonfarm households are also poor. To illustrate, 66% of those engaged primarily in commerce and 82% of agricultural day laborers earned less than \$300 in the survey year.

5. Land

Eighty-two percent of farm households below the \$150 income level cultivated less than five hectares, with the average for this group less than three hectares. Our studies indicate that with family labor and traditional technology the typical farm family can cultivate about six hectares. These facts suggest that marginal labor productivity is at or near zero on farms of less than five hectares.

Land rights are a problem. Of 2,054 households in the survey which had some land available for crops or livestock, 47% were land owners with title; 16% were colonists under programs of the Instituto de Bienestar Rural (IBR), the land reform institute, who had not yet obtained title; 27% were occupants without title, and seven percent were renters. The remaining three percent were sharecroppers and others.

Land pressure is most severe in the minifundia zone, where 45% of the households with land available for crops or

livestock are located. 52% of the households in this zone are land owners. Nine percent are at various stages of trying to obtain title through the IBR. The remainder are renters, occupants, sharecroppers, and others.

6. Language

In addition to the constraints of land there appears to be an association between poverty and the use of the Guarani language. Almost 76% of all families interviewed in the 1977 survey speak only Guarani. Eighty-eight percent of households earning less than \$75 per member spoke only Guarani. Although Guarani is recognized as an official language of the country, the fact is that the language of the educational system is Spanish. Thus, exclusive use of Guarani is tied to illiteracy and low levels of education. The poorer the family, the more likely it is to speak only Guarani, and the less access it will have to education and other opportunities.

7. Poor Minorities

Two important poverty sub-groups are Indians and female headed households. Female headed household units, which constitute 16 percent of all rural households surveyed, typically earn less and have fewer possessions than male headed units. Seventy-one percent of female headed units received less than \$150, and 88% received less than \$300 in 1977. Paraguay's 17 major Indian tribal groups total about 80,000 people. The

Guarani language is understood by most members of these tribes, although each has its own language. Indians are not only treated as second class citizens by the mestizo population, but suffer from a degree of poverty unique in Paraguay.

8. The AID Target Group

The AID primary target group is those rural and small town households who have less than \$300 income per person per year. Because of the heavy concentration of this group in the mini-fundia and Eje Norte areas, priority attention in USAID programming will be given to these regions. Female headed households and indigenous groups will also be given special attention. We estimate that the target group includes about 600,000 people.

B. The Macro Economic Setting

1. Recent Economic Trends

Paraguay has experienced rapid economic growth during the 1970's, particularly during the second half of the decade. The construction of the power dams Itaipú and Yacyretá has been a principal factor in this economic expansion, as well as in the continuing growth of the country's foreign exchange reserves. Economic growth has also been stimulated by a quadrupling in the value of commodity exports since 1970. These two factors--massive investments in hydroelectric dams and the continued growth of agricultural exports--should assure the maintenance of high rates of economic growth during the 1980's.

The construction of the power dams has acted as a powerful stimulus to the Paraguayan economy. Besides its impact on

economic growth, dam construction contributed to an increase in net foreign exchange reserves held by the banking system from \$83.4 million in 1974, when work was begun at Itaipú, to \$448 million in 1978. On the other hand, the higher level of investment in the dams and the rapid expansion of the money supply associated with the increase in foreign exchange reserves has precipitated inflationary pressures. In the second half of 1978 consumer prices rose at an annual rate of 22% and wholesale prices at 32%. Prices continued to spiral upward in 1979. The cost of living index was 30% higher in September than it was in January, and it is certain that this year will have witnessed the greatest inflationary surge since 1964.

During 1976-78 Paraguay attained an average investment rate of 28.8% of GDP and an average real growth rate of 9.9%, implying a capital output ratio of 2.9. As during this period, investment in Itaipú and Yacyretá will strongly influence the investment rate during the next five years. If, as now appears unlikely, the present rate can be sustained without excessive inflation, and assuming the capital output rate rises to about 3.0, growth should average about 9 percent a year.

2. National Development Plan

The country's national development plan ("Plan Nacional de Desarrollo Económico y Social, 1977-1982") is an indicative plan with projections of future economic developments based on

an over-all strategy and supporting policies. There is a strong growth with equity theme throughout the document. However, the Plan lacks an underpinning of over-all sector investment allocations, and aggregate data on sector investments are not available. Public sector investment allocations are limited to projections; final allocation decisions are made by a Council of Ministers.

The Plan strategy puts special emphasis on exports, agro-industrial output, and import substitution. The most important elements are exports and agro-industries, and this orientation supports a trend already in evidence as a result of the influence of past government policies and market forces.

It is useful to compare Plan projections with actual results for 1977 and 1978, the first two years of the Five Year Plan period. There are marked discrepancies between projections and results with respect to each of the economic indicators for which data are presented.

	1977		1978	
	Plan	Actual	Plan	Actual
Growth rate of GDP	7.1	11.8	7.2	10.3
Investment as a % of GDP	25.9	28.4	25.5	29.6
Growth rate of exports	12.4	18.8	10.9	16.1
Increases FX reserves (\$ mil.)	40	108	38	179

In large part these discrepancies (excepting that for exports) appear to have resulted from the failure of Paraguayan planners to predict the full impact of Itaipú and Yacyretá on the Paraguayan economy.

The failure of the Plan to anticipate the inflationary boom that was to be generated already in 1977 and 1978 was nowhere more evident than in its projection of changes in the active money supply from 1976 to 1981. The Plan states: "The money supply should increase from an assumed level of \$23,378 million at the end of 1976 to \$43,452 million in December 1981 with an average annual increase of 13.2%, a rate that is below the average increase of 20.3% for the period 1970-1975." The reality is that by October 1978 the money supply had already passed the level projected for 1981; the money supply rose by 42.8% during 1977 and by 53.2% during 1978.

According to the Plan, employment grew at an annual rate of 3.4 percent between 1972 and 1975 when the active population was estimated to be growing at 3.2 percent. Thus it may be assumed that no increase in unemployment occurred. Real GDP grew at 6.5 percent per annum during this period. From 1976 to 1978, however, real GDP has been growing at about 10 percent a year. It is assumed that the active labor force continued to grow at 3.3 percent and that the growth of employment considerably surpassed this rate. Consequently it may be assumed that some decrease in

unemployment and underemployment has been occurring.

Constraints on the country's future economic development exist primarily in three areas: the mobilization of domestic capital resources, the improvement of human resources, and the development of planning and management capabilities.

Public finance has imposed a restraint in the past because of the low elasticity of tax revenues with respect to change in national income, thereby limiting the capacity of the government to provide counterpart for foreign financed projects. Tax revenue as a percent of GDP, while growing, is still low. In the private sector investments have been hindered by the absence of a capital market and by excessive dependence on bank credit for long-term financing. However, a new capital market law was approved by the Paraguayan legislature in November 1979, and could prove an important first step in mobilizing domestic capital resources.

Paraguay's rapidly expanding economy has increased the demand for technically trained workers and professional personnel at all levels. Some relief has been obtained from the return to Paraguay of educated and qualified persons from foreign countries. In addition, the Servicio Nacional de Promoción Profesional, an institution financed with tax revenues, has trained over 12,000 workers in a great variety of specialties. However, greater efforts on the part of the GOP will be required if the shortage of trained manpower is to be alleviated.

While Paraguay has demonstrated a capacity to develop an overall macroeconomic plan, it has been weak in implementation and in the coordination of activities under the Plan with different elements of the government and with foreign donors. Also, the GOP's ability to develop projects in the public and private sectors is inadequate. The IBRD has sought to rectify this weakness in project development by proposing the establishment of a fund for preinvestment studies. Assistance is needed to upgrade planning and managerial abilities in both the public and private sectors to better enable this country to resolve the complex problems posed by accelerated economic growth, as well as to make decisions concerning the future use of the enormous energy resources which the country will soon possess.

C. GOP's Commitment to the Poor

USAID/Paraguay's most recent assessment of the GOP's commitment to improving the welfare of the poor was contained in the Mission's response of October 11, 1979 to AIDTO CIRC A-205, which dealt with Section 102(d) of the Foreign Assistance Act. In our response we concluded that the GOP's commitment to seven goals related to better lives for the poor was "below norm" for countries at Paraguay's stage of development. On the other hand, our analysis indicated that the country had made "above normal" progress towards those goals. We found these results inconsistent with the intuitive notion that there should be a positive correlation between central government expenditures (the primary

measure of commitment used in AID/W's performance model) and progress toward development goals. We suggested, therefore, that some important but as yet unidentified factors outside the realm of government influence--or perhaps within that realm but unaccounted for in AID/W's model for measuring commitment--are affecting and hastening Paraguay's development. One of the most important, we would guess, is the private sector's role in the economy, which is not even considered in the model. Finally, we argued--and this we wish to re-emphasize--that "results are results, and it would be disappointing if Paraguay were downgraded because its achievements are not entirely dependent on governmental action."

Since we submitted the "102(d)" response we have continued to study the issue of the GOP's commitment to the poor. It continues to look generally unimpressive. Even among the few GOP programs directed at this target group there are serious weaknesses. Nowhere is this more evident than in the GOP's colonization program, through which poor farm families primarily from the densely settled Central Zone of Eastern Paraguay are resettled on virgin lands in less developed parts of the country. There have been numerous problems both with the conception and implementation of this program, including failure on the part of the government to provide farmers support services such as credit, technical assistance, and storage and marketing facilities. In addition, settlers have frequently complained of difficulties in obtaining titles for their plots. Titles are necessary not only to

establish legal rights in land but also to obtain bank credit.

Yet in spite of the GOP's over-all level of commitment to the poor, we are optimistic that it can be enhanced. In 1977 the USAID began designing a project with the Ministry of Agriculture (MAG) to improve the delivery of technical assistance to farmers. Project designers encountered numerous obstacles to setting up an effective delivery system, but the primary problem was a moribund, overly centralized extension system managed by an overly centralized agricultural ministry. Morale of MAG employees was low, as were their salaries and their backstopping support for field activities. The able extension agents frequently left government service for higher salaries in the booming private sector, leaving many rural extension offices virtually abandoned.

Acting upon the recommendations of an FAO report, the USAID undertook negotiations with the GOP for a loan to strengthen the ailing National Extension Service. In these negotiations, the MAG agreed to changes in its internal administrative structure, which could make the Extension Service an effective instrument for reaching the rural poor. Major decentralization of administrative procedures and establishment of rural regional centers comprised the heart of the new program. Also as a result of these negotiations the GOP agreed to make significant and permanent increases in the MAG's budget, primarily for personnel. The

decentralization actions promised by the MAG are taking place as the Conditions Precedent to the Extension loan are being met. The Minister, in an extraordinary move, has agreed to issue one monthly allotment to the Extension Service rather than to sign checks for each and every expenditure and salary payment. The Ministry has allowed the creation of a locally controlled rotating fund for project expenditures at regional centers and at several experiment stations. For the first time technicians will have the materials and transportation needed to carry on outreach activities in rural areas. The USAID has worked side by side with MAG technicians to develop the detailed regulation manuals and procedures that have made the aforementioned changes possible. Had we not been present these changes may not have occurred.

These kinds of improvements are basic to a successful strategy for reaching the poor. By working closely with progressive leaders within the GOP, Mission personnel should be able to positively and significantly influence the GOP's commitment to the poor. But even the most skilled of Mission staff cannot accomplish much without there being sufficient AID loan and grant funds available to elicit support from the GOP for projects and policies directed toward this target group.

D. The Role of AID

The essential problem facing the USAID during the planning period is that of designing and implementing programs that will

break down the isolation of agropolitan districts that have been left out of Paraguay's national economic boom. The greatest bottleneck to alleviating poverty in Paraguay is the socio-political framework of development which has concentrated the benefits of growth in the capital city and overlooked the development needs of the rural areas. This suggests that an appropriate response is to focus programs on selected towns that serve as centers of interior agropolitan districts. These towns should have the potential to offer a wide range of services to rural clientele, should equalize access to political power, should have adequate urban linkages and should be able to support agriculturally oriented processing industries.

Local community organization and participation of rural people is an important part of the process. In the present Paraguayan political system the poor do not have an effective means of redressing their grievances nor do they participate in the decisions that affect their lives. While the present system does not actually create poverty, neither does it serve the poor. The problem of poverty in Paraguay can only be addressed in the countryside where most of the poor live and work. The economic boom occurring in Asunción, Encarnación, and Pte. Stroessner must be shared in the interior market towns that serve agropolitan districts comprised largely of the rural poor.

III. STRATEGY

The poverty which the USAID program addresses is concentrated in the rural areas and particularly in the minifundia zones. In keeping with the Congressional mandate, our program seeks to provide a higher level of satisfaction of basic human needs to the members of rural households in these areas. To break out of the cycle of poverty, the rural poor must overcome the economic, social and cultural isolation of the hinterlands. The ones who are ultimately responsible for improving their living conditions are the rural poor themselves; but in order to give scope to individual initiative, it is necessary that they have access to the goods and services which make it possible.

To achieve integral rural development, certain goods, support services, and facilities are needed to: 1) meet basic human needs in the rural areas; 2) provide market outlets for agricultural products; 3) supply agricultural inputs, and 4) generate opportunities for off-farm employment. Thus the essential requirement of a viable strategy is that it offer a way of assuring that the necessary goods and services be accessible to members of rural households. The strategy must be compatible with indigenous development processes already under way, such as recent steps taken to strengthen municipal (local) government, and with national development plans. It should maximize the opportunities to use a small AID program to integrate rural development into

the national economic system, by strengthening the institutional and policy framework, by influencing the flow of public and private sector expenditure toward the rural areas, and by encouraging local resource mobilization and local community participation in the process.

In development terms, the AID strategy will seek to counter the historical tendency to concentrate investment in the capital city, a process which draws resources from the rural areas, encourages migration, tends to increase income disparities, and keeps a large portion of rural households at or near the subsistence level. As a consequence of this tendency, towns in the interior are not sufficiently developed nor adequately distributed geographically to serve the rural poor and support integral rural development.

The USAID strategy draws heavily on research and experience in spatial development theory, and may, in development terminology, be called a strategy of spatially integrated rural development. The importance of the spatial dimension was highlighted in a 1976 AID study which found that the historical pattern of urban development is not conducive to equitable growth in the rural areas. AID experience in Paraguay firmly supports the hypothesis. We have discovered that if the necessary goods and services are not readily accessible to the rural areas, the possibilities of achieving a lasting improvement of the living conditions of the rural poor are seriously constrained.

This strategy represents an evolution of our strategy in Paraguay. In the 1979 DAP, the Mission envisaged the task as that of generating a "push-pull" mechanism, i.e. creating in the rural areas "an increasing demand for a better share of public sector investments in basic services of all kinds," while attempting to increase the readiness and capacity of central government institutions to respond to these demands. The 1981 CDSS embraced basically the same approach with, however, increased emphasis on strengthening the supply side of the process through decentralization of government activities, improved institutional capabilities and policies, and increased budget allocations. These concepts lead into this SPS.

The revised strategy builds on institutional capacity that was put in place by previous AID programs. For example, the Municipal Development Institute (IDM) is expected to play a major role in assisting developing urban centers in the interior to become centers of support services for rural development. IDM will assist selected municipalities to analyze the needs of their surrounding areas, to formulate development plans, and to mobilize local resources which respond to those needs.

IDM is already engaged in activities with a few selected municipalities to collect basic data on their jurisdictions which will permit analysis of community needs and formulation of development plans. IDM is also actively engaged in promoting inter-institutional cooperation among central government agencies

to achieve better coordination of their respective services at the departmental and municipal levels. OPACI (Paraguayan Organization for Inter-Municipal Cooperation) is lobbying for changes in the Municipal Organization law that will increase the share of taxes earmarked for municipalities.

One of the fundamental implications of this strategy is the decentralization of national government entities. We will seek to encourage and persuade the national government to establish in key service centers local offices with sufficient financial and administrative authority to make decisions and provide services in the light of local conditions and needs. USAID has already begun to move in this direction under the Small Farm Technology loan, with a decentralization of the National Extension Service and the agreement of the Ministry to establish regional offices with some degree of administrative and financial autonomy.

We expect that the private sector will respond to opportunities provided by the developing service centers. In fact, private sector response is important to the success of this approach. It will be very difficult to staff local offices of government agencies, banks, or private business firms if the key interior towns are not attractive places to live. Middle income housing, safe water, sewerage, electricity, transport and telephone services, educational and health facilities will be required. The AID role in these aspects would be catalytic.

We hope to be able to provide additional support to IDM and GOP institutions to increase their capacity to finance municipal development and to provide technical assistance and training to strengthen the planning, community organization, and administrative functions at the municipal level. AID is also in a position to encourage the banking system to finance private investment in interior towns through the productive credit guaranty program (PCGP), and it may be possible to develop a housing investment guaranty program (HIG) for interior cities. Projects with the Ministries of Agriculture, Health, and Education will provide services to the rural poor, and will incorporate the institutional, administrative, and policy changes necessary to assure a greater flow of these services to the rural areas.

A. Program Scope

We propose to narrow our program range to concentrate on the development of a selected few--perhaps five or six--interior towns. Within these geographic and demographic boundaries our projects will run the basic human needs gamut, with infrastructure, human resources, and institutional objectives. The Mission staffing pattern will reflect a strong implementation orientation, with technical specialists called in as needed during project design and at specific moments in the design and implementation process, e.g. PP preparation, approvals of conditions precedent materials, contracts, field inspections, evaluations.

This approach will allow for a precise definition of target beneficiaries, purposes, and intended results. It will promote private investment and political diversity, and will touch upon the poorest, in rural and quasi-urban settings. And it may prove possible with a smaller staff than the seven U.S. direct-hires presently at post. We will continue to work closely with local PVOs, the Peace Corps, and private sector groups.

B. Program Size

We propose an annual obligation level averaging about \$7.0 million. We feel this sum, with the counterpart it would draw forth, is of sufficient size to set up one significant new project each year; and while the likely annual disbursements would be small in comparison to the flows from other donors, they would be of a size to be taken seriously by the Ministry of Agriculture, for instance (Min Ag budget for 1979: \$5.8 million), or the Ministry of Health (\$4.5 million). In addition we propose a HIG program early in the planning period of approximately \$15 million.

C. Special Emphasis and Techniques

We will pay particular attention to the implementation process and institutional changes enhancing the effectiveness of AID and non-AID projects, present and future. The implementation side of the assistance process is seldom as neatly defined or attention-getting as the earlier steps of project design and

authorization; nevertheless, it is the proof of the pudding. We propose to turn our small staff size and limited range of new projects into a closely-knit operation in which implementation effectiveness will become the primary in-house goal. Without losing sight of the role of AID as a financing and monitoring entity, we intend to intensify staff collaboration with the Paraguayan private as well as public sectors in project design and execution. The smooth and rapid implementation of a modest AID program will have a positive impact on the development of market towns and consequent income distribution, but the more far-reaching effects of the recognized reality of our support of forces for change could yield benefits of a higher order to Paraguay and the United States.

D. Other Donors

In financial terms AID is the junior partner among the international donors in Paraguay. However, the USAID has always directly addressed the poor whereas other donors have tended to concentrate on broader projects in the areas of infrastructure, communications, and industrialization. The USAID and the representatives of other donor agencies in Asunción meet frequently, and have discussed the basic elements of the proposed strategy. The other donors have endorsed this approach, and feel it will not duplicate their work.

We will be working very closely with the OAS offices in Paraguay as we get into the implementation of our strategy. The OAS has carried out a major study of the province of Paraguari with the expectation that specific development projects will be financed by other donors. AID and the OAS will be exchanging information and materials as these studies are expanded to other regions.

a. Loans: Loan disbursements by other donors during 1978, as recorded by the Central Bank of Paraguay, amounted to \$90,019,719; the IDB provided \$23,616,084; the IBRD \$7,972,579; the IDA \$8,083,673; Germany \$9,952,122; Spain \$9,030,875; Japan \$7,972,303; Brazil \$11,622,144; and Argentina \$11,769,938*. The loans made by Brazil and Argentina come due in only ten years, and are exclusively for purchase of machinery and equipment from those countries.

New loan agreements signed by other donors and the GOP during 1978 amounted to \$143,884,000**. Of this amount, \$113,300,000 will be provided by IDB and IBRD; IDB will provide \$74,300,000 for agriculture, rural health programs, roads, and rural electrification; IBRD will provide \$39,000,000 for roads

* Foreign Debt: Net utilization of foreign debts during 1978 - In US\$.

** Paraguay, Informe Anual sobre Cooperación para el Desarrollo, UNDP, Asunción, June 1979.

and rural water systems. The remaining amount of \$30,584,000 will be provided as follows: Brazil \$10,000,000 and Germany \$5,051,000 for importation of machinery and equipment from those countries; Argentina \$10,533,000 for capitalization of the National Electricity Company (ANDE); and the Bank of Nova Scotia provided \$5,000,000 for a road project. During the first half of 1979, IDB provided an additional (1978) loan of \$458,000 for agricultural credits to Indian families.

b. Grants (see attached table).

c. Coordination: The Paraguayan Government does little to coordinate the assistance programs of the various donors. Donors are usually dependent on meetings among themselves to obtain information about each other's programs. Although a formal mechanism for general coordination under UNDP auspices has not worked effectively, our coordination with IBRD and IDB on an individual basis on projects and at a technical level has been extensive and productive.

E. Issues

1. Paraguay as an AID Recipient

The eligibility of Paraguay as a recipient of AID assistance is brought into question by two factors: the national level of economic need, and the human rights policies and practices of the Government. With per capita income estimated to reach \$1,000 in 1979 and steady growth expected over the next

GRANTS IN TECHNICAL ASSISTANCE

SOURCE	Agric. & Livestock	Education	Health	Transp. & Commun.	Population	Industry	Internat. Commerce	Social Services	Econ. & Social Policy & Plan.	Natural Resources	Others (*)	TOTAL
PIUD	757,560			454,632		105,000			449,061	5,594	340,927	2,112,774
IU (Excluding PIUD)	220,008	21,403	1,099,680	1,062	161,189	41,288	40,000	323,000	97,650	66,168	169,894	2,241,342
BID	868,000					30,000			115,000			1,013,000
FICA	74,000											74,000
OEI	265,100	89,800			1,600	1,800	4,700		145,400	1,600	275,300	785,300
Germany	122,059		6,196	110,665	6,753	6,714	3,862		17,713		3,940	277,902
Austria			45,172					10,874				56,046
Argentina	484,300	25,000		10,000,000								10,509,300
France	115,000	58,000	28,000					3,500	20,000		37,000	261,500
Japan	2,725,657		88,866	342,189		10,000			56,828	2,526	162,264	3,388,330
Belgium	105,000											105,000
United Kingdom	490,000	50,000				60,000					60,000	660,000
Switzerland	657,600											657,600
Others	5,634	10,782	1,641								1,764	19,821
	6,889,918	254,985	1,269,555	10,908,548	169,542	254,802	48,562	337,374	901,652	75,888	1,051,089	22,161,915

(*) Culture and Social Sciences \$38,625;
 Business Administration 640,844
 Science & Technology 371,620
 \$1,051,089

decade, Paraguay is entering the "middle-income" band of countries in Latin America. As is the case elsewhere within this band, this use of "per capita" is deceptive, and the majority of the population remains in poverty. The distribution of income within Paraguay has been studied, and credible conclusions can be drawn as to the size and locations of this majority, as well as to the design of external assistance projects which can bear directly upon them. AID projects will continue to focus on this group.

The issue of human rights has been a sore point on both sides for several years now. Over the past two years more than 200 political prisoners were released, due in undefinable proportions to the efforts of various private groups as well as to our and other official pressure. The press is becoming more explicitly critical of corruption and oppression, and has been joined by the church. Nevertheless, the apparatus of oppression is still in place, and the attitudes of those in control are slow to change. While an end to AID assistance would be an implicit, or could be made an explicit, signal of our disfavor, it is difficult to estimate what positive effect this would have on the situation, especially in light of the massive inflows from other foreign donors (over \$90 million disbursed in 1978). The linkage between human rights reform and continuation of the AID program seems tenuous.

2. Population

In April, 1979, the GOP suspended the distribution of modern contraceptives through DEPROFA (Departamento de Protección a la Familia), the Government-sponsored family planning and health clinics, thereby terminating AID's family planning program. The GOP has given no official explanation for terminating the health clinic program; but informed sources, and subsequent GOP actions, indicate that the GOP halted the official family planning project because of inadequate medical follow-up at the health centers. Inadequate follow-up for contraceptive acceptors resulted because the GOP built more new health clinics than it could staff with qualified doctors and/or nurses. This sometimes meant that the distribution and utilization of contraceptive devices was not adequately supervised.

The GOP has not yet closed any of the private family planning programs, including the CEPEP and Misión de Amistad clinics, and is preparing an integrated health/family planning program to be presented to the Paraguayan Congress in 1980. Presumably that program will provide more adequate medical follow-up to acceptors than in the past.

AID support of private efforts have continued; however, resumption of participation in any governmental program will have to await the outcome of the Congressional action in 1980.

IV. ASSISTANCE PLANNING LEVELS

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>Totals</u>
<u>Food and Nutrition</u>	<u>1,000</u>	<u>3,500</u>	<u>500</u>	<u>2,500</u>	<u>5,400</u>	<u>12,900</u>
Cooperative Development	-	-	-	2,000	-	-
Ag Research and Extension	-	500	-	-	-	-
Rural Enterprises	-	3,000	-	-	3,000	3,000
Multiple Cropping	-	-	500	-	2,000	2,000
Natural Resources	-	-	-	-	-	-
Conservation	500	-	-	500	-	-
Nutrition Education	500	-	-	-	400	400
<u>Health and Population</u>	<u>200</u>	<u>2,500</u>	<u>500</u>	<u>400</u>	<u>600</u>	<u>4,200</u>
Rural Health Delivery Systems	-	2,000	500	-	300	300
Paramedical Training	200	500	-	400	300	300
<u>Education</u>	<u>400</u>	<u>600</u>	<u>5,600</u>	<u>500</u>	<u>700</u>	<u>7,800</u>
Vocational Education	400	-	5,200	-	-	-
Rural Primary Education	-	300	-	500	300	300
Bilingual Education	-	300	400	-	400	400
<u>Selected Development Activities</u>	<u>5,100</u>	<u>800</u>	<u>500</u>	<u>4,600</u>	<u>3,800</u>	<u>14,800</u>
Municipal Government	2,000	-	-	1,000	-	-
Legal Aid to the Poor	-	-	500	-	-	-
Land Registry & Cadaster Program	-	400	-	600	-	-
Environmental Improvement	3,000	-	-	-	3,400	3,400
Appropriate Technology	100	400	-	3,000	400	400
HIG	(15,000)	-	-	(15,000)	-	-
TOTALS	6,700	7,400	7,100	8,000	10,500	39,700