U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

1. Openness to, and restrictions upon, Foreign Investment

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

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

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

The WTO conducted a Trade Policy Review of Paraguay in 2011, which is available at http://www.wto.org/english/tratop_e/tpr_e/tp345_e.htm.

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

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	150 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	80 of 177	http://www.heritage.org/index/ranking

World Bank's Doing Business Report "Ease of Doing Business"	2014	109 of 189	http//doingbusiness.org/rankings
Global Innovation Index	2013	100 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	$3400	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

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

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

2. Conversion and Transfer Policies

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

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

3. Expropriation and Compensation

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

4. Dispute Settlement

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

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

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

5. Performance Requirements and Incentives

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

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

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

6. Right to Private Ownership and Establishment

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

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

7. Protection of Property Rights

Real Property

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

Intellectual Property

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

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

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

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

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

8. Transparency of the Regulatory System

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

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

9. Efficient Capital Markets and Portfolio Investment

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

Credit is available but expensive. High collateral requirements are generally imposed. The high cost of capital makes the stock market an attractive, although underdeveloped option. Paraguay has a relatively small capital market that began less than 20 years ago. As of December 2013, the

Asuncion Stock exchange consisted of 108 companies, totaling USD 132 million in transactions. Many family-owned enterprises fear losing control, dampening enthusiasm for public offerings.

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

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

10. Competition from State Owned Enterprises

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

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

11. Corporate Social Responsibility

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

12. Political Violence

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

13. Corruption

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

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

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

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

Resources to report corruption:

- General Auditors Office
  Bruselas 1880, Asuncion, Paraguay
  + 595 21 620 0260
  atencion@contraloria.gov.py

- Public Ministry
  Nuestra Señora de la Asunción c/ Haedo, Asuncion, Paraguay
  + 595 21 454 611
  http://www.ministeriopublico.gov.py/contenidos/menu/institucion/denunciar/index.php

- Seeds for Democracy
  Roma 1055 casi Colón, Asuncion, Paraguay
  + 595 21 420 323
  semillas@semillas.org.py

14. Bilateral Investment Agreements

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

15. OPIC and Other Investment Insurance Programs

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

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

16. Labor

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

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

Paraguayan law provides for the right of workers to form and join independent unions (with the exception of the armed forces and the police), bargain collectively, and conduct legal strikes. The law prohibits binding arbitration and retribution against union organizers and strikers. While the law prohibits anti-union discrimination and sets the financial penalty, employers are not required by law to reinstate workers fired for union activity, even in cases where labor courts fine firms for anti-union discrimination.

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

17. Foreign Trade Zones/Free Ports

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

18. Foreign Direct Investment Statistics

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

	Host Country Statistical source*		USG or International Statistical source		USG or International Source
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2012	$24,000	2012	$25,500	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		http://www.bea.gov/
U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2012	$2068	2012	$2369	
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*	Not available	Not available	2012	-$2	
Total inbound stock of FDI as %	2012	19%	Not available	Not available	

host GDP					

* Host country statistical data source: www.bcp.gov.py

19. Contact Point for Public Inquiries

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