

**STUDY ON INVESTMENT AND PLANNING
IN THE ECONOMIC DEVELOPMENT OF PARAGUAY**

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and the
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The main purpose of the mission for which I was chosen by the President of the Central Bank and the U.S. AID Mission to Paraguay during my stay in Asunción from the last days of October, 1961, to the end of January, 1962, was to draft a program of public investment during the next five years.

In this work I had the firm support of the President of the Central Bank and of his principal co-workers. Especially, I had the valuable help and cooperation of the Department of Economic Studies. The Minister of Agriculture and Livestock and the Economic Department of the Ministry of Foreign Affairs furnished documentation and comments of much interest. The Institute of Social Security furnished information on the financial situation of that entity and on occupational history, as well as on the measures foreseen for future years. I have received help from the representative and the various advisers of the United Nations, as well as from the U.S. AID Mission to Paraguay. Finally, I have been able to gather information and opinions from private individuals and organizations, especially from the Federation of Production, Industry and Commerce.

I am grateful for the opportunity here of thanking all these persons and organizations, which helped me immensely, giving me documentation, information and criticism, and allowed me to share insofar as possible their intimate knowledge and experience as regards the economic and social situation.

Economic activity has increased little since the end of the last world war for various reasons, of which the principal ones seem to be these: the rigidity and low level of the greater part of the agricultural economy; excessive concentration of the population in the central region; lack of modernization in the livestock economy; severe fluctuations in the market for forest products; insufficient basic economic equipment; and the serious inflation which continued up to 1957. Moreover, for reasons which are principally circumstantial, activity decreased in recent years.

There are, however, reasons for expecting the economy to be able to react favorably in the coming years: the cyclical recovery of the economy suggested in 1961 and the expansion of the lumber market; the new possibilities offered by the Free Trade Zone (LAFTA) as well as by the Alliance for Progress. On the other hand, the exchange reform of 1957 has permitted monetary stabilization, although somewhat precarious; and the increase in public investment, especially in economic infrastructure, must bring a better and more intensive exploitation of the important available physical resources of the country, i.e., fertile land, grassland, forests and hydroelectrical potentialities.

But, if the exploitation of these new possibilities is to permit the economy to break out of the vicious circle of stagnation and low public revenue, a substantial effort on the part of the entire population is definitely required and the greatest austerity in those public expenditures which are not necessary for economic development.

Therefore, the following is recommended during the next quinquennium:

- ___ Strict planning and coordination of the developmental action of the Government and State organizations, as well as of the public sector and private enterprise, through a technical planning organization.
- ___ A budgetary reform for better tax structure and tax administration, reducing the taxes on exports and on imports of producer goods, and increasing the tax burden on other items; also, a reform of the structure and administration of expenditures.
- ___ An increase in public investment and its concentration in the productive sectors, in basic economic services, and also in the regions having more immediate development potential, which are: the central zone, Encarnación and the road to Puerto Presidente Stroessner. The goal suggested is from 8,500 to 9,000 millions of guaranies (at the 1960 value) in five years, which would mean an annual average of double the public investment in 1960.
- ___ An increase in private investment channelled toward those sectors and regions having greatest developmental significance. The goal suggested is about 15,000 millions of 1960 guaranies in five years, which would mean an annual average of more than triple the private investment in 1960, which was quite low.
- ___ In relation to the entire production of the country, the increase would be from 10% in 1960 to 15% in 1965 and 1966.

The papers included in this report are:

- ___ A general report which includes an examination of the general economic situation, of the problems of development and of the necessary priorities, based on an annual analytical study; a study of the importance of total desirable investments and of the possibilities of financing the public investment estimated to be appropriate; a summary, in the form of conclusions, of the problems and the recommendations for economic policy and for State action for development.
- ___ A program of public investment based on the criteria stressed in the conclusions of the preceding document. This program draws together existing projects, adapts them to the possible limits of achievement, and coordinates them in order to concentrate effort and obtain the highest returns. It proposes an approximate annual distribution of the completion of the projects.
- ___ A program of basic studies for better knowledge of the economy is annexed to the program of public investment; and
- ___ A study and outline of a planning organization.

These studies must be considered preliminary to planning and not planning itself. It must be made clear, in particular, that what corresponds to evaluation of investments and to the possibilities for financing, as well as

to the program of public investment, is nothing more than a tentative and illustrative outline. Because of the short time dedicated to this work, because of the lack of precision in a great deal of the data and because of the absence of data on the economy, on investment and on the financial situation of the public sector, and because of the lack of reliable information on many investment projects, it was impossible to arrive at the desired precision, either in the forecasts or in the reconciliation of the projects.

It is absolutely necessary that these studies be revised and completed just as soon as a planning organization is established, should the Government decide to set up such an organization; it then would have the mission of improving these studies as soon as possible, and, at the same time, and more important, of preparing a real plan for development which could, after 1965, replace the tentative outline.

In spite of the difficulties encountered in the studies, the lack of precision in the basic data, and because of the hypotheses in the forecasts, it has appeared to me opportune to arrive at concrete conclusions in this tentative outline. It is true that the margin of error in these conclusions is quite high, but certain difficulties and impossibilities, as well as the necessity of certain adjustments, are clearly revealed, so that these conclusions can serve as a guide and as a method for the elaboration of a policy and plan for the economic and social development of the country.



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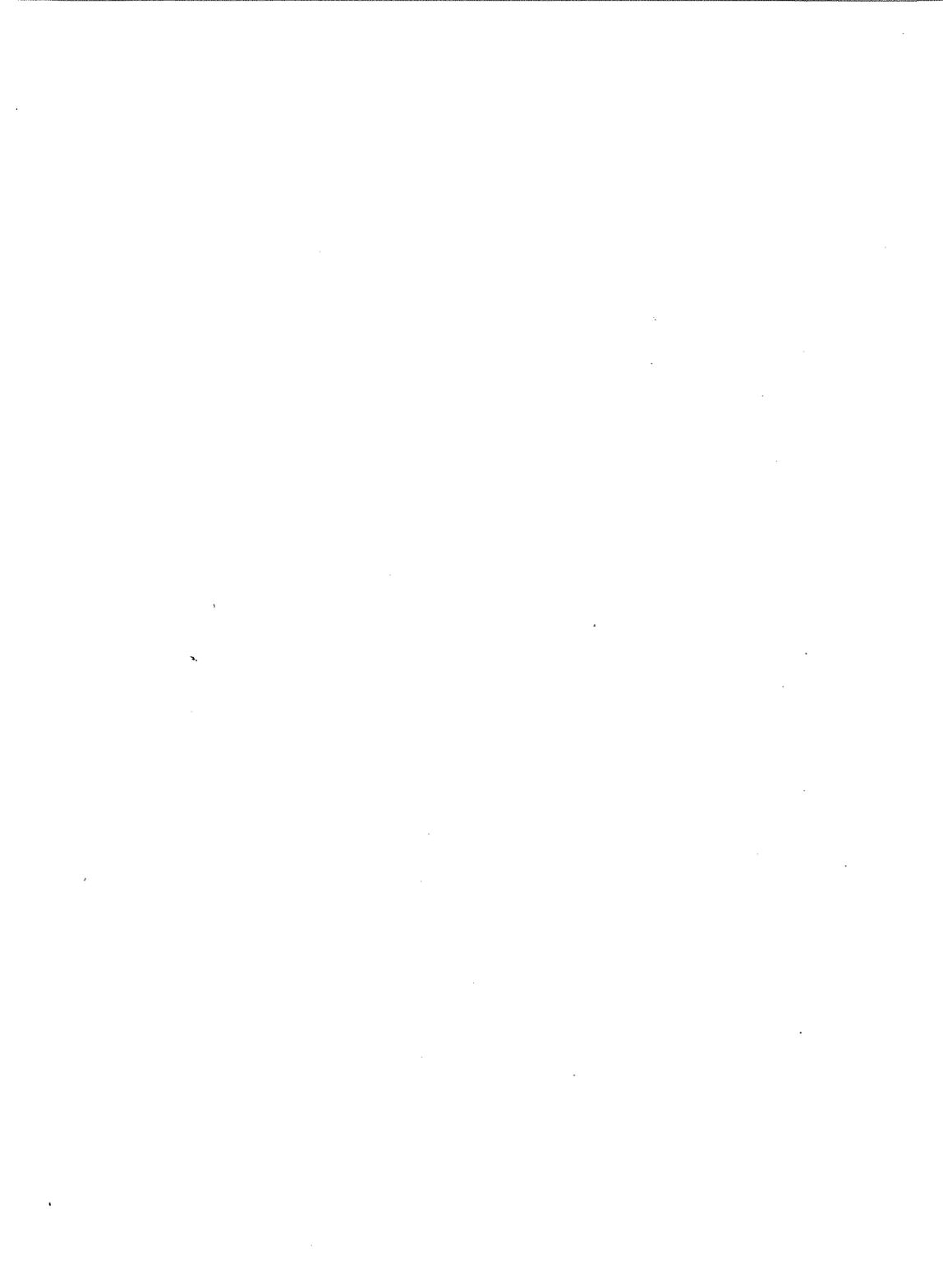
GENERAL REPORT

General Economic Situation

Size of the Program of Public Investment

General Characteristics of the Economic Situation

ANNEX - Analysis of the Economic Situation



GENERAL ECONOMIC SITUATION

In spite of great effort in the last few years to know the economy better, statistical data are still scarce and must be interpreted with great caution.

The demographic census was taken in 1950 and is the basis for measurement of the population, which was estimated at 1,768,000 inhabitants in 1960. The growth of the population was placed at 2.3% annually. The importance of emigration to neighboring countries is not known, but it could be of significance.

In 1960 the domestic product per capita was estimated at the equivalent of U\$117, and per capita income at U\$103. In spite of the inexactness of these global data, it is certain that per capita income does not greatly exceed U\$100, as it is one of the lowest in Latin America.

The national product increased quite a lot during the last world war because of the strong foreign demand, which caused an increase in the production of exportable goods. However, when demand fell after the end of hostilities, the rate of growth of economic activity experienced a sharp decline. In the last ten years the growth of the domestic product was about 18%, while population growth was an estimated 25.7%. It is true that the increase in the domestic product can be under-estimated, particularly with respect to the consumption of farm products on the farm; it is also possible that the rate of population growth is overestimated. However, it can be presumed that the per capita product has not increased; it increased a little up to the period from 1955-1958, during which time it was relatively high, but during the years 1959-1960 it probably returned to the 1950 level, and, perhaps, was even lower, due to the decline in the total product.

The structure of the domestic product changed in the last decade; the proportion resulting from services increased, especially electric energy, financial enterprises, and public administration; the relative position of the productive sectors fell. These sectors together followed more or less the same course as that of the total product up to 1955, but from then on they came down steadily, not only in volume at constant prices, but also in percentage of the total product.

The reason for this evolution must be found in agriculture, whose product fell rapidly after 1955. Here, as has already been said, it is very possible that the subsistence production of the peasant, the estimation of which is very difficult, has been understated. It can be supposed that this production has increased at the same rate as the population, but it is highly improbable that it has increased any more than that. Considering the total production of goods with a relatively large market demand, which can be estimated with more accuracy, it can be seen that, aside from the favorable periods such as 1954-1955, and 1957-1958, agricultural production has remained practically stable during the entire decade, and even more so, if one takes into consideration the total marketable production of the small farm. Therefore, it can be assumed that the money income per capita of the rural population has gone down.

Cattle raising has remained more or less stable. It is true that the product generated by cattle raising increased because of the great increase in the meat industry, which utilized a growing proportion of animals slaughtered for export. Nevertheless, this fact was not the consequence of an increase in the number of slaughtered cattle, but of a reduction in internal consumption.

Forest exploitation fluctuated widely with two periods of low activity: 1951-1955 and 1959-1960. The year 1961 marks a recovery in this sector.

The industrial sector went up 55% during the decade. This increase was continuous up to 1958, which was the highest point. Activity registered a drop in 1959-60. Of the several industries the one which grew the most, the most steadily and until the end of the period, was the meat industry, prompted by a strong foreign demand. As regards the other industries which, with the exception of the tannin industry, produce mainly for the domestic market, most of them in 1960 exceeded their production in 1950. Nevertheless, at the end of the period their production remained stagnated or had even gone down. The production of intermediate goods or of consumer durables began to fall in 1956 and 1957, while the production of non-durables continued, although it declined during the last few years.

During the period under consideration exports have risen very little. A decline began in 1956 and became accentuated in 1959 and 1960. The statistics on foreign exchange income follow the same trend as those on the value of foreign sales, although less marked, probably because the customs declarations were undervalued, due to the high taxes on exports that were applied in 1958 subsequent years. The tonnage exported in the last few years also diminished.

The exportation of meat products has increased a great deal, until it represents almost 30%, and, with leather, more than a third of all exports. Forest products have decreased, quebracho extract continuously and wood in a fluctuating manner. Exportation of Paraguayan tea has increased considerably in the last few years. In spite of the increase in tobacco sales, agricultural products taken together have diminished because of the hard and continuous drop in cotton exports, which was not a result of an increase in the textile industry, but of a reduction in cotton production.

In 1961 exports passed the 1960 level, but remained under the 1958 level, and far under the 1956 level.

This rather unpromising trend is the result of the weakness of the market and of foreign prices, especially for lumber and tannin; although for agricultural products this trend is due more to domestic production and marketing conditions.

Exports, for which the per capita value remains very low (approximately U\$S20), do not now represent in the economy the dynamic force which they had during the last world war. Certainly it was the strong foreign demand and the rapid increase in exports which gave impetus to economic activity in its development up to 1946, and this development was not the result of normal growth. For that reason, the trend was broken as soon as foreign demand weakened again. The resulting inflation (the value of currency went from ₡3 per U\$S1 to ₡110 at the end of 1957) disorganized and discouraged economic activity so that it could not recover nor even take

advantage of the increase in foreign demand during the period of the Korean war. Disorganization and discouragement reached a peak in 1956, most of the productive economic activities falling thereafter and provoking the inescapable reaction toward monetary stabilization. Nevertheless, because of the very great rigidity of the economy in the agricultural sector, the coincident drop in foreign demand for forest products, which in 1956 represented half of all exports and the fall in prices, as well as the deflationary effects of exchange and credit reform which were not counterarrested by complementary development measures; the trend of economic activity barely passed in 1958 the 1956 level and decreased thereafter.

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The most urgent and serious problem is that of exports. Until growth of exports is in full swing economic activity will continue to languish for lack of a dynamic element which can give impetus to the whole economy. Domestic trade is still low, because the majority of the population is engaged in agriculture and has a reduced proportion of products for sale in the market (40%). In addition, industrial activity for production of domestic necessities is small, and there is an excessive concentration of population in a limited area. Therefore, only exports can bring about a large increase in the money income and buying power of the people.

Products which are sold in foreign markets can be classified into three groups of similar importance: forest products, livestock products, and agricultural products. The first group has a difficult market, whether because of the decreasing demand for tannin or because of the highly fluctuating demand of the single market for lumber. The second group has a good market with growing demand; however, the internal conditions of production will not permit exports to continue increasing, because up to now this increase has been based on a reduction in domestic consumption, and not on an increase in livestock production. It is evident that the growth of exports cannot continue if there is not a change in the structure of production with an increase in herds, increase in the percentage of annual exploitation and increase in the average weight of slaughtered animals. The third group has decreased much more because of internal production and marketing conditions than because of the trend of foreign demand. Although the markets for cotton, tobacco, fruit and vegetable oils may not have the growth potential that meat has, there are no major problems as there are in the case of forest products. The exports of this group are more diversified, and this diversification alleviates the consequences of the fluctuations in international prices. These exports could increase a great deal.

Forestry employs less than 2% of the active population, livestock 12%, but agriculture employs almost 45%. Therefore money income from exports from the first two groups, which represent two thirds of the total, is distributed directly among less than 15% of the population. Income from agricultural exports is distributed among 45% of the active population and, consequently, has a much greater and more diffused impact on the whole of economic activity, reflected in the development of industry and of the various services, besides

not being subject to much leakage through the importation of consumer goods, expatriation of earnings, investment in construction projects having little productivity, etc.

We have now arrived at the basic problem of the economy, which is agricultural development. A recent study of the Department of Economic Studies of the Central Bank estimates that, in 1960, the domestic product per capita was approximately U\$S117, and that the product of the agricultural and livestock sector was more or less U\$S75 per capita. However, since the product of livestock is 45% of the agricultural and livestock sector, that of agriculture would be more or less U\$S55 per capita. As a large part of the product corresponds to large ranches employing only a few persons, for most of the agricultural population, perhaps more than a third of the total population, a much lower product per capita would obtain. Thus, a high proportion of the population has, over and above subsistence necessities, a very reduced purchasing power.

Until agricultural activity is increased, there can be no doubt that industrial development and the development of services will be difficult, slow and precarious with such a limited market. Also, activity in general will be tightly bound to fluctuations in foreign demand, which are particularly strong with regard to forest products; and, as in the past, alternate increase, stagnation and reduction in the national income will be periodically experienced. Moreover, the disequilibrium, which could increase, between agriculture and the other sectors of the economy will necessarily produce inflationary pressures.

Agricultural yields per hectare remain stable and even diminish, as in the case of cotton, which was during another period the most important cash crop of the small farm. At the same time it does not appear that the areas cultivated have increased to the extent that population has increased. It is estimated that 70% of the farms, or, that is to say, more than 100,000, have an average size of fewer than 4 hectares, while a peasant family can probably cultivate, at the present level of its technical possibilities, about 10 hectares. However, there is still wide availability of land suitable for agriculture, and, particularly, a great extension of fertile and almost unoccupied land without agricultural exploitation on the Alto Paraná with a density of population of 0.8 inhabitants per square kilometer. The credits granted to agriculture have gone down 65% since 1957, and in 1960 represented only 2.2% of the product of that sector.

The excessive concentration of the population in the central region between Asunción and Villarrica constitutes a very serious problem. It prevents cultivation from being extended, so that it remains below the increase of population when, rather, under present circumstances it ought to exceed population growth. The danger of soil exhaustion arises, as can be observed in the reduction in the yields from cotton cultivation. It also prevents to a certain extent the development of domestic trade because of the similarity of crops and common harvest times.

Although precise statistical data are lacking total investment in the country appears to be low. In the last 10 years the annual rate of investment was an average of 10% of the national product, though a little higher during the first five years (11%), and a little lower during the last

five years (9%). This is the result of a reduction in private investment which was not offset by public investment, even though the latter has increased to a great extent. The rate of investment is definitely insufficient to bring about an increase in the product per inhabitant. Besides, the yield of investment seems to be relatively low, which is normally a consequence of the reduced rate.

Although fiscal revenues have increased up to 1958 the public treasury is relatively weak. Current expenses increased, due principally to the expenses of education and health, but savings did not increase. Public investment was, during the last three years, financed by a relatively high percentage of foreign resources, estimated at 45%. Nevertheless, the financing with local resources includes, besides fiscal savings, relatively important loans of the Central Bank. The total of taxes does not seem to represent a high percentage of the domestic product and of the national income (10 and 12%); however the tax structure presents certain uneconomic characteristics, especially the taxes on exports established since 1958, which slow down economic activity. Revenues remained more or less stable from 1958 to this year. On the other hand, expenses corresponding to the service of the foreign debt contracted for the financing of public investments have increased a great deal. In 1961 these expenses represented almost 4.5 millions of dollars, and, before 1965, they will be no less than 3 millions of dollars.

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Faced with these problems it is essential to promote exports energetically and to accept sacrifices in order to do so. In this respect, it is necessary to continue increasing exports of meat products, and at the same time reduce insofar as possible domestic consumption. Along with the reduction in beef consumption, production of pork and domestic fowl, which give rapid returns, must be increased in order to substitute for beef in the diet. Programs which contemplate the channeling of investment towards increased beef production must be begun right away, because the problems and the necessary measures for their solution are known. It is principally a question of credit and of marketing. Nevertheless, the special problem of potable water in the Chaco, a region which offers greater possibilities, would require State participation, even if only for research in underground hydrology.

The demand for lumber in Argentina and Uruguay is now high, and this demand is expected to be even higher in the near future. This circumstance should be taken advantage of to the greatest possible extent, but without at the same time neglecting the other groups of exportable products.

The Agreement of Montevideo and the result of the negotiations in progress relative to the Free Trade Zone furnish possibilities for the expansion of exports, not only of primary products, but also of finished and semi-finished products, particularly of lumber.

The Free Trade Zone and the expansion of the lumber market can help free the economy from its present stagnation. But this liberation will not be possible without stimulating agricultural production. If agricultural

production does not improve rapidly, those national industries which supply domestic needs will not be able to compete with industries of other countries in the Free Trade Zone with like products, because their market will be too limited.

A policy of agricultural development should aim in the first place, toward an increase in the average size of the small farm, until it approaches the full productive capacity of the peasant family, so that the area under cultivation, very insufficient up to now, may be rapidly increased. It appears that the important and surprising proportion of occupants of land without legal title results principally from carelessness on their part in not soliciting the granting of titles to which they have the right. This situation, without doubt, slows down investment and development and must also be corrected. Nevertheless, with the high availability of fertile, virgin land, agrarian reform in the usual sense, is not necessary; but rather a better organization of land tenure and facilities for obtaining and cultivating new land.

On the other hand, it is necessary to increase the yield of the different crops by adequate technical assistance to the agricultural producer, experimentation and dissemination of the results, improvement and multiplication of seeds, spreading the use of organic and chemical fertilizers, insecticides, etc. For this work, as well as for the necessary investments, agricultural credit must be extended.

Finally, it is indispensable to have better organization and control of marketing. The decline in the cultivation of certain agricultural products can be attributed to insufficient organization and to high costs of commercialization. Departmental and municipal public administration can play a very important role in this organization and control.

The encouragement of agriculture and the general development of the economy require reduction in the excessive concentration of the population in the central region, between Asunción and Villarrica. Efforts along this line have been initiated, and should be continued and extended as inexpensively as possible. The encouragement of new areas of attraction and of development centers should be contemplated. Encarnación, with its neighboring agricultural colonies, ought to prepare itself to become an economic polarization center; as well as, Puerto Presidente Stroessner, since it is located on the Paraná River and on the road from Asunción to Brazil, and because it is a lumber region and a fertile area located near a projected electric plant.

It is of the utmost urgency and importance to increase the rate of investment. However, a stagnant economic activity cannot attract private investment, whether foreign or domestic. Only by developing activity and especially by increasing exports can the rate of private investment be raised to the point necessary to bring about economic development. To break out of this vicious circle, the only course open is to concentrate public investment in the productive sectors of the economy, so that this investment may have the greatest possible impact on the national product and on exports, and to increase loans by public organizations so as to stimulate capital formation and private investment.

It is also essential to reform the tax structure. Uneconomic elements in this structure such as taxes on exports, which impede the general development of the economy, should be eliminated. Similarly, it is necessary to increase public revenues in order to be able to make essential investments and to pay the operation and maintenance costs which such investments imply. Also, an increase in certain administrative expenses for technical assistance to agricultural producers and for control and organization of the marketing of their products should be contemplated. It would be a good idea to consider the extending of financial aid and aid in the form of technical research to municipalities of the regions of the greatest economic importance for investment in productive activities - aid which the municipalities, with their small income, cannot afford; provided that this assistance is related to a particular contribution, whether financial or labor, of the municipality concerned.

There is no doubt that in the present situation, in order to give impetus to the economy and encourage development more rapid than population growth, thus raising the real income of the population, public investment and public expenses, whenever they are closely related to productive activities, play a preponderant role. Breaking the present languid tendency and acceleration of the rate of development depend upon public investment and public expenditures and on their orientation; and will be possible only if a high percentage of income is concentrated on the development of the national economy.

The circumstances appear to be favorable. The reactivation of the lumber market in the neighboring countries, the new possibilities offered by the Free Trade Zone, by the Alliance for Progress, and the very probable cyclical recovery of the economy after a few years of low activity permit us to hope that with a sound and stable currency the national product will rise appreciably during the next few years. These circumstances must be boldly taken advantage of for the economy to experience and accelerate growth. Otherwise it is very possible, even probable, that, after a few years of relative prosperity, the stagnation will return by the cyclical process which the country has experienced during the last decade.

SIZE OF THE PROGRAM OF PUBLIC INVESTMENT

During the last five years, gross investment has presented very different characteristics:

- With the exception of the year 1958 the rate of investment did not exceed 10% of the domestic product, and the average for the period was approximately 9.5%.
- Public investment represented a high percentage of total investment, and private investment remained very low, even in 1958, in spite of the fact that in that year private investment was more than twice that of the immediately preceding and subsequent years. The highest points occurred in 1957, due to a strong increase in public investment, which represented 55% of total investment, and in 1958, when public investment represented 33% of total investment. The average for the period was 38.5% for public investment and 61.5% for private investment.

The year 1960 corresponds more or less to the average of the period, with gross investment at 10% of the domestic product, and divided, 40% for public investment and 60% for private investment.

Nevertheless, at 1956 prices, the value of investment in 1960 is a little below the average for the quinquennium, due to the decline in the National Product during the period.

	<u>Public Investment</u>	<u>Private Investment</u>	<u>Total</u>
Average 1956-1960	585	931	1,516
1960	521,4	936,3	1,457,7

(In Millions of 1956 Guaranies)

During the last three years total public investment was, in millions of current guaranies:

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>Total</u>
Central Government	297,2	297,7	399,8	994,7
State Agencies	573,9	479,8	463,6	1,517,3
Total:	871,1	777,5	863,4	2,512,0

This investment was apportioned among the various branches of activity in the following form during the entire period 1958-1960:

	<u>Central Government</u>	<u>State Agencies</u>	<u>Total</u>
Agriculture	1,1	1,5	1,4
Livestock	-	1,4	0,8
Transportation	86,9	51,3	65,3
Industry	-	2,3	1,4
Electricity	-	6,5	4
Public Health	8	35,8	24,7
Education	3,9	-	1,6
Other	0,1	1,2	0,8
	100	100	100

The social services, especially public health, received 26.3% of total investment. The basic economic services, transportation and electricity, received 69.3%, and the productive activities only 3.6%.

During the same period public investment was financed with the following resources (millions of guaranies).

Ordinary revenues of the Central Government and of State Agencies	870	35%
<u>Central Bank Loans</u>	<u>510</u>	<u>20%</u>
Total National Resources	1,380	55%
Foreign Resources	<u>1,132</u>	<u>45%</u>
Total Public Investment:	2,512	100%

It is obvious that the investment rate is very insufficient. It appears that in the last decade the ratio between the increase in annual investment and the domestic product was around 0.18. Since the data are not precise, it may be that the ratio was a little higher, but it surely did not exceed 0.20 - i.e., five units of capital would be necessary to obtain one unit of product. However, even with this ratio, a rate of investment of 10% of the national product would correspond to an annual increase of 2% of this product, that is, always less than the growth in population.

An annual growth of 5% of the national product would be quite satisfactory, although this growth is not the highest, and would permit a per capita increase of about 2.7% annually. But, at the present ratio, there would have to be an investment rate of 25% of the national product, which is clearly impossible given the economic level of the country. An annual growth of 4% of the product, which would mean a per capita increase of 1.7%, would require an investment rate of 20% of the national product, which is still very high.

In order that the national product may have sufficient growth with a supportable investment rate it is essential that the ratio between increase in investment and increase in the product be greatly improved. This can undoubtedly be done; a ratio of 0.25, or 4 units of capital to 1 unit of product, is within the country's reach, and could even be bettered in time.

Such a ratio indicates that for an annual growth in product of 5% an investment rate of 20% would be necessary, and that for a growth in product of 4% an investment rate of 16% would be necessary. This last rate still represents an important effort; but it is attainable.

Therefore, the following goals for the next quinquennium could be suggested:

- 1.- A minimum ratio between increase in investment and increase in product of 0.25, i.e., 4 units of capital to 1 of product.
- 2.- An investment rate of 16% of the national product.

This last goal would theoretically correspond to the following in millions of 1960 guaranies:

	<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Product (annual growth, 4%)	25,000	27,040	28,120	29,240	30,410	31,620
Rate of investment	10%	16%	16%	16%	16%	16%
Investment	2,500	4,320	4,500	4,680	4,860	5,060

which would leave for total consumption:

Consumption	22,500	22,720	23,620	24,560	25,550	26,560
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whereas, in order to maintain the level of consumption per inhabitant with an annual growth of 2.3% the following would be necessary:

	22,500	23,547	24,089	24,643	25,209	25,789
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Due to the recent growth of the lumber market and to the cyclical recovery of the economy, as well as to the new market possibilities offered by the Free Trade Zone, it is very probable that the national product will increase from 1960 to 1963 at a rate greater than 4% annually. A study by the U.S. AID Mission to Paraguay estimates that this rate could average as much as 6%. If from that point the product continued to grow at an annual rate of 4%, the following trend would appear:

<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
25,000	28,100	29,800	31,000	32,200	33,500

or, in other words, an average annual growth of about 5%, which appears very possible to attain, and perhaps to exceed, provided the growth of the product in the years 1961-62-63 is in accordance with the forecasts.

With the investment indicated in the preceding table, the following distribution would be made:

	<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Product	25,000	28,100	29,800	31,000	32,200	33,500
Investment	2,500	4,320	4,500	4,680	4,860	5,060
Investment Rate	10%	15,4%	15%	15,2%	15,2%	15,2%
Consumption	22,500	23,780	23,500	26,320	27,340	28,440

Thus it can be seen that the rate of investment would, in this case, be a little insufficient.

It is, therefore, desirable to plan the growth in investments in another form, so that by taking advantage of the relatively high increase in the product which is expected in the near future, investments can increase more progressively, until they reach the desired rate of 16% at the end of the period.

The following targets can be proposed:

	<u>1960</u>	<u>(1961)</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Annual growth in product	-	(6%)	6%	6%	4%	4%	4%
Product	25,000	(26,350)	28,100	29,800	31,000	32,200	33,500
Investment rate	10%	-	14%	15%	15,5%	16%	16%
Investment	2,500	-	4,000	4,500	4,800	5,150	5,350
Consumption	22,500	-	24,100	25,300	26,200	27,050	28,150
Annual growth in consumption	-	(3,5%)	3,5%	5%	3,4%	3,3%	3,2%

In this way, total consumption could grow until it reached in 1966 25% over the 1960 level, with an average annual rate of increase, of 3,8%, exceeding the rate of population growth and improving per capita consumption by an average rate of approximately 1,5% annually. This growth would be a little greater during the first years because it appears to be preferable, upon the economy's emerging from a period of crisis, for the consumption level of the people to increase more during the first few years, so that they will have greater incentive to produce. The people can be asked afterward to make a more important contribution to investment, since at higher income levels investment will be less burdensome.

Moreover, investments cannot rise too suddenly, because they require various elements, such as studies of projects, productive capacity of construction companies, and production of certain goods, cement for example, which need time to adapt to the increase in investment. If these aspects are not taken into account, projects could fail to be completed, prices could rise excessively, and imports might be made which are unnecessary and dangerous to payments equilibrium and monetary stabilization. On the other hand, when it appears probable that

public investment can increase immediately with foreign aid already granted or under negotiation, private investment will increase progressively since it depends upon improvement in the economic environment. Thus, the growth of total investment forecast in the last table seems to be better adapted to foreseeable possibilities, with a total value during the period a little superior to that estimated necessary in the first forecast, and with an estimated feasible investment rate of 15% during the last two years of the period, thus bringing about a quite favorable situation for continuing ahead in the next period.

It is evident that these calculations are quite arbitrary and that they are based on imprecise data. Nevertheless, they furnish a general guide for economic policy and the approximate size of investment and consumption. Moreover, they have the great advantage of bringing certain difficulties or impossibilities to light.

Particularly, it is clear from these calculations that these forecasts cannot be realized nor can the national product be increased sufficiently over and above population growth without a great improvement in the capital-output ratio. It is essential that a minimum ratio of 4 units of capital to 1 unit of product be obtained immediately, and that this ratio improve even more later.

This improvement can be obtained rapidly, but it requires energetic and immediate action in the following three points:

1. Concentration of public investment in the economic sectors and in those projects having highest returns.
2. Concentration of private investment in those projects having the highest and most rapid returns by selective granting of public aid, such as loans and exoneration of taxes, so as to postpone projects in branches of activity which already have partially idle productive capacity, as is the case in certain industries.
3. Structural reforms and regulatory measures, the most important and urgent of which are: Tax reform, systematization of land tenure, and creation of a planning organization whose precise function will be to select projects and assign resources with a view to obtaining the highest return from developmental efforts.

As has already been indicated, within total investment, private and public investment will not rise simultaneously. Public investment, with a determined government attitude and foreign aid, can rise rapidly, but private investment cannot be expected to have incentive in the present stagnated economy. With the improvement foreseen for the economy in future years, private investment may return more or less to the level of the first five years of the last decade, i.e., to approximately 8,5% of the national product, as against only 5,3% during the second quinquennium of the period. But it will certainly not rise

any more until the economic environment has improved as a result of a rigorous selection of public investments and of the necessary legislative measures, especially fiscal, all of which will require some time.

Therefore, it is prudent to consider that the ratio between private and public investment will remain about the same as it was in 1960, equal to that of the average of the last quinquennium, that is, 60%-40% during the first period. But after 1964 the ratio should be improved, with a relative increase in private investment, which would bring about an improvement in the ratio between the increase in investment and the increase in product, and would permit a reduction of the concentration of public investment by economic sectors, though not before private investment has represented a high percentage of total investment, say about 70%, still below the level it attained during the period 1951-1955, when it was 80%.

The following forecast can therefore be tabulated:

	<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Rate of total investment	10%	14%	15%	15,5%	16%	16%
Private investment	6%	8,5%	9%	10%	10,5%	11%
Public Investment	4%	5,5%	6%	5,5%	5,5%	5%
Total investment:	2,500	4,000	4,500	4,800	5,150	5,350
Private investment	1,600 (60%)	2,450 (60%)	2,700 (60%)	3,100 (64%)	3,350 (65%)	3,650 (69%)
Public investment	900 (40%)	1,550 (40%)	1,800 (40%)	1,700 (36%)	1,800 (35%)	1,700 (31%)

or, in other words, after 1963 it would be desirable for public investment to be between 1,700 and 1,800 million 1960 guaranies.

As for the financing of public investment if it were distributed in the same proportions as the average of the period 1958-60, it would be as follows:

	<u>Total</u> (1958-60)	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
National resources 55%	4,690	850	960	960	960	960
Foreign resources 45%	3,860	700	790	790	790	790
Total:	8,550	1,550	1,750	1,750	1,750	1,750

In short, foreign resources necessary would be on the order of 30 million dollars.

However, things cannot happen that way. It is very possible that, because of the increase in investments which must be contemplated, the national resources will not be sufficient during the first few years to finance 55% of the necessary investment. Moreover, some of these resources have been derived from Central Bank loans of an inflationary character. Therefore, to reach the desired investment level it will be probably necessary to ask for greater foreign financing. On the other hand, the proportion of foreign financing should be gradually reduced as far as possible until it is adjusted to the level of the foreign costs of investment, while domestic costs should be financed with national resources. It can be roughly estimated that, on an average, direct foreign costs represent between 30 and 35% of investment. Therefore, it would be desirable to finance public investment with 65% of national resources and with a maximum of 35% of foreign resources.

However, this proportion of financing is not so important during a period of transition as the total value of investment. Thus, the proportion will follow from the capacity to finance with national resources, and this must be examined now.

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For the last three years fiscal revenues have been: in 1959, abnormally low because of the diminution of economic activity; but approximately equal in 1958 and 1960, not in current guaranies but in their dollar equivalents. Therefore, one may take the 1960 figures as a point of departure, or, 3,400 million guaranies. However, current expenditures in 1960 were noticeably higher than those of 1958, and surpluses lower. But since it is always difficult to reduce current expenditures, it is more prudent to take as a base the value of the surplus in 1960 (\$233,8 million) or, in round figures, 250 million guaranies.

In the absence of any tax reform, it can be considered as a first approximation that ordinary revenues will increase at the same rate as the national product. If the same proportion of current expenses were maintained, the trend would be the following:

	<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Product	25,000	28,100	29,800	31,000	32,200	33,500
Ordinary revenues (13,8%)	3,400	3,900	4,100	4,280	4,450	4,620
Current expenses (12,8%)	3,150	3,619	3,802	3,970	4,128	4,285
Surpluses (1%)	250	281	298	310	322	335

It is evident that surpluses would be very inferior to the foreseen needs and that the increase in current expenses would have to be vigorously restrained. If the increase in current expenses were held to a level a little below population growth, or 2% annually, which could well be done during the next five years, another forecast could be made. However, service on the foreign public debt must first be set apart since it has a separate trend, in contrast t

the servicing of the domestic public debt, which would be included in current expenses. The foreign debt considered here is that of the Central Government, plus that of the Merchant Fleet, with which the Central Government is charged, not that of the other State organizations.

	<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Ordinary revenues	3,400	3,900	4,100	4,280	4,450	4,620
Foreign debt	225	293	283	257	201	201
Other current expenses	2,925	3,044	3,105	3,167	3,230	3,295
Total current expenses	3,150	3,337	3,388	3,424	3,431	3,496
Surpluses	250	563	712	856	1,019	1,124

Out of ordinary revenues, a tax of 5% of the value of imports was imposed in 1961 to provide capital for the Development Bank. That is, the corresponding amount collected will be utilized for loans to private enterprise, whether for working capital or for investment; it cannot, therefore, be included among the fiscal resources available for public investment. The amount of this collection is estimated for 1961 at some 120 million guaranies, and one may suppose that it will grow at about the same average rate as the economy, or 5% annually. The following forecast then can be made:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Fiscal surpluses	563	712	856	1,019	1,124
Capital of the Development Bank (120 + 5%)	126	132	139	146	153
Fiscal surpluses remaining for investment	437	580	717	873	971

Besides fiscal surpluses investments were financed also by revenues of State organizations. In the period 1958-60 the financing of investments by revenues of the Central Government and State agencies reached a total of \$870 million, of which fiscal surpluses were \$587 million, while \$283 million, or an annual average of \$94 million was derived from revenues of State agencies. This amount came principally from the Social Security Institute, which directed a part of its savings to public investment, a part of which was devoted to investments of a financial character which cannot be considered here. Data on the savings of other State organizations are lacking. During recent years the savings of the Social Security Institute have grown at a rate a little below 10% annually. Therefore, the following preliminary hypothesis can be made:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Available fiscal surpluses	437	580	717	873	971
Available savings of State Agencies	100	110	120	130	140
Available savings of the Public Sector	537	690	837	1,003	1,111

Another source of national resources for investment was loans from the Central Bank. Nevertheless, in the present situation the utilization of this source represents a serious danger of inflation. In spite of an increase in 1961, foreign exchange reserves will not, by the beginning of 1962, greatly exceed 1 million dollars, or about 4% of the annual value of imports. The credit policy of the Central Bank cannot be expansionist. It must also be borne in mind, that import deposits have already been reduced and continue to be progressively reduced. If the expected improvement in the economy and the expected recovery of exports are achieved, growth can take place more rapidly, thereby increasing the availability of liquid funds.

But it is also essential for exchange reserves to increase to around 30% of the annual value of imports, or about 10 million dollars. Until this point is reached the situation is dangerous, and the monetary and credit policy of the Central Bank must be extremely cautious. It must, therefore, be considered that until exchange reserves increase to at least 10 million dollars, loans from the Central Bank cannot be depended upon, except in emergencies and to reduce the effects of fluctuations in public income, for short periods, and in very limited amounts.

Furthermore, as has already been seen, one of the characteristics of the present situation is the low level of private investment, which must be increased rapidly. Thus, when the exchange position has improved, it will be preferable that the credit policy of the Central Bank channel possible credit toward the formation of private capital, especially through the Development Bank. Because of the need to promote private investment as much as possible during the coming five years so that it may reach a high level in relation to the national product and to public investment, domestic loans for public investment cannot be considered during the period contemplated.

Nevertheless, it should be pointed out here that what has just been suggested with respect to the trend of current expenses is only a first approximation. This is so because, whereas certain expenses may not rise above their present level or may rise far less than 2% annually, other expenses will rise more rapidly because of the increase in investments themselves, and because they are necessary to support economic growth: expenditures for the maintenance of investments; expenditures for the development of experimentation, of technical assistance, of control of agricultural and livestock epidemics and diseases; expenditures of departmental public administration in areas selected for control of the marketing of agricultural products, for technical assistance to the municipalities; expenditures for the formation of technical personnel for developmental needs; also, insofar as possible, expenditures for education and public health should increase more than the population, at least by the end of the period - their increase should never be below that of the population.

A thorough investigation will be necessary in order to determine the foreseeable trend of current expenditures, taking into account the effects of investment projects and of the improvement of the administrative and economic environment - an investigation which this preliminary study has not been able to make.

Another element of greatest importance is that of the indispensable fiscal reform, which presents two entirely opposing aspects. In order to modify the tax structure so that revenues can increase, a period of about 3 years will be required. But it is very important that the most obvious un-economic characteristics of the tax system - i.e., taxes on exports - be abolished, because these taxes depress activities which are precisely those most necessary and urgent to encourage in the economy.

The amount of such taxes collected in 1960 was 215 million guaranies and will be approximately \$235 million in 1961. It may reach \$250 and \$265 million in 1962 and 1963. Though necessary and urgent, abolition of these taxes will reduce total fiscal revenues and fiscal surpluses by the same amount in the next two years and even in 1964, because the fiscal reform contemplated, even if begun now, will not produce during this year all the positive effects which can be expected.

Moreover, it seems certain that some 40% of these taxes are evaded through exoneration, because whereas an ECLA study indicates that the customs tax burden imposed by law represents 28% of the FOB value of imported goods, registered collections are less than 18% of the registered value of imports. To say it another way: the proportion of exoneration of customs duties far exceeds the proportion of imports of capital goods, which averaged 31% of total imports during the last three years. Fiscal reform will have to take this aspect into account and will have to totally abolish tariff exonerations or, in exceptional cases, reduce them. On the other hand, certain articles which are necessary to the economy, such as agricultural implements, pay customs duties and other taxes which are excessive, and which should be reduced or abolished immediately. Therefore, in spite of the fact that in the immediate future a great deal of severity and austerity might be applied to the granting of exonerations of customs duties, there is little probability that the advised reductions in customs duties could be compensated in this way. Rather, the necessary emergency measures in this matter, which would be taken as a result of the study of tax reform, will probably cause a new reduction in total tax revenues.

This is to say that the reduction resulting from the suppression of taxes on exports must be considered as the bare minimum reduction in tax revenues arising from the emergency tax reform measures. There would therefore be at least \$800 million more which should be solicited from foreign sources for the financing of public investment, or approximately 6,5 million dollars.

The national resources for the financing of public investment would therefore be:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Fiscal surpluses	187	315	432	873	971
Savings of state agencies	100	110	120	130	140
Total savings	287	425	552	1,003	1,111

Financing would be as follows:

	<u>Public Investment</u>		<u>Local Resources</u>		<u>Foreign Resources</u>	
1962	1,550	100	287	18,5	1,263	81,5
1963	1,750	100	425	24,5	1,325	75,5
1964	1,750	100	552	31,5	1,198	63,5
1965	1,750	100	1,003	57,5	747	42,5
1966	1,750	100	1,111	63,5	639	36,5
Total:	8,550	100	3,378	39,5	5,172	60,5

The total foreign resources necessary would be about 41 million dollars.

The servicing of the resulting new debt however, must be taken into account. It would fluctuate around 9% annually, a relatively light burden since it concerns long-term loans at low interest rates. This burden would normally be during the period about 1,200 million guaranies, or 9,5 million dollars. The new debt which would have to be contracted in the period, would then be approximately 50 million dollars, and the annual servicing would be as high as 575 million guaranies, or 4,5 million dollars. The financing of public investments would be 26% from national resources for the period and only 37,5% in 1966. The servicing of the foreign debt for the entire public sector would reach a very high level.

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Service of the existing debt	408	386	369	286	280	275
Service of the new debt		114	233	373	474	574
Total	408	500	602	659	754	849

Financing would depend for a long time on a high proportion of foreign resources; the burden would be almost intolerable, and undoubtedly the volume of public investment would have to be reduced.

As a consequence, it will be necessary to increase public revenues to a higher percentage of the domestic product. This percentage is 13.8% at the present time; the percentage represented by taxes is 10% and could rise 2% more, and so raise the foregoing shares to 15.8% and 12% respectively, which would provide an increase in tax revenues of \$644 million in 1965 and \$670 million in 1966.

However, since the budget reform will not be able to produce its full effects before 1965, it will also be necessary, in the negotiation of loans, to try to have their servicing postponed for a period of two years.

Half of the increase in public revenues could then be devoted to financing public investment and to servicing the new debt. The following data are projected:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
Savings of the public sector	287	425	552	1,325	1,446	
Service of the new debt				114	233	
National resources available for investment	287	425	552	1,211	1,213	3,688
Complementary foreign resources	1,263	1,325	1,198	539	537	4,862
Public investment	1,550	1,750	1,750	1,750	1,750	8,550

The total foreign resources necessary would be 39 million dollars.

Service on the new debt would be the following:

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
	114	233	341	389	438

The distribution of the financing, in percentages, would be the following:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
National resources	18,5	24,5	31,5	69,5	69,5	43,5
Foreign resources	81,5	75,5	68,5	30,5	30,5	56,5
Public investment	100	100	100	100	100	100

There would thus be an important improvement in the situation by 1965, although the change could actually be more progressive; it is probable that a slight increase in public revenues will already be evident by 1964, but it is also probable that not all the effects of the tax reform will be attained by 1965, and that the increase in these revenues will not yet have reached 2% of the domestic national product.

As projected, an increase in the current expenses necessary for economic and social development could therefore be contemplated. However, an increase in public investment and in the capitalization of the Development Bank must also be contemplated in order to obtain an increase in product greater than 4% annually as projected for the last years of the period, and which, as has already been said, cannot be considered sufficient. Nevertheless, the projections cannot be modified any further, since they are very approximate and preliminary due to the lack of precise data and because the situation in 1965 and 1966 will be the result of a combination of numerous factors which do not depend solely upon the decision of the Government. Among these, the following can be mentioned: Marked increase in total investments; strict austerity in the amount and distribution of current expenditures during the first three years; strict coordination and selection, aimed toward economic development, of public investment and public expenditures; fiscal reform which will result in an increase in public revenue; important foreign financial aid (30 million dollars in the first three years, and \$39 million throughout the quinquennium), on a long-term basis, and having deferred servicing for two years; growth of the

domestic product by 6% annually during the first two years.

The effects of those factors cannot be estimated with sufficient exactness to form a basis for modifications in development policy. As a result, it will be necessary to make new projections as a consequence of the policies adopted, of the reforms applied and of their probable effects, of the foreign aid obtained, and of the growth of the economy. On the basis of these projections a more precise and appropriate program of action should be established from 1965 on.

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Foreign loans already granted but which are still not totally utilized amount to an equivalent of 16,225,000 dollars, to be utilized during future years. They correspond to investments of ANTELCO, the road from Caaguazú to Puerto Pte. Stroessner, that from Paraguari to Encarnación, and vessels for the State Merchant Fleet. Moreover, the global figure includes financing with funds derived from the sale of agricultural surpluses of the United States of projects which have yet to be determined.

On the other hand, loans for financing work on the Asunción airport, the electric plant of the River Acaray and colonization on the Alto Paraná have been requested. These loans amount to almost 21 million dollars. Moreover, budgetary aid has been requested to facilitate fiscal reform. The foregoing total 37 million dollars for public investment, plus the budgetary aid.

This amount undoubtedly depends upon the decision with regard to the electric plant on the Acaray which presumes a loan of 19,500,000 dollars. However, it should be added that other loans for new projects can surely be obtained. In any case this information indicates that the volume of foreign aid of 40 millions of dollars considered necessary is within the realm of possibility, provided it corresponds to projects which have been thoroughly studied and which can clearly aid economic development.

Also, a loan of 3 million dollars was granted for the Development Bank, and other loans have been solicited from public financial institutions in order to supply credit to private enterprise: for agricultural credit, 4 million; for agricultural implements for the small farmer, 5 million; for credit for forest exploitation, 2 million; for credit for livestock production, 2 million, or, in total granted and solicited, 16 million dollars. In addition, a loan of 2 million dollars is being negotiated for the Banco Privado de Desarrollo, S.A. A private loan of 4 million dollars was solicited too, for supplementary foreign loan funds, whether for public investment or for private enterprise, but without having been divided between the two sectors.

Besides the capital of the Development Bank, new resources for credit to private enterprise would be:

—The capitalization derived from the 5% tax on imports, which was estimated during the coming quinquennium at 696 million guaranías;

The loan already granted to the Development Bank of 3 million dollars, or 378 million guaranies.

Solicited loans which, if all are obtained, would amount to 15 million dollars, or 1,890 million guaranies.

The general total would then be approximately 2,950 million guaranies. Without taking into consideration the distribution of these resources among loans for working capital or for investment, and without considering the average period over which the funds would revolve, it is interesting to note that they represent approximately 19% of the total private investment estimated to be necessary during the period - i.e., a total of 15,250 million of guaranies.

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GENERAL CHARACTERISTICS OF THE ECONOMIC SITUATION

RECOMMENDED OBJECTIVES OF DEVELOPMENT POLICY AND PUBLIC ACTION

From an examination of the economic situation the principal problems which impede development can clearly be seen.

1. The economy lacks the motor element: domestic trade remains reduced because approximately one-third of the population has very limited purchasing power, and because the proportion of agricultural products for sale does not exceed 40% of total production; exports which alone can provide a dynamic element at the present time, are at a low level and are increasing too slowly.
2. The basic problem is that of agricultural production, which employs approximately 45% of the population; the volume of production is low, and about 70% of the agricultural population, or one-third of the total population, has very limited purchasing power.
 - a) Yields per hectare do not increase, and, in the case of cotton, have even diminished.
 - b) The cultivated area has increased at a rate slower than population growth.
 - c) The excessive concentration of the population in the central region causes impoverishment of the land and an average size of farms which is too small for 70% of the agricultural population.
 - d) Land tenure is disorganized, and 60% of the small farms have no legal title.
3. Livestock production is stagnated; the number of animals does not increase, and the extensive organization of this sector remains more or less inactive for lack of technical progress and investments. The lack of water in the Chaco does not permit all the grassland to be utilized, and causes excessive concentration of livestock in the areas surrounding existing watering places.
4. Lumbering depends closely on the Argentine market, and for this reason suffers severe fluctuations. Foreign demand for tannin is weak.
5. Industrial activity is hampered by the rigidity and the too slow growth of the market. In addition, some industries lack raw materials.
6. The transportation network does not meet needs. The principal railroad from Asunción to Encarnación is in very poor condition; there are less than 2,000 kilometers of roads which permit economic transportation.
7. The distance of 1,600 kilometers from Asunción to the sea impedes overseas trade, reduces the value of exports and increases that of imports into the country.

8. Commercial organization appears to be inadequate. The organization which has a monopoly on livestock commerce, Cobacar, pays for its purchases long after these payments are due. As for agricultural products, it appears that there is no control over marketing nor information to sellers concerning prices.
9. Regional and municipal public administration appears to be insufficient to provide the services necessary for development; in the economic field alone, control over marketing, as well as technical assistance for production and for investment, are lacking.
10. Credit for productive activities appears to be inadequate, especially for agriculture.
11. Total investments are insufficient to permit the product per inhabitant to increase. Private investment in particular is at a low level.
12. Public revenues are insufficient for developmental needs. The tax structure presents certain characteristics which are clearly uneconomic and which impede development.
13. The stagnation of the economy during the last decade makes the solution of these problems difficult.

On the other hand, there are favorable elements, some of which are basic and some of which are circumstantial.

1. Aside from the sub-oil which as yet does not appear to offer possibilities of mineral resources, the physical potentialities are important.
 - a) Fertile soils not exploited by agriculture and almost uninhabited are very extensive, especially in the Alto Paraná.
 - b) The expanse of natural grassland permits the enlargement of herds, especially in the Chaco.
2. The network of navigable rivers is very extensive and extends for more than 2,000 kilometers. The River Paraguay furnishes a main route of 1,260 kilometers with low transportation cost.
3. The diversification of the economy is worth noting, with a well diversified agricultural production, livestock production, and, although of lesser importance, forest production and industrial production. Exports are even more diversified.
4. Extensive nearby markets absorb an important part of exports and facilitate international trade.
5. The Free Trade Zone should broaden neighboring markets and open new markets in the near future.
6. Fortuitously, the demand for lumber has recently increased in Argentina and Uruguay.

7. Finally, a cyclical recovery, of economic activity can be seen after the depression of recent years.

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In order to encourage economic activity the following objectives can be recommended, for they are fundamental, being related to the two principal problems of exports and of agricultural production.

1. The volume of exports should be increased and at a rate which is above that which is desired for the national product, for example, about 7% annually. Rapid results can be obtained by:
 - a) Exploitation of the recovery of the lumber market by putting the productive forest equipment to full use.
 - b) Continuation of the increase in exports of beef, with a reduction in domestic consumption by substituting pork and fowl for beef in the national diet.
 - c) Recovery of cotton production.But more permanent effects can be obtained through:
 - d) Encouragement of agricultural production for exportation: cotton, tobacco, vegetable oils, fruits, possibly sugar and other products.
 - e) Increase and modernization of livestock production.
 - f) Exportation of finished and semi-finished forest products.
 - g) Improvement of the quality of exported products, for example, of petit grain oil.
 - h) Extension of the market in the countries of the Free Trade Zone.
2. It is imperative that the money income of the peasant be increased, for he hardly participates in the commercial economy because of his lack of purchasing power. His income could be increased by participating in exports, with:
 - a) Increase of the average size of the small farm and of the cultivated land; deconcentration of the population toward fertile regions near densely-populated areas by means of the construction of subsidiary roads.
 - b) Regulation and regularization of land tenure.
 - c) Aid to investment in new plantations and in agricultural implements drawn by animals rather than in those having mechanical traction which are not within reach of the small farm; credit assistance.

- d) Experimentation, technical assistance, multiplication of improved seeds, and dissemination of the use of insecticides and of fertilizers, mainly organic, in order to improve yields, introduction of new crops, a more adequate combination of crops, especially in the regions which have been recently opened to agricultural activities.
 - e) Increase in the livestock of the small farm, in cattle, but at first mainly in hogs and domestic fowl, which can rapidly complement domestic consumption and perhaps even participate in exports.
 - f) Reduction of commercialization costs; in particular, a study with exporting firms of the prices of export products; information to producers on prices; control over commercial norms; creation of commercial centers in new agricultural regions; improvement of communication channels.
3. As for livestock production which is not complementary to agriculture, its needs are well-known.
- a) Investments in watering stations and wire fences, for better utilization of grasslands.
 - b) Improvement of sanitation, insecticides and vaccines.
 - c) Improvement of commercial organization.
4. What industrial development needs is:
- a) Extension of the domestic market, which will result from the growth of economic activity; and extension of the foreign market, which, in certain cases, the Free Trade Zone may bring about.
 - b) Increase in the national production of raw materials, such as livestock, cotton and vegetable oils.

In the present situation, important investments do not appear to be necessary, because many branches of industry have a productive capacity which greatly exceeds production.

Forest exploitation will develop mainly in the lumber industry, provided a market can be found.

The production of electric power needs to be increased to meet domestic and industrial needs.

5. As for transportation:

- a) The land communications network must be based on the river network, which furnishes a trunk system of low cost transportation; as a result, the roads leading from the rivers toward the interior are more significant and important than those which run parallel to the rivers.

- b) The road network must be adapted to the needs of the economy. Those roads which have the most economic significance, are those which aid agricultural development with extension of areas under cultivation, deconcentration of the agricultural population toward nearby fertile regions, transportation and distribution of agricultural products and of goods which the agricultural population needs. In the present situation, secondary roads are more important than new penetration roads.
 - c) From the studies made it appears that it would be uneconomical to rehabilitate and modernize the railroad from Asunción to Encarnación. The construction of roads as a substitute for the railroad needs to be considered.
6. Efforts must be concentrated in regions selected as potentially prosperous and economically attractive. For rapid effects, these regions cannot be too far from the zone of high population density. The regions which are most adequate for this purpose at the present time are those of Encarnación and the road from Caaguazú to Puerto Presidente Stroessner.
7. It is essential to increase the amount of annual investment (especially private investment) to at least 16% of the national product, and to increase the average returns of annual investment. This requires:
- a) Primarily, coordination and planning of development policy.
 - b) An increase in public investment and its concentration in the economic sectors and in those projects having the highest and most rapid returns.
 - c) Channeling of private investment toward those sectors and projects having greatest economic significance and most rapid returns by means of selective public investment, credit and the tax structure.
 - d) Improvement of the economic environment by means of reforms and regulatory measures: fiscal reform regularization of land tenure, organization of marketing, progressive amplification of departmental and municipal public administration for control of marketing, technical assistance, aid to the municipalities, and social services.
 - e) Direction of private credit toward improvement of the economy and the promotion of investment. The creation of the Banco Privado de Desarrollo, S.A. would constitute a favorable aspect in this respect.

An outline can now be made of the public action necessary to achieve the development objectives listed above.

1. To establish as soon as possible a planning organization in order to coordinate efforts, establish goals and priorities, and obtain from the employment of resources the highest and most rapid returns for the economy in general.

2. In fiscal policy it is of the utmost urgency that fiscal reform be studied and applied in order to establish a tax structure which will facilitate development and permit public revenues to increase. For the present, and until fiscal reform has produced effects, current expenditures which are not productive must be rigorously restricted or at least maintained at the same level, with the exception of expenditures for education and health, whose services for the moment should increase along with population growth. It is also absolutely necessary that tax collections be increased by means of improvement in administration, and in the field of customs duties, particularly by means of greater austerity in the granting in the granting of exonerations from duties. Finally, it is urgent that taxes on exports and on imports of goods necessary to production be abolished.
3. To select the zones in which developmental efforts will be concentrated, whether in the form of regulative and public administration action or in the form of public investment or of orientation of private enterprise. These zones must include ones which are already economically active and especially above all the central zone, as well as areas surrounding zones of high population density; in order to develop or create regions having economic attraction, the most suitable of which are the Encarnación area and that of the road from Caaguazú to Puerto Presidente Stroessner.
4. To take certain State actions to encourage economic activity, thereby increasing certain public expenditures.
 - a) Organization of marketing through a study of domestic or foreign market prices; collaboration with commercial firms and exporters, an approximate estimation of those prices which are advantageous to production; information for producers; control of the standards of commercial practice.
 - b) Technical experimentation for production, especially in the new zones of agricultural development; multiplication and distribution of seeds; control of epidemics and diseases; technical assistance to the producer; control and improvement of the quality of products.
 - c) Creation of commercial and social centers in the new areas of agricultural development which do not yet have this organization at their disposal, especially in the area between Caaguazú and Puerto Presidente Stroessner.
 - d) Development of regional public administration in the zones selected for concentration of effort, in order to provide the population with the economic and social services necessary for development.
 - e) Improvement of public administration in general, and creation of a law on public duties, based on a study in progress, according to the decision of the Government.
5. To regularize land tenure; to facilitate the acquisition and cultivation of new land; to establish colonization programs, but only on the basis of land distribution (the land to be sold on credit or leased) and programs for

provision of basic services: roads, commercial and social organization; (clearing of forested areas, preparation of the land and construction of dwellings should be the responsibility of the colonists, with credit assistance only for what is indispensable). Immigration can be of great benefit, provided that it is carried on in the same manner - i.e., facilitating the purchase of land and furnishing basic services, but leaving the immigrant be responsible for other costs.

6. To direct negotiations in the Free Trade Zone toward the development of industries which produce domestic raw materials, with protection of these industries in the domestic market and extension of the market in the countries of the Zone.
7. To encourage private investment and to direct private enterprise toward the sectors and activities which are the most important and which offer the highest return and interest for the economy in general, according to selected goals and priorities, through:
 - a) Fiscal reform directed toward the reduction of duties on imports necessary to production, especially agricultural and livestock production, and the abolition of taxes on exports.
 - b) Channeling of credit and loans from public funds.
 - c) Increase in credit for production.
8. To increase public investment; to coordinate and select programs and projects so as to obtain the highest and most rapid economic returns; to establish firm priorities for investments in productive sectors and in zones selected for concentration of developmental efforts.

The most significant public investments at present are:

- a) In the agricultural and livestock sectors: Mainly basic studies, technical experimentation, multiplication and distribution of seeds and improved small plants, improvement of breeding animals, control of epidemics and diseases, commercial organization and improvement of the quality and presentation of products, regularization of land tenure, colonization.
- b) In generation and distribution of power.
- c) In transportation, provided that investments are dedicated to secondary roads in the zones selected for concentration of effort, to encouragement of productive activity and economic attraction, and to reduction in transportation costs, especially for foreign trade.
- d) In the sectors of education and health, in order to continue furnishing at least the same service to a growing population until economic growth permits these services to be improved; investments in primary education, technical education and potable water are those which should take priority at the present time.

- e) Finally, municipal investments, principally productive, if they are well selected, produce a high return because they are adapted to the immediate needs of the population. It would be highly advantageous to encourage municipal investments with financial aid from the Central Government, provided this aid is related to a determined quantity, for example an equal quantity of municipal resources, whether in cash or in labor, assigned to the project under consideration, and provided this project is approved and its completion controlled by the competent services of departmental or central public administration.

As far as distribution of public investments by sectors is concerned, a special study by the planning organization will be necessary, and must take into account not only investment needs, but also the maintenance and operational costs which will encumber public finance, as well as the possibilities for completion, which depend on studies of the projects and of means of execution, firms and productive capacity, specialized personnel, etc.

The following tables of projections sum up in a tentative and preliminary form the principal general goals which can be recommended (in millions of 1960 guaranies).

Distribution of the Domestic Product

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Annual growth in product	6%	6%	4%	4%	4%
Product	28,100	29,800	31,000	32,200	33,500
Investment rate	14%	15%	15,5%	16%	16%
Investment	4,000	4,500	4,800	5,150	5,350
Consumption a/	24,100	25,300	26,200	27,050	28,150
Annual growth in consumption	3,5%	5%	3,4%	3,3%	3,2%

a/ Assuming equilibrium in the balance of goods and services.

Distribution of Investment

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
Investment rate	14%	15%	15,5%	16%	16%	
Rate of private investment	8,5%	9,1%	9,9%	10,6%	10,8%	
Rate of public investment	5,5%	5,9%	5,6%	5,4%	5,2%	
Private investment	2,450	2,750	3,050	3,400	3,600	15,250
Public investment	1,550	1,750	1,750	1,750	1,750	8,550
Total investment	4,000	4,500	4,800	5,150	5,350	23,800
Private investment	59%	61%	63%	66%	67%	64%
Public investment	41%	39%	37%	34%	33%	36%

Public Sector (Municipalities excluded)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Domestic product	28,100	29,800	31,000	32,200	33,500
Ordinary revenues (% of product)	13%	13%	13%	15,8%	15,8%
Ordinary revenues	3,650	3,835	3,995	5,100	5,290
Service of the existing debt	293	283	257	201	201
Service of the new debt	-	-	-	114	233
Other current expenses	3,044	3,105	3,167	3,558(a)	3,630
Capitalization of the Development Bank	126	132	139	146	153
Central Government Surpluses	187	315	432	1,081	1,073

- (a) In 1965, the increase in "Other Current Expenses" should be divided between other current expenses, capitalization of the development bank, and savings devoted to public investment.

Financing of Public Investment

	<u>Central Government Surpluses</u>	<u>Savings of State Agencies</u>	<u>National Resources</u>	<u>Foreign Resources</u>
1962	187	100	287	18,5% 1,263 81,5%
1963	315	110	425	24,5% 1,325 75,5%
1964	432	120	552	31,5% 1,198 68,5%
1965	1,081	130	1,211	69,5% 539 30,5%
1966	1,073	140	1,213	69,5% 537 30,5%
Total	3,088	600	3,688	43,5% 4,862 56,5%

ANALYSIS OF THE ECONOMIC SITUATION

The very interesting and valuable studies of the Department of Economic Research of the Central Bank of Paraguay show that economic activity has increased slowly during the last decade.

During this decade the evolution of the gross domestic product was the following, (in millions of 1956 guaranies):

<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
¢14,100	¢15,200	¢12,100	¢14,500	¢15,500	¢16,800	¢15,800	¢16,400	¢16,900	¢15,100	¢15,200

There was, therefore, a period of no growth up to 1953; a period of growth from 1954 to 1958; and one of regression during the last two years.

The trend of the total period has been an increase of about 18%.

The indices of the various branches of activity are the following (1956 = 100):

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Production - <u>Sub-total</u>	<u>87,3</u>	<u>95,8</u>	<u>72,7</u>	<u>91,4</u>	<u>97,4</u>	<u>106,3</u>	<u>100</u>	<u>102,5</u>	<u>104,4</u>	<u>88,9</u>	<u>90,1</u>
Agriculture	64,2	94,5	82,5	101	98,5	113,8	100	94	92,5	76,2	77,6
Livestock	121,4	105,4	65,4	85,7	96,7	105,3	100	106,7	108,8	99,8	100,4
Forestry	105,7	75	29,1	46,4	75	73	100	99,9	123,8	59	72,7
Industry	87,3	90,6	71,2	88,9	99,2	97,9	100	115,4	119,7	106,4	105,5
Construction	113,6	83,3	72,1	97,8	128,5	114,7	100	103,3	122	92,7	90,2
Basic Services -											
<u>Sub-total</u>	<u>73,3</u>	<u>95,4</u>	<u>82,6</u>	<u>87,2</u>	<u>89,7</u>	<u>102,7</u>	<u>100</u>	<u>99,1</u>	<u>108,8</u>	<u>99,2</u>	<u>118,4</u>
Electric power	66,5	68,1	51,1	60,6	64,5	89,8	100	106,1	131,3	137,1	215,8
Transport/Communic.	75,3	103,3	91,8	95	97	106,5	100	97	102,2	88,1	90
Other Services											
Commerce	84,3	93,5	70,4	91	97,7	106,2	100	105	111,7	93,8	97
Finance	98,2	69	49,7	86,4	93,9	100,1	100	157,4	175,2	154,6	159,4
Government	83	84,7	38,9	58,6	88,7	118,2	100	141,8	152,7	159,4	125,2
Housing	102,9	104,3	105,9	105,6	106,9	105,7	100	102,1	103,8	103,9	105,6
<u>TOTAL Production:</u>	<u>89,7</u>	<u>96,3</u>	<u>76,8</u>	<u>91,8</u>	<u>98,4</u>	<u>106,4</u>	<u>100</u>	<u>104,2</u>	<u>107,3</u>	<u>95,8</u>	<u>96,6</u>

During the last quinquennium the composition of the domestic product was the following (millions of 1956 guaranies and percentages):

	1956		1957		1958		1959		1960	
	Value	%								
<u>Production - Sub-total</u>	<u>9227,6</u>	<u>58,5</u>	<u>9465,1</u>	<u>57,5</u>	<u>9639,9</u>	<u>57,0</u>	<u>8211,6</u>	<u>54,2</u>	<u>8319,3</u>	<u>54,6</u>
Agriculture	4048,3	25,6	3809,2	23,2	3736,9	22,0	3085,6	20,5	3143,9	20,5
Livestock	2570,3	16,5	2742,8	16,6	2797,2	16,6	2565,9	17	2580,9	17
Forestry	356,1	2,3	355,9	2,2	439,8	2,6	210,0	1,4	258,9	1,7
Hunting & Fishing	121,1	0,7	111,4	0,7	111,1	0,7	98,6	0,7	105,5	0,8
Industry	2006,0	12,7	2315,9	14,0	2401,4	14,2	2134,7	13,8	2116,6	13,8
Construction	125,8	0,7	130,0	0,8	153,5	0,9	116,6	0,8	113,6	0,8
<u>Basic Services - Sub-total</u>	<u>359,4</u>	<u>2,3</u>	<u>356,1</u>	<u>2,2</u>	<u>391,1</u>	<u>2,3</u>	<u>356,5</u>	<u>2,4</u>	<u>425,6</u>	<u>2,8</u>
Electric power	81,3	0,5	86,4	0,6	106,7	0,7	111,4	0,8	175,4	1,2
Transport/Communic.	278,1	1,8	269,7	1,6	284,5	1,6	245,1	1,6	250,3	1,6
<u>Other Services - Sub-total</u>	<u>6175,2</u>	<u>39,0</u>	<u>6613,1</u>	<u>40,3</u>	<u>6890,0</u>	<u>40,7</u>	<u>6535,3</u>	<u>43,4</u>	<u>6485,8</u>	<u>42,6</u>
Commerce	2485,3	15,7	2609,9	16,0	2776,7	16,4	2331,9	15,4	2411,3	15,8
Finance	144,7	0,9	227,8	1,4	253,5	1,5	223,7	1,5	230,7	1,5
Government	640,3	4,0	908,1	5,5	978,4	5,8	1021,2	7,0	801,4	5,2
Housing	1941,5	12,3	1982,3	12,0	2017,2	11,8	2017,2	13,2	2054,1	13,5
Other	963,4	6,1	885,0	5,4	864,2	5,2	941,3	6,3	988,3	6,6
<u>General Total</u>	<u>15762,1</u>	<u>100</u>	<u>16434,4</u>	<u>100</u>	<u>16921,1</u>	<u>100</u>	<u>15103,3</u>	<u>100</u>	<u>15231,0</u>	<u>100</u>

Up to 1956 the productive sector followed approximately the same trend as the total domestic product. Within the services, the basic ones, especially electric power, increased a great deal, but they represent a minimal part of the total product. Since 1956 the index of the productive sector has always been below the total index which in turn was surpassed by the index of the services sector. A closer examination of this slight structural change indicates that, of the principal areas within the productive sector, industry has improved its share of the total product, while the share of livestock has remained about the same, and that of agriculture has decreased a great deal. Within the services, the percentages for electric power and financial services have increased rapidly; that for government has also increased, though to a lesser extent; the percentages for transportation and communication and commerce remain more or less the same.

It has already been said that during the decade the total domestic product has tended to increase by about 18%. Population growth during the same period is estimated at approximately 26%. This indicates that the domestic product has increased more slowly than the population. However, population growth was estimated on the basis of the demographic census of 1950, a basis which is inadequate for supplying reliable data ten years later; it is possible that the rate of growth has not been so high as has been estimated; it is also possible that emigration, which is said to be an important factor, has not permitted the population of the country to increase 26% in ten years. On the other hand, the decline in the index of agricultural activity, which begins in 1955, explains the slow increase in the total product. But we know that in this sector of the economy estimates are more difficult and less dependable, particularly because of the difficulty in estimating subsistence production. It is very possible that agricultural activity has been underestimated and that it has not decreased as much as the indices indicate.

As a result, it appears possible that the difference between the growth of the domestic product at constant prices and that of population has not been so great as previous estimates indicate. Nevertheless, it appears to be very probable that in real terms the product per inhabitant has decreased slightly, or at best has remained the same.

AGRICULTURE

Of the country's total area of 40,675,000 hectares, an estimated 22 million hectares, or 54%, are forest land; 16 million hectares, or 39.5%, grassland; and 1,660,000 hectares, or 4%, land available for cultivation. Of this last part, only 360,000 hectares were actually worked in 1950. Since this situation does not appear to have fundamentally changed since 1950, it can be said that the amount of land available for agricultural exploitation is very important.

Another characteristic is that the best land for cultivation lies in two regions: the first includes the following departments: Central, Cordillera, Paraguari, Guairá, part of Caazapá, and part of Misiones; the second, which consists of even more fertile land, lies to the east, in Alto Paraná

and part of Itapúa. But the first region has an important population, more than two-thirds of the total population, with relatively high densities: Central, 71,8 inhabitants per square kilometer; Cordillera, 37,5; Guairá, 35,4; Paraguari, 26,7; Caazapá, 9,6. In the second region, however, Itapúa has a density of just 9,1 inhabitants per square kilometer, and Alto Paraná has only 0,8. Thus, most of the cultivated land is included in the first region, while land under cultivation is relatively scarce in the second, even though the latter region extends over a slightly larger area. Two million hectares of the Alto Paraná, in particular, are practically covered with forest and almost without agricultural exploitation.

The trend in output of the principal agricultural products has been the following, in thousands of tons:

	<u>Average</u> <u>1941-45</u>	<u>Average</u> <u>1946-50</u>	<u>Average</u> <u>1951-55</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Mandioca	730	751	934	900	990	950	940	950	973	995	1005	979
Cotton	29	34	41	53	38	41	39	35	33	33	27	14
Sugar cane	276	308	356	423	342	319	305	380	490	550	584	609
Unhulled rice	12	13	18	16	16	20	18	19	23	20	16	15,5
Tobacco	7	7,4	8,7	8,5	8,6	7	10	5,5	5	4,5	7,2	9,5
Beans	16	19,6	17,5	16,5	17,5	18	18	18,5	18	18	17,5	17,5
Corn	103	104	96	126	107	110	100	120	130	130	125	143
Sweet potatoes	74	78	75	75	76	76	75	75	75	75	72	72
Peanuts	11	12	11	11,5	10	10	9,5	9,5	11	10,5	9	8,5
Alfalfa				9,4	8,7	11,7	11,5	12	17,5	17,5	18,4	18,2
Potatoes	1,2	1,7	4,8	3,6	4,3	3,9	2,9	3,2	3,2	3,6	3,7	4
Wheat				0,6	1,6	1	1,5	2,7	6	12	14	10,5

The products which increased the most are wheat, sugar cane and alfalfa, which more or less doubled during the last decade; corn production increased about 40%. Mandioca and tobacco have increased little; cotton has remained about the same, decreasing during the last quinquennium; after increasing during the first. Rice, beans, sweet potatoes and peanuts have decreased, and so have potatoes after increasing a great deal in relation to the 1946-1950 average.

Yields per hectare have remained more or less stable, with the exception of sugar cane, which increased slightly, and cotton and potatoes, which have decreased appreciably. These yields are generally not very high and could be increased.

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Yields Per Hectare. In Tons

	<u>Cotton</u> <u>Fiber</u>	<u>Sugar</u> <u>Cane</u>	<u>Rice</u>	<u>Tobacco</u>	<u>Corn</u>	<u>Peanuts</u>	<u>Wheat</u>
Paraguay (1956)	0,25	27	2,1	1,0	1,3	0,89	0,7
Average, South America (F.A.O.)	0,18	30,7 <u>a/</u>	1,79	0,94	1,24	1,19	1,19

a/ Argentina

Principal Crops. Yields Per Hectare. In Tons

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Mandioca	15	16	16	15,5	15,4	15,2	15,1	15	14,5
Cotton	0,8	0,84	0,81	0,79	0,73	0,65	0,57	0,4	0,35
Sugar Cane	32,5	25,9	23,2	23,4	27,1	27,2	28,5	28,5	29,0
Rice	1,8	2,2	2,4	1,8	2,1	2,3	2,5	2,3	2,2
Tobacco	1,2	1,0	1,0	1,1	1,0	1,0	1,0	1,0	1,0
Beans	0,84	0,85	0,86	0,82	0,81	0,80	0,81	0,81	0,80
Corn	1,3	1,3	1,3	1,2	1,3	1,3	1,2	1,3	1,3
Sweet Potatoes	9,6	10,1	9,9	9,8	9,9	9,7	9,7	9,5	9,5
Peanuts	0,82	0,91	0,89	0,89	0,89	0,90	0,88	0,86	0,85
Alfalfa	5,2	3,8	5,3	5,2	5,2	5,0	5,0	5,3	5,2
Potatoes	7,2	3,6	7,8	5,8	5,3	4,0	4,0	3,7	3,6
Wheat	0,6	0,8	0,5	0,8	0,7	0,7	0,8	0,7	0,7

In millions of 1956 guaranies the growth of agricultural production was the following:

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Mandioca	783,6	2.101,5	1.689,3	2.394,8	2.149,7	2.466,7	2.067,0	1.740,4	1.689,4	1.377,6	1.257,0
Cotton	252,9	227,5	281,0	224,7	332,0	299,2	209,3	231,8	274,2	147,4	83,9
Sugar Cane	89,1	89,2	73,0	83,9	101,4	93,5	133,4	157,5	181,5	146,8	148,9
Rice	72,1	82,8	58,5	69,5	77,6	60,2	59,8	110,5	89,2	57,7	95,7
Tobacco	33,3	120,6	98,1	108,8	82,5	109,2	81,7	66,3	55,7	99,3	125,1
Beans	53,3	85,4	119,5	114,1	99,7	104,3	95,3	83,3	78,3	69,2	112,0
Corn	287,2	293,2	380,7	309,8	293,4	517,6	501,1	444,8	413,2	321,0	401,5
Sweet Potatoes	116,5	150,7	109,7	165,9	146,0	186,2	157,7	163,7	157,2	121,1	106,6
Peanuts	41,3	55,6	48,2	54,7	48,3	40,3	45,6	65,2	58,9	38,5	36,1
Alfalfa	19,5	20,4	18,6	25,1	27,6	28,8	29,2	41,6	38,7	32,9	31,4
Potatoes	6,6	20,5	14,0	34,3	26,5	18,4	16,5	15,4	17,0	14,2	19,3
Wheat	22,7	10,9	5,7	12,4	6,3	8,1	14,8	28,4	51,7	55,7	34,8
Total:	2.602,7	3.828,0	3.341,7	4.090,8	3.991,0	4.609,7	4.048,3	3.809,2	3,736,9	3.085,6	3.143,9
Index (1956=100)	64,2	94,5	82,5	101,0	98,5	113,8	100,0	94,0	92,5	76,2	77,6

Thus it can be seen that the value, at constant prices, of agricultural production increased up to 1955, but, afterward, decreased continuously so that the average of the years 1958-59-60 (82.1) was only a little above that of 1950-51-52 (80.4), and very much below that of 1951-52-53 (92.7).

The possibility that the production intended for consumption by the producer has been understated because of the difficulty of estimation has already been mentioned. Taking into consideration the total of those products which are largely commercially marketed, namely cotton, sugar cane, rice, tobacco, peanuts and wheat, the following estimate may be made:

<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
521,4	586,6	564,5	554,0	646,1	610,5	544,6	659,7	711,2	545,4	489,7
95,8	107,7	103,2	101,9	118,6	112,1	100	121,1	130,6	100,2	90,1

and apart from rice and wheat, which are, for the most part, produced on large farms, the total of cotton, sugar cane, tobacco and peanuts may be estimated as follows:

426,6	492,9	500,3	472,1	564,2	542,2	470,0	520,8	570,3	432	394
90,8	104,9	103,6	100,5	120	115,4	100	110,8	121,3	91,9	83,8

The trends of these two subgroups of products of greater commercial importance are a little different from that of all agricultural products together, and less regular, with four years of relatively high production; 1954-1955 and 1957-1958. These subgroups do not, however, show any appreciable increase during the period; the average of the last three years exceeds that of the first three years by only 3%. The situation seems to be even worse for the small farm; the corresponding averages show a slight drop.

Therefore, it is very probable that the agricultural sector has not grown during the last decade, and, in spite of the possibility of underestimation of the subsistence production, over-all production certainly did not increase to the same degree as the population. The gravity of this situation cannot be underrated when one considers that agriculture employs 43.5% of the active population.

Land tenure presents a very important problem, as all the studies indicate. In the eastern region where almost all agricultural activity is concentrated, 6% of the 16 million hectares of land comprises 95% of the farms, and 70% of the farms, or more than 100,000, have an average size of 3.8 hectares. Moreover, an estimated 60% of the farmers have no legal title. This situation alone would explain why expansion of the cultivated area, as well as agricultural production, remains appreciably below population growth.

L I V E S T O C K

The livestock census for 1956 estimated the number of livestock in the country as follows:

Cattle	4,500,000 head
Hogs	440,000 "
Sheep and Goats	410,000 "
Horses, Mules and Donkeys	550,000 "

At the present time there are an estimated 5 million head of cattle, or 6 million at most. The 16 million hectares of grassland supply an average of 3 hectares per head. Nevertheless, in the Chaco region, which supports approximately 45% of the herds, an average of 5 hectares per head is considered necessary, because many of the fields are covered with weeds. On the other hand, the grasslands of the Chaco are of better quality, as they contain mineral elements which the grasslands of the Eastern region of the country lack; calves grow more rapidly so that they can be slaughtered at 3 years of age, compared to 4 years of age in the East. The obstacles to livestock development in the Chaco arise mainly from the lack of potable water during periods of draught, from severe floods during rainy periods, and from the invasion of the fields by weeds.

The slaughtering of cattle is estimated at 600,000 to 650,000 head a year. In addition, the movement of livestock on the hoof to Brazil is an estimated 40,000 - 50,000 head a year. The movement of livestock on the hoof at the Argentine frontier fluctuates according to the prices in the two countries. Therefore, annual production can be estimated at 11 to 13% of the herds.

The number of animals slaughtered was declared as follows:

	<u>For Packing</u>	<u>For Consumption</u>	<u>Total</u>
1952	22,285	406,635	435,920
1953	12,251	535,238	547,489
1954	26,907	490,468	517,375
1955	64,730	435,760	500,490
1956	74,723	432,193	506,916
1957	84,637	436,067	520,704
1958	178,633	433,098	611,731
1959	196,204	421,474	617,678
1960	148,070	391,747	539,817

These figures indicate a marked increase in slaughtering for industrial purposes, which appreciably raises the value of livestock production by the value added by processing. (The latter represented in 1960 about 16.6% of the value of all animals slaughtered in the country, and about 60% of the value of animals slaughtered for industrial purposes). At the same time domestic consumption was reduced from 58 Kgs. annually per inhabitant to 38 Kgs. in 1960,

which, counting animals slaughtered but not declared, hogs and domestic fowl, still represents a quite satisfactory meat consumption.

In the eastern region the number of cattle ranches is 27,000, with an average of 75 head. In the Chaco the ranches are much less numerous, 1,500, with an average of 1,100 head.

The demographic census of 1950 indicated that of the active population 50,000 persons, or 11.8%, were engaged in livestock production. Applying the same percentage to the estimated 1960 population, the number of persons engaged in livestock production would be 63,000.

Domestic production of livestock has been estimated as follows, in millions of 1956 guaranies:

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Cattle slaughtered	889,1	777,1	584,5	880,0	923,8	874,0	841,6	895,2	1,035,2	1,115,5	1,146,7
Hogs slaughtered	226,9	214,0	175,3	215,9	245,2	305,3	285,4	311,9	307,9	263,9	268,7
Sheep & Goats slaughtered	44,5	44,0	25,4	43,0	44,6	59,4	65,0	63,1	59,1	52,0	52,8
Poultry killed	101,0	76,7	35,8	33,6	32,2	32,9	28,3	24,1	28,1	28,9	31,6
Horses, Mules & Donkeys: Sales	71,5	89,1	47,8	66,9	66,8	90,6	82,4	84,0	78,9	67,1	63,4
Milk	1,481,5	1,311,8	702,5	887,7	1,089,4	1,255,1	1,192,5	1,292,8	1,219,6	977,4	953,0
Eggs	159,9	103,8	42,2	34,6	34,2	46,6	36,4	39,2	36,8	30,1	33,9
Cheese	75,8	49,5	19,9	17,7	15,2	15,0	11,5	10,0	10,1	9,2	9,7
Lard	7,6	5,9	28,3	7,8	9,1	13,8	15,1	13,1	10,1	13,2	10,6
Honey	70,8	51,1	21,7	15,7	25,5	15,5	12,0	10,4	9,8	8,8	10,6
Total:	3,121,7	2,722,9	1,681,4	2,202,8	2,486,1	2,708,2	2,570,3	2,742,8	2,797,2	2,565,9	2,580,9

There was an increase in the value of the gross product of cattle slaughtered during the last 3 years, which reflects an increase in the number of animals slaughtered, as well as an increase in prices. The value of hogs, sheep and goats slaughtered has also increased, but this rise took place up to 1957, after which there was a slight decrease. It is important to note the sharp drop in milk; cheese has fallen even more severely. Dairy products represent a high percentage of total livestock production (50% in 1950 - 37% in 1960), and their drop greatly influenced the trend of the total product of livestock. The drop in dairy products was the main reason why the total livestock product has remained more or less the same since 1951, after a drop between 1950 and 1951. Aside from the influence of climatic variations, the reduction of the value of milk production can be explained by the reduction in prices (in constant terms) and by the importation of powdered milk. Domestic fowl and egg production also diminished greatly and continuously (by almost 75%), and honey as well (by more than 80%). It should be noted that these last products are really complementary agricultural products, and their fall has reduced the farmer's income along with the general reduction in agricultural production.

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F O R E S T P R O D U C T I O N

Besides representing the only national source of energy and besides supplying domestic needs for construction and for fabrication of furniture, forest production constitutes a large part of exports (between 30 and 50%). For this reason it has greater importance in the economy than its percentage of the gross product indicates.

During recent years, forest production has been the following, in thousands of tons:

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Tannin	28,2	31,5	26,5	39,3	25,8	30,3	28,9	30,1	31,0
Sawn lumber	18,6	18,7	14,1	13,8	17,3	17,5	30,8	33,5	28,0
Beams for export	4,6	2,5	2,7	1,3	0,6	—	—	—	—
Logs for export	127,5	151,1	156,9	162,0	229,1	171,1	196,3	82,3	142,0

Tannin production has remained more or less stable. Logging for exportation tended to increase up to 1958; in subsequent years this activity dropped off because of the sudden cut back in the Argentine market, which absorbs

almost all of this product. The production of sawn lumber increased a great deal in 1958 and continued at a relatively high level. However, during the last quinquennium prices of tamin have fallen, as well as those of logs and sawn lumber, thereby reducing the income from forest production.

In 1950, 1.6% of the active population, or 6,700 persons, were engaged in forest exploitation. The same percentage applied to the estimated 1960 population would represent 8,400 persons.

Available physical resources permit forest exploitation to develop to a high degree. But the limiting factor is the export market. Exports consist mainly of logs of 5 or 6 varieties; this causes a very selective exploitation of the forests with a reduced tonnage per hectare. The development of processing industries for lumber and of exports of sawn lumber or other manufactured products would greatly improve the utilization of the forests by obtaining more tonnage per hectare.

The growth of the domestic product derived from forest production, including essence of petit-grain, has been the following in millions of 1956 guaranies:

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Logs	158,4	137,6	43,0	80,0	119,9	159,4	264,9	240,8	332,8	102,5	137,7
Sawn lumber	54,6	43,2	21,2	29,3	22,4	20,7	25,1	38,9	40,4	38,7	40,4
Logs for tannin	18,8	22,7	12,8	14,4	12,7	21,3	23,7	25,4	27,0	27,9	26,3
Essence of petit-grain	44,4	48,1	15,0	27,1	102,8	38,8	25,4	34,2	18,3	45,0	43,7
Other wood, including wood for charcoal	26,2	15,3	11,7	14,3	9,2	19,6	16,9	16,5	21,3	9,1	10,9
Total:	302,4	267,0	103,8	165,2	267,0	259,9	356,1	355,9	439,8	223,2	258,9

The value of logs follows the trend of the tonnage of production, but with greater fluctuations due to price variations. Essence of petit-grain shows wide variations, but the trend seems to be more or less steady.

The total product derived from forest exploitation is influenced principally by the trend for logging. Logging represented in 1950, 52.5%; in 1952, a year in which production was very low, 41.5%; in 1958, with the highest production of the period, 74%; in 1959, 46%; and in 1960, 53% of total forest production.

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M I N I N G

Mining activity is very limited. The only extraction which is of any importance at the present time is that of construction materials, especially those for brick and cement industries.

Petroleum exploration continues in the Chaco, but so far without result.

The geological studies which have been made do not yet furnish any hope of large-scale exploitation of mineral resources. Nevertheless, they do offer the possibility of locating deposits which could furnish raw materials for certain industries producing for domestic consumption.

As a result, because of what is now known, and apart from possible future discoveries of petroleum deposits, mining activity depends entirely upon the possibilities of industrial development.

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P O W E R

At present, practically the only national source of energy is wood. Other than that, certain agricultural industries use processing wastes. In the Pilar region there are peat deposits which could be important. The possibility of economic exploitation would have to be studied.

In spite of a marked increase during the last decade, the production of electric power is still low; it was estimated at 81 million KWH in 1960. In the last five years it increased by 60%. Installed capacity is 37,000 kilowatts. Total production is of thermic origin.

Nevertheless, hydroelectric power potential is important. The construction of a hydroelectric plant of 60,000-kilowatt capacity on the Acaray

and Monday rivers near the Paraná river is contemplated. This plant would have a 300-km. transmission line to Asunción. The capacity of the plant could later be increased by another 120,000 kilowatts.

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I N D U S T R Y

The industrial census of 1955 supplies the following data about the structure of industry:

	<u>Number of Firms</u>	<u>Number of Employees</u>	<u>Production Valor (¢ 000's)</u>	<u>%</u>
Food	741	9,000	1,378,000	36,5
Beverages	197	2,000	347,000	9,2
Textiles	28	3,000	621,000	16,4
Shoes	431	3,000	173,000	4,6
Wood and Furniture	352	3,000	177,000	4,7
Chemical Products	118	8,100	575,000	15,2
Construction Materials	367	2,500	123,500	3,3
Other Industries	498	4,200	381,000	10,1
	<hr/> 2,732	<hr/> 34,500	<hr/> 3,776,000	<hr/> 100

Forty percent of the enterprises are located in Asunción and its environs.

The value added by industry is estimated at 44% of the value of total industrial production.

The product derived from industry - that is, the value added - has grown as follows, in millions of 1956 guaraníes:

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Industry:											
Milling	99,8	104,0	71,8	73,0	132,4	112,2	122,1	229,1	256,8	208,7	188,6
Baking	87,4	123,8	109,7	214,2	329,5	273,3	262,8	383,1	360,7	292,8	342,3
Confectionery	7,7	37,1	21,9	19,8	25,2	27,4	40,7	45,2	47,4	38,5	37,9
Sugar	85,5	74,7	53,4	48,8	78,9	54,4	103,5	148,4	148,7	110,7	89,2
Textiles:(cotton fiber)	99,3	68,7	104,6	81,9	78,9	97,1	70,0	55,8	61,2	40,3	26,2
Textiles:(spinning & weaving)	155,3	196,6	172,2	222,0	251,1	230,4	297,9	244,0	263,5	215,7	204,8
Meat Packing	41,7	18,6	19,2	6,8	22,5	59,1	77,3	98,7	174,6	205,1	189,6
Wines,Liquors,Beer	61,3	52,1	44,7	70,2	80,6	101,6	113,8	118,4	107,2	86,6	88,6
"Rum" & Alcohol	29,6	33,4	25,0	33,1	33,0	33,4	29,8	32,6	33,1	21,4	22,8
Tobacco	18,4	16,7	9,6	33,1	36,7	47,6	85,2	90,0	92,4	83,2	73,0
Yerba Mate	29,5	33,5	37,2	37,6	26,9	36,6	47,3	54,5	42,1	33,0	41,6
Vegetable Oils & Fats	80,2	129,1	77,4	119,7	146,6	137,1	142,6	172,6	170,3	171,0	172,9
Tannin	114,2	138,4	78,0	87,8	77,3	121,8	147,9	154,8	164,2	169,7	159,8
Building Materials	12,8	22,7	11,6	14,0	19,6	21,1	26,6	27,3	28,5	23,5	22,5
Metalworking Shops	32,2	39,6	23,4	27,2	31,1	32,5	23,5	21,6	21,0	16,9	16,0
Furniture & Carp.	39,9	62,9	50,0	81,4	73,2	77,1	36,3	36,7	35,3	29,0	24,1
River Transport.	5,8	7,4	4,1	4,4	5,1	6,2	4,2	4,1	4,0	3,3	3,1
Graphic Arts	34,5	40,0	25,3	44,3	46,6	43,1	40,8	40,3	39,1	32,1	30,6
Matches	9,1	14,0	7,0	9,3	9,6	11,3	17,6	21,6	18,3	21,4	15,4
Cement	—	—	2,9	1,6	6,5	11,7	12,6	11,2	6,7	9,8	8,1
Lime	5,3	12,4	10,2	8,9	8,5	10,1	8,4	8,9	6,5	8,0	9,3
Leather	3,7	8,1	5,4	8,3	8,7	8,6	8,5	12,1	12,2	11,6	12,3
Cattle Slaughter excl. COPACAR	284,0	264,8	190,0	336,9	326,2	271,4	262,4	281,7	282,0	275,0	310,6
Other Industries	25,2	30,7	36,2	52,1	75,4	70,1	24,1	23,1	25,7	27,5	27,1
TOTAL:	1,362,1	1,529,1	1,190,4	1,636,4	1,930,1	1,888,7	2,006,0	2,315,9	2,401,4	2,134,7	2,116,6

The total industrial product increased quite rapidly up to 1958, but decreased during the last two years. Nevertheless, in 1960 it represented an increase of 55% as compared to 1950.

The industry which increased the most, and the only one which continued to increase up to the end of the period is meat.

The flour and baking industries rose markedly, but declined after 1957-1958.

Sugar and sugar products rose, but declined in 1959-1960.

Tobacco rose, but declined in 1959-1960.

Oils and fats have not grown since 1957.

Construction materials rose, but declined in 1959-1960.

Matches rose, but declined in 1960.

Lime and cement rose, but declined after 1956.

Hides have not grown since 1957.

The textile industry grew rapidly until 1956, but declined afterward, until in 1960 the percentage of its increase as compared to 1950 was only 33%.

The beverages, yerba mate, and tannin industries increased little; at a rate which was less than that for the entire sector; and, with the exception of tannin, decreased after 1957.

The remaining industries, cotton gins, metallurgical shops, furniture making and carpentry, river transportation and graphic arts remained stable during the first five years, but declined during the second, and in 1960 did not reach the 1950 production figures.

As a result, with the exception of the meat industry, the last five years was not a very favorable period for many branches of industry, some of which have declined since 1955, 56 or 57, and almost all of which have declined since 1958-59.

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T R A N S P O R T A T I O N

The communications network consists mainly of the Paraguay and Paraná rivers, which are highly navigable. There are 1,260 kms. of the Paraguay river and 820 kilometers of the Paraná river down to their confluence, and 1,240 kilometers from their confluence to Buenos Aires. River navigation represents a high proportion of domestic transportation, and almost all of transportation to

and from the country (95%).

The traffic of the port of Asunción exceeds 400,000 tons, or, almost 80% of total port traffic.

An important part of export tonnage, principally lumber, is transported on the Paraná River, but on rafts, and a small volume of imported merchandise is transported; on the Paraguay river, however, the greater part of imports are transported, with a lesser volume of exports. This disequilibrium of the traffic on the two rivers necessarily increases costs and freight charges.

The cost of river transportation between Asunción and Buenos Aires, including port operations, is said to be between U\$8 and U\$17 per ton, or assuming (1,630 kilometers) approximately between U\$0,50 and U\$1 per ton/kilometer.

Until recently, traffic was mainly in the hands of foreign companies. The Merchant Fleet has bought, and is receiving, vessels which are adapted to the needs of river navigation, with the intention of reducing dependency on foreign companies until a traffic distribution of 50% Paraguayan and 50% Argentine transportation is attained.

The principal railroad line joins Asunción with Encarnación, and, upon crossing the Paraná river, joins the Argentine railway network. This line has lost much of its economic significance because of the development of road transportation. Moreover it would have to be renovated and modernized, whereas a study made in 1959 concluded that the necessary investment would be very high and uneconomic.

Since the last World War an important effort has been made with respect to the road network. This effort began with the roads south and east of Asunción, in the region which includes most of the total population. In recent years, besides improving and complementing the communications of this region, new penetration roads were begun.

Coronel Oviedo to Puerto Pte. Stroessner and a bridge over the Paraná River to join the Brazilian network.

Asunción to Filadelfia, first section of the Trans-Chaco Road.

Concepción to Pedro Juan Caballero on the Brazilian frontier.

Moreover, the construction of secondary roads was begun in the region of Puerto Pte. Stroessner.

In spite of these efforts, the road network is still very small.

	<u>Asphalt</u>	<u>Stone</u>	<u>Improved Earth</u>	<u>Earth</u>	<u>Total</u>
National Network	140	450	810	560	1,960
Departmental Network	50	220	280	90	640
Local Network	-	-	-	6,000	6,000
	190	670	1,090	6,650	8,600

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I N T E R N A T I O N A L T R A D E

According to customs statistics the growth of international trade since 1953 has been the following, in thousands of dollars:

	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
1953	24,305	30,655	6,350
1954	32,884	33,970	1,086
1955	28,955	35,097	6,142
1956	24,625	36,691	12,076
1957	27,363	32,898	5,535
1958	32,592	34,102	1,510
1959	26,194	31,196	5,002
1960	32,463	26,978	5,485
1961 (9 months)	21,772	28,844	(7,072)

Nevertheless, customs statistics do not reflect the situation exactly because of frontier traffic, contraband, and the undervaluation of some imports in order to elude customs duties. On the other hand, in recent years, in order to lighten the tax burden on exports reduced by weak markets and prices, an undervaluation of these exports was permitted. Foreign exchange receipts and sales derived from exports give a quite different picture of foreign trade.

	<u>Sales of Exchange For Imports</u>	<u>Purchases of Exchange From Exports</u>	<u>Balance</u>
1953	34,019	25,358	- 8,661
1954	37,847	34,754	- 3,093
1955	32,650	38,176	5,526
1956	27,499	36,172	8,673
1957	34,545	36,093	1,558
1958	38,336	33,602	- 4,734
1959	34,629	35,350	721
1960	37,683	36,545	- 1,138
1961(9 months)	28,837	33,133	(4,286)

Thus it can be seen particularly that exports did not fall as much as customs statistics indicate, but rather remained stagnant during the last five years at a level below that of 1955. It should be noted, however, that receipts and sales of foreign exchange from exports and imports do not faithfully represent foreign trade either, and that, particularly, they include goods in transit and reexports which may be important, but which have little influence over the economic activity of the country.

In any case, it is clear from these two tables and from the table of the tonnage of exports, below, that exports have not played a dynamic role in the economy since 1954, and that they have remained stagnant, or perhaps even fallen. As for imports, they seem to have been since 1957 at a level slightly higher than that of previous years. However, this rise was very small.

The principal exports have been the following in thousands of tons:

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u> (9 months)
Cotton	16,3	11,6	9,5	10,3	8,9	8,2	6,4	1,2	4,8
Vegetable Oils	2,8	5,0	3,9	4,2	6,5	5,4	6,7	5,4	4,4
Tobacco	4,9	2,0	2,2	3,3	2,8	2,5	2,4	6,1	4,6
Fruit	2,1	4,8	3,0	2,6	5,8	5,2	4,4	6,3	3,4
Sugar	0,2	0,2	6,3	—	—	5,2	15,5	1,4	0,3
Meat Products	3,8	4,6	5,9	11,0	8,6	18,6	19,3	17,9	15,2
Cattle Hides	6,9	5,8	6,8	10,0	7,8	9,9	12,6	9,0	7,3
Wood	171,0	182,8	185,4	258,3	195,8	217,3	98,0	164,1	145,1
Yerba Mate	0,9	3,7	4,0	3,4	3,6	5,6	8,3	15,6	6,1
Essential Oils	0,2	0,3	0,2	0,2	0,3	0,2	0,3	0,3	0,2
Quebracho extract	31,6	21,3	30,0	36,7	29,5	27,6	29,4	33,5	23,9
Other	10,4	9,5	5,0	18,7	47,0	36,0	32,8	38,7	27,8
TOTAL:	251	250,5	256,2	358,7	316,6	341,6	236,2	299,4	243,6

The volume of lumber exports has diminished because of the weakening of the Argentine market. The volume of cotton has fallen even more, and exports in 1961 will probably not even reach the already quite low 1959 level. Essential oils and quebracho extract have remained more or less stable. Exports of the other products have tended to rise. This increase was important for meat products and hides, and also for tobacco since 1960.

The value and distribution of exports was the following, in millions of dollars and % of total:

	<u>1953</u> %		<u>1954</u> %		<u>1955</u> %		<u>1956</u> %		<u>1957</u> %		<u>1958</u> %		<u>1959</u> %		<u>1960</u> %		<u>1961</u> % (9 months)	
Cotton	8,2	26,6	6,8	20	5,5	15,9	5,6	15,2	4,5	14	3,7	10,9	2,1	6,7	0,3	1,1	1,6	7
Vegetable Oils	1,1	3,6	3,1	9,1	1,9	5,5	1,4	3,8	2,2	6,8	1,5	4,4	1,7	5,4	1,5	5,6	1,3	5,7
Tobacco	2,1	6,8	0,9	2,7	1,0	2,9	1,3	3,5	1,0	3,1	0,7	2,0	0,7	2,2	1,6	5,9	1,2	5,3
Fruit	0,2	—	0,6	1,8	0,6	1,7	0,2	—	0,4	1,3	0,3	—	0,2	—	0,2	—	0,1	—
Sugar	0,1	—	0,1	—	0,2	—	—	—	—	—	0,6	1,8	1,1	3,5	0,1	—	—	—
Meat Products	1,6	5,2	2,1	6,2	2,3	6,6	4,6	12,5	3,7	11,5	8,1	23,5	9,6	30,7	7,1	26,4	6,6	29
Cattle Hides	2,3	7,5	1,7	5,0	1,4	4	2,0	5,5	1,6	4,9	2,0	5,9	3,6	11,5	2,2	8,2	1,7	7,4
Wood	7,7	25,0	11,1	32,3	13,0	37	11,8	32,2	9,4	29	9,7	28,5	4,1	13,1	5,0	18,6	4,6	20
Yerba Mate	0,3	—	1,1	3,2	1,3	3,7	0,6	1,6	0,7	2,2	1,2	3,5	1,6	5,1	2,5	9,3	0,9	3,9
Essential Oils	1,0	3,2	1,4	4,1	1,3	3,7	1,2	3,3	1,3	4,0	0,8	2,3	1,0	3,2	1,0	3,7	0,8	3,5
Quebracho Extract	5,4	17,6	4,0	11,8	5,6	16	6,5	17,9	4,5	14	3,5	10,1	3,6	11,5	3,0	11,1	2,0	8,8
Other	0,8	2,5	1,0	2,9	1,0	2,9	1,4	3,8	3,5	10,8	2,0	5,9	2,1	6,7	2,4	8,9	2,0	8,8
TOTAL:	<u>30,7</u>	<u>100</u>	<u>34,0</u>	<u>100</u>	<u>35,1</u>	<u>100</u>	<u>36,7</u>	<u>100</u>	<u>32,9</u>	<u>100</u>	<u>34,1</u>	<u>100</u>	<u>31,2</u>	<u>100</u>	<u>27,0</u>	<u>100</u>	<u>22,8</u>	<u>100</u>

The distribution of exports has changed profoundly during this interval. In 1953 the principal exports were: Cotton (26.6%); lumber (25.0%); quebracho (17.6%); and livestock products (12.7%), of which hides predominated (7.5%). In 1959 the principal exports were: Livestock products (42.2%), with meat products predominating (30.7%); lumber (13.1%); and quebracho (11.5%). And in 1960 the principal exports were: Livestock products (34.6%) with meat products predominating (26.4%); lumber (18.6%); quebracho (11.1%); and yerba mate (9.3%). Cotton has fallen markedly and steadily to 7% in 1958 and 1961. Tannin also has had a steady tendency to fall, in spite of the fact that tonnage has remained more or less stable, because of the competition of other vegetable tannins and the resulting decrease in prices. Lumber's share of exports has fallen since 1958 because of the close tie with the Argentine market. The share of fruits has diminished. That of essential oils has been stable. The share of vegetable oils, tobacco, and, especially, of yerba mate, and meat products has increased, the latter meat products manifesting a very steady upward trend while hides remained stable.

The proportion of elaborated and semi-elaborated products in exports has increased, but this increase is due solely to meat products.

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961(9 mos.)</u>
Meat Products	5,2	6,2	6,6	12,5	11,5	23,5	30,7	26,4	29
Essential Oils	3,2	4,1	3,7	3,3	4	2,3	3,2	3,7	3,5
Quebracho Extract	17,6	11,8	16	17,9	14	10,1	11,5	11,1	8,8
	26,0	22,1	26,3	33,7	29,5	35,9	45,4	41,2	41,3

The principal imports have been the following, in millions of dollars and in percentages of the total:

	<u>1957</u>	<u>%</u>	<u>1958</u>	<u>%</u>	<u>1959</u>	<u>%</u>	<u>1960</u>	<u>%</u>	<u>1961</u>	<u>%</u>
	(9 mos.)									
<u>Consumer Goods</u>	<u>14.0</u>	<u>51.3</u>	<u>12.1</u>	<u>37.1</u>	<u>10.5</u>	<u>40</u>	<u>10.7</u>	<u>34.1</u>	<u>9.2</u>	<u>41.5</u>
Wheat	4,5	16,5	4,0	12,3	4,4	16,8	4,3	13,6	3,8	17,8
Other Food and Beverages	3,7	13,5	2,1	6,4	2,0	7,6	1,7	6,2	1,8	8,2
Textiles and their Manufactures	3,5	12,8	3,9	12,0	2,2	8,4	2,5	7,8	1,8	8,2
Chemical and Pharmaceutical Products	1,6	5,9	1,5	4,6	1,3	4,9	1,4	4,0	1,1	5,0
Paper and Paperboard	0,7	2,6	0,6	1,8	0,6	2,3	0,8	2,5	0,7	3,2
<u>Fuel and Lubricants</u>	<u>2,5</u>	<u>9,2</u>	<u>3,1</u>	<u>9,5</u>	<u>2,9</u>	<u>11,1</u>	<u>3,4</u>	<u>10,3</u>	<u>2,5</u>	<u>11,2</u>
<u>Automotive Vehicles and Accessories</u>	<u>3,3</u>	<u>12,0</u>	<u>3,7</u>	<u>11,4</u>	<u>3,0</u>	<u>11,5</u>	<u>3,7</u>	<u>11,8</u>	<u>2,5</u>	<u>11,2</u>
<u>Capital Goods</u>	<u>5,2</u>	<u>19,1</u>	<u>10,9</u>	<u>33,1</u>	<u>7,0</u>	<u>26,3</u>	<u>11,7</u>	<u>34,8</u>	<u>5,3</u>	<u>24,0</u>
Agricultural Tools	0,7	2,6	0,7	2,1	0,5	1,9	0,5	1,6	0,3	1,4
Iron and Steel	1,7	6,2	3,2	9,8	1,7	6,5	1,9	5,9	1,1	5,0
Other Metals	1,0	3,7	1,4	4,3	1,0	3,8	1,3	4,0	0,7	3,2
Machinery and Motors	1,8	6,6	5,5	16,9	3,7	14,1	5,5	16,8	2,7	12,2
Ships	—	—	—	—	—	—	2,4	6,5	0,4	1,8
Cement	—	—	0,1	—	0,1	—	0,1	—	0,1	—
<u>Others Not Classified</u>	<u>2,3</u>	<u>8,4</u>	<u>2,8</u>	<u>11,0</u>	<u>2,8</u>	<u>11,0</u>	<u>2,9</u>	<u>9,0</u>	<u>2,6</u>	<u>12,2</u>
	<u>27,3</u>	<u>100</u>	<u>32,6</u>	<u>100</u>	<u>26,2</u>	<u>100</u>	<u>32,4</u>	<u>100</u>	<u>22,1</u>	<u>100</u>

Imports of consumer goods have diminished. Wheat, paper and cardboard have remained stable. Other items have decreased notably. Combustibles and lubricants have increased, but articles of transportation have not increased. Imports of equipment increased due to the marked increase in imports of machinery and motors; on the other hand, imports of agricultural implements has seriously diminished.

This change in the composition of imports toward an increase in capital goods is a promising element. However, this increase is thrown out of equilibrium by the reduction in imports of agricultural equipment.

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C R E D I T

Credits granted by the Central Bank to the public sector came to the following during the last four years, in millions of guaranias:

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
855,7	468,4	1,200,1	534,8

Of these, the following were granted to autonomous government agencies:

340,9	420,0	1,200,1	369,8
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In other words, in recent years credits have been almost entirely to these agencies.

The economic distribution of loans was as follows:

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Agriculture -				
Livestock	44,0	3,0	8,0	19,0
Industry	315,4	35,4	40,6	146,1
Financial				
Services	230,0	254,0	1,135,5	121,2
Public Works	181,3	149,5	16,0	225,2
Other	85,0	26,5	—	23,3

Credits granted for agriculture, livestock and industry decreased by almost 55% between 1957 and 1960, and even more during the intermediate years.

During the same period, loans from the Bank of Paraguay to the private sector were as follows:

	<u>1957</u>		<u>1958</u>		<u>1959</u>		<u>1960</u>	
	<u>Credits</u> <u>Author.</u>	<u>Balances</u>	<u>Credits</u> <u>Author.</u>	<u>Balances</u>	<u>Credits</u> <u>Author.</u>	<u>Balances</u>	<u>Credits</u> <u>Author.</u>	<u>Balances</u>
Agriculture	280,0	513,1	204,4	549,3	178,5	590,4	87,3	563,3
Livestock	71,4	206,2	59,9	180,2	43,6	168,0	29,4	156,0
Industry	414,6	795,4	224,5	705,2	100,7	640,7	83,7	521,7
Commerce	280,2	135,1	146,8	122,0	36,1	109,7	29,1	93,2
Other	81,7	182,5	98,0	173,1	82,0	176,3	64,5	305,2
TOTAL:	1,127,9	1,832,3	733,6	1,729,8	440,9	1,685,1	294,0	1,639,4

And loans from the private banks:

	<u>1957</u>		<u>1958</u>		<u>1959</u>		<u>1960</u>	
	<u>Credits</u> <u>Author.</u>	<u>Balances</u>	<u>Credits</u> <u>Author.</u>	<u>Balances</u>	<u>Credits</u> <u>Author.</u>	<u>Balances</u>	<u>Credits</u> <u>Author.</u>	<u>Balances</u>
Agriculture	19,7	10,9	19,1	15,0	26,7	12,5	23,2	10,1
Livestock	125,9	86,4	161,2	103,8	171,7	103,9	249,5	128,9
Industry	600,3	223,6	695,3	317,3	783,6	400,5	902,3	436,9
Commerce	491,3	92,9	465,7	110,7	778,1	276,8	962,3	319,5
Other	14,8	10,3	15,8	11,9	57,1	23,7	35,4	25,6
TOTAL:	1,252,0	424,1	1,357,0	558,7	1,817,2	817,4	2,172,7	921,0

The total of loans from the Bank of Paraguay and from the private banks was as follows:

	<u>1957</u>		<u>1958</u>		<u>1959</u>		<u>1960</u>	
	<u>Credits Author.</u>	<u>Balances</u>	<u>Credits Author.</u>	<u>Balances</u>	<u>Credits Author.</u>	<u>Balances</u>	<u>Credits Author.</u>	<u>Balances</u>
Agriculture	299,7	524,1	223,5	564,3	205,2	602,8	110,5	574,1
Livestock	197,3	292,5	221,2	284	215,3	271,8	278,9	284,8
Industry	1,014,9	1,018,9	919,8	1,022,5	884,3	1,041,2	986,0	958,6
Commerce	771,4	228,1	612,5	232,6	814,2	386,6	991,4	412,7
Other	96,5	192,9	113,8	185,0	139,1	200,0	99,9	330,8
TOTAL:	2,379,8	2,256,5	2,090,8	2,288,5	2,258,1	2,502,4	2,466,7	2,561,0

It can be seen from these data that loans to the private economy, after an appreciable reduction in 1958 and 1959, returned in 1960 to about the 1957 level (an increase of 3.8%). But during the same period the value of the guarani went from \$109.3 to the dollar, after the exchange reform in 1957, to \$123,6 in 1960; consequently, the total amount of loans in equivalent dollar terms in 1960 represents an amount of 8.3% less than in 1957, and lower still in the two intermediate years.

In relation to the gross product the value of loans represents:

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
12,4%	9,9%	9,6%	10,2%

But if only loans to the different productive activities are considered, the reduction is even more important.

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Agriculture - Livestock - Industry:	1,511,9	1,364,5	1,305,8	1,374,9

In these sectors loans increased appreciably only for livestock (40%). Loans to industry decreased slightly. Loans to agriculture have decreased severely (by two-thirds), and their relation to the agricultural product is very low.

<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
6,8%	4,8%	4,3%	2,2%

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FOREIGN DEBT

The foreign debt at the end of 1960 and the total servicing in subsequent years is as follows (in thousands of U.S. dollars):

	Debt Outstanding			Debt Service				
	Dec. 31, 1960	1961	1962	1963	1964	1965	1966	1967
<u>Public Foreign Debt</u>								
<u>Export-Import Bank</u>	<u>10,080</u>	<u>878</u>	<u>798</u>	<u>860</u>	<u>860</u>	<u>766</u>	<u>671</u>	<u>671</u>
Airport	830	284	189	189	189	95	—	—
Corposana	8,250	594	594	594	594	594	594	594
Mennonite Colonies	1,000	—	15	77	77	77	77	77
<u>Development Loan Fund</u>	<u>3,445</u>	<u>199</u>	<u>207</u>	<u>259</u>	<u>314</u>	<u>314</u>	<u>314</u>	<u>314</u>
Highways	2,475	136	135	167	242	242	242	242
Corposana	970	63	72	72	72	72	72	72
<u>Puerto de Asunción</u>	<u>1,109</u>	<u>177</u>						
<u>I. B. R. D.</u>	<u>2,051</u>	<u>488</u>	<u>501</u>	<u>524</u>	<u>546</u>	—	—	—
<u>Brazil</u>	<u>660</u>	<u>174</u>	<u>55</u>	<u>54</u>	<u>53</u>	<u>52</u>	<u>50</u>	<u>49</u>
<u>Purchase of Ships</u>	<u>6,723</u>	<u>1,292</u>	<u>938</u>	<u>900</u>	<u>862</u>	<u>934</u>	<u>890</u>	<u>846</u>
Spain	2,923	1,292	310	297	283	270	257	244
Japan	3,800	—	628	603	579	664	633	602
<u>Other Loans</u>	<u>3,888</u>	<u>1,261</u>	<u>560</u>	<u>292</u>	<u>120</u>	<u>103</u>	<u>120</u>	<u>127</u>
<u>Total Public Foreign Debt</u>	<u>27,956</u>	<u>4,461</u>	<u>3,236</u>	<u>3,066</u>	<u>2,922</u>	<u>2,346</u>	<u>2,222</u>	<u>2,184</u>
<u>TOTAL Foreign Debt</u>	<u>32,639</u>	<u>6,189</u>	<u>4,525</u>	<u>4,004</u>	<u>3,989</u>	<u>2,449</u>	<u>2,222</u>	<u>2,184</u>

In 1961 the servicing of the public external debt represents approximately 18.5% of fiscal revenues (US\$24 millions), which is very high and which imposes an important burden on scarce resources by permitting only savings that are insufficient for investment. After 1962 the burden is substantially lower but until 1964 it will be relatively high, and it will not be before 1965 that the servicing of the public debt will be less than 10% of public revenues, unless there is during the interval an appreciable increase in these revenues. However, government agencies which have their own income are responsible for a part of this debt. The debt of the Central Government and of the Merchant Marine, for which the Government is also responsible, represents in 1961 approximately 9% of fiscal revenues.

As for the servicing abroad of the total debt of the country, it will probably represent in 1961 between 15 and 19% of exports, which is also high. It falls off more rapidly than the servicing of the public debt and by 1962 it should be less than 14% of the normal level of exports. Nevertheless, not before 1965 will it be less than 10% of the value of exports, assuming they continue their present trend, unless an important effort is made to increase them.

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I N V E S T M E N T

The trend of gross investment was the following (in millions of 1956 guaranies):

<u>Years</u>	<u>Public Investment</u>			<u>Private Investment</u>			<u>Total</u>		
	<u>Value</u>	<u>Index</u>	<u>% of GNP</u>	<u>Value</u>	<u>Index</u>	<u>% of GNP</u>	<u>Value</u>	<u>Index</u>	<u>% of GNP</u>
1950	175,2	40,4	2	1,248,3	150,0	9	1,423,5	112,4	11,0
1951	128,3	29,6	1	1,168,9	140,5	8	1,297,2	102,5	9,0
1952	111,1	25,6	2	1,210,4	145,4	10	1,321,5	104,4	12,0
1953	224,4	51,7	2	1,295,1	155,6	9	1,519,5	120,0	11,0
1954	323,1	74,5	3	1,436,8	172,6	9	1,659,9	131,1	12,0
1955	350,6	80,8	3	1,272,0	152,8	7	1,622,6	128,1	10,0
1956	433,9	100,0	3	832,2	100,0	5	1,266,1	100,0	8,0
1957	768,5	177,1	5	703,9	84,6	4	1,472,4	116,2	9,8
1958	700,2	161,4	4	1,492,3	179,3	8	2,192,5	173,1	12,0
1959	501,0	115,5	3	689,2	82,8	5	1,190,2	94,0	8,0
1960	521,4	120,2	4	936,3	112,5	6	1,457,7	115,1	7,5

Gross investment decreased after 1954. This is due to the sharp drop in private investment which after 1955 was far below that of the first six years. Only in 1958 does it return to a level slightly above 1954, due to the investments of the meat industry. On the other hand, public investment rose markedly, after 1954 and attained a high level in 1957 and 1958, decreasing in the last two years. Nevertheless, it was not sufficient to offset the reduction in private investment and maintain the previous level of total investment.

The ratio between total investment and the national product remained quite low throughout the whole period - about 10%; a little higher during the first 6 years (11%), and a little lower during the last five years (9%). However, it was clearly never enough to promote development of the economy over and above the growth of the population, estimated at 2,3% annually.

The ratio between capital and product appears to be very low. A previous study estimated it between 0,18 and 0,20 - i.e., 5 or more units of capital are needed to obtain one unit of product. This estimate appears confirmed by the ratio between the increase in gross investment and that of the product during the last decade: With an average annual rate of gross investment of 10% of the product, there was in ten years an increase in the product of 18%, or less than 1,8% annually. The ratio probably decreased during the last five years due to the reduced proportion of private investment, which generally has higher and more rapid returns, especially when public investment is devoted mainly to social activities and basic services, and relatively little to productive activities.

This ratio can undoubtedly be improved, and it must be improved by a careful selection of investment projects and priorities, so that growth of the economy can be accelerated with the scarce resources available for investment.

During the last three years, public investment was distributed in the following form (in millions of current guaranies):

	<u>1958</u>	<u>%</u>	<u>1959</u>	<u>%</u>	<u>1960</u>	<u>%</u>	<u>Total</u> <u>(1958-60)</u>	<u>%</u>
<u>Agriculture-Livestock</u>	<u>6.0</u>	<u>0.7</u>	<u>28.8</u>	<u>3.7</u>	<u>21.3</u>	<u>2.5</u>	<u>56.1</u>	<u>2.2</u>
Agriculture	1,0		11,6		9,0			
Livestock	5,0		17,2		12,3			
<u>Transportation</u>	<u>438.8</u>	<u>50.3</u>	<u>425.5</u>	<u>54.7</u>	<u>776.2</u>	<u>90</u>	<u>1,640.5</u>	<u>65.3</u>
Highways	283,7		360,0		369,4			
Communications	4,2		30,4		8,0			
Ports, Ships	26,9		18,7		380,7			
Air Transport	93,2		15,8		17,4			
Transport equipment	30,8		0,5		0,8			
<u>Industry</u>	<u>10.1</u>	<u>1.2</u>	<u>8.3</u>	<u>1.1</u>	<u>16.2</u>	<u>1.9</u>	<u>34.6</u>	<u>1.4</u>
Cement	0,4		3,0		6,5			
Alcohol	9,7		5,3		9,7			
<u>Electric Power</u>	<u>25.5</u>	<u>3</u>	<u>73.8</u>	<u>9.5</u>	<u>—</u>	<u>—</u>	<u>99.3</u>	<u>4</u>
<u>Education</u>	<u>16.1</u>	<u>1.8</u>	<u>13.5</u>	<u>4.7</u>	<u>9.9</u>	<u>1.1</u>	<u>39.5</u>	<u>1.6</u>
Construction	16,1		13,3		9,7			
Laboratories	—		0,2		0,2			
<u>Public Health</u>	<u>371.0</u>	<u>42.6</u>	<u>222.3</u>	<u>28.6</u>	<u>29.1</u>	<u>3.3</u>	<u>622.5</u>	<u>24.7</u>
Construction	72,5		97,8		8,5			
Potable water	273,1		95,6		—			
Drainage	12,3		14,7		17,6			
<u>Other</u>	<u>3.7</u>	<u>0.4</u>	<u>5.1</u>	<u>0.7</u>	<u>10.7</u>	<u>1.2</u>	<u>19.5</u>	<u>0.8</u>
Total Public Investment	871,1	100	777,5	100	863,4	100	2,512,0	100
Central Government	297,2		297,7		399,8		994,7	
Government Agencies	573,9		479,8		463,6		1,517,3	

In spite of the increase in public revenue and expenditures during the period, investments have decreased and represent the following proportions of total public expenditures:

<u>1958</u>	<u>1959</u>	<u>1960</u>
39%	32,6%	35,3%

During this interval public investment has been concentrated mainly in transportation, and also in public health due to the potable water project of Asunción, i.e., in sectors where investment has an indirect and a relatively low return. Now that the potable water project is finished, it is necessary to increase the proportion of public investment in activities which are directly productive.

Public investment was financed in the following form during the period 1958-1960:

	<u>Central Government</u>		<u>Government Agencies</u>		<u>Total</u>	
Domestic Resources	755	76%	625	41%	1,380	55%
Foreign Resources	240	24%	892	59%	1,132	45%
Total	995	100	1,517	100	2,512	100

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PUBLIC FINANCE

The growth of ordinary budgeted income and of its composition was as follows:

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Total (in \$ millions)	432,9	633,5	857,2	1,223,6	1,805,8	2,609,6	2,363,7	2,637,2
Customs Duties	34,1%	32,0%	27,3%	20,3%	21,0%	20,3%	25,4%	23,7%
Export Taxes	-	-	-	-	-	22,9%	11,1%	8,2%
Consular Fees	0,3%	0,3%	0,3%	0,4%	0,4%	0,3%	0,6%	4,6%
Internal Taxes	32,2%	33%	34,1%	36,8%	24,3%	18,3%	21,5%	19%
Alcohol Taxes	-	-	-	-	5,4%	3,5%	5,8%	5,0%
Sales Taxes	-	-	-	-	8,5%	8,9%	10,1%	11,7%
Income Taxes	16,4%	15,6%	17,5%	16,9%	13,5%	10,8%	12,7%	11,4%
Real Estate Taxes	5,1%	5,6%	4,5%	3,3%	3,5%	4,1%	4,9%	5,9%

The proportion of customs duties has decreased by one-third, but not that of the total taxes on foreign trade, as these increased due to the rise in consular taxes in 1960 and to export taxes. Since the latter seriously impeded economic development, they were immediately reduced after their establishment in 1958, but they will constitute approximately 8,2% of the budgeted resources in 1960.

The proportion of indirect taxes increased a little.

The proportion of direct taxes has diminished because that of income taxes was severely reduced after 1957, in spite of the fact that economic activity was relatively high from 1955 to 1958.

The growth and composition of expenditures were the following:

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Total (in \$ millions)	382,5	594,5	773,1	1,216,8	1,708,4	2,230,7	2,312,9	2,451,4
Defense	35,8%	35,6%	33,5%	32,1%	26,6%	26,1%	25,3%	25,2%
Interior	16,2%	14,1%	13,7%	13,2%	10,7%	10%	11%	11,5%
Education	12,8%	13,3%	16,2%	14,5%	14,5%	14,5%	16,4%	16,6%
Public Health	3,7%	2,7%	4,7%	4,9%	5,4%	5,3%	6,1%	5,7%
Agriculture & Livestock	2,0%	1,9%	2,1%	2,0%	3,1%	2,7%	2,8%	2,8%
Industry & Commerce	1,2%	0,5%	0,6%	0,5%	0,4%	0,4%	0,4%	0,4%
Public Works	4,7%	5,7%	5,8%	2,1%	2,4%	2,2%	2,2%	2,2%
Finance	5,2%	5,4%	5,8%	5,5%	4,9%	4,9%	3,6%	3,7%
Public Debt	14%	15,6%	11,1%	5,5%	10,8%	8,9%	8,7%	4,2%

The proportion of expenditures for Defense, Interior, Finance, Industry and Public Works has diminished. That for Education, Public Health, and Agriculture has increased. The proportion for Agriculture and Industry combined has remained the same, but with an increase for Agriculture and a reduction for Industry. Nevertheless, to the revenues already mentioned must be added those derived from special laws which have been providing an important part of public revenues in the last few years.

During the last four years the panorama of the entire public sector has been the following, in millions of guaranies:

REVENUES

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
<u>Ordinary Resources</u>				
Customs Duties	379,2	528,9	600,0	624,2
Internal Taxes	440,0	477,7	507,6	501,2
Alcohol Taxes	97,2	91,1	137,2	132,3
Sales Taxes	153,6	232,5	239,0	308,0
Income Taxes	243,7	283,0	300,4	300,3
Property Taxes	63,4	107,2	117,2	156,9
Export Taxes	-	598,3	261,1	215,3
Special Taxes	364,9	105,2	137,1	459,5
Total Taxes:	<u>1,742,0</u>	<u>2,423,9</u>	<u>2,299,6</u>	<u>2,697,7</u>
Other Central Government Revenues	259,7	249,6	201,2	399,0
Other Special Revenues	352,7	225,2	306,0	288,8
Total Ordinary Resources	<u>2,354,4</u>	<u>2,898,7</u>	<u>2,806,8</u>	<u>3,385,5</u>
<u>Extraordinary Resources</u>				
Central Bank Loans	62,0	129,1	273,0	105,9
Transfers from Abroad	220,8	220,6	351,7	308,5
Loans from Abroad	945,4	155,5	70,6	215,5
Total Extraordinary Resources	<u>1,228,2</u>	<u>505,2</u>	<u>695,3</u>	<u>629,9</u>
Total General Revenues	3,582,6	3,403,9	3,502,1	4,015,4
Total taxes collected represent:				
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Of the domestic product	9,2%	11,4%	9,8%	10,8%
And of the national income, about	10,5%	12,5%	11%	12%

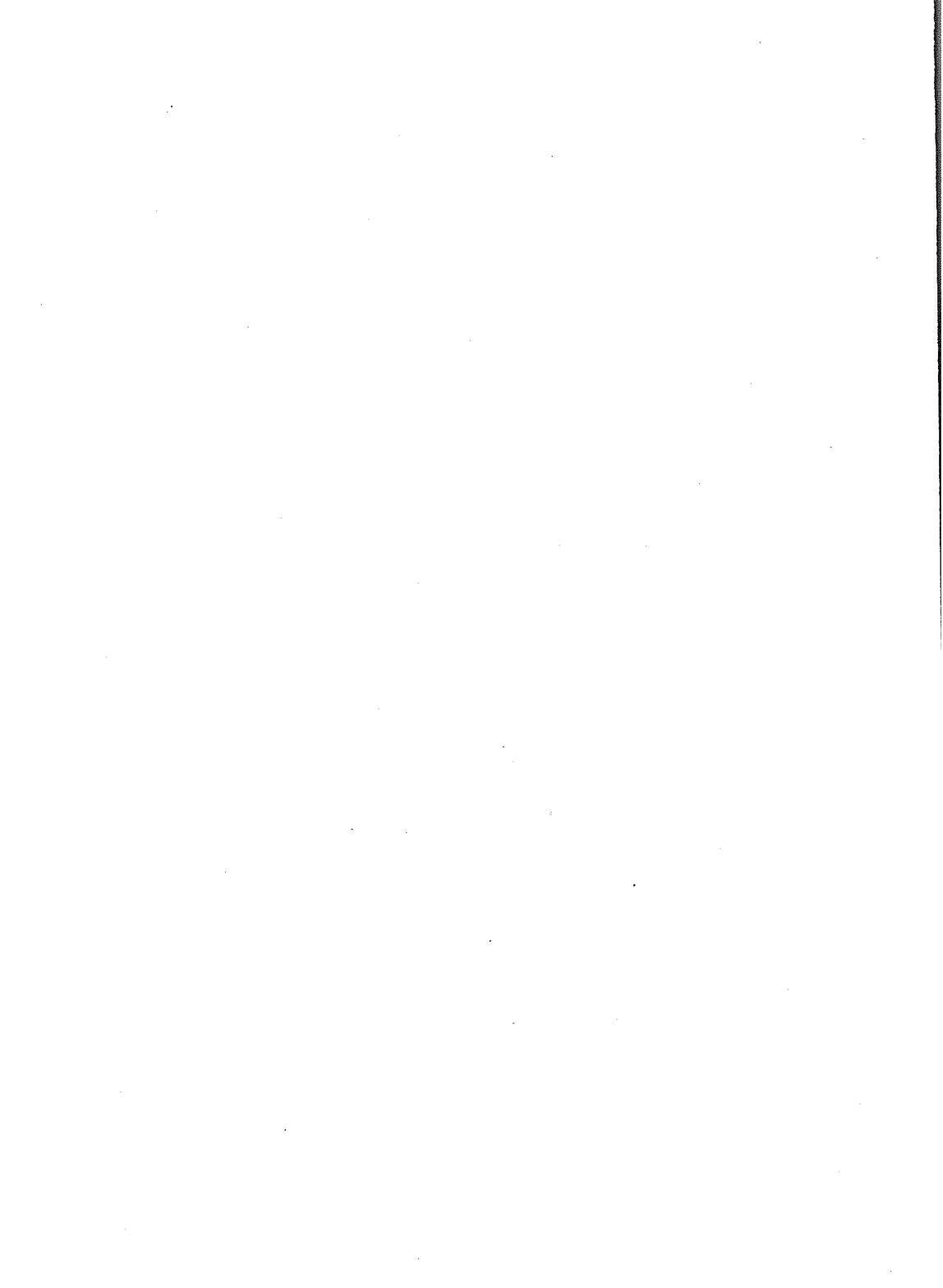
The table includes the Central Government, autonomous entities and State enterprises, i.e., excepting only the municipalities - and it groups together ordinary resources, those derived from special laws, and those which are extraordinary. Not shown in the table is income received by government agencies and having no fiscal nature, whether it be income of an industrial nature or social security contributions.

Municipal revenues comprise a low proportion of public revenues. The total of municipal budget estimates was \$115 millions in 1957, \$142 millions in 1958, \$147 millions in 1959, and \$159 millions in 1960.

During the same interval fiscal surpluses excluding the accounts of State organizations, were the following:

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Ordinary Revenues	2,354,4	2,898,7	2,806,8	3,385,5
Ordinary Expenditures	2,388,3	2,580,1	2,772,5	3,151,7
Balance	- 33,9	318,6	34,3	233,8

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II

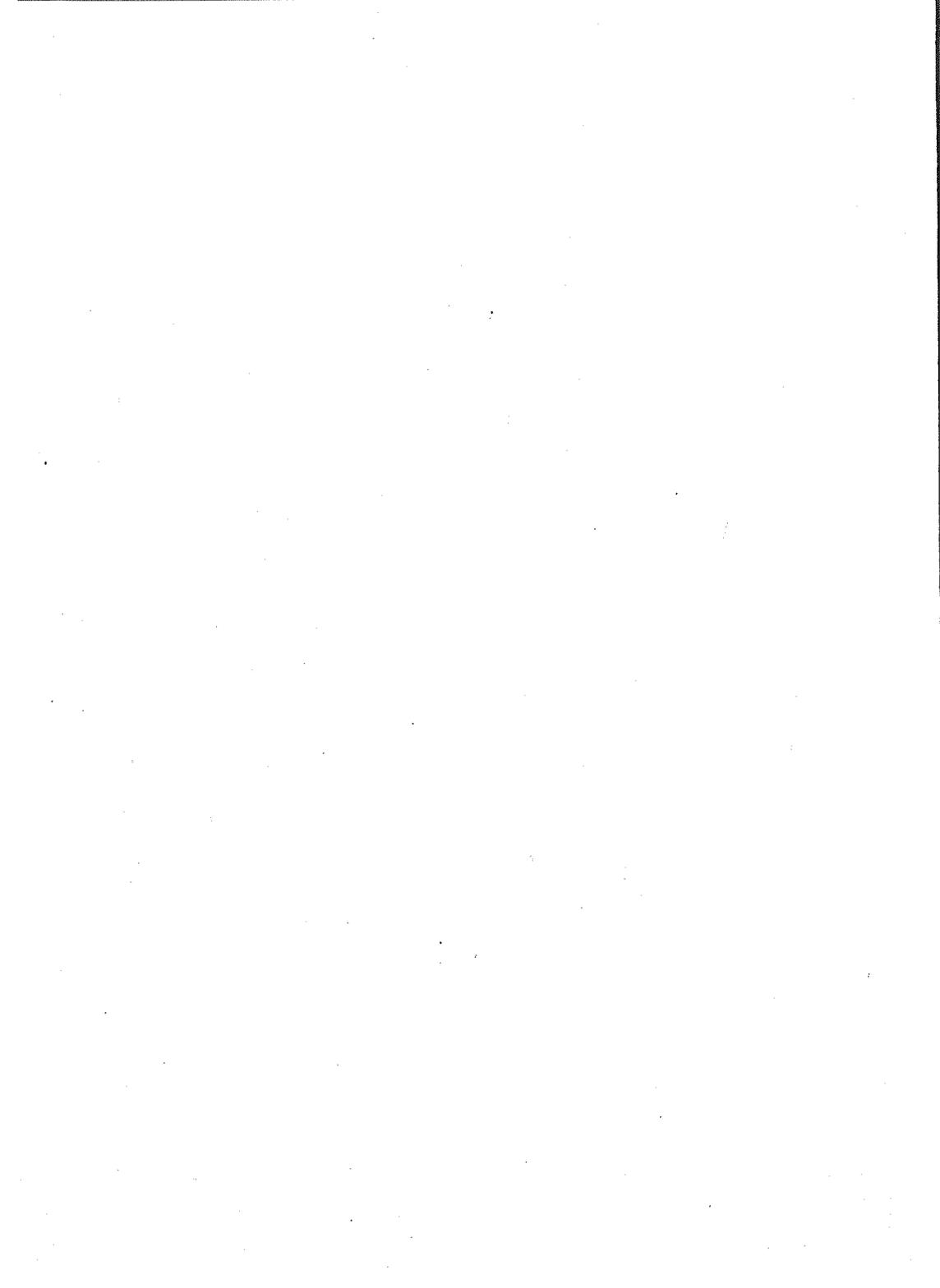
PUBLIC ACTION FOR DEVELOPMENT

Examination of the Projects and a Tentative Draft
of a Program of Public Investment

Program of Basic Studies

Contribution of Public Funds to Private Initiative

Proposal for Organization of a Planning Agency



EXAMINATION OF THE PROJECTS AND A TENTATIVE

DRAFT OF A PROGRAM OF PUBLIC INVESTMENT

This study will utilize the list compiled by the Economic Department of the Ministry of Foreign Relations of projects for which foreign aid has been requested. Although this list does not include all the investment projects and the cost estimate of projects may not be very precise in some cases, it nevertheless appears to provide sufficient insight into the plans of the Public Administration for this preliminary study.

The projects included may be divided into three groups: Projects for General Government Financing, Projects for Financing by Private Initiative, Projects for Financing by Public Investment.

I - Projects for General Government Financing.

A request is contemplated for a loan of 18 million dollars, or 6 million dollars a year, for budgetary assistance in connection with the fiscal reform which will reduce fiscal revenues in the first few years.

On the other hand the Central Bank is considering requesting a loan of 10 million dollars, of which 4 million dollars would be devoted to domestic expenditures corresponding to public or private investment for which foreign loans have been authorized.

In the study of the financial volume of investment it was estimated that the reduction in fiscal revenues resulting from tax cuts necessary to initiate fiscal reform would be at least 800 million guaranies, or 6.5 million dollars, which reflects the elimination of taxes on exports. But import duties should also be reduced on certain articles necessary to production, particularly agricultural and livestock production. The resulting decrease in fiscal revenues can be estimated at about 200 million guaranies in the next three years.

With estimated budgetary aid between 8 and 9 million dollars, it seems probable that the Government can meet its obligations during the years 1962, 1963, and 1964.

II - Projects for Financing by Private Initiative.

These projects amount to a total of almost 31 million dollars, or 3,900 million guaranies.

They comprise:

National Development Bank:	3 million dollars
Private Development Bank:	2 million dollars
Agriculture:	9 million dollars

of which 4 million dollars would be for agricultural credit and 5 million dollars for agricultural implements.

Forest Production: 4,530,000 dollars

of which 2 million dollars would be for forestry credit and 2,530,000 for the lumber industry.

Livestock: 10 million dollars

which corresponds to a development program of 2,500 million guaranies, or 20 million dollars.

Industry: 2.2 million dollars

or 280 million guaranies.

It can be estimated that approximately 9 million dollars of these projects correspond to current credits and 22 million dollars, or 2,750 million guaranies, to investment, which would represent more than 16% of the total private investment of 15,250 million guaranies projected for the next five years.

III - Projects for Financing by Public Investment

These projects total 133.7 million dollars, which corresponds to at least 145 million dollars of public investment. In addition, the expansion of the port at the capital and the continuation of the Trans-Chaco road, which are not included in these projects, must be added.

Proposed public investments consequently come to more than 18,000 million guaranies, an amount which obviously cannot be realized in the next quinquennium, for which period 8,550 million guaranies has been forecast. It has been said that public investment could be expanded in the last two years beyond that projected, in the event that the hoped for favorable effects of the Government's actions are obtained in the first three years. Nevertheless, total public investment for the quinquennium cannot exceed by very much 8,550 million guaranies, because that already represents a considerable increase in public investment. Certainly some projects, particularly colonization, include important elements that are actually private investment; but if these elements are eliminated public investment would yet be more than 13,000 million guaranies, which still exceeds the amount that can be achieved in the next five years, because a drain on domestic resources would be provoked which would undoubtedly hinder private investment and production itself, and would dangerously increase imports.

Therefore, it is necessary rapidly to examine the projects in each sector and to establish priorities.

The present distribution of the approximate total cost of the projects, by branch of activity, is the following, in millions of guaranie:

Scientific and technical research	176.4	1.3%
Agriculture, \$ 5,607 million with public investment of	1,034.3	
Livestock	51.7	8.7%
Industry	71.8	
Electric Power	3,417.0	26.3%
Highways	2,986.2	
River Transportation	441.0	
Railroad	63.0	28.0%
Air Transportation	126.0	
Telecommunications	126.0	
Education	1,704.5	
Public Health	1,429.6	35.7%
Housing	1,654.4	
<hr/> Total	<hr/> 13,281.9	<hr/> 100.0%

The following observations can be made about the projects in each branch of activity, with a view toward preparing a five year program.

1. Scientific and Technical Research

The investment contemplated is relatively small. The Institute of Technology and Standards, which is the principal project, will aid industrial development and the improvement of the quality of products. The meteorological stations are attractive for agricultural and livestock development especially. Therefore, the over-all figure of 176.4 million guaranies can be included in the five year program.

2. Agriculture

- a) Campaign against the ysau ant: 630 million guaranies
Over 10 years -- i.e., about 315 million guaranies in the quinquennium in question. This project seems to be one of high returns in view of the large agricultural losses caused by the ant.
- b) Construction of silos: 90 million guaranies
This project is unquestionably attractive, provided it is carefully studied, as a means to reduce losses and organize grain marketing.
- c) Re-equipment of the agricultural mechanization service, 31.5 million guaranies; and machinery for the colonization of Puerto Presidente Stroessner, 41.6 million guaranies, in total:
73.1 million guaranies

As has already been said with respect to colonization programs, public investment should be limited to the necessary basic services: highways, experimentation, technical assistance, commercial organization, etc. The preparation of the ground, which presents no difficulty in the region of Puerto Presidente Stroessner and which is within the means of the colonist, should be left to his charge.

With respect to the re-equipment of the agricultural mechanization service, the attractiveness of this project depends upon how the machinery is to be used. It is well known that there is agricultural machinery in the country which is not economic because it used only for short periods.

Nevertheless, if there should be a program for its well defined use, an investment of 31.5 million guaranies could be projected.

d) Colonization programs.

A first colonization program contemplates the establishment of 2,500 families on 100,000 hectares in the region south of the international highway to Brazil over a period of five years.

The program comprises:

Topography: 50 million guaranies
Various roads which total 2,250 kms. at a cost of 210 million guaranies, or 0.9 kilometers and \$ 84,000 per family, which seems very high for the first stage. In any case roads on private property must be the responsibility of the colonist. There would remain therefore as the responsibility of the Government 120 kms. of the international highway to Tavai, and 810 kms. of local roads at a cost of 50,000 guaranies per kilometer, or 46.5 million guaranies. This plus the construction equipment estimated at 48.3 million guaranies gives a total which may be rounded off to 100 million guaranies. Construction of urban streets should be postponed until the urban centers themselves finance them.

Experiment station: 20 million guaranies

Technical assistance and various services including the contracting of technicians: 41.2 million guaranies
which can be considered as part of the investment during the execution of the program.

The rest of the program, agricultural mechanization, loans for production, constitute private investment that is the responsibility of the colonists for a total amount of 620.8 million guaranies. They can get production loans in the same manner as the other agricultural producers, perhaps for a somewhat higher portion of their expenses during the first two years. Colonists should construct their own housing; and private initiative should invest in the installation of the necessary sawmills or provide sawn lumber from existing mills. The agricultural mechanization estimated at 100 million guaranies does not seem necessary or appropriate even for the extension of cultivation to 8.5 hectares per family anticipated for the fifth year. It is impossible to utilize mechanization for such limited cultivation; on the contrary, the farm family can easily work 8.5 hectares with animal drawn equipment.

Therefore the program would comprise:

Topography	50 million guaranias
Roads	100
Experiment Station	20
Technical Assistance and Various Services	<u>41.2</u>
Total public investment	211.2
Private investment and Production Credits: 500 to 520	

The second colonization program is the Spanish colonization, which proposes to establish 10,000 Spanish families in 15 years on 3 tracts of similar size in the regions of Puerto Presidente Stroessner, Villa Oliva, and Pedro Juan Caballero.

For the five years under consideration, the Puerto Pte. Stroessner project should receive priority, because of the possibility of concentrating effort and reducing public investment and necessary public expenses, in order to obtain the highest and most rapid returns. To prevent dispersion of effort, each project should be fully completed in one five year period according to the priority established.

The cost of the total program would be almost 4,000 million guaranias -- i.e., about 1,300 million guaranias in the next quinquennium. But this amount represents private investment only and does not consider the public investment necessary.

The project provides no data that permit an estimate of the corresponding amount of public investment. Nevertheless, as a first approximation a preliminary figure of 250 million guaranias can be suggested -- that is, 40 million guaranias more than the preceding program, though actually the equivalent of 60 million guaranias more because another experiment station in the same region would not be needed.

- e) In addition to these projects it seems essential to consider the creation of experiment stations in two regions of a very unique character which do not have experimentation: Pedro Juan Caballero, and Filadelfia in the Chaco. By analogy with the first colonization program, this would represent a total investment of 40 million guaranias.
- f) A project for the development of agricultural technical assistance should be established. In a tentative and preliminary form until a program is prepared, one may note down for investment and operating expenses around 150 million guaranias which would be added to the technical assistance proposed in the two colonization programs. Of this amount about 100 million guaranias would be considered operating expenses.

Therefore, the program in agriculture for the next five years would be:

1.- Campaign against the ysau	₡ 315	million
2.- Construction of silos	90	
3.- Agricultural mechanization	31.5	
4.- Colonization Programs: One	₡ 191.2	
Two	250	441.2
5.- Experiment Stations:		
Puerto Pte. Stroessner		
Pedro Juan Caballero		
Filadelfia	60	
6.- Technical assistance program not included in the colonization programs	150	
Total Agricultural Program	₡ 1,087.7	million

3. Livestock

The only projects are the anti-aftosa and brucelosis campaigns, ₡ 32.8 million, and a milk treatment plant, ₡ 18.9 million, for a total cost of ₡ 51.7 million.

However, in addition to these projects, it would be well to make a general study of the pastures and potable water supply for cattle in the Chaco, including a geological study of underground waters. In a tentative and preliminary form for lack of data, 100 million guaranies can be suggested for this proposal.

The livestock program would be as follows:

1.- Anti-aftosa and brucelosis campaigns	₡ 32.8	million
2.- Milk treatment plant	18.9	
3.- Study of the supply of drinking water in the Chaco	100	
	₡ 151.7	

4. Industry

Reconditioning of the cement factory at Valle-mi.

Besides the reconditioning of the cement factory at Valle-mi it seems necessary to consider reorganizing the administration of the plant to improve its economic situation. It is inadvisable for the enterprise to have its general management in Asuncion instead of at the operating site itself. It should be kept in mind that the Free Trade Zone will create more aggressive foreign competition. Consequently the project for the rehabilitation of the plant should be examined again considering all aspects and not just investment. However, the projected amount of investment can be maintained as an indication (₡ 71.8 million).

5. Electric Power

The program for electric power totals \$ 3,417 million during the next quinquennium.

It may be divided into two parts: One corresponding to the construction of a hydroelectric plant of 60,000 KW installed capacity, with the possibility of installing 120,000 KW more on the Acaray River, and a transmission line to Asuncion; the other corresponding to the expansion of the thermal plant and the distribution net in Asuncion. The program would be carried out as follows:

(In Millions of Guaranies)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
Hydroelectric plant and transmission line	--	678.6	1,179.0	766.6	251.7	2,875.9
Asuncion installation	106.6	119.5	88.8	98.9	127.3	541.1
Total:	106.6	798.1	1,267.8	865.5	379.0	3,417.0

Upon completion of the construction of the hydroelectric plant the program would provide a total capacity of 91,000 KW, which seems high relative to national needs. It would be necessary therefore to determine the amount of power for export to Brazil, and if possible establish a firm contract for this exportation.

Judging by the data furnished, it is more economical to meet national needs by completing the hydroelectric plant than by expanding the thermal plant. The hydroelectric plant also offers the possibility of exporting electric power to Brazil.

Even so, the total amount of investment contemplated is very high in relation to the total public investment estimated to be necessary, and it would be appropriate to try to reduce this project as much as possible. It is important to watch that the project does not hinder investment in the productive sectors, or worse production itself, by drawing off too high a proportion of the available resources. In the financial field, properly speaking, there does not seem to be any major problem because the anticipated loan of 20 to 23 million dollars probably would not be granted for other proposals; but there are problems of another type.

Thus the generation of electric power has a dual aspect. On the one hand is the service and consumption which corresponds to almost all the domestic and public purchases of power. On the other hand is production for exportation and for industrial consumption. Consequently it is necessary to try to increase as much as possible export sales and sales to industries that have multiplier effects on the economy.

Execution of the hydroelectric project will cause important problems: Attraction of manpower away from the populated and productive areas; the need to establish services of all kinds for the project itself and for the personnel; supplying of personnel with various goods, especially food. Serious disequilibrium can be produced: Shortage of labor in other sections, rise in wages, rise in the prices of food products, reduction of certain exports, excessive increase in imports. On the other hand, the project would give a strong incentive to agricultural and industrial development as well, of the region.

Therefore, it is essential to study thoroughly all the problems in the execution of this project besides those of techniques of construction, planning and estimating needs of all kinds, planning and evaluating sources of supply, which will probably require the use of resources from the nearby Brazilian region in addition to national resources. The solutions must try to reduce disequilibrium as much as possible. But in choosing solutions not only the immediate problems of the execution of the project should be borne in mind but also the future development of the region; and the attempt should be made to profit by the strong impulse during the period of construction so as to leave afterwards a structure of agriculture, livestock, industry and services that will make it possible to change the region of Puerto Pte. Stroessner into a zone of prosperity and permanent economic attraction.

6. Transportation and Communications

Transportation and communications projects total \$ 3,742.2 million.

- a) Those relative to the railway, air transportation and telecommunications, \$ 315 million in all, need no comment.
- b) River transportation projects comprise 100.8 million guaranies for a dry dock and workshop for the Merchant Fleet, 37.8 million guaranies for completion of 3 cargo boats for the Parana River, and 302 million guaranies for 4 combined passenger and light cargo boats.

It must be noted that the State Merchant Fleet has already bought an important number of ships, which have recently arrived in the country and which appreciably increase its transportation capacity. Utilization of these ships is going to cause serious problems in hiring and maintenance of technical personnel, as well as commercial problems of competition with other transportation enterprises; it is quite probable that the activity of the Merchant Fleet will grow progressively and that its hold capacity will not be wholly used for an unforeseeable but rather long period of time. Consequently, it is preferable to suppress the purchase of new ships until those already acquired are being used to full capacity. If that should happen during the quinquennium under consideration, the project could be included during the last two years, for which a revision will be necessary in any case.

- c) Highway projects total 2,986.2 million guaranies.

- \$ 126 million are projected for studies of road projects, which seems like a great deal because it corresponds to an amount of construction projects on the order of 5,000 million guaranies. This could be reduced to \$ 75 million.
- \$ 126 million are projected for the paving of the highway from Coronel Oviedo to Villarrica. At first glance it would seem that this highway could facilitate the extension of cultivation and the deconcentration of the population toward nearby regions suitable for farming.
- \$ 970.2 million are projected for asphaltting the highway to Brazil between Eusebio Ayala and Puerto Pte. Stroessner. The present scarce traffic certainly does not justify paving nor such a high cost investment; nor will it be justified for some time with the normal development of the region crossed and the corresponding traffic. However, the contemplated construction of the hydroelectric plant on the Acaray River will make necessary important means of transportation, and easy and rapid communications; in addition, this construction can greatly accelerate the development of the region. Therefore, paving of the highway can be considered, provided the Acaray River project is carried out.
- \$ 1,008 million are projected for the completion and paving of the highway from Paraguari to Encarnacion. Since financing for this project has already been obtained on very advantageous conditions, this project should be kept even though this important investment will very probably have a low return because the traffic between Asuncion and Encarnacion is light and will not grow very much and because the highway crosses a vast cattle region where the transportation requirements are and will be for a long time very limited.
- \$ 756 million are projected for the highways from Concepcion to Pedro Juan Caballero and Asunción to Tacuati. The first highway crosses an almost deserted region very far from zones of high population density and for the moment cannot attract colonists. It is true that there is a certain amount of development in Pedro Juan Caballero, but it is very incipient, and the production of the region does not need an important investment for the time being. The second is even less attractive; it crosses a practically uninhabited area and leads to a region where there is no existing production and none anticipated; moreover, the road runs parallel to the Paraguay River, whereas the highway network should rather be based on the river trunk with the roads feeding to it. These investments could serve no purpose during the period concerned since they will yield no returns for lack of resources, not only financial but also human resources, which must be concentrated at the present time in the new and still little exploited region of the highway from Coronel Oviedo to Puerto Pte. Stroessner.

Therefore these two projects should be postponed until the period following the next quinquennium.

Besides these projects, programs of secondary agricultural roads of the type contemplated for the colonization programs, with an approximate cost of 100,000 guaranies per kilometer, should be considered for the regions selected for concentrated effort. These local programs could be included in the municipal investments carried out with the financial and technical assistance of the Central Government.

The program for transportation and communications would then be the following:

Repair of the railway line	₡ 63 million
Dry dock and workshop for the Merchant Fleet	100.8
Completion of 3 cargo boats for the Parana River	37.8
Studies of road projects	75
Asphalting of the highway Eusebio Ayala-Pto. Pte. Stroessner	970.2
Asphalting of the highway Paraguari-Encarnacion	1,008
Paving of the highway Coronel Oviedo-Villarrica	126
Asuncion airport taxiway	126
Improvement of the telecommunications system	<u>126</u>
Total transportation and communications program	₡ 2,632.8 million

7. Education

Education projects total ₡ 1,704.5 million. Operating costs of education projects are normally very high; they can be estimated at approximately 30% of the investment -- i.e., ₡ 500 million. However, since primary teachers' salaries are very low, this estimate can probably be reduced to ₡ 300 million, which would seem to be the minimum. The expenditures of the Ministry of Education were ₡ 406 million in 1960. Moreover, the maximum possible increase in total current expenses for the next five years was estimated at ₡ 590 million. These data indicate that it is impossible to carry out all the projects contemplated in the next five years, because they would require too high a percentage of the forecast increase in public revenues.

These projects consist of:

- a) Reorganization of the agricultural schools: ₡ 63 million
This project pertains to one of the priorities indicated for the formation of production personnel.
- b) Schools, Pedagogical Center: ₡ 1,514.2 million
This project includes:

Community development:

₡ 52.7 million

This program should be concentrated for the time being in the regions which have the highest population density. Consequently the centers contemplated for the departments of Concepcion, San Pedro, Misiones, and Neembucu should be postponed. The cost would thus be reduced to around ₡ 30 million. In addition, the project ought to be closely linked to the program of technical assistance for agricultural production and even included in it.

Technical industrial instruction:

₡ 14.5 million

In view of the scant industrial development and since the country already has a technical vocational school, a technical industrial school should not be established without a thorough study which estimates industrial personnel requirements. Therefore this project ought to be postponed.

Teacher formation:

₡ 76.1 million

Teacher formation clearly merits high priority; nevertheless the most urgent and profitable course in the present situation would be to expand the regional normal schools to create teachers more rapidly. It would be advisable for the scarcity of resources to postpone plans relating to the Superior Normal School.

Primary instruction:

₡ 1,370.9 million

For the construction and equipment of 2,550 classrooms, which would make it possible to provide primary instruction to the entire school-age population. Primary education is presently limited to 60% of this population. To maintain the same percentage there would be necessary 670 additional classrooms in 1966 at an approximate cost of ₡ 335 million. The increase in this percentage depends upon the number of teachers created during the period and also upon the operating costs which the Central Government budget can support. It can be estimated in a preliminary fashion that the construction of 1,000 new classrooms would cost ₡ 500 million and would make necessary annual operating costs of approximately 80 to 100 million guaranias, which would be a very high goal in the present circumstances. It would correspond to a 65% provision of school facilities, though actually a little more because the number of private schools would also be growing during the period, and they presently account for almost 8% of the pupils in the primary grades.

c) National University:

₡ 127.3 million

In the present situation postponement of this project appears unavoidable.

The program for education would then be:

Reorganization of the agricultural schools	₡ 63 million
Community development	30
Teacher formation	76.1
Primary education	<u>500</u>
Total education program	₡669.1 million

As for the operating costs, they would be at least ₡ 150 million a year, which represents 30% of the present expenditures of the Ministry of Education in 1960, and would very probably be excessive. Consequently, it would be advisable to deduct from this program a supplementary program which could be undertaken beginning in 1965 if the development of the economy in the three preceding years permits it.

There would then be a main program:

Reorganization of the agricultural schools	₡ 63 million
Teacher formation, 50% of the total program beginning with the regional normal schools	38.1
Primary education	<u>335</u>
Total:	₡ 436.1 million

with an approximate operating cost of 85 to 100 million guaranies a year, and an eventual additional program:

Community development	₡ 30 million
Teacher formation, 50% of the total program	38.1
Primary education	<u>165</u>
Total:	₡ 233 million

with an approximate operating cost of 50 to 60 million guaranies a year.

8. Public Health

The public health program totals ₡ 1,429.6 million in two parts: one for hospitals, which is ₡ 720.9 million; the other for potable water and sewage, which is ₡ 708.7 million. It can be assumed that only the first part will necessitate operating costs, which can be estimated approximately at ₡ 240 million a year, but which would not be sustained even by 1966.

- a) The hospital program also seems very high for the needs of the population. To determine its relative attractiveness it would be necessary to prepare a study of the hospital facilities in the country, including private facilities. In the present situation it seems necessary to postpone projects like this.
- b) In the potable water and sewage program, the urban potable water project in the interior, which represents ₡ 285.4 million appears to merit consideration. However, the urban population is quite scattered; apart from the capital, which accounts for almost half of the total urban population, 3 centers of more than 10,000 have 60,000 inhabitants and 8 centers of 5,000 to 10,000 have 55,000 inhabitants. It seems unlikely that the program could be completed in 5 years. Moreover, the municipalities should participate in the financing of the project. The five year program could be limited to ₡ 200 million of which 50% would be paid by the Central Government.

- c) Of the projects proposed for Asuncion, extension of the distribution of potable water and the sewage system need no comment. However, the storm sewer project of \$ 315 million seems very costly and should be completed in stages.

The public health program may tentatively be stated as follows:

Extension of the potable water system in Asuncion	\$ 45.5 million
Sewage drains in Asuncion	63
Storm sewers in Asuncion	63
Urban drinking water in the interior (50% of the program)	100
	<hr/>
Total public health program	\$ 308.4 million

9. Housing

The housing program totals \$ 1,654.4 million. It consists chiefly of a project for 6,200 dwellings: 1,200 urban and 5,000 rural, at a cost of 1,562.4 million guaranies, to be completed in one year. The program obviously cannot be carried out, because this program alone would absorb all of the public investment projected for the first year.

Neither can the program be carried out over the next five years, because it would allot almost 20% of the total estimated public investment for projects that would have no effect upon economic activity except for the construction industry itself.

Furthermore, the program does not seem to relate to a real problem. The peasant himself constructs and maintains his own dwelling with local materials that cost little aside from his labor. If he were provided housing constructed by the Housing Institute, he would have to pay rental including maintenance in exchange for partial unemployment, which he could not and would not do.

With respect to workers' housing, a study of the needs does not seem to have been made, since they are not indicated in the project. It would be necessary to examine the present availability of workers' housing, the annual cost, types of construction and rents, what categories and what number of workers could pay the annual cost of the type of dwelling contemplated in the project (which cost would be at least 20,000 guaranies, or 8% of the cost of construction). Moreover, it is not clear that the construction of rental houses with public funds is the most adequate method of solving the housing problem. A system of credit for construction, which could be carried out by the interested parties themselves or by private firms for rental -- a system which could also be utilized by the rural population -- would probably be preferable.

In fact, the project for 6,200 dwellings seems aimed much more at increasing the employment of workers and reducing unemployment than solving a housing problem. It is possible that if an important housing program had been executed in 1959-1960, years in which economic activity

was low, it could have produced favorable effects on the general economy. However, in 1961 economic activity rose; it is hoped that it will rise more in the next few years, thereby increasing employment. The important growth projected for public and private investment too, --growth reflected in economic activity supported by recommended reforms-- will increase employment even more. It is quite possible that all this could cause a general manpower shortage; there would certainly be difficulties with respect to specialized labor. An important housing program under these circumstances could be very harmful, attracting human and productive resources into a field which, being oriented toward consumption rather than production, could not provide multiple effects on the economy.

As far as the construction industry is concerned, the completion of the hydroelectric plant on the Acaray River will necessitate 3,000 to 5,000 houses, and the construction of various buildings. The timely recommendation recently made to industries in the Asuncion area by the Executive Branch will stimulate this activity.

Therefore, it seems necessary to reduce very considerably the housing program until a thorough study has been made of the needs and until the trend of economic activity and employment can be confirmed.

For now, the workers' housing program by itself can be tentatively estimated at 1,000 dwellings for the next quinquennium with an investment of \$ 252 million.

10. Participation in Municipal Investments

For these investments there should be an annual item set aside in the capital budget. Municipalities could obtain grants for partial financing, say half, of the investment projects. These projects must be approved by the Central Government taking into account the following factors: conformity with the goals of development planning, adequate technical study, confirmation of Municipal participation in the financing, which could be in cash or in labor. In addition, the project should be completed with the technical assistance and under the control of the central or departmental public administration.

There can be tentatively projected for this proposal some 40 million guaranies annually, or 200 million guaranies over 5 years.

11. Studies

One should also provide for basic studies necessary to the better understanding of the economy and possibilities for development. Important technical assistance in personnel --aside from financial aid-- can probably be obtained from abroad for these studies. Nevertheless, the country will have to support the relevant internal costs; for this proposal 30 million guaranies a year can be estimated as sufficient, or \$ 150 million for the quinquennium.

CONCLUSIONS

The total of the sector programs that result from the examination of the projects would be the following:

Scientific and Technical Research	₡ 176.4 million	}	3.6%
Basic Studies	150.0		
Agriculture	1,087.7	}	14.3%
Livestock	151.7		
Industry	71.8		
Electric Power	3,417.0	--	37.5%
Transportation and Communications	2,632.8	--	28.9%
Education	669.1	}	13.5%
Health	308.4		
Housing	252.0		
Participation in Municipal Investments	200.0	--	2.2%
Total:	₡ 9,116.9		100.0%

The total exceeds the projections made for public investment, which were ₡ 8,550 million for the quinquennium, to which must be added ₡ 100 million of current expenditures for the operating expenses of the rural technical assistance program, or ₡ 8,650 million.

Consequently, it is essential to set up within this total an additional program which would be carried out only in the event that the growth of the economy permits it from 1965 on.

The supplementary program can include: the additional education program already proposed of ₡ 233 million; the agricultural mechanization project of ₡ 31.5 million, which as said above does not appear urgent and whose economic purpose is not clear; the project for the study of the supply of potable water for cattle in the Chaco of ₡ 100 million, which can be postponed because the construction of cutwaters for rain water will improve the situation considerably in the first stage; the Asuncion storm sewer project of ₡ 100 million, because an important investment has already been made in Asuncion in potable water and because projects for the extension of potable water distribution and for a sewage system are contemplated and are undoubtedly more urgent.

The main investment program would then be the following by branches of activity:

Scientific and Technical Research	£ 176.4 million	}	— 3.8%
Basic Studies	150.0		
Agriculture	1,056.2	}	— 13.6%
Livestock	51.7		
Industry	71.8		
Electric Power	3,417.0	—	39.5%
Transportation and Communications	2,632.8	—	30.4%
Education	436.1	}	— 10.4%
Health	208.4		
Housing	252.0		
Participation in Municipal Investments	<u>200.0</u>	—	<u>2.3%</u>
Total:	£ 8,652.4	—	100.0%

The supplementary program would be the following:

Agriculture	£ 31.5 million
Livestock	100.0
Education	233.0
Health	<u>100.0</u>
	£ 464.5 million

This program suggests the following observations:

1. Even though the proportion of investment in the productive sectors has increased a great deal and reached 13.6% in place of the 3.6% of the years 1958-1959-1960, it is still insufficient and has been prevented from increasing by the lack of adequate projects and preparation.

Actually the proportion is a little larger than that which is represented by the projects contemplated in agriculture, livestock, and industry. In effect, the Rio Acaray hydroelectric plant will furnish electric power for exportation and for industrial consumption. Consequently, at least 15% of the investment in this sector can be estimated to correspond to the productive sector.

Nevertheless, new productive projects need to be studied, such as: Campaign against cotton diseases; use of organic fertilizers; tobacco dryers; conditioning of export products, particularly essence of petit-grain; growing of improved seeds; improvement in hog and poultry breeding and feed for this purpose; promotion of winter shelters for cattle; etc.

These new projects should be included in the program, cutting even more if need be the health and housing projects.

2. Basic services of electric power and transportation reach an excessively high proportion of 69.9% of the total. Reducing the percentage for electric power by the 15%, or 6% of the total program, which corresponds to the productive sector, would leave 64%, which is still very high.

3. The disequilibrium comes from the amount of investment in electric power, which represents a very high proportion of the total public investment, 39.5%. Moreover, this project requires a large investment in the highway from Eusebio Ayala to Puerto Presidente Stroessner which could be postponed if the hydroelectric plant were not constructed. Possibly from the point of view of the general economy it would be preferable to postpone the construction of this plant and expand the thermal plant to supply the needs of Asuncion.

However, the project has good arguments in its favor:

- a) It will limit the growth of imports of petroleum products.
- b) It will make necessary the creation of the administrative, commercial and social center which is needed for the development of the region. If the execution is well organized and well planned, it will provide the necessary structure for this development and will give it a strong stimulus with which it should be able to continue forward after the construction.
- c) It will provide, in all probability, a notable increase in exports as well as electrical energy for consumption requirements and the needs of production, too. Even if the project is not carried out, it is quite possible that for the lack of projects in the productive sectors the share of these sectors could not be increased, not even enough to replace what the plant will probably provide in exports and to the productive sectors, which was estimated at 15% of the investment, an estimate which seems conservative. Therefore if this project is not carried out it is almost certain that the public investment goals will not be met, or in order to meet them that investments will be increased in transportation, principally in large penetration roads with a very low return, as well as investments in social services with high costs of operation. This change in the projected program would unquestionably cause a deterioration in the capital-output ratio that was estimated necessary.
- d) Finally, it seems probable that it would not be possible to get the foreign financial aid that is being negotiated for the electric project, for the lack of other prepared projects, attractive for economic development, which could justify aid of a similar size.

Therefore, in spite of the disequilibrium that it will bring about, it seems necessary to keep this project in the program for the next quinquennium. But it should be reduced as much as possible, devoting the major portion to the generation of electric power for exportation and industrial consumption, and to plan carefully its construction in order that it support in every way possible the development of the region and provide the permanent structure that this development needs to progress.

4. The total amount of transportation and communications projects is not excessive, but the highway program is very rigid in spite of the postponement of two penetration roads, because it still contains too high a proportion of this type of road. It would have been much preferable for the program to have included a higher proportion of secondary roads. These roads are limited to that from Coronel Oviedo to Villarrica and to the roads included in the colonization programs. The investment projected for the highway from Eusebio Ayala to Puerto Pte. Stroessner can probably not be reduced if the Rio Acaray hydroelectric plant is undertaken. In addition, this project must be completed as soon as possible to help assist in the construction of the plant; the same is true of the road from Coronel Oviedo to Villarrica so that it may facilitate the supply of agricultural products to the labor employed. On the other hand, the investment contemplated for the highway from Paraguari to Encarnacion is not related to any other project and could therefore be modified. It would be very advisable for this investment to be limited to the asphaltting of the parts of the highway that need it most, that is the sections that it has not been possible to lay in stone, leaving, for example, some \$ 500 million for a program of secondary roads in the central region of high population density and economic activity and in the region of Encarnacion, which now has significant agricultural activity, which should be prepared to constitute a zone of development and economic attraction, and which justifies for these reasons an amount of investment that is larger than what is contemplated in the program as it is now.

It is true that financing for the Paraguari-Encarnacion project has already been obtained. Nevertheless, it is quite probable that a modification of the project could be arranged with the financing agency.

5. The total proportion for social service projects is 10.4%, which is a little low. It is also possible that it may be necessary to reduce it even more to permit the undertaking of new production projects. But the limiting factor here is not so much the availability of financial and other resources as the very high operating costs in the education and hospital fields. The difficult budgetary situation will not permit consideration of an important program of investments in these sectors before 1965, and probably not during the entire quinquennium. Education also has another limitation, namely the formation of teachers. In this period of essential austerity for all the social sectors, educational efforts must be devoted chiefly to improving teacher formation, the quality of instruction, and lessening the rate of pupil drop-out. The high proportion of students who drop out of primary school from one year to the next represents a tremendous waste of resources in investment and in teachers. The next five years should rather be devoted to increasing the return on existing investment and on public expenditures for primary instruction.

With respect to housing it must be noted that the completion of the hydroelectric plant project will bring about a strong increase in the construction of dwellings and other buildings.

6. It is possible that the participation of the Government in municipal investment is too high for the capacities of the municipalities. With the project for potable water in the interior there would be \$ 300 million which the municipalities could get by making an equal contribution. Their total estimated budgets on the present base would amount to about 900 million guaranies for the quinquennium, of which they must devote one-third to investment to match the share of the Central Government. It would take some time before the municipalities could utilize this system. Some municipalities will not be able to devote one third of their resources to investment.

Therefore, it is possible that a part of the amount projected will be available for other projects. Nevertheless, it is preferable to keep the annual amount contemplated; the remaining balance could be applied to other projects in the following fiscal year.

To assure the completion of the investments selected for the public investment program, it would be necessary for the Central Government and state agencies to have a capital budget with a quarterly projection of expenditures. These expenditures would be paid from a special fund maintained by taxes earmarked for investment and by the necessary complementary part of general collections deposited monthly into the fund. The Central Bank would be charged with depositing revenues into the fund and controlling the use of the resources in accordance with the proposed expenditures for each project. In this way the reduction of projected investment expenditures because of the pressure of current needs could be avoided; financial disequilibrium in the completion of the projects could also be avoided.

Finally, the following outline of a public investment program can be proposed, by project and by year. This outline is tentative only and must be revised on the basis of technical studies of the various projects. But for now it has the advantage of indicating an important difficulty arising from the very high volume of investment proposed for electric power in 1964.

Equilibrium within the annual global totals was established by assigning the balance of each annual investment to transportation and housing, which use in great part similar means of production: construction companies, machinery, specialized manpower. In the first years of the period were forecast the two highways which can facilitate the construction of the electric plant. The third was postponed to the end of the quinquennium. However, investment in the hydroelectric plant includes not only construction requiring similar resources to those used for highways, but electrical generating machinery which causes no problem other than the financial. It is possible, therefore, that a review of the annual distribution of investment will permit starting sooner than forecast the completion of the Paraguari-Encarnacion road and the program of secondary roads that was recommended.

Investments in the productive sectors were concentrated insofar as possible in the first years to get from them the most rapid returns. This procedure also allows for the possibility of including in the program at the end of the period new investment projects in these sectors.

TENTATIVE OUTLINE OF A PUBLIC INVESTMENT PROGRAM

PRINCIPAL PROGRAM
(IN MILLIONS OF 1960 GUARANIES)

<u>Sectors and Projects</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
<u>Research</u> Sub-total	<u>56.4</u>	<u>80</u>	<u>80</u>	<u>80</u>	<u>30</u>	<u>326.4</u>
Scientific and Technical Research	26.4	50	50	50	--	176.4
Basic Studies	30	30	30	30	30	150.0
<u>Agriculture</u> Sub-total	<u>176.2</u>	<u>240</u>	<u>200</u>	<u>220</u>	<u>220</u>	<u>1,056.2</u>
Campaign against the Ysau	35	70	70	70	70	315.0
Construction of Silos	30	20	--	20	20	90.0
Colonization Programs	41.2	100	100	100	100	441.2
Experiment Stations	40	20	--	--	--	60.0
Technical Assistance Program	30	30	30	30	30	150.0
<u>Livestock</u> Sub-total	<u>16.0</u>	<u>15.6</u>	<u>6.7</u>	<u>6.7</u>	<u>6.7</u>	<u>51.7</u>
Campaign against Aftosa and Brucelosis	6	6.7	6.7	6.7	6.7	32.8
Milk Treatment Plant	10	8.9	--	--	--	18.9
<u>Industry</u>						
Reconditioning of the Valle-mi Cement Plant	<u>50</u>	<u>21.8</u>				<u>71.8</u>
<u>Electric Power</u> Sub-total	<u>106.6</u>	<u>798.1</u>	<u>1,267.8</u>	<u>865.5</u>	<u>379.0</u>	<u>3,417.0</u>
Hydroelectric Plant and Transmission Line	--	678.6	1,179.0	766.6	251.7	2,875.9
Asuncion Installations	106.6	119.5	88.8	98.9	127.3	541.1

<u>Sectors and Projects</u>		<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
<u>Transportation and Communications</u>	Sub-total	<u>861.8</u>	<u>428.2</u>	<u>128.0</u>	<u>390.8</u>	<u>824</u>	<u>2,632.8</u>
Repair of the Railway Line		63	--	--	--	--	63.0
Merchant Fleet Dry Dock and Workshop		--	--	--	40.8	60	100.8
Completion of 3 Cargo Boats for the Parana River		37.8	--	--	--	--	37.8
Road Project Studies		15	15	15	15	15	75.0
Asphalting of the Eusebio Ayala to Pto. Pte. Stroessner Highway		620	350.2	--	--	--	970.2
Asphalting of the Paraguari to Encarnacion Highway		--	--	50	355	623	1,008.0
Paving of the Coronel Oviedo to Villarrica Highway		--	63	63	--	--	126.0
Asuncion Airport Taxiway		126	--	--	--	--	126.0
Improvement of the Telecommunications System		--	--	--	--	126	126.0
<u>Education</u>	Sub-total	<u>127.0</u>	<u>108.1</u>	<u>67</u>	<u>67</u>	<u>67</u>	<u>436.1</u>
Reorganization of the Agricultural Schools		40.0	23.0	--	--	--	63.0
Teacher Formation. Regional Normal Schools		20.0	18.1	--	--	--	38.1
Primary Instruction		67.0	67.0	67.0	67.0	67.0	335.0
<u>Health</u>	Sub-total	<u>85.4</u>	<u>63</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>204.8</u>
Extension of Asuncion Potable Water		25.4	20	--	--	--	45.4
Asuncion Sewage System		40	23	--	--	--	63.0
Potable Water for the Interior, 50% Charged to the Central Government		20	20	20	20	20	100.0
<u>Housing</u>		<u>52</u>	--	--	<u>80</u>	<u>120</u>	<u>252.0</u>
<u>Participation in Municipal Investments</u>		<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>200.0</u>
Grand Total:		1,571.4	1,794.8	1,809.5	1,770.0	1,706.7	8,652.4

S U P P L E M E N T A R Y P R O G R A M

<u>Sectors and Projects</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>Total</u>
<u>Agriculture</u>						
Agricultural Mechanization	--	--	--	--	<u>31.5</u>	<u>31.5</u>
<u>Livestock</u>						
Study of Potable Water for Cattle in the Chaco	--	--	--	<u>50</u>	<u>50</u>	<u>100</u>
<u>Education</u>	--	--	--	<u>98</u>	<u>135</u>	<u>233</u>
Sub-total	--	--	--	<u>98</u>	<u>135</u>	<u>233</u>
Community Development	--	--	--	15	15	30
Teacher Formation, 50% of the total Program	--	--	--	18	20	38
Primary Instruction	--	--	--	65	100	165
<u>Health</u>						
Storm Sewers for Asuncion	--	--	--	--	<u>100</u>	<u>100</u>
Total:	--	--	--	148	316.5	464.5
Principal Program:	<u>1,571.4</u>	<u>1,794.8</u>	<u>1,809.5</u>	<u>1,770.0</u>	<u>1,706.7</u>	<u>8,652.4</u>
Grand Total:	<u>1,571.4</u>	<u>1,794.8</u>	<u>1,808.5</u>	<u>1,918.0</u>	<u>2,023.2</u>	<u>9,116.9</u>

PROGRAM OF BASIC STUDIES

In the framework of Government action for economic and social development it is necessary to integrate studies which will permit the setting of goals, determining of means, and the coordination of projects, and to prepare the formulation of a process of development planning that will be continually more complete and exact.

In addition to the study of projects, basic studies can be recommended as listed below. Many of these studies should be continuous or at least periodic. This list is not exhaustive and only corresponds to the principal weak points in understanding the economic and social structure, which make the work of projection and planning difficult. The studies suggested should be begun as soon as possible in order that their findings may be utilized in formulating development planning after 1965.

1. Conducting a demographic census by a sampling method which would permit following the population growth over shorter periods and at less cost. The census of 1950 is too old to serve as a basis for planning.
2. At the same time, a thorough study of emigration; its volume; its origin by regions, occupations, social class; its causes; its destination by regions and occupation.
3. Conducting an agricultural and livestock census, also by the sampling method.
4. Study of land tenure, the growth of the problem, and an examination of its organization and the measures necessary to solve the problem.
5. Inventory of pastures and available potable water for cattle, including underground water, in the Chaco. This inventory would permit the estimation of the possibilities for increasing herds in the region and the projection of necessary investment.
6. Study of the urban population in the principal centers: Trend of growth; occupations; basic services — electricity, water, sewers, transportation; housing; principal social classes — domestic and professional equipment; standard of living; family budgets — consumption, investment, nutrition.
7. Study of the rural population by the sampling method. Occupations; distribution of work during the year; distribution of work in the family; investment level; production; yields; preservation of production and losses; land tenure; housing; professional equipment; domestic equipment; family budgets — consumption, investment, nutrition.
8. Formulation of a sampling system of estimating annual agricultural production (including projection of production if possible).
9. Conducting an industrial census; establishment of a system for the annual registration of production; the use of various factors of production, raw materials, accessory materials, power, water, manpower, etc.; investment.

10. Planning the building of the Rio Acaray hydroelectric plant; necessary complementary services and activities for construction; necessary manpower, by type; services necessary for labor; dwellings and constructions, consumption needs for food and other products; source of these products; necessary investment; planning of the undertaking.
11. Transportation study: Traffic over various routes — volume, passengers, origin and destination, and merchandise by type, origin and destination; material necessary for the transport industry; cost of transportation over various routes.
12. Study of development in certain regions. An inventory of the possibilities; present population; present basic equipment; particular problems; development goals — in accordance with national goals. Projects; needs; population and manpower; investment; necessary organization and services; commercial and social centers; anticipated production and its destination.

The regions which should be examined in the first stage are that of the highway to Puerto Presidente Stroessner and that of Encarnación; in the second stage that of Pedro Juan Caballero and Filadelfia.

13. Study of available services: Public administration, education, health and others. Distribution in the country by regions; comparison with the population served and the regional economic activity.
14. Study of the public administration organization necessary at the central, departmental and municipal levels.
15. Study of imports by type of goods (immediate consumption and durables); consumption by principal productive activities; capital goods); by the consuming economic and social sectors; by urban centers and rural regions.
16. Studies of the markets abroad for national products. The most attractive studies would seem to be for sugar, fruit, tobacco, essential oils, refrigerated meat, logs, lumber and wood products, and paper pulp.
17. Study of prices: Growth indicated by indices, and the reasons for these trends; revision of the indices; establishment of a system for recording the prices paid to the producer for agricultural products.
18. Study of the composition of the prices of principal products. Agricultural products: Prices to the producer; transportation; storage; marketing costs; taxes; prices to the consumer and export prices. Industrial products and imports; prices at the factory or C.I.F.; taxes; handling; transportation marketing; prices to the consumer.
19. Study of the budgetary structure, taxes and administration, expenditures and administration. Formulation of a fiscal reform.
20. Study of the economic accounting of the public sector.

Central Government: Formulation of a system of accounts by economic activity;

and their relationship to the traditional financial accounts; eventual modification of the financial accounts.

State agencies: Formulation of a system of accounts to correspond to the economic system. Annual balances and their control.

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CONTRIBUTION OF PUBLIC FUNDS TO PRIVATE INITIATIVE

In this examination of the support of private initiative with public funds, there are included both domestic public funds and foreign public funds provided to private initiative directly or through the medium of public financial institutions. There will be examined here only support in the economic field, leaving aside whatever support may be provided in the various social sectors.

In past years the Social Security Institute has devoted an important portion of its investments to shares in enterprises, up to an amount totalling \$94,7 million in 1959. However, a large part of this sum was invested in CORPOSANA, and apparently the amount devoted to private initiative was rather small. Consequently, it is not possible to forecast the support of the Institute to private initiative in the next few years.

A tax of 5% on imports was levied for the benefit of the National Development Bank. Revenues from this tax were estimated for the next five years at a total of 696 million guaranies. When it began operations the National Development Bank had total assets of \$812 million, including a loan portfolio of \$567 million and \$209 million in liquid funds. Liabilities and capital included \$70 million of capital and \$448 million of loans from the Central Bank.

With respect to foreign resources the following projects have been established:

1. A loan to the National Development Bank of 3 million dollars, or 378 million guaranies. This loan has been granted but has still not been made effective.
2. A loan to the Private Development Bank of 2 million dollars, or 252 million guaranies. This loan is particularly interesting because it permits the accumulation of national capital in a bank for medium and long term loans and the beginning of a financial market.
2. A loan for agricultural credit of 4 million dollars, or 504 million guaranies as part of a loan of 10 million dollars solicited by the Central Bank. This agriculture loan corresponds to a credit program of 640 million guaranies, of which approximately 600 million would be lent for a maximum term of 12 months. In 1960 the gross domestic product originating in agriculture was 5,200 million guaranies. Consequently, the agricultural credit program corresponds to more than 10% of the agricultural product foreseen for 1962. Since the commercial part of this product is approximately 40%, the credit program corresponds to more than 25% of the agricultural product produced for sale. This percentage seems quite satisfactory.

As for the program itself, it calls for certain observations:

It is too detailed, and it does not appear suitable to arrive at this degree of precision, which will actually be impossible to apply without too authoritarian methods and excessively heavy controls. It would be preferable to assign quotas only for a small number of crops which seem

to be of greater importance for development — for example, cotton, corn and fruit — and leave a large part of the credit without any particularly specified use.

— Rice and wheat together account for \$150 million, or 25% of the annual credits contemplated. These crops also appear to be those most favored with respect to the amount of credit proposed on the one hand, and the number of hectares to be cultivated and the cost of cultivation on the other. These two crops do not seem to merit such a privileged status. Rice cannot be extended much further because the relatively low yields and the distance from the sea do not permit it to be exported to international markets. Domestic wheat cannot be substituted for imported wheat until the yields have been improved a great deal through experimentation; at the present time the peasant cannot cultivate wheat economically.

— It should be noted that it does not seem appropriate either to set aside special credit for yerba mate, the bitter orange, and grapes, even though the amount of credit earmarked is very low. This is a matter of traditional crops which in practice do not need assistance. Moreover, it would be dangerous to promote them, because the market for yerba mate abroad is narrow and cannot be greatly widened; as for grapes the market is wholly domestic and cannot be developed abroad; the market for essence of petit-grain is also very narrow, and it is probable that the present stands of trees are more than sufficient. It would undoubtedly be much more profitable to promote the planting of improved varieties of bananas, pineapples, and citrus fruits.

4. A loan for agricultural implements of 5 million dollars, or 630 million guaranies.

This project is intended to facilitate the importation of various articles necessary to agricultural production. These articles would be imported by the National Development Bank.

The size of this project seems very large. It anticipates 1 million dollars for insecticides, fertilizers, seed, and spare parts for agricultural implements which enter into the annual costs of production for which a loan of 4 million dollars has already been solicited. Almost 1 million dollars more is proposed for various goods which probably also correspond in large part to annual costs. Six hundred sixty thousand dollars is for unforeseen contingencies.

Consequently, it may be considered that if a loan is obtained of 4 million dollars for agricultural credit, a complementary loan of 3 to 3.5 million dollars for agricultural implements would probably be sufficient.

5. The next proposals correspond to the two colonization programs contemplated for the next five years. Besides the necessary public investment which was estimated in the public investment programs, these proposals include private investments that would be financed with loans of \$510 million for the 100,000-hectare program of Puerto Presidente Stroessner and \$1,300 million for the Spanish colonization program in the same region.

It would appear that these loans correspond to all, or nearly all, of the necessary investment. That would be excessive. The colonist ought to make some of the necessary investment, whether from his own capital or in labor. Nevertheless it is impossible, without a thorough study of these proposals, to estimate the proper amount of loans from public funds.

6. A forestry credit: 2 million dollars, or 252 million guaranies, as part of a loan of 10 million dollars solicited by the Central Bank. This credit is intended to facilitate the recovery of forest production, which, weakened by the scant activity of the last few years, cannot respond rapidly to the important demand for wood in the Argentine market.
7. A credit for livestock development: 10 million dollars, or 1,260 million guaranies. This credit corresponds to a total investment program of 20 million dollars, about equally divided between domestic and foreign costs.
8. A credit for aid to cottage industry: 647,000 dollars, or 80.6 million guaranies. This project does not appear to be well studied. Cottage industries have high costs which are not competitive with those of industry proper. Therefore it is necessary to choose with care on the basis of an economic study the cottage industries which it is desired to encourage. On the other hand these industries are attractive as a means to increase the employment of the agricultural population when their capacity for work cannot be utilized in any other form for lack of land or for the existence of seasons which totally prohibit agricultural work over long periods. Such conditions do not prevail in Paraguay, and for this reason it would be much more economical to promote agricultural production itself than cottage industry in the rural environment.
9. A loan for oil refining plants of 500,000 dollars, or 63 million guaranies, and a loan of 550,000 dollars, or 69,3 million guaranies for various industries: tobacco, cotton, industrial oils, etc.

The percentage of utilization of capacity of certain industries is low. Among these industries is found especially oils, and also cotton.

Therefore it is necessary to make a study of the situation in the various branches of industry, which will permit us to decide which ones should be helped. Loans from public funds should be strictly limited to those industries which are most significant to the general economy.

10. A loan of 500,000 dollars, or 63 million guaranies, for the sugar industry. The sugar industry is relatively old and yields appear low. Modernization is probably necessary.
11. A loan of 2,53 million dollars, or 318,8 million guaranies, for the lumber industry.

It would undoubtedly be attractive to develop the lumber industry in this country. Nevertheless, it is a difficult problem for the heterogeneity of the forest which yields a very low utilizable tonnage per hectare, for the small size of the domestic market which at the present time is of no interest to the lumber industry, and for the dependence of the industry

on the fluctuating Argentine market. There already exists in the country an excess productive capacity in the sawmills, some of which have been closed down for some years.

It would be necessary to make a thorough study of the lumber industry, its markets, technology applied, available raw materials, and plant locations,

In short, and taking into account the observations made with respect to the projects, one would have the following funds of public origin to aid private initiative:

National Resources

Capitalization of the National Development Bank	\$ 696 million
Portfolio of loans and liquid funds of the National Development Bank	778 "
Capital, Private Development Bank	<u>100</u> "
	1,574 "

Foreign Resources

National Development Bank	378 million
Private Development Bank	252 "
Agricultural Credit	504 "
Credit for Agricultural Implements	441 "
Colonization	1,800 "
Forestry Credit	252 "
Credit for Livestock Development	1,260 "
Credit for the Sugar Industry	63 "
Credit for the Lumber Industry	<u>318,8</u> "
Total Foreign Resources:	5,268,8 million
GRAND TOTAL:	\$ 6,842.8 million

The amount of foreign resources would be almost 42 million dollars. So large a sum cannot be counted upon. The burden of the total new debt contracted for public investment and aid for private initiative would come to about 82 million dollars and could not be supported; moreover, it is highly probable that this amount of foreign financing could not be obtained.

Of the total resources contemplated as aid to private initiative, those which correspond to investment may be considered to be the loans for the Private Development Bank, for agricultural implements, for colonization, for livestock, for the sugar industry and for the lumber industry, which total in all 4,135 million guaranies. In addition, one must also add a part of the resources of the National Development Bank which corresponds to that part of its activity not dedicated to commercial credit, or 40% of said resources in the amount of 790 million guaranies. The total of these two figures, 4,925 million guaranies, would represent 32% of the private investment of \$15,250 million contemplated for the next quinquennium.

So high a proportion does not appear necessary.

Of the loan projects contemplated, the most important are:

1. For the National Development Bank and the Private Development Bank, because they are general and because they permit these financial organizations, which are of extraordinary importance to economic development, to begin operations on a satisfactory scale.
2. For agricultural credit, agricultural implements, and forestry, because these correspond to the urgent needs of the economy which cannot be met with domestic resources with the necessary speed.

As for the other projects, they must be and can be reduced. Colonists must not count upon loans alone, but also upon their own investments. Livestock farmers who have good guarantees can seek other sources of financing, including their own savings to a large extent. The loan proposed for the lumber industry seems very important and should be looked at again when a complete study has been made of this branch of industry.

To conclude: It would be necessary first to make a thorough study of the needs and results of development in the various sectors of private initiative. Without this study only a very rough estimate can be made. Loans to private enterprise from foreign public funds of 20 million dollars during the next quinquennium would probably be quite a large amount, producing a rather large servicing load. Twenty-five million dollars seems to be the maximum. There would therefore be 2,520 or 3,150 million guaranties that should be added to the 1,570 million guaranties of domestic funds, thus arriving at support from public funds to private initiative of 4,090 or 4,720 million guaranties. To estimate the part which corresponds approximately to investment, there must be eliminated the agricultural credit of \$504 million, the forestry credit of \$252 million, and also a portion of the resources of the National Development Bank equivalent to the portfolio destined for commercial credit, or 60%. Support for investment would then be 2,275 or 2,900 million guaranties. Comparing these figures with the projected volume of private investment of \$15,250 million, the proportion would be 15% if the amount of foreign loans were 20 million dollars and 19% if the amount were 25 million dollars. Support to private initiative with public funds to the extent of 15% would have a strong guidance and development impact, and therefore it would be sufficient to contract abroad for 20 million dollars or a little more.

This figure obviously does not include loans, nor much less share capital, by foreign private investors, which can be negotiated directly by the private enterprise.

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PROPOSAL FOR ORGANIZATION OF A PLANNING AGENCY

In order to accelerate economic and social progress, a task to which the Government is pledged as it clearly affirmed in associating itself with the declarations of the Charter of Punta del Este, it is essential to coordinate and plan economic and social development so as to achieve the most efficient use of all available natural resources. Moreover, coordination and planning can make it easier to obtain more ample funds from abroad. Circumstances are favorable by reason of the improvement of the economy which is appearing after the crisis of the last few years, and also because of the hope for a wider foreign market and foreign aid stemming from the Free Trade Zone and the Alliance for Progress. These circumstances must be taken advantage of immediately to amplify development efforts.

The planning of economic and social development requires a strong and persistent will on the part of the Government. To manifest and apply such a will, the Government should create a technical planning organization.

This organization has a dual role. First, it is charged with informing the Government about economic or social development problems and preparing from a technical point of view the decisions that will be taken at a policy level to solve these problems and stimulate development. Second, it is charged with explaining Government directives to the various sectors of the country, and provoking and gathering from them their ideas, suggestions and needs, coordinating their efforts in one coherent body in accordance with the objectives of development policy.

This, then, is a staff job. It is not necessary that the planning organization itself realize and execute development projects; it is not even desirable, because its role is formulation and coordination. This organization must be flexible and of high technical competence, with the purpose of guiding and coordinating the work of other organizations, without displacing these organizations nor reducing their competence or responsibility.

The planning organization is an instrument of the economic policy of the Government, to whom it should be very close, in order that the organization may be always available to inform, to clarify, to solicit directives, decisions and judgements. Since planning requires choices and priorities between various needs, it is essential that conflicts may be solved at any time by arbitration by the highest authority. Consequently the planning organization should fall under the aegis and control of the President of the Republic or the Minister whom he has delegated to exercise the arbitration function. It is unsuitable and dangerous to name for this purpose a Minister already charged with a particular sector participating in development, because his decisions could be criticized as favoring the sector of his responsibility.

On the other hand, the planning organization must be in close contact with all elements of the country participating in economic and social development, whether public or private, central or local.

Based on these concepts the following organization can be considered:

The functions of the planning organization would be:

- 1) To analyze the economic and social situation and its trends; to determine and foresee development problems; to evaluate the results of past development efforts; and to solicit from the Government the objectives of development policy.
- 2) Within the frame work of these objectives, to work out the general and sector development goals; to coordinate projects and programs in the public sector, as well as the actions of private initiative and the Government; to join and fit together all public and private projects within one development plan.
- 3) To estimate the available resources and allocate them; to coordinate foreign technical and financial assistance programs.
- 4) To submit the development plan with its resource allocation, and propose measures of economic policy, regulations, and reforms for consideration and decision by the Government.
- 5) To become acquainted with all projects that can influence development, in order to evaluate the needs and technical consequences, and to give technical advice to the Government, in particular the Council for Economic Coordination.

The planning organization must be composed exclusively of technical personnel of high competence. It should be directed by a general economist with the title of Executive Secretary and should be divided into technical divisions, of which the most immediately necessary are General Economics, Agricultural and Livestock Economics, Industrial Economics, Transportation and Communications Economics, and Human Problems. Subsequently, it may be necessary to expand the number of divisions or subdivide them, for example, into: Programming, Finance and Credit, Public Administration, Education, etc., but upon starting its work, it appears sufficient and rather preferable to have a flexible organization.

As for methods of work, the planning organization, in its role as adviser to the Government, must present on its own responsibility technical opinions on projects submitted for consideration by the Council for Economic Coordination, and analysis of the economic and social situation, development problems, proposals for their solution and for economic policy objectives. It also has the entire responsibility for presenting to the Government the development plan, proposals for economic policy measures and necessary reforms. In addition, it has the responsibility of establishing, on the basis of governmental directives, general, sectorial and regional development goals.

Nevertheless, in order to prepare an analysis of the situation, the planning organization will have to collaborate with other organizations, in particular with the Directorate of Statistics of the Ministry of Finance and the Department of Economic Research of the Central Bank; in addition, it will have to request data and opinions from all relevant public and private organizations, and even from the principal municipalities and competent persons. To research on the basis of general goals, sector goals and regional goals, it will have to engage in discussion with all competent sources and seek arbitration in case of an irreconcilable conflict of criteria; it will have

to ask appropriate agencies to prepare projects, regulatory measures, and reforms considered appropriate; it will make suggestions, endorse proposals with their principal characteristics, help in the preparation, but not take charge of any proposal unless that be unavoidable. In short, it must act within the existing framework, performing a new task without substituting its authority for that of the other organizations which collaborate in development during the execution of their normal jobs.

To complete this job of tying things together, institutional links must be established with every sector. To this end, along with the planning organization there must be created an economic and social committee, which should be composed at first of the following technical committees: Agriculture, Livestock, Industry, Transportation and Communications, Finance, Education, and Health. The economic and social committee could form other committees whenever that might appear appropriate. The technical committees would have members from the public and private sectors. The members from the public sector would be representatives of the Ministries of Agriculture and Livestock, Industry and Commerce, Public Works and Communications, Education and Culture, Public Health and Social Welfare, Finance, representatives of the Central Bank, the Development Bank, and the Social Security Institute. In addition, there would be members designated by the technical committees from outside the organizations just listed and these members would be taken preferably from private enterprise. The economic and social committee would be presided over by the Minister to whom the President delegated the sponsorship and control of the planning organization, or by the Executive Secretary of that organization.

Also, the planning organization would submit for consideration by the National Council for Economic Coordination an analysis of the general situation, proposals and reforms, as well as a draft budget, program of work and an annual report. For this review, the National Council for Economic Coordination should obtain the concurrence of the interested Ministries and representatives of private initiative from the principal economic and social sectors.

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DRAFT OF A DECREE-LAW TO CREATE A TECHNICAL SECRETARIAT
FOR ECONOMIC AND SOCIAL DEVELOPMENT

- Art. 1.- There is created hereby a Technical Secretariat for Economic and Social Development Planning, a dependency of the Presidency of the Republic.
- Art. 2.- The functions and duties of the Technical Secretariat for Planning shall be:
- a) To analyze the economic situation and its trends, to determine the problems which hinder development, to evaluate the results of past development efforts, to formulate recommendations for general development policy objectives, and to request decisions from the Executive Branch.
 - b) To formulate general and sectorial development goals, to coordinate projects and programs in the public sector, as well as the actions of private initiative with the actions of the Government, to establish a general development plan and sector or regional plans.
 - c) To estimate the resources available for development and allocate them among the various branches of activity, to coordinate programs of technical and financial assistance which international and governmental organizations may be prepared to provide.
 - d) To submit to the consideration of the Executive Branch general, sectorial or regional plans which take into account the activities of the public and private sectors, together with the proposed allocation of available resources; to recommend economic policy measures, regulations, or reforms in Public Administration, and in general all measures which the Secretariat believes necessary for the better fulfillment of its functions.
 - e) To advise the Council for Economic Coordination.
- Art. 3.- The Technical Secretariat for Planning shall be directed by an Executive Secretary, who shall be appointed by the Executive Branch and must be of recognized competence in Economics and possess an university degree. The Executive Secretary shall be Technical Adviser to the Council for Economic Coordination.
- Art. 4.- The Technical Secretariat for Planning shall have the following functional organization:
- a) Executive Secretary and administrative and secretarial personnel.

- b) Technical Divisions: General Economics
Agricultural and Livestock Economics
Industrial Economics
Transportation and Communications
Economics
Human Problems

New technical divisions may also be established if they should become necessary.

- Art. 5.- The technical personnel shall be appointed by the Executive Branch on the recommendation of the Executive Secretary. The rest of the personnel shall be appointed and contracted for by the Executive Secretary.
- Art. 6.- The Technical Secretariat for Planning shall have the cooperation of the Public Administration, Autonomous Entities, Financial Institution State Enterprises, and Municipalities, who will provide any information necessary to the fulfillment of its functions, and especially on their financial situation, programs, and projects and their completion. The Technical Secretariat for Planning will furnish these organizations with information and cooperation necessary to the fulfillment of their functions relative to economic and social development. The Technical Secretariat for Planning will formulate, in cooperation with the Government agencies responsible, general criteria for the guidance of private initiative through credit, tax exemption and other devices.
- Art. 7.- The Technical Secretariat for Planning shall be consulted on all development projects and programs, economic policy measures, modifications and reforms in Public Administration related to economic and social development, before their consideration by the National Council for Economic Coordination and the Executive Branch.
- Art. 8.- The Technical Secretariat for Planning shall collaborate with private initiative, of whom it will request information and suggestions, and in turn can furnish information and explanations of economic policy directives and proposed Government actions.
- Art. 9.- To give advice and to participate in the work of planning there is hereby created an Economic and Social Committee, which shall be consulted on the formulation of sector and regional development goals, on programs and projects, on general, sector or regional plans, economic policy measures, regulations or reforms in Public Administration.
- Art.10.- The Economic and Social Committee shall be comprised of the Technical Committees that shall be necessary for its work, initially those of agriculture, livestock, industry, transportation and commerce, finance and credit, education and health. Other Technical Committees may be established if they should become necessary.
- Art.11.- The Technical Committees shall be composed of representatives of the Ministries, Government Agencies, State Enterprises, and of private

persons of recognized competence in the field and appointed by the Executive Branch on the recommendation of the Executive Secretary. The Technical Committees shall elect a President, who shall be assisted by the chief of the relevant technical division of the Technical Secretariat for Planning.

Art.12.- The Economic and Social Committee shall also have a General Committee which shall be composed of a representative from each Ministry, Autonomous Entity, and State Enterprise, as well as a representative of private initiative from each Technical Committee. All of the foregoing must be members of the Technical Committee.

The General Committee shall be presided over by the Minister to whom the President of the Republic has delegated the sponsorship and control of the Technical Secretariat for Planning, and the Minister shall be assisted by the Office of the Executive Secretary or by the Executive Secretary himself.

Art.13.- The Technical Secretariat for Planning, in presenting development plans, economic policy measures, regulations and Public Administration reforms for the consideration of the National Council for Economic Coordination, shall inform the Economic and Social Committee about such consultations and the decisions reached therein.

Art.14.- For the expenses of the Technical Secretariat for Planning and the Economic and Social Committee, the former shall draw up a budget of Income and Expenditures to be approved by the Executive Branch. With respect to income the Technical Secretariat for Planning shall receive an appropriation of This sum shall be deposited by the Central Bank in a special account and shall be at the disposition of the Secretariat in accordance with ordinary banking procedure. An annual financial report, containing the accounts and annual balance, shall be submitted to the Government Accounting Office for its review.

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TENTATIVE BUDGET FOR EXPENDITURES
OF THE TECHNICAL SECRETARIAT FOR PLANNING

Personnel Expenses

Executive Secretary	1	₹ 720,000	₹ 720,000
Technical Personnel	11	500,000	5,500,000
Administrative and Secretarial Personnel	12	250,000	2,750,000
Internal Expenses for Foreign Advisers (Or Research Contracts)	6	300,000	<u>1,800,000</u>
<u>Total Personnel Expenses</u>			₹ 10,770,000

Office Expenses

Rent, Postage, Telephone, Office Supplies, Furniture and Fixtures, Documentation, Travel and Transportation			
<u>Total Office Expenses</u>			2,500,000

Personnel Expenses	₹10,770,000
Office Expenses	<u>2,500,000</u>
Total Expenses	<u><u>₹13,270,000</u></u>

STEPS IN PLANNING

<u>LEVEL</u>	<u>STEPS</u>	<u>AGENCIES INVOLVED</u>
Technical	1. Analysis of the economic situation, growth trends, development problems (preparation of research programs). Evaluation of the results of former plans.	Secretariat for Planning, together with research organizations: Department of Statistics of the Ministry of Finance, Department of Economic Research of the Central Bank, other public, private and technical assistance organizations.
Technical	2. Proposals for general objectives of development and economic policy, for consideration by the Executive Branch.	Secretariat for Planning.
<u>Political</u>	3. Review of the Analysis of the economic situation and the proposals for general objectives. Formulation of general directives with respect to development objectives.	Council for Economic Coordination. Executive Branch.
Technical	4. Formulation of general goals and sector objectives.	Secretariat for Planning.
Technical	5. Discussion of sector objectives and formulation of sector goals.	Economic and Social Committee
Technical	6. Formulation of sector projects and programs. Evaluation of anticipated results.	Ministries, autonomous entities, financial institutions, state enterprises, insofar as possible private initiative; with the collaboration of the Secretariat for Planning

LEVEL	STEPS	AGENCIES INVOLVED
Technical	7. Discussion of sector projects and programs and economic policy measures.	Economic and Social Committee.
Technical	8. Grouping and coordination of sector programs. Adaptation to general and sector goals. Estimate of resources: human, financial, foreign exchange, etc. Allocation of resources. Formulation of economic policy measures. Evaluation of anticipated results. Preparation of a general plan.	Secretariat for planning, with the cooperation of: Ministries, Autonomous Entities, Financial Institutions, State Enterprises, Private Initiative.
Technical	9. Examination and discussion of the general plan as a whole, sector programs and economic policy measures.	Economic and Social Committee
Technical	10. Presentation of the general plan as a whole, sector programs and economic policy measures to the Council for Economic Coordination.	Secretariat for Planning.
<u>Political</u>	11. Review of the general plan, the sector programs, and economic policy measures, considering the economic situation, development problems, and the anticipated results of the plan. Decision.	Council for Economic Coordination. Executive Branch.

