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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Third Session
Rome, 1-2 December 2004

THE REPUBLIC OF PARAGUAY

COUNTRY STRATEGIC OPPORTUNITIES PAPER

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CURRENCY EQUIVALENTS

Currency unit	=	Guarani (PYG)
USD 1.00	=	4 800 PYG
PYG 1.00	=	USD 0.0002

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 hectare (ha)
1 ha	=	2.47 ac

ABBREVIATIONS AND ACRONYMS

BNF	<i>Banco Nacional de Fomento</i> (National Development Bank)
COSOP	Country Strategic Opportunities Paper
CAH	<i>Crédito Agrícola de Habilitación</i> (Agricultural Credit Institute)
ENREP	National Strategy for Poverty Reduction and Development
EU	European Union
FDC	Fondo de Desarrollo Campesino (Peasant Development Fund)
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
IDB	Inter-American Development Bank
IFI	Intermediary Financial Institution
MAG	Ministry of Agriculture and Livestock
Mercosur	Southern Cone Common Market
NGO	Non-Governmental Organization
PBAS	Performance-Based Allocation System
RIMS	Results and Impact Measurement System
SPM	Special Programming Mission
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USAT	Technical Assistance Services Unit

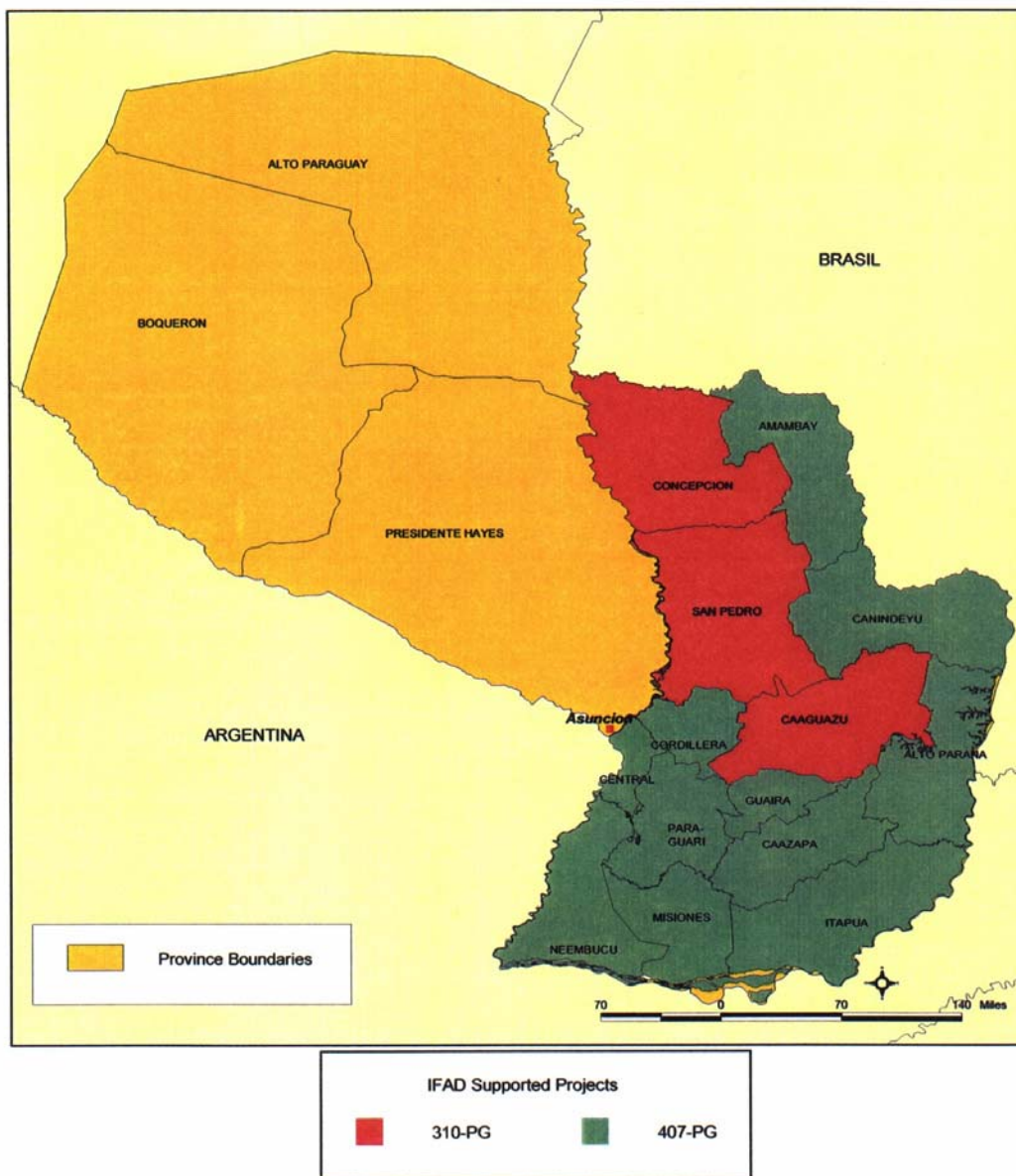
GOVERNMENT OF THE REPUBLIC OF PARAGUAY**Fiscal Year**

1 January – 31 December

COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS



PARAGUAY



Source: IFAD.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD PORTFOLIO OVERVIEW

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Programme for Agricultural and Livestock Expansion	IDB	IDB	I	27 Jun 79	10 Jun 80	09 Jun 84	L - I - 19 - PG	SDR	5 900 000	100.00%
Integrated Rural Development Project in the Department of Paraguari	IDB	IDB	I	08 Sep 81	26 Jul 82	30 Apr 89	L - I - 72 - PG	SDR	3 500 000	94.37%
Agricultural Credit Project	IDB	IDB	O	12 Dec 84	20 Jun 86	30 Jun 90	L - I - 164 - PG	SDR	7 100 000	99.35%
Peasant Development Fund Project-North-Eastern Region of Paraguay	IFAD	UNOPS	O	09 Sep 92	10 Aug 93	30 Jun 01	L - I - 310 - PG	SDR	8 500 000	75.64%
Peasant Development Fund Credit Project-Eastern Region of Paraguay	IFAD	UNOPS	O	07 Dec 95	03 Dec 96	30 Jun 05	L - I - 407 - PY	SDR	6 650 000	82.06%

IDB = Inter-American Development Bank

I = Intermediate

O = Ordinary

SDR = Special Drawing Rights

UNOPS = United Nations Office for Project Services

EXECUTIVE SUMMARY

1. In March 2004, an IFAD mission visited Paraguay to begin the preparation of a country strategic opportunities paper (COSOP). The mission took place in parallel to, and close collaboration with the preparation of the performance-based allocation system (PBAS), a mission to analyse the cooperatives sector with which IFAD had charged Raiffeissen (the German Cooperative and Raiffeissen Federation), and an IFAD Office of Evaluation mission to evaluate the *Fondo de Desarrollo Campesino* (Peasant Development Fund) (FDC) a second-tier financial institution promoted and financed by IFAD to modernize the rural financial sector and channel lending through the cooperative system, mainly to small cotton producers.
2. In the course of the past ten years, the Paraguayan economy has undergone several crises that have led to a 6% drop in gross domestic product (GDP) per capita. At the end of 2002, the World Bank (Atlas) listed per capita GDP at USD 1 170¹. Agriculture accounted for 29% of GDP, industry 19%, and services 52%. Hydroelectric power generation is an important activity within the Paraguayan economy and accounts for approximately 15% of GDP (included within the category of services). Paraguay exports electricity to Brazil (close to 50% of total exports by value). The agriculture sector generates 40% of exports. Exports of cotton, a traditional peasant farming product, represent 40% of total agriculture exports, with very low productivity levels. The expansion of genetically altered soybean cultivation, concentrated on larger farms (in the hands of Brazilian firms), became the main agriculture crop.
3. Cotton farming has historic ties with the development of agriculture in Paraguay. Cotton is the peasant farmer's traditional cash crop and one of the major activities generating monetary income and employment in rural areas, involving some 180 000 small producers and their families. The sector has enjoyed a broad range of subsidies in the form of credit and inputs and is characterized by relationships of economic and social dependency and subordination that generate passive attitudes in peasant farmers, as well as their associations, committees and cooperatives.
4. National policies in rural finance, which are now under review, have been based on public banks such as the *Banco Nacional de Fomento* (National Development Bank) (BNF) and the *Crédito Agrícola de Habilidadación* (Agricultural Credit Institute) (CAH). The management of these policies has been characterized by a lack of transparency, diversion of funds, subsidized rates, poor follow-up, lack of concern with arrears and a concentration of credit on the cotton crop, thereby generating large deficits at both BNF and CAH. Against this backdrop, the FDC, which was created with IFAD support, has been unable to achieve its objectives fully. Services in support of production are provided by a relatively inefficient public system administered by the Ministry of Agriculture and Livestock, with a few alternatives such as the Prodesal project that is funded by the Inter-American Development Bank (IDB) and that applies an outsourcing mechanism to services and the technical assistance services unit (USAT) – closely associated with the FDC – that targets the privatization of services.
5. Paraguay's total population reached 6 million people in 2003. Practically all Paraguayans are bilingual (Spanish and Guarani). The rural population remains proportionally large, with an estimated 40% of the population concentrated in rural areas. There are some 320 000 peasant farms, 70-75% of them in decline and operating below the break-even point. In the past four years, the contribution to national GDP of peasant farming has fallen sharply, from 8-5%, and 90 000 rural jobs have been lost.

¹ The IFAD mission considers this figure appropriate for 2003. The World Bank (Atlas) figure for 2001 is USD 1 350 per capita GDP.

The indigenous population accounts for 87 000 people, who belong to 20 ethnic groups, live in 400 communities established all over the country and are considered farmers.²

6. It is estimated that, in 2002-03, the percentage of rural and urban people living in poverty may have reached between 45 and 48%. An estimated 18.5% of the population was living in extreme poverty during the same period. The rural poverty line stood at approximately USD 0.90 per capita per day, and the absolute poverty line at USD 0.60 per capita per day. The rural producers hardest hit by poverty continue to be independent cotton farmers. Rural women live in particularly critical conditions. The serious economic crisis has worsened their situation, in addition to lost employment, lost income opportunities and social marginalization.

7. The major causes of rural poverty are: (a) political instability, uncertainty in economic policy, a social and economic model of exclusion shaped by corruption and an uncompetitive productive structure; (b) the highly subsidized, single cropping of cotton on very small holdings; (c) extremely weak social and economic peasant organizations; (d) a lack of legal security in land tenure; and (e) inefficient public services and weak rural finance systems.

8. The PBAS has evidenced the need for public sector reform, anti-corruption measures, democratization, participation and the strengthening of local capacities as “macro” issues inherited from the past that have become urgent policy priorities. Weaknesses in the organizations of the rural poor and deficiencies in market access, productive diversification, the supply and provision of technical and financial services, participation and representation by organizations are, inter alia, major constraints to rural development identified by the PBAS and represent the major strategic thrusts put forward by this COSOP.

9. The current administration has launched a national strategy for poverty reduction and development (ENREP) headed up by the social action secretariat, with support from the World Bank, the European Union (EU) and the IDB. Such strategic action represents one of this Government’s explicit policy priorities for which the social cabinet³ was created. Its major policy thrusts are as follows: (a) modernization of the state and institutional strengthening; (b) promotion of citizen participation and the fight against corruption; (c) rural sector development and environmental management; and (d) improvement in competitiveness. Gender and youth issues are covered in an incipient fashion in current policies under the Second Equal Opportunity Plan for Women and Men.

10. IFAD has accumulated significant experience in Paraguay. The main lessons learned indicate that the FDC results, although they represent a significant change in the situation of rural finance institutions, have been unsatisfactory in terms of development objectives. One of the main difficulties encountered by the FDC and, at the same time, the major constraint in lowering high rates of rural poverty is the institutional weakness of rural-based social organizations at all levels. There is little capacity to join successfully in productive activities and markets except for those, such as cotton growing, which are highly subsidized and promoted by the state.

11. Following an analysis of the situation and prospects for the future, the major strategic thrusts put forward by this COSOP and shared by government authorities are: (a) strengthening social capital; (b) promoting the diversification of traditional peasant production where clear market opportunities exist; (c) promoting gender equity in social, economic and commercial participation; and (d) supporting the design of governmental policies, instruments and mechanisms for the system of

² According to information from the General Direction for Statistics and Census (2002), there are 20 ethnic groups in Paraguay (Guaraní Occidental, Aché, Avá Guaraní, Mbyá, Páí-Tavyterã, Guaraní Nandéva, Toba Maskoy, Enlhet Noret, Enxet Sur, Sanapaná, Toba, Angaité, Guaná, Nivaclé, Maká, Manjui, Ayoreo, Ybytosó, Tomárãho and Toba-Qon.

³ The Government has organized the ministries into two cabinets, economic and social. The latter is responsible for policy and action on rural poverty reduction.

financial services (in the new institutional framework emerging from the ongoing process of public banking reform) and technical assistance.

12. Future interventions by IFAD would support and strengthen the policies of the Government and its social cabinet, giving special attention to the integration with and the complementing of cooperation with other international organizations. In particular, IFAD would support the strengthening or creation of an institutional framework to combat rural poverty. The partnership with the German Agency for Technical Cooperation and the United States Agency for International Development (USAID) would support trade and market opportunities for businesses in the hands of poor small rural producers. With the EU, IFAD would support the institutionalization of the social cabinet, and, with the IDB, joint actions are to be coordinated regarding rural finance policies in the context of public banking reform and in regards to the very important and sensitive issue of **land distribution and land titling**. There are also opportunities for links with civil-society organizations such as the Rural Network and associated cooperatives.

13. **Potential lending programme and phased work programme.** It is recommended that, in the next 15 years, three phased operations be implemented under a scaling-up approach, for a total amount of approximately USD 30 million to USD 40 million. Based on PBAS results, under a prudent approach, a strategy that can respond to **two** different scenarios is proposed. The operations/investments would take place after the evaluation of the previous operation with the following methodology.

14. **Evaluation methodology of the operations.** If the current policy directions are confirmed and consolidated and good results are observed in the achievement of the objectives set for the operations there would be a positive evaluation. In particular, results obtained would be measured with respect to the political and institutional conditions favouring development with equity for Paraguayan society. Such conditions should be evidenced in significant progress on issues identified as priorities by the Paraguay PBAS, i.e.: (i) proactive policies to promote peasant farmers and their social and economic organizations; (ii) continuity in combating corruption; (iii) an enabling environment for rural finance; and (iv) clear social equity policy and actions, especially in applying gender equity. The evaluation of each phase would also include specific project indicators which would be set, together with those of the Results and Impact Measurement System (RIMS).

First Scenario (Scenario A)

15. Scenario A would include the following operations:

- (a) **A first operation**, for approximately USD 10 million or USD 12 million, mainly to develop local capacities, to consolidate existing poor smallholders or new associations, groups or cooperatives and to scale their activities both in terms of participation and social representation and at the economic and commercial level. Actions should be geared to the generation of local demand for intervention at various levels and to the strengthening of organizations, the diversification of production, the seeking out of business opportunities (including for traditional products) and the creation of business plans. The main objectives of this first operation would be: (i) to generate a process of sustainable empowerment among poor small-scale producers; (ii) to strengthen the social organizations of small-scale producers; and (iii) to consolidate the social cabinet.

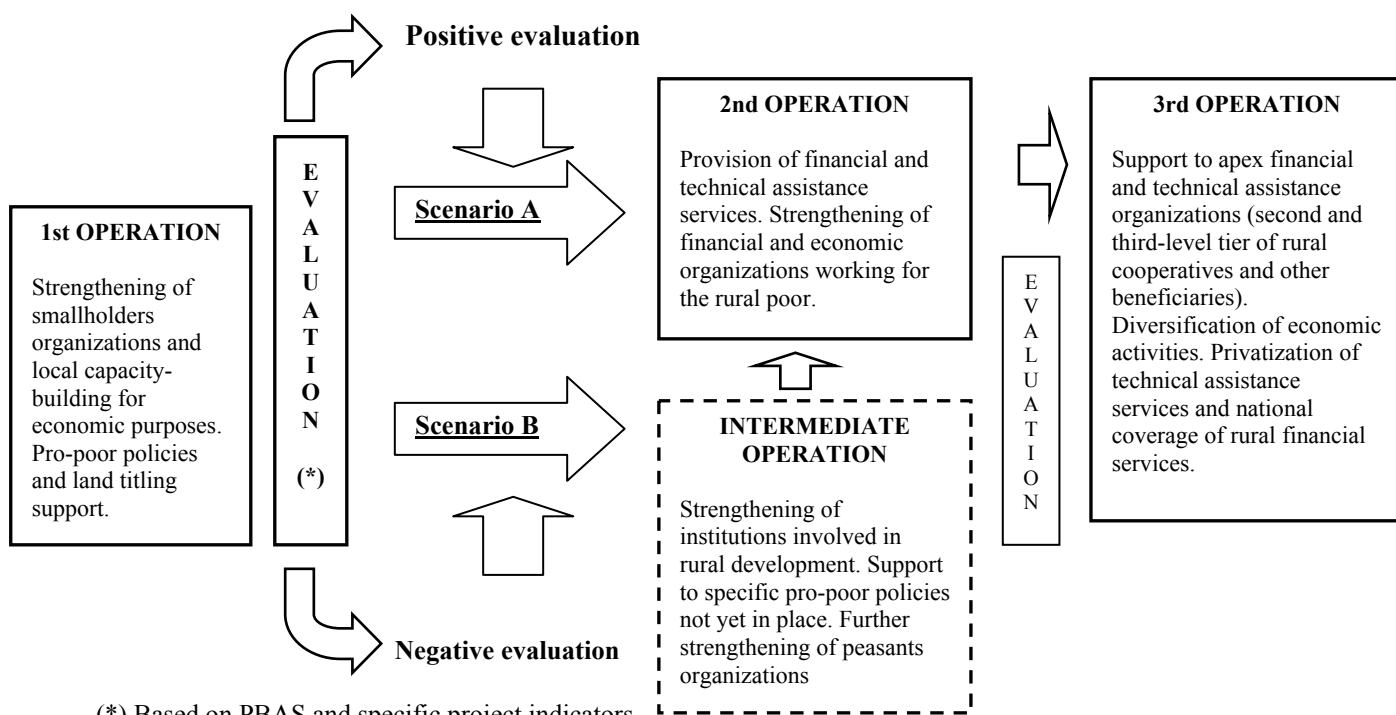
The principal actions would be: (i) technical assistance and marketing services; (ii) financial support services; (iii) research and information mechanisms and systems that lead to the diversification of production; (iv) the articulation, rationalization and strengthening of the cooperative system; and (v) an evaluation of impacts and results based on mid-term objectives and indicators.

- (b) If positive achievements and concrete results are observed in the first operation, a **second operation** (or second phase of the first) would be proposed, in the amount of USD 8 million or USD 10 million. This second operation would aim at further progress in organizational structures, access to lending and the expansion and “generalization” of a private system of technical assistance services. It would be oriented towards the consolidation of market processes and positioning, the financing of working capital, the financing of commercial and logistical infrastructure (equipment), and the marketing and consolidation of flexible commercialization mechanisms (consortia, strategic partnerships and second-tier associations of cooperatives).
- (c) **A third operation** (scaling-up) in the amount of USD 12 million or USD 15 million should lead to an expansion in the experiences of the two previous operations nationwide and the consolidation of the model.

Second Scenario (Scenario B)

16. This option would propose an alternative route following the implementation of a first operation, as described above. The second scenario would apply if the results under the first operation are inadequate or the expectations and conditions set forth in scenario A do not materialize. In this case, it is suggested that an “intermediate operation” be carried out to strengthen and support problem solving and overcome any constraints or problems encountered. This operation would be for USD 3 million or USD 4 million.

17. The successful completion of this intermediate operation, as measured on the basis of specific performance indicators, taking into account changes in the political and institutional context, using objectives and procedures set forth in the RIMS, and including those specific for national policy and set by the project, would lead the way for a new operation. That new operation, having the same features as the second operation described under scenario A, would lead back to the route described in scenario A.



(*) Based on PBAS and specific project indicators.

THE REPUBLIC OF PARAGUAY COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. INTRODUCTION

1. IFAD began its operations in Paraguay by cofinancing two projects with the Inter-American Development Bank (IDB), in 1979 and 1984. In 1989, after the fall of General Stroessner's 35-year dictatorship, IFAD conducted a special programming mission. That mission identified priorities for the strengthening and modernization of rural finance to break the inefficient and costly chain of the financing of cotton crops grown mainly by small poor producers. The IFAD proposal called for the establishment of a second-tier financial institution, the *Fondo de Desarrollo Campesino* (Peasant Development Fund) (FDC), which would specialize in rural finance and channel lending through the system of cooperatives and other intermediary financial institutions (IFIs). A first operation was approved in 1992, then a second in 1995. Both proposals were drawn up in conjunction with committees of the House of Representatives and Senate and passed into law. The final operation, still under way, will conclude in December 2004.

2. At the Government's request, in March 2004, an IFAD mission visited Paraguay to meet with national authorities, in particular the Ministry of Finance, the Ministry of Agriculture and Livestock (MAG) and the social action secretariat, as well as international cooperation agencies, to prepare a country strategic opportunities paper (COSOP). The mission took place in parallel to, and close collaboration with the preparation of the performance-based allocation system (PBAS) and remained in contact and exchanged information and views with a mission to analyse the cooperative sector with which IFAD charged Raiffeissen (the German Cooperative and Raiffeissen Federation). This mission was to assess achievements, weaknesses and constraints in connection with FDC operations with cooperatives. During the COSOP preparation mission, an IFAD Office of Evaluation mission arrived in Paraguay to evaluate the FDC second project, and this report reflects the preliminary findings of that mission. The mission also had access to reports on one-off work done under the IFAD-Southern Cone Common Market (Mercosur) technical assistance grant in the area of the development of cooperatives and support for the *Instituto Nacional de Cooperativismo* (National Cooperative Institute).

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background¹

3. Paraguay is located at the centre of South America and borders on Argentina to the south, Brazil to the east and north-east, and Bolivia to the west. Paraguay has no access to the sea except by the navigable Paraguay and Paraná rivers. The country is divided into two very different ecological regions, the east, with abundant precipitation and water resources, and, west of the Paraguay River, the dry and semi-arid area of El Chaco which accounts only for 2% of the total population. Paraguay covers a surface area of 406 750 km², with an estimated population of approximately 6 million in 2003. The indigenous population accounts for 87 000 people who belong to 20 ethnic groups, live in 400 communities established all over the country and are considered farmers.²

¹ See Appendix I for additional information.

² According to information from the General Direction for Statistics and Census (2002), there are 20 ethnic groups in Paraguay (Guaraní Occidental, Aché, Avá Guaraní, Mbyá, Páĩ-Tavyterã, Guaraní Nandéva, Toba Maskoy, Enlhet Noret, Enxet Sur, Sanapaná, Toba, Angaité, Guaná, Nivaclé, Maká, Manjui, Ayoreo, Ybytoso, Tomaráho and Toba-Qon).

4. In the course of the past decade, the Paraguayan economy has undergone several crises, leading to a fall in per capita gross domestic product (GDP) to 6% as a result of GDP growth averaging 2.1% compared to annual population growth of 2.6%. At the end of 2002, the IDB calculated GDP per capita on the order of USD 940, while the World Bank (Atlas) calculated USD 1 170.³ Agriculture accounts for 29% of GDP, industry 19%, and services 52%. The so-called “triangular trade” (temporary import for re-export), which has traditionally carried a sizeable weight in GDP in Paraguay, reached 30-35% of GDP. The contribution of the informal economy, traditionally significant as well, is difficult to estimate. The World Bank (Atlas) figure for 2001 is US\$ 1 350 per capita GDP.

5. The new administration of President Oscar Nicanor Duarte Frutos, who took office in August 2003, reached an agreement on external debt repayment and renegotiated domestic debt. In this context, there is a possibility of GDP growth (1.5-2.5%) in 2004 given the good prices for soybeans and cotton.

6. An important feature of the Paraguayan economy is the large share of GDP contributed by the services sector (50%) and, within it, electric power generation. This has a positive impact in three ways: (a) energy exports (valued at an estimated USD 350 million in 2001) were the main stable source of foreign exchange; (b) payments of royalties and compensation (valued at an estimated USD 300 million in 2001) by binational entities administering the Itaipú and Yaciretá dams; and (c) the externalities generated within the economy during construction periods. The first two aspects account for between 10% and 15% of GDP and are funding close to 35% of the national budget in 2004.

7. In December 2003, the Government posted an important achievement by signing a standby agreement with the International Monetary Fund for USD 100 million and obtained World Bank and IDB loans for USD 30 million each. The fiscal situation is improving, and a 0.6% deficit is expected for 2004, compared to 1.2% in 2003.

8. The new Paraguayan Government has drawn up a national plan to combat rural poverty that is clearly geared toward overcoming the root causes of poverty and takes Millennium Development Goal targets into account. At the request of the Minister of social action, IFAD has sent consultants from the Programme for Strengthening the Regional Capacity for Evaluation of Rural Poverty Alleviation Projects in Latin America and the Caribbean (PREVAL) which supports monitoring and evaluation activities in IFAD-funded projects) to help design a national system to monitor rural poverty reduction indexes that will undoubtedly contribute to the more effective achievement of international and national objectives in this area.

B. Agricultural Sector

9. Agriculture is a key to the Paraguayan economy. The sector generates 40% of exports (energy accounts for a further 50%), 33% of employment and 27% of GDP. The country holds an estimated 30 million hectares (ha) of arable land, only 3 million of which are being used for agriculture. Approximately 20 million ha is used to raise livestock, and between 15 million and 20 million ha for forestry.

³ The World Bank (Atlas figure for 2001 is USD 1 350 per capita GDP.

10. Historically, the agricultural sector maintained a GDP share on the order of 27% over the period 1992-2001 and 29% in 2001 as a result of growth in the farming subsector (18.3%). Growth in the primary sector (farming, livestock breeding and fishing) for the period 1992-2001 was on the order of 3.2%, with farming the most dynamic, at 4.2%. Genetically altered soybean crops, concentrated on large-scale farms, are expanding at a rate of 10% per annum and have driven the acceleration in agricultural growth. Years 2003 and 2004 saw vigorous peasant protests and social reactions to the aggressive expansion of soybean farming.

11. **Rural finance.** National policies in the financing of agriculture and the rural sector have been based on public banks such as the *Banco Nacional de Fomento* (National Development Bank) (BNF), and the *Crédito Agrícola de Habilitación* (Agricultural Credit Institute) (CAH). The management of these institutions has been characterized by a lack of transparency and by diversion of funds, subsidized rates, poor follow-up, a lack of concern with arrears and the targeting of credit on cotton farming. Recurring pressure to forgive debts (the latest major debt forgiveness exercise took place in 1999) has generated large deficits at BNF and CAH, as well as a “default” culture that, in combination with the policy on subsidized rates, has impeded the development of an efficient rural financial system.

12. In this context, the FDC was created with IFAD support to modernize rural finance. The FDC was created by law as a second-tier financial institution to finance poor peasant farmers organized in cooperatives, which also received substantial technical assistance in the areas of finance and agronomy. The model has been sustained without decapitalization since 1992; however, the actual results have been contradictory (see paragraphs 44-46).

13. There are a total of 700 formal financial institutions in the country, and 600 of them are savings and loan cooperatives. The private banking sector does not provide any finance to peasant farmers, and the role of well-organized cooperatives remains marginal. The number of cooperatives actually functioning is about 400, and the vast majority operate in the urban or peri-urban sectors. Paraguay’s inefficient financial system and oligopolistic positions translate into very high lending rates. Since 1991, the annual average rates have remained at up to twice the annual inflation rate.

14. In December 2003, the executive branch placed draft banking reform legislation before the Senate calling for the elimination of all public financial institutions currently in existence. These institutions – the FDC, the Industrial Development Fund, the Microenterprise Fund, the Livestock Fund, BNF, CAH and the Housing Fund – would be merged to create a second-tier bank operating through IFIs. In parallel, a small first-tier bank would be set up to provide financing for peasant farmers.

15. **Production support services.** These services are based on the MAG system, which involves some 600 public servants, but lacks resources to cover operating costs, as well as a clear operating policy and objectives. Much of this effort focuses on support for cotton growing; also, the public system has a very high cost-benefit ratio and a degree of inefficiency and inoperability that would advocate for its elimination. No information is available on coverage capacity (much less actual impact), although the MAG system reaches an estimated 30 000 peasants. The centralized system-strengthening currently being proposed by MAG could encounter budgetary and policy obstacles in implementation.

16. Another approach is used by the technical assistance services unit (USAT), part of the FDC system and supported by IFAD. This is an experiment in the provision of outsourced services, with broad participation by beneficiaries in decision-making, but its impact has been modest, in part because of a difficult relationship with the FDC and little interest from MAG. USAT has benefited an estimated 4 000 to 5 000 peasants organized into cooperatives, pre-cooperatives and committees.

C. Rural Poverty

17. In 2001, the share of rural and urban dwellers living below the poverty line was set at 34%. The situation deteriorated markedly in 2002-03, with 45-48% of the population living in poverty by the end of 2003. The share of the population living in extreme poverty rose during the same period from 14-15%, reaching 19% in 2002-03. The rural poverty line stood at approximately USD 0.90 per day, and the absolute poverty line at USD 0.60 per capita per day.⁴ The increase in poverty is attributable in part to the financial crises sweeping the countries in the region, but, above all, to political instability, uncertainty in economic policy and major inefficiencies in the public sector, along with corruption and an uncompetitive productive structure. Among the poor, 56% live in rural areas; among those people living in critical poverty, rural populations account for 75%.

18. Despite considerable land distribution, the problem of land tenure and access to land remains an issue within Paraguay's national agricultural policy. In recent years, the grievances of landless peasants wishing to obtain access to land have been added to issues relating to pressures from soybean crops, which tend to expel small peasant farmers and lead to a concentration of property and indiscriminate land use.

19. Rural land continues to be highly concentrated, with 65% of the farms holding only 5% of the land, while 1% of the large landowners hold two thirds. The Gini coefficient for the country as a whole is 53. The rural welfare institute is responsible for the implementation of agrarian reform policies. The institute has faced various problems throughout its history, as reflected in its low efficiency and poor results. The Congress is currently considering a reform proposal aimed at an improvement of the institute's performance in titling the land assigned and supporting the consolidation of existing settlements.

20. Conditions among women, as a constituent part of the process of social and economic deterioration and exclusion, have worsened considerably, in particular among women heads of household, representing 20% of the country's households and up to 25% in rural areas. In addition to the loss of employment and income opportunities, social marginalization has risen, and it is virtually impossible for women (except for young women) to migrate, given family and childcare commitments. Although national land-access legislation is not discriminatory, there are serious traditional and historical constraints that, *de facto*, prevent women from gaining access to land. The loss of labour opportunities has been greater among rural women than among rural men, according to data from the national strategy for poverty reduction and development (ENREP).

21. In recent years the phenomenon of migration from the countryside to the city or to neighbouring countries has accelerated, fuelled, above all, by young people, both men and women. Significant numbers of young rural women migrate to the city to take unskilled jobs, given their limited schooling and knowledge of the kind needed for more skilled employment in urban areas or outside the country. Although women's share of the labour market has risen in recent decades in Paraguay, most work is in low-productivity sectors. This is particularly true in rural areas, where women perform part-time work as subcontractors in activities that require little training. Of the 48% of women working in rural areas, 23% are paid, and 25% unpaid. Among employed women, 43% work in the agricultural sector, 25% in commerce, 22% in community and personal services and 9% in industry.

⁴ This refers to a rural poverty line of PYG 77 000 and an extreme poverty line of PYG 49 000 in 1998.

22. In rural areas, the producers most affected by poverty are still the independent cotton farmers and subsistence farmers. The root causes of poverty are closely linked to the social and economic model and to paternalistic approaches in sectors that have benefited from the sale of energy (royalties) and exports of agricultural and forestry-based commodities. Peasants and urban dwellers reliant on the public sector are trapped in a system of dependency based on deeply rooted client and political links.⁵

23. The most direct causes of the poverty conditions among small peasant farmers are: (a) the single cropping of cotton in very small areas, traditionally highly subsidized, a system that has created a perverse barrier to the diversification of production or the development of market systems for other products; (b) the lack of legal security in land tenure; (c) weak social and economic peasant organizations; (d) inefficient public services; and (e) weak rural finance systems.

24. The country has an estimated 320 000 peasant farms. Half of these are in decline and producing at below the economic break-even point. Of these, 50% are below the poverty line. Most (65%) consist of plots of less than 5 ha, mainly engaged in cotton production. These are traditional smallholder cotton farmers, with small plots of land and little or no capitalization. These farmers are unable to transform their production strategies on their own. A high proportion of them are becoming landless peasants.

D. Constraints on and Opportunities for Rural Poverty Reduction

25. An analysis of the rural poverty situation and its causes points up two types of problems: one related to local skills, the building and empowerment of human capital to achieve economic and social aims and the need to take action specifically to address rural women's issues, while the other is institutional in nature and has to do with the weakness, inefficiency, or lack of rural finance or production support services.

26. Given the sparse accumulated social capital of rural communities and the deteriorating general situation of very poor families, rural women in particular, it is crucial that future IFAD operations unequivocally apply an integrated strategy to building up this capital including a gender approach. IFAD could support the country's existing institutions by putting forward concrete policy instruments in agreement with peasant and governmental organizations. Such instruments, reflecting recognition of the disadvantages faced by rural women, should place special emphasis on the identification of production and employment alternatives for women, as well as training for self-management by organizations specializing in gender issues.

27. The fact that little social capital has been accumulated by peasants (both men and women) is reflected, *inter alia*, in the weakness of institutions, management and the political, economic and financial governance of rural cooperatives operating in production, multiple sectors, or savings and loans.

28. Taking into consideration that the main constraint to be overcome in order to combat rural poverty is the accumulation of the social capital of poor rural communities, there are clear opportunities for IFAD interventions both at the governmental-institutional level and at the grass-roots level. IFAD could collaborate on the definition of a methodology to implement the rural poverty reduction strategy and also help to create an institutional framework to combat rural poverty. IFAD could also support the creation of an effective interface between the social cabinet⁶ and its technical units and implementing organizations, MAG in particular. At the grass-roots level, IFAD will

⁵ See Appendix VI for additional information.

⁶ The Government has organized the ministries into two cabinets, economic and social. The latter is responsible for policy and action on rural poverty reduction.

strengthen peasants' economic organizations and support all the activities necessary to reinforce the social capital of poor smallholders, as described in paragraph 58 below.

29. It is important to underline the major risks and limitations on rural poverty reduction. They can occur as a result of budget constraints or if governmental reforms are implemented very slowly, in particular the risk of ineffective anti-corruption measures. There is a latent risk of problems with collections and fiscal deficits that could complicate external debt payment and the fulfilment of targets agreed with the International Monetary Fund (IMF), leading to a suspension of disbursements by the IMF, the World Bank, the IDB and other financial organizations.

E. Performance-Based Resource Allocation System

30. The PBAS for Paraguay, prepared in parallel to this COSOP, resulted in a very useful exercise in the provision of information, analysis and the expansion and enrichment of an IFAD-proposed strategy for Paraguay. The methodology used in drawing up the PBAS was based on a strengths, weaknesses, opportunities and threats (SWOT) analysis and the resulting ratings. The SWOT analysis enabled a detailed analysis and discussion of PBAS items to be carried out with governmental authorities, officials from other bilateral and multilateral cooperation agencies and those individuals involved in development and policy issues.

31. This exercise has focused the country analysis, thereby achieving a broad consensus on assessments and findings. Government officials have expressed interest in the methodology used as it allows objectives to be identified clearly in relation to what is expected of the new Government in overcoming the limitations and errors of the past.

32. The PBAS provides an indication of the weaknesses of the past and of the limitations and constraints of the present and points up both positive and negative aspects. Although the PBAS analyses a very broad spectrum of issues that both encompass and transcend the question of rural poverty and its causes, this exercise made it possible to identify and clarify how and to what extent the current Government's policies correspond to the weaknesses noted and to identify clearly the strategy to be followed by IFAD in Paraguay.

33. The matters analysed by the PBAS are as follows: (a) **strengthen the economic and social representation of the rural poor and their institutions** (a legal and policy framework governing rural organizations and dialogue between the Government and rural organizations); (b) **promote more equitable access to productive natural resources and technology** (access to land, access to water for agriculture, access to research and extension services for agriculture); (c) **increase access to financial services and markets** (enabling conditions for the development of rural financial services, an enabling investment environment for rural enterprises and access to markets for agricultural inputs and products); (d) **gender issues** (access to education in rural areas and women's representation); (e) **public resource management and accountability** (the allocation and management of public resources for rural development, accountability, transparency and the fight against corruption in rural areas). Each sub-issue calls for specific, precise questions and analysis.

34. The need for public sector reform, for the fight against central and local corruption, for democratization and for participation are some of the "macro" issues in which, as noted by the PBAS, the largest deficits lie; these are precisely the current administration's policy priorities. Weaknesses in the small-producer organizations and the organizations of the rural poor, in access to markets, in the diversification of production, in the supply and provision of technical and financial services, in organizational participation and representation: these are among the major constraints on rural development pointed out by the PBAS, and they are precisely the principal thrusts of the COSOP strategy proposal.

35. The analysis of the issues included in the PBAS questionnaires and the consultation process with Paraguayan authorities enriched the IFAD strategic analysis included in this COSOP document. Furthermore, the discussion of the main issues set by the Government in regards to rural development, good governance and the reduction of rural poverty became IFAD triggers in the differentiation of phases of a potential lending programme. PBAS also clarified spheres of collaboration between IFAD and main international donors with Paraguayan authorities in the rural development domain. The scenarios proposed in this COSOP show also how IFAD will continue to collaborate with national authorities in solving the most important problems identified whenever political and development goals set by the Government are not fully achieved.

F. National Strategy for Rural Poverty Reduction

36. The current Government has launched a significant plan to reduce poverty: the ENREP headed up by the social action secretariat with support from the World Bank, the EU, the IDB, the United Nations Development Programme (UNDP), the International Labour Organization and the Konrad Adenauer Foundation. These strategic actions comprise an explicit policy thrust of this Government and one of the Government's fundamental priorities.

37. The current Government represents a new start for the country following a period (1999-2003) characterized by the gradual erosion of government capacity and by economic recession. An executive branch has been established with individuals of recognized skill, and leading professionals and intellectuals from civil society participate as well, not always of the government party. The executive branch is closely knit and maintains clear, robust relations with the legislature, even though the opposition holds a majority in the Senate.

38. The Council of Ministers is structured into two cabinets, an Economic Cabinet and a Social Cabinet. The latter is chaired by the President of the Republic and includes the ministers of agriculture and finance, in addition to those with social portfolios. There is also a social action secretariat (at ministerial level)⁷. This structure is a reflection of this administration's strong policy platform, built upon four major strategy thrusts: (a) modernization of the state and institution-building; (b) citizen participation and the fight against corruption; (c) sustainable rural sector development and environmental management; and (d) the improvement of the competitiveness within Mercosur and on world markets.

39. Gender, youth and indigenous issues are present in current policies. In 1992, a women's secretariat was created with ministerial rank; during the early 1990s, some women's organizations joined the political and social democratization process, such as the National Coordinating Agency for Rural and Indigenous Women's Organizations. In March 2004, the Second Equal Opportunity Plan for Women and Men 2003-2007 was approved, with the objective of promoting the incorporation of gender considerations into the design, coordination, implementation, monitoring and evaluation of public policies.

40. The Government has presented Congress with a comprehensive package of state reforms and, as an essential first step in the fight against corruption and judiciary reform, has reappointed two thirds of the Supreme Court. The reform package includes a major tax reform, as well as the proposed IFAD-supported public banking reform involving the FDC.

III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

41. During the 1980s, IFAD cofinanced two credit operations with the IDB, totalling approximately USD 10 million. The results of the credit programmes were very sparse from IFAD's point of view. Channelling funds through BNF was inefficient and did not make it possible to reach the IFAD target

⁷ See Appendix III for additional information.

group. Arrears were high, and the revolving fund became decapitalized and diluted with BNF finances.

42. In 1989, IFAD carried out a special programming mission. The IFAD SPM report presented a structured analysis of the Paraguayan peasant farming sector, the rural poverty situation and its causes. The same report set forth the basis for the IFAD strategy and future operations in the country. This work was completed and complemented by an analysis of the public rural finance sector, BNF and CAH, and of the savings and loans cooperative sector.

43. The proposals identified by IFAD focused on the strengthening and modernization of the rural finance system to break the perverse chain in the financing of small cotton producers operating, with minor variations, through a trickle-down effect from the state (royalties and in some cases international loans) to exporters, to cotton gins, to bulking wholesalers, to bulking retailers and, finally, to producers. This system is very costly for producers at the end of the chain and generates high producer dependency.

44. The IFAD proposal called for the establishment of a second-tier financial institution (the FDC) specializing in rural finance to channel credit through local IFIs, in particular cooperatives. In 1991, Law 128 was passed, creating the FDC. In September 1992, IFAD approved a first operation for about USD 10 million (Project 310-PY). In 1995, IFAD approved another operation (Project 407-PY) in a similar amount with corrections and adjustments in implementation and with greater geographical coverage. The credit component was implemented through the FDC, and a small USAT was created to outsource services for institution-building and technical assistance for production. The outsourcing functions through the IFIs or producer organizations responsible for the management of the services.

45. **Preliminary findings of FDC evaluation.** The FDC represented a significant change in the institutional arena of public finance for the rural sector and small farmers. From an institutional point of view, this was an interesting proposal; hence, the model was replicated in the Microenterprise Fund and the Industrial Development Fund (both funded by the IDB) and underpinned the public banking reform proposal. In addition, the FDC incorporated a sector credit line from the IDB in order to finance middle rural sectors affected by poverty.

46. Nevertheless, the results have been unsatisfactory. The IFAD Office of Evaluation study indicates that the second project of the FDC has achieved its objectives only in part and in a somewhat contradictory way. The FDC has garnered at most a 10% share of rural finance; the traditional financing arrangements have remained, and a sound rural finance system based on local IFIs has not materialized. The impact on cooperatives has been modest, and only some of them have expanded to take in new clients. Only an estimated 30% of the clients added meet IFAD target group criteria, while the others are clients (funded by the IDB line) from a slightly higher stratum, illustrating the system's problems and limitations. The causes that have been identified lie in the limited ownership of the FDC proposal by MAG authorities, the currency and permanence of institutions such as CAH and BNF (based in the distribution of subsidized loans) and the failings of proposals for the development of the system of IFIs. Additional factors that contribute to the problems are monetary policies, the rates applied and debt forgiveness and, since 1999, the country's political and institutional instability.

47. The technical services in support of production provided through USAT were more efficient and effective than the MAG centralized services. The USAT experience is of interest in terms of ownership, user participation and service quality and cost. Still, linkages with FDC operations have lacked coordination and led to contradictory results in terms of the strengthening of cooperatives and other organizations. Priority has been given to strengthening the administrative and accounting arrangements of these organizations, whereas their strengthening, representation, legitimation and, in particular, market linkages and access have been neglected.

48. **The Raiffeissen evaluation of performance by cooperatives.** IFAD asked Raiffeissen to prepare a report on the question of why cooperatives have not managed to transform themselves into an efficient path for channelling resources to peasants and the rural poor.

49. Among the main causes of inadequate participation by cooperatives in the system proposed by the FDC, Raiffeissen indicated the following: (a) cooperatives are private, closed entities that try to minimize risk and have a perception that agricultural activity is much more risky than other business activities; (b) the wrong messages have been sent by the Government in allowing the possibility to default on subloans or paying on terms other than those agreed upon; (c) excessive liquidity and tax-free rents have characterized the financial market; cooperatives have not needed to obtain resources from the FDC and do not see the need to serve clients with higher risk indexes; and (d) FDC lending funds are subject to restrictions on collateral and other lending conditions, on subloan amounts and on beneficiary eligibility (only very poor smallholders accessed FDC funds).

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts⁸

50. The current administration's policy rests upon four pillars: (a) reforming Paraguay's state institutions and combating corruption; (b) balancing public accounts and restructuring the economy; (c) achieving economic competitiveness; and (d) promoting poverty reduction programmes systematically using effective and efficient instruments. Of these, the last provides a framework for a significant contribution by IFAD.

51. From an institutional perspective, the social cabinet holds a key position as the coordinator of all the Government's social policies and programmes, with responsibility for overcoming issues such as the overlap in jurisdictions and the dispersion of efforts and resources in order to promote complementary sector policies in the social sphere, define social policy and its instruments in line with the Government's economic policy and, in particular, coordinate international cooperation initiatives on poverty reduction.

52. In operational terms, the social cabinet and the other entities involved, primarily the social action secretariat, aim to achieve a close convergence among the institutions charged with the implementation of public policy instruments and prepare a shared strategic agenda for the central Government, local governments, civil society and non-governmental organizations (NGOs).

53. Despite the advances made on gender issues in Paraguay, the implementation of public policies that incorporate equity criteria remains at an incipient stage. The women's secretariat lacks visibility, exhibits limitations in the promotion and coordination of gender policies, only marginally participates in social and economic cabinet discussions and lacks human and financial resources. This has an impact on the implementation of the Second Equal Opportunity Plan for Women and Men 2003-2007. Within its country strategy, IFAD considers that it is vital for future operations to support a clear definition of gender policies and collaborate in the implementation of these policies, in close coordination with the second equal opportunity plan.

54. Within the framework of national policies and institutions, the IFAD gender strategy should give consideration to the following aspects: (a) rights as empowering elements for citizens and their participation; (b) measures targeted specifically to the more vulnerable among the rural poor; and (c) life cycle approaches for actions at various stages of life (infancy, youth and old age).

⁸ See Appendix IV for additional information.

B. Main Opportunities for Innovations and Project Interventions

55. Taking into consideration the Paraguayan institutional framework as described above, which determines the IFAD institutional strategic niche, a set of potential opportunities for IFAD interventions appears necessary and possible. As pointed out elsewhere, these interventions must be implemented both at the institutional-governmental level and at the field level. The main strategic thrusts of the potential opportunities for IFAD interventions are: (a) the strengthening or creation of social capital (empowerment) through support for the development of peasant social networks in the form of committees, small cooperatives and associations with a clear market orientation towards the promotion of mainstreaming in civil society; this task should be undertaken by a systematic effort to seek out and take advantage of commercial opportunities; (b) the promotion of the diversification of traditional peasant production through the identification of new products for cultivation by the family unit that have clear prospects for marketing and value added and a competitive advantage; (c) the promotion of gender equity through specific instruments for both socioeconomic and commercial participation; and (d) support for the design of government policies, instruments and mechanisms for the system of financial and production technical assistance services.

56. This strategy is shared with the Paraguayan authorities both in the social cabinet and in the Ministries of Finance and Agriculture and Livestock. Priority is assigned to the design and application of instruments favouring the development of local capacities and peasant civil society. At the same time, it is urgent to identify effective ways to distribute public goods and services, in particular technical and financial services, the latter in the context of the new institutions emerging through the public banking reform.

57. Any new IFAD intervention should take into account the institutional weaknesses that have been one of the causes of the contradictory results of the FDC. It is urgent that the occasional groupings of peasants that form to supply resources (goods, inputs, or money) be replaced by organizations with a well-defined focus and sustainable market and business objectives, while strengthening the existing cooperative system.

58. To reinforce the social capital of poor smallholders implies three different levels of action: (a) strengthen or create peasants' organizations through a clear production and market-oriented approach; improve, through training, their agronomic or artisanal skills and the incorporation of managerial activities and appropriate training for poor smallholders' groups; (b) establish new links between local authorities (particularly municipal ones) and smallholders groups organized in social networks; (c) establish a policy dialogue between smallholders' organized networks and central authorities to foster regional and subregional rural development processes. Although proper activities to reinforce the social capital of poor smallholders could be designed and proposed during the formulation stage of a project, a strategy is given below for the creation and strengthening of social capital.

59. The strategy for the creation and strengthening of social capital is based on:

- (a) allocating social pre-investment resources that are applied to activities by men and women that have a measurable impact and seek to develop the entrepreneurial capacity of groups and communities;
- (b) identifying opportunities for agricultural and business production aligned with local capacities and the geographical, productive, environmental, economic and social setting;
- (c) an appropriate organizational design to transcend the traditional form of committees (much influenced by political parties) or informal associations in order to undertake joint ventures;
- (d) training activities for the self-management of commercial joint ventures for both men and women in rural areas;

- (e) support mechanisms for social decision-making and the oversight of cooperatives or enterprises so as to ensure that they are transparent and effective;
- (f) strengthening administrative accounting management mechanisms and mechanisms dealing with production and the definition of business plans for the diversification or intensification of family production;
- (g) fostering a process of dialogue between central authorities and smallholders' organizations; and
- (h) reinforcing local rural development programmes in municipalities.

60. In parallel with public banking reform, support is needed for the definition of rural finance policies and instruments. Based on the new Public Banking Reform Law now before the Paraguayan Congress, policies, instruments and innovative pilot credit activities should be defined as a matter of urgent priority so as to ensure an efficient rural finance system for poor small-scale producers. IFAD could provide support to the Government, to savings and loans and production cooperatives and to peasant organizations in the design and application of public policy instruments for the new institutions planned.

61. The COSOP mission has identified a priority territory for IFAD intervention. It encompasses the departments of Itapúa, Caazapá, Guairá, Caaguazú and San Pedro, where the highest poverty indexes and the greatest population density per km² exist, with the exception of Asunción and the Central Department. These departments have seen an aggressive advance in industrial soybean crops during the 2003-04 crop year that is displacing rural peasants. Social tensions are running high and have generated acts of violence during the first few months of this year.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

62. There is a long tradition of rural development action on the part of organized civil society, mainly by cooperatives, NGOs, church groups and religious movements, and trade unions.

63. The Rural Network is an association of 16 NGOs, some of them specializing in social and development research and the fight against poverty, and others working directly in the field to provide technical assistance to peasants. The latter currently mobilize over 100 technicians and social workers, reaching an estimated population of over 1 000 families either directly, or indirectly. IFAD could establish solid complementarities with the rural network and promote synergies between social research NGOs and those working in the field, specifically on gender issues, to present a proactive position vis-à-vis the Government and various rural development programmes.

64. The Productive Cooperatives Federation (a federation of medium-sized and large producers) has begun to support settlements of small peasant farmers that border on cooperatives of medium-size and large producers of German (Mennonite) and Brazilian origin, as well as large-scale dairy farmers and producers. The basic objective is to include small-scale production in the production and marketing plans of the cooperatives in order to improve the incomes and quality of life of the peasant farmers, thus favouring a more homogeneous social environment and avoiding increased marginalization. These activities are backed by funding from the Swedish Cooperative Centre within the framework of international cooperation by the Swedish Government and the International Cooperative Alliance. Such initiatives could be very useful to IFAD operations.

65. Within the context of the IFAD project now being implemented, through action by USAT and the FDC and supported by the IFAD-Mercosur technical assistance grant, a model is now in the phase of observation, systematization and consolidation. This second-tier association of fruit and vegetable gardeners was set up to consolidate a commercial mechanism for bananas and pineapple on the domestic market (Asunción) and regional markets (Buenos Aires and Montevideo). The commercial results are promising, although governance and institutions are still taking shape.

D. Opportunities for Linkages with Other Donors and Institutions

66. Future IFAD interventions in Paraguay should be seen in the context of the timeliness and “need” to support the policies of the Government and the social cabinet, with a special focus on integration with and complementing cooperation with other international agencies. Of particular interest are the IDB, the German Federal Ministry for Economic Cooperation and Development-the German Agency for Technical Cooperation (GTZ), the EU and the United States Agency for International Development (USAID), with which the mission discovered very tangible points of complementarities during the fieldwork. IFAD could propose a permanent forum for rural development policy discussion that would involve international cooperation agencies and local sector institutions, replicating IFAD experiences in other countries of Latin America.

67. Such complementary work could take place in two stages. The first stage would support the social cabinet in the formulation of social policies and the evaluation and measurement of their impacts. This vision is shared with the EU: in a recent preliminary agreement signed by the EU and Paraguay, the amount of euro 25 million in non-reimbursable funds has been allocated for poverty reduction programmes, including euro 1 million to institutionalize the social cabinet. IFAD could support the design and application of implementation and policy instruments in the area of rural poverty reduction and in the design of impact and results benchmarks.

68. For the potential second stage of the IFAD tentative lending programme, the mission analysed, together with the IDB, possible joint activity to design a rural finance policy and new financial products and services appropriate to poor peasant farmers, as well as in the land distribution and land titling domains, which are very important and sensitive issues in the country. To implement the public banking reform process, the IDB has an approved loan operation for USD 50 million for institution-building and another USD 10 million for a cadastre and property registry programme.

69. With respect to the GTZ and USAID, the mission found clear complementarity in actions in the field, particularly within a vision of rural development and poverty reduction that are geared towards seeking out market opportunities for rural production on a small scale. Both organizations provide information on markets and business prospects, as well as technical assistance so that production processes can integrate within existing chains. In particular, the GTZ carries out interventions at the municipal level with a clear orientation towards decentralization. Also of note is the close working relationship with UNDP, which supported the implementation of the country and poverty study (ENREP), thus opening the way for policy dialogue with the United Nations agencies coordinated by UNDP and the national Government. Collaboration will also continue between IFAD and the Japanese International Cooperation Agency, which works actively to strengthen rural cooperatives, opening prospects for cooperation with the World Bank and its plans to fund several rural development projects in the coming three years. An important collaboration with United Nations Children’s Fund (UNICEF) will be included in future IFAD operations that will address both child labour in the rural sector and illiteracy among adults and indigenous groups.

E. Areas for Policy Dialogue

70. In the preparation of a new IFAD operation for Paraguay or a new series of rolling operations, as appears to be the most appropriate formula at the current juncture, it is important to keep in mind that, in connection with social policies in rural poverty reduction, there are four areas of political uncertainty at the moment: (a) the process of the institutionalization of the social cabinet; (b) public banking reform; (c) the reform of the MAG system and the creation of a series of autarchic agencies to implement agricultural policies and the change in the ministry’s role; and (d) the role played by the cooperative system with regard to rural savings and loans and production cooperatives and in terms of oversight and banking supervision. During the COSOP/PBAS missions, IFAD agreed with authorities in the social cabinet and the social action secretariat to establish a rural development forum which will hold a seminar, twice a year, with an agreed agenda, in which IFAD and all other international

institutions (multilateral and bilateral) and main smallholders organizations will participate. These rural development forums will be one of the main channels for the participatory elaboration of the governmental rural development agenda and possible interventions.

71. IFAD could also support activities and, in fact, is already collaborating directly, principally through the IFAD-Mercosur technical assistance grant, in issues under (b) above with respect to rural financing policies and under (d) through IFAD-Mercosur, in the form of a study in the conclusions stage on the status of the cooperative system in relation to public banking reform.

F. Action Areas for Improving Portfolio Management

72. The only project currently being implemented is Project 407 PY, which is expected to end in December 2004. The FDC and USAT are the implementing units. The former is responsible for the distribution of credit to peasants through IFIs, while the latter is responsible for the provision of technical assistance to IFIs to strengthen them in the institutional, administrative-accounting and productive areas.

73. During this last stage of project implementation, closer linkages and institutional cooperation should be sought between both implementing units and MAG. Resources could have been used more effectively through a policy governance unit and a single operating and management approach. In fact, this question of institutionality and its relationship with policy-making issues should be considered in the formulation of a new operation. At the same time, it is very important to strengthen actions in coordination with other cooperation agencies and complementary projects in the agricultural and rural peasant farming sector, especially the IDB. From the administrative-accounting point of view, it is recommended that future IFAD projects be administered under a single special account.

G. Tentative Lending Framework and Rolling Programme of Work

74. The current Government of Paraguay and its supporting political forces have shown much determination in taking on the challenges of the modernization of the state, the fights against corruption and the reduction of poverty. This approach is shared by all bilateral and multilateral international cooperation agencies. There is a very favourable context for carrying out a rural development policy and programmes and projects to combat rural poverty. The COSOP preparation mission, based on indications from national authorities and the analysis performed, has identified the opportunity and the need for a series of rolling actions under a scaling-up approach, whereby IFAD could make an effective contribution to the reduction of poverty and the development of the country's rural areas.

75. To implement the proposed strategy, it is recommended that at least three inter-linked operations-phases be carried out over the next 15 years, for a total amount between USD 30 million and USD 40 million. The passage from one phase to the next will be subject to the fulfilment of targets and impact indicators. Considering the results of the PBAS, a prudent strategy is proposed that could respond to two different scenarios. The scenarios proposed below show the potential IFAD strategy distributed in three periods, or four, if a second scenario were to be opened. These periods are conceived as a flexible relationship between the empowerment of smallholders' organizations and the social capital of IFAD's main clients and investment activities for the improvement of the economic and social position and standard of living in Paraguayan society. It implies also a flexible relationship and appropriate mix between pre-investment and investment activities. During the first stage, social capital and pre-investment activities would be the main task, whereas the second and third phases (up scaling) would stress investments accompanied by permanent reinforcement of smallholder groups.

76. The scenarios and phases planned are the following. **First scenario (scenario A):** The first operation (or initial operation), for approximately USD 10 million or USD 12 million (about five to

six years), should centre around the development of local capacities to increase social capital in the poor peasant farming sector and its social organizations. This intervention should enable already existing or new associations, groups and cooperatives to consolidate and expand their activities both in social participation and representation and in the economic and commercial sphere, based on a given focus of interest.

77. This first phase or operational stage could favour the development of instruments that focus on the development of capacities, gender equity and access to (non-lending) financial services and to technical assistance (in a broad sense) by peasant groups and organizations in the regions (departments) targeted by IFAD and the national Government and with the highest levels of rural poverty. Actions would be driven by local demand and would be geared to the strengthening of organizations, the diversification of production and seeking out business opportunities (including for traditional products).

78. A sustainable process of empowerment among small-scale poor producers would result from the following activities:

- (a) **Strengthen the social organizations** of small-scale peasant producers both in economic and commercial management and in social management and organization by improving their access to services.
- (b) **Provide technical assistance for farms**, adding value and marketing services.
- (c) **Provide assistance in relation to new financial services** to improve performance by both family units and the service organizations themselves.
- (d) **Collaborate on the establishment of research/information mechanisms and systems** to identify new agricultural and processed products geared to markets and the related marketing channels so as to diversify crops away from cotton.
- (e) **Support a process of coordination and aggregation** through the rationalization of operations and the economic and financial strengthening of cooperatives of small-scale producers and farmers.
- (f) **Support the institutionalization** of a policy dialogue forum within the executive branch aimed at the design of policies and instruments to combat poverty and mechanisms to foster a sufficient flow of resources, while encouraging an appropriate application of instruments by the specialized ministries and implementing units.
- (g) **Evaluate impacts and results** on the basis of **mid-term objectives and indicators**.

79. This process should contemplate the development of a service delivery system based on an open market for services that offer comprehensive technical assistance for farms and associational organizations and enterprises. It would also address poverty issues within a range of activities that would include some investments and environmentally friendly interventions to tackle extreme poverty and, in general, improve the livelihoods of very poor smallholders. The first operation should also seek to have an effect through the consolidation of the social cabinet and its policy instruments to combat rural poverty. If the results obtain a positive evaluation using the methodology in paragraph 14 of the Executive Summary, a second stage would take place.

80. **A second stage or operation**, in an amount of USD 8 million or USD 10 million (about five years), could be based on the progress achieved and the verified results, including progress in the implementation of policies and improvement in the major results to be obtained (critical performance) as identified by the Paraguay PBAS and measured against impact benchmarks (actual increase in social capital), effective participation in development decisions and strategies, and the market presence and performance of organizations. This second operation could aim at a higher stage in the structure of these organizations, in their institutional and productive consolidation, in their access to lending, and the expansion and spread of the private technical assistance services system. These services could be financed through resources transferred to organizations under the new IFAD project. The aim would be to consolidate processes and market position, finance working capital at the various

stages in the chain of the commercial network, finance commercial and logistical infrastructure to enable the development of competitive activities in the production, marketing and consolidation of flexible marketing mechanisms (consortiums, strategic partnerships, second-tier associations of cooperatives). A new positive evaluation (which would have appropriate indicators following the same methodology) would lead to a third stage/operation.

81. **A third operation** (scaling-up), in an amount of USD 12 million or USD 15 million (about five years), would take place some 10-12 years after the commencement of the first so as to enable the expansion nationwide of the experiences of the first two stages and the consolidation of the proposed model. This new operation would deepen the private service delivery system, possibly maintain some forms of subsidiarity, and, based on the results of the public banking reform, support could be provided for the development of financial policy instruments, new financial products and the expansion of the savings and accumulation of local social and financial capital.

82. **Second scenario (scenario B)**: The starting point would be identical, with a **first operation** as described above. Following the implementation of that operation, a **second scenario** would arise, allowing for the possibility that progress in the implementation of policy and the state reform might encounter greater difficulties than foreseen above and that the first operation proposed does not achieve the mid-term objectives set. In this case, any weak elements would be adjusted and reinforced in order to return to the situation in the first scenario, i.e., commence operation 2. The figure on page 16 clarifies the relationships between the two scenarios.

83. The institutional framework and implementation capacity, given this administration's short tenure and the problematic legacy of earlier governments, continue to be weak and precarious. Moreover, the ability to translate priority sector policy guidelines into coherent programmes and projects remains extremely weak and vulnerable. IFAD's previous experience in the country and the socio-political developments of recent decades indicate the importance, in any medium and long-term commitments, of taking a prudent approach that allows for the always latent risk that government policies will not take root and that the problems of the past will return.

84. The IFAD mission to prepare this COSOP believes that the proposal presented under the first scenario rests on the assumption that the current policy guidelines will be consolidated and that the institutional framework will be modified in line with the current administration's plans and with the draft legislation now before the Congress.

85. The above assumptions (governmental policies and development actions) should result in a resolution of the issues identified as priorities by the Paraguay PBAS, i.e.:

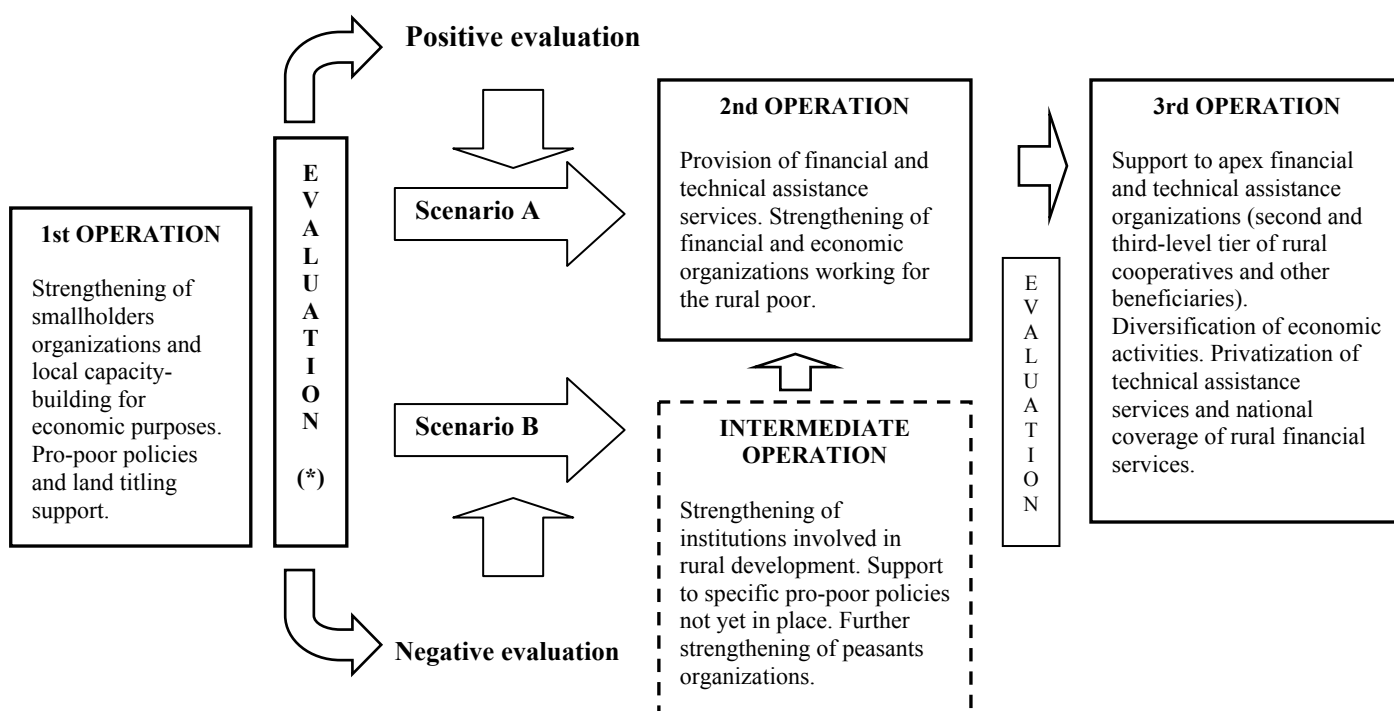
- (a) a clear decision, expressed through proactive policies, on the peasant farming sector and its socioeconomic organizations, to expand the sector's civil-society and market participation;
- (b) effective continuity in the fight against corruption in its manifestations in both the public and private sectors;
- (c) advocacy, during the process of discussions on public banking reform policy, on regulations and on instruments, the institutionalization of instruments, points of service, new financial products and services for the poor peasant farming sector; and
- (d) a clear policy on social equity and related action, in particular to apply the concept of gender, the rights of the person and legal security.

86. If it is observed that the objectives and targets are not achieved, the initial strategy proposed by IFAD would be modified, and a **second scenario** would be shaped. Actions under this second scenario or stage would be aimed at the elimination of problems, temporary delays, difficulties, or paralysis in the processes undertaken by the Government and by the poor during the implementation of the first operation (evaluated two or three years into implementation). This would be accomplished

through actions to strengthen and support efforts to solve any problems, constraints, or difficulties that would have arisen. This would be a modest **intermediate operation** (USD 3 million-USD 4 million in three or four years) substantially different from the second operation described under scenario A.

87. The success of this second operation (scenario B), measured on the basis of specific performance indicators that take into account developments in the political and institutional context by using RIMS objectives and procedures, would enable a new operation (under this scenario, a third operation) to be undertaken, as described in the paragraphs outlining the **second operation** of **scenario A**, and resume the original path. This would imply a displacement in time for an eventual, successive new operation with the features indicated for the third operation under scenario A.

FIGURE



(*) Based on PBAS and specific project indicators.

APPENDIX I

COUNTRY DATA

PARAGUAY

Land area (km² thousand) 2002 1/	397	GNI per capita (USD) 2002 1/	1 170
Total population (million) 2002 1/	5.51	GDP per capita growth (annual %) 2002 1/	-4.4
Population density (people per km²) 2002 1/	14	Inflation, consumer prices (annual %) 2002 1/	11
Local currency	Guarani (PYG)	Exchange rate: USD 1 =	PYG 4 800
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.3	GDP (USD million) 2002 1/	5 508
Crude birth rate (per thousand people) 2002 1/	30	Average annual rate of growth of GDP 1/ 1982-1992	3.3
Crude death rate (per thousand people) 2002 1/	5	1992-2002	1.5
Infant mortality rate (per thousand live births) 2002 1/	26	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	71	% agriculture	22
Number of rural poor (million) (approximate) 1/	n/a	% industry	29
Poor as % of total rural population 1/	n/a	% manufacturing	15
Total labour force (million) 2002 1/	2.11	% services	49
Female labour force as % of total 2002 1/	30	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2002 1/	112 a/	Household final consumption expenditure, etc. (as % of GDP)	84
Adult illiteracy rate (% age 15 and above) 2002 1/	8 a/	Gross domestic savings (as % of GDP)	8
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	1 030
Malnutrition prevalence, height for age (% of children under 5) 2002 2/	11 a/	Merchandise imports 2002 1/	1 770
Malnutrition prevalence, weight for age (% of children under 5) 2002 2/	5 a/	Balance of merchandise trade	-740
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	8 a/	before official transfers 2002 1/	176
Physicians (per thousand people) 2002 1/	n/a	after official transfers 2002 1/	294
Population using improved water sources (%) 2002 2/	78 a/	Foreign direct investment, net 2002 1/	-20
Population with access to essential drugs (%) 1999 2/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2002 2/	94 a/	Overall budget balance (including grants) (as % of GDP) 2002 1/	-1 a/
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	19 a/
Food imports (% of merchandise imports) 2002 1/	12	Total external debt (USD million) 2002 1/	2 967
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	221 a/	Present value of debt (as % of GNI) 2002 1/	52
Food production index (1989-91=100) 2002 1/	143	Total debt service (% of exports of goods and services) 2002 1/	11
Cereal yield (kg per ha) 2002 1/	2 030	Lending interest rate (%) 2002 1/	39
Land Use		Deposit interest rate (%) 2002 1/	23
Arable land as % of land area 2002 1/	8 a/		
Forest area as % of total land area 2002 1/	59 a/		
Irrigated land as % of cropland 2002 1/	2 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ UNDP, *Human Development Report*, 2004

LOGICAL FRAMEWORK

(To be completed during formulation)

Summary	Verifiable indicators	Learning System	Assumptions (Issues for Policy Dialogue)
<p>Strategic Framework Goal</p> <p>Rural poor men and women and their strengthened organizations are mainstreamed into processes of local and national socio-economic development in Paraguay.</p>	<p>RIMS Anchor 1: Reduction in child malnutrition.</p> <p>RIMS Anchor 2: Increase of assets of the beneficiaries.</p> <p>Increase of levels of institutionalized participation of farmer organizations in public sector decision-making on socio-economic affairs.</p>	<ul style="list-style-type: none"> • Statistical asset and child malnutrition data at local and regional levels (disaggregated by sex). • Project impact assessment studies. • Monitoring data on income, asset situation and quality of life (disaggregated by sex). • UNDP HDI. 	
<p>Strategic Objective for Paraguay Country Programme</p> <p>Social organizations and enterprises of rural poor and farmers are enabled to operate effectively and efficiently in markets for goods and services in agriculture and finance.</p>	<p>Number, coverage (dis-aggregated by sex) and business data of viable social organizations and enterprises of rural poor and farmers.</p> <p>RIMS 2nd level finance indicators.</p> <p>Increased number of farmers and rural poor with access to development financing, based on new financial products and services offered by both public banks and through the cooperative system.</p>	<ul style="list-style-type: none"> • Audits. • M&E data. • Reports of social organizations and enterprises of rural poor and farmers. • MAG and Ministry of Economic Development. • Municipal data. 	<p>Process and strategy for rural poverty reduction will remain a priority on the GOP agenda.</p>

Summary	Verifiable indicators (according to scenarios and phases)	Learning System	Assumptions (Issues for Policy Dialogue)
<p>Strategic Development Thrusts for Paraguay (Outputs)</p> <p>1. Poor smallholders' social capital is reinforced with pre-investment and investment activities towards sustainable entrepreneurial operations.</p> <p>2. GOP and civil society have created and institutionalized mechanisms and instruments for the participatory formulation and delivery of the Paraguay PRSP, particularly in the agricultural and rural sector through MAG and pertinent civil society organizations</p> <p>3. Demand-led market oriented delivery systems for production chain and rural financial services is accessed by target groups.</p> <p>4. Smallholders' farm land titles have been obtained.</p>	<p>Increased number of active farmer members of networks of rural cooperatives (men and women) engaged in production, multi-sector activity, or savings and loans.</p> <p>Number of entrepreneurial associations and business created.</p> <p>Number of pre-investment plans by type of enterprise</p> <p>Number and participation of population and GOP/MAG authorities in multi-stakeholder planning and verification platforms.</p> <p>Degree of PRSP acceptance by civil society.</p> <p>Number, business volume, value-added, degree of product diversification and coverage of service contracts signed and honoured (agricultural production).</p> <p>Number, business volume and coverage of rural finance services implemented.</p> <p>Number of land titled farms registered.</p>	<ul style="list-style-type: none"> • Register of cooperative enterprises operating effectively, carried out by INCOOP (disaggregated by sex). • Ministry of Economic Development • PRSP documents and pertaining decrees • PBAS • Polls • Statistics and indicators on commerce in agricultural and agro-industrial products (USAT). • Reports by INCOOP and the Superintendency of Financial Institutions of BCP/Finance. • Reports by DINCAP and farmer associations. • Reports by MAG. 	<p>Predominant rent-seeking and/or welfare policies and mentality of GOP and rural community is turned around towards sustainable self-development models.</p> <p>Coordination and convergence of social and economic policies will enhance impact and sustainability of rural poverty reduction actions contained in the PRSP.</p> <p>Business volume and terms of trade are sufficiently interesting to attract agricultural production and rural finance service providers</p>

Key Activities (starting point scenarios A/B):

- Strengthen and/or create farmers organizations.
- Implement skills and management training.
- Establish new links between local authorities and poor smallholder groups organized in social networks.
- Establish policy dialogue between the social networks and central authorities.
- Propose a multi-stakeholder forum for rural development policy discussion.
- Support the design and application of PRSP instruments.
- Develop a demand led market oriented delivery systems for production chain and rural financial services.
- Close monitoring of the development of the scenarios and phases.
- Land titling activities.
- Child labour prevention and protection activities.
- Adult's and indigenous' literacy programmes.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Opportunities	Weaknesses	Threats
Social Cabinet	Policy dialogue forum for formulation of policies, design of instruments, coordination and convergence. Coordination of actions for poverty reduction.	Strong political commitment by Government to poverty reduction. High priority on political agenda; participants and advisors are representative and sound intellectually and morally.	Lack of solid institutionalization, high dependency on leadership and priority-setting by President of the Republic. Possesses no permanent technical bodies or implementing capacity.	Exclusively a forum for political or academic debate, with no real capacity to coordinate programmes and instruments, formulate policy or measure the impact of resources invested. Erosion of the mechanism and lack of knowledge by specialized ministries.
Social Action Secretariat	Secretariat with ministerial rank, charged with implementing social policies and applying the directives outlined in the National Poverty Reduction Strategy (ENREP).	Strong political representation and political backing of the Secretary by the President. Has a set of strategic directives and policy instruments in the ENREP, systemic and interagency in nature, on which consensus must be reached for application.	Insufficient trained staff for implementation. Lack of implementing units with capacity to carry out programmes and projects. Institutional weakness.	Lack of implementing capacity; lack of knowledge of its coordinating capacity by specialized sector ministries.
MAG	Ministry responsible for applying policies in the areas of agriculture, livestock raising, forestry and rural development. Coordinates various systems for rural development, technical assistance, access to land; allocates resources for crops, such as cotton.	High ministerial priority assigned to developing rural areas and territories and reducing poverty in the peasant farming sector. Good installed capacity and experience in implementing cooperation projects by DINCAP.	Institutional weakness stemming from the coexistence of different (and even divergent) views of MAG's role in rural development and territorial action. Institutional reform process in Congress, with contradictory initiatives.	Operational and political neutralization by lack of clarity in institutional reforms. Application of resources and instruments counter to a systemic rural development policy, under duress from crisis of cyclical conditions and social and political pressures.
INCOOP	Recently passed law on cooperatives transforms it into an oversight agency for the cooperative system, with promotional functions. Public-private representation on its Board. Concordance between cooperative system and its governance and strong political input in Congress	Need to adjust its supervisory and oversight role to the process of public banking reform and lead the restructuring of the system of cooperatives of small-scale peasant producers, to become effective and efficient windows for distributing public funds in the form of financial products for development.	Larger, urban and rural savings and loan cooperatives with broader economic and financial range predominate in its governance (from the private sector). Also, agricultural production cooperatives of large-scale farmers.	Radicalization of policy proposals out of an attempt to maintain corporate privileges. Division of the cooperative system for lack of a shared vision and priorities on rural development, small-scale production and anti-poverty measures. Lack of leadership by Executive Branch.

Institution	Strengths	Opportunities	Weaknesses	Threats
FDC/USAT	System of technical assistance and credit in operation for six years, with relatively low coverage among the poorest peasants but with instruments that, once refined and complemented with social pre-investment resources, could bring about better results. FDC corresponds to the second-tier banking model pursued under the public banking reform.	FDC has funds for lending to the peasant farming sector. MAG is proposing that FDC and USAT expand their coverage towards the poorest population groups. The need to maintain the original IFAD funding for application to the same target population, above and beyond the reform, will make it necessary to maintain a specialized system for delivering funding to poor peasants.	Limited coverage of the poorest peasant farmers and their organizations. Lack of political definition on USAT's role within MAG beyond December 2004. Merger of FDC with second-tier bank to be created under the reform.	Impairment of FDC portfolio and resources during the transition stage of the public banking reform. Reform of MAG, eliminating USAT, without taking advantage of the last six years' experience.
NGOs	Long-standing tradition in Paraguay of NGOs operating in rural areas in support of peasant organizations. The Rural Network groups together 16 research and social action organizations.	Empower the network of NGOs through a broader range, in social, institutional, economic and commercial terms, for their technical assistance services.	Highly segmented actions with little overall impact on policy.	Risk of being used for political purposes.
Cooperatives and peasant associations	Long-standing tradition of peasant groupings in the form of local associations. Strong cooperative movement throughout the country, with capacity for input on policy.	Bring small rural production cooperatives and rural and urban savings and loan or multi-sector cooperatives into networks or federations with greater capacity for channelling public funds for development, improving the supply of services and expanding social coverage	Fragmented cooperative system with cooperatives of very strong large-scale producers and cooperatives in the peasant farming sector that are extremely weak with scant accumulation of social and economic capital.	Politicization and radicalization of proposals. Inability of small lending cooperatives to adapt to new emerging regulations under the banking reform. Risk of dispersal of efforts and fragmentation of small cooperatives.

IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

1. IFAD endeavours to ensure, through its interventions, that combating rural poverty is a continuing priority on the political agenda of governments and hence of their institutions. This calls for institutions with the ability to formulate policy and design public policy instruments on questions of a social nature and poverty reduction.
2. In the area of rural socio-economic development and poverty reduction in particular, institutions tend to be ambiguous and dependent upon state institutions and implementing units for their application of instruments. The aim is therefore to arrive at an explicit and permanent definition of institutional areas that will ensure not only continuity in policy formulation but also a sustained and adequate flow of resources and necessary convergence between economic and social policies.
3. IFAD actions are also intended to promote innovative mechanisms for participation by the poorest rural populations in civil society so that they may have input into policy decisions from a social rather than a public perspective. Setting up networks of socio-economic organizations of poor peasants and producers will also enable them to improve their negotiating capacity and thus participate under more favourable conditions in markets for goods, services and products. This thrust for action should improve the incomes of rural families but also create social, political, institutional and market conditions over a longer term such that poverty reduction takes effect and brings results that are sustainable over the medium and long term.
4. Over the past two years, activities have been carried out in cooperation with the Government generally, with MAG and the implementing units for the IFAD project, with the regional programmes PREVAL, PROMER and IFAD MERCOSUR, each in its sphere of competence. This is precisely to strengthen small peasant enterprises providing production services and to set up forums for policy dialogue that will enable improvements to be made in the design and sustainability of rural poverty reduction policies.
5. Under previous IFAD operations in Paraguay, various innovative mechanisms for delivering lending to peasants were designed and applied, such as the Peasant Development Fund, and for providing technical assistance to cooperative organizations to accredit and train new IFIs, such as USAT. The institutional weakness and lack of accumulated social capital in peasants' social organizations (committees and small cooperatives), as well as an essentially productive and accounting approach to technical assistance, limited the degree of penetration and coverage of the target population by instruments designed. FDC operated within a rarefied and distorted financial market given adverse interventions by governments, generating a paternalistic attitude and a culture of payment default on the part of peasants as a result of the distribution of non-reimbursable resources and adverse policies such as blanket forgiveness of debt in the peasant farming sector. FDC looked after its portfolio and arrears and reduced the impact of this situation. The institutional remoteness of both instruments (USAT and FDC) from the policy-making sphere had a marked impact on their management and performance.
6. When the new Government of Paraguay showed signs of assigning high priority within social policy to combating poverty, especially in rural areas, creating the Social Cabinet, IFAD took the opportunity to collaborate on institutionalizing this. Reforms of the public sector, as in public banking and MAG itself, are opening up a positive environment for cooperation based on IFAD's objectives and instruments.

APPENDIX IV

7. The strategy proposed for new interventions therefore has to do with concrete support for institutionalizing public instruments to combat poverty, at the level of the Executive Branch, by improving policy design and implementation and coordination among instruments and implementing agencies. Dialogue with civil society organizations is being broadened and improved. In the field, strong action is being proposed in departments selected by agreement with the Government, to strengthen the fabric of poor peasants' social organizations, especially cooperatives with a clear market orientation. This will lead to improving distribution of and access to more appropriate technical services, to financing and new financial products and services, opening up new business opportunities and markets for peasant production.

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/synergy potential
Inter-American Development Bank (IDB)	<p>IDB is the largest international lender to the GOP. In 2003, the Bank approved three loans to Paraguay. On a cumulative basis (1961-2003), the Bank has made 114 loans totaling USD 1 911 million, and disbursements have totaled USD 1 526 million. Currently finances several on-going projects in various areas. Regarding agriculture and rural development, there are three main projects:</p> <p>(i) <i>Programme to Support Small-Scale Cotton Producers. (USD 25.07 million. Two phases).</i> The programme's primary objective is to promote sustainability in the production systems of small-scale cotton units, increasing their incomes.</p> <p>(ii) <i>Modernization and Diversification of Small-Scale Farming. (USD 10 million).</i> The overall objective of the programme is to increase the level and stability of income for participants in the fruit and vegetable chain, by consolidating private centres to provide marketing services to producers to help them market their products more efficiently.</p> <p>(iii) <i>Cadastral and Property Registry Programme. (USD 10 million).</i> The general objective of the programme is to promote efficient land use and to improve land use planning in Paraguay.</p>	<p>Local</p> <p>Local</p> <p>National</p>	<p>On-going</p> <p>On-going</p> <p>To be implemented</p>	<p>High</p> <p>High</p> <p>High</p>
The World Bank	<p>Relatively small financier of investment projects in Paraguay. The World Bank has currently four on-going projects:</p> <p>(i) <i>Education Reform Programme (USD 24 million).</i> The overall project goal is to build human capital in Paraguay which, in turn, will contribute to the diversification of the economy and more sustainable growth.</p> <p>(ii) <i>Pilot Community Development Project. (USD 9 million).</i> The Project seeks to improve the quality of life and social inclusion of poor rural and marginal urban communities in three departments on the southern border of Paraguay (Itapua, Misiones and Neembucu).</p> <p>(iii) <i>4th Rural Water Supply & Sanitation (USD 40 million).</i> The main development objective of the Project is the rapid increase of water supply and sanitation coverage in rural areas.</p> <p>(iv) <i>Natural Resources Management Project. (USD 50 million).</i> The general objective of the programme is to assist small farmers in the establishment of sustainable, diversified agricultural production systems and conservation measures.</p> <p>The Country Assistance Strategy (CAS) 2004-2007 proposes a lending programme for USD 325 million, of which USD 80 million, or about 25%, are envisaged for two adjustment operations. In addition, the base case programme includes investment projects that contribute to achieving the Government's development objectives in the areas of governance and public administration, economic growth and social inclusion.</p>	<p>National</p> <p>Local</p> <p>Local</p> <p>Local</p> <p>National</p> <p>National</p>	<p>On-going</p> <p>On-going</p> <p>On-going</p> <p>On-going</p> <p>To be implemented</p> <p>To be implemented</p>	<p>Medium</p> <p>Medium</p> <p>Low</p> <p>Low</p> <p>High</p> <p>High</p>

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/synergy potential
Japan Bank for International Cooperation (JBIC)	The Japan Bank for International Cooperation (JBIC) is the Japanese Government financial institution that offers loans at very soft conditions and at a long term. In Paraguay the Japanese Bank is mainly financing road infrastructure works. At the beginning of 2004 the Paraguayan government gave impulse to a road plan that consists of a package of seven road projects in the country among which the re-pavement of main roads nr. 1, nr. 5 and nr 6. The investment is around USD 211.6 million of which USD 152.7 million are a loan from the JBIC and USD 52.9 the Paraguayan counterpart funds.	National	On-going	Medium
Japanese International Cooperation Agency (JICA)	Paraguay is one of the Latin-American countries where the JICA is particularly active. In Paraguay the JICA has prioritized the following areas: (a) economic development; (b) social development; (c) natural resources sustainable development; and (d) governance. The activities of JICA in the country can be classified as: (a) technical cooperation: provision of fellowships and experts to the country as well as technical cooperation projects and development studies; (b) provision of Japanese Cooperation Volunteers to the country; (c) migration activities and (d) emergency services in case of natural disasters. The Japanese cooperation to Paraguay will be reduced during the next years due to a re-orientation of cooperation support.	National National National National	On-going On-going On-going On-going	Medium Low Low Low
The European Union (EU)	The Country Strategy Paper 2001-2006 of the European Commission (EC) is complementary to and consistent with, previous EC and other donor activities, in particular EU Member States, and reflects the national development priorities. The European Union is finalizing an important intervention through the financing of a development project in the Chaco Oriental area. Once finalized this project will transfer equipment purchased and infrastructure built during its implementation, as well as acquired experiences to the Ministry of Agriculture and Livestock, which will continue the activities. The European Union is also supporting the implementation of the National Strategy for Poverty Reduction (ENREP), through a National Indicative Programme, prepared with the new government. The amount of non reimbursable funds allocated is Euro 25 million.	Local National	On-going On-going	Low High
German Technical Cooperation Agency (GTZ)	The German Cooperation is very active in Paraguay, mainly through its Technical Cooperation Agency (GTZ). Its areas of activity concentrate in: (a) government decentralization and poverty reduction; (b) government modernization programme (decentralization and planning including a youth health programme and the reform of criminal law proceedings), and (c) sustainable management of natural resources and environmental management as well as environmental protection investments (support measures for natural resources sustainable management, clean and competitive industrial production and rural development).	National National Local	On-going On-going On-going	High High Medium

Donor/agency	Nature of project/programme	Project/programme coverage	Status	Complementarity/synergy potential
U.S. Agency for International Development (USAID)	<p>The USAID Programme in Paraguay focuses on four strategic objectives for which funds are requested: economic growth, reproductive health, environmental initiatives, and democracy.</p> <p>Additionally, USAID's Democracy, Conflict, and Humanitarian Assistance Bureau, Office of U.S. Foreign Disaster Assistance, assists Paraguayans to coordinate efforts in disaster preparedness, emergency training activities, and disaster relief activities.</p> <p>The Latin America and Caribbean Bureau's Office of Regional Sustainable Development has programmes to increase citizen participation, strengthen civil society organizations, and promote human rights in Paraguay.</p> <p>Finally, USAID monitors a USAID centrally funded grant to the Integrated Water Resource Management Incentive Fund.</p>	National/Local	On-going	High/Medium
		National	On-going	Low
		National	On-going	High
		National	On-going	Medium
United Nations Development Programme (UNDP)	<p>In Paraguay, UNDP continues to collaborate with the Government in three of UNDP's six corporate practice areas:</p> <ul style="list-style-type: none"> - <u>Democratic Governance</u> - <u>Poverty Reduction</u> - <u>Natural resources and Environment</u> <p>UNDP has supported the <u>Poverty Reduction Strategy Paper (PRSP)</u> for Paraguay and presently under discussion with new administration.</p>	National National National National	On-going On-going On-going On-going	High High High High
The Swedish Cooperative Centre (SCC)	<p>The Swedish Cooperative Centre (SCC) is a non-governmental and non-profit organization for the provision of support to self-help development initiatives - cooperatives, farmers' associations and informal groups - in developing countries.</p> <p>The SCC in Paraguay works jointly with the Federación de Cooperativas de Producción -Productive Cooperatives Federation and most of its efforts are focused in the poorest rural areas.</p>	Local	On-going	High
United Nations Children's Fund (UNICEF)	<p>UNICEF implements programmes for the eradication of child labour in a number of Paraguayan cities, often in urban contexts.</p> <p>Small-scale water and sanitation projects are undertaken all over the country, often in deprived rural and peri-urban areas where small-scale farmers are located.</p> <p>In Paraguay, UNICEF has a considerable part of its project portfolio devoted to work with indigenous communities, in several Departments (States), all over the country.</p> <p>With these communities, there are projects in water and sanitation, community empowerment, health and nutrition, and food security at the household level.</p> <p><i>From Our Side</i> is a project to be implemented over a 12-month period, beginning in late 2004, focussing on education of indigenous girls.</p> <p>Rural communities in general are beneficiaries of project interventions in health and nutrition, immunization, community empowerment, and small-scale infrastructure, particularly drinking water and sanitation systems.</p>	Selected cities. National. National. Selected Departments. Selected Departments.	On-going On-going On-going To be implemented On-going	Low High High Medium High

THE COTTON CROP

Agricultural development in Paraguay has historically been tied to growing cotton. Cotton is the traditional cash crop for Paraguay's peasant farmers, and is one of the principal sources of rural income and employment, involving 180 000 small family farmers. An important crop since colonial times, cotton made a crucial contribution to the country's economy during the 1960s and 1990s. Throughout that period it was the first or second source of foreign exchange for Paraguay, and accounted for 43% of total exports.

Between 1960 and the 1990s, cotton crop areas and yields grew significantly, at annual rates of 10.8% and 2.3% respectively. Paraguay was classified as one of the world's 10 largest exporters of fine quality cotton fibre, with its own Liverpool market quote. Record production was posted for the 1989-90 crop year, with 533 000 ha in area and 642 663 tons of production. Subsequent years saw a decline; yields stagnated during the 1990s and cultivated areas shrank an average of 15.5% each year. The 64% reduction in cultivated area for the 1996-97 crop year illustrates how serious the cotton crisis was. Cotton growing is characterized by low technology, rudimentary implements, inappropriate agricultural practices, low productivity, and low net income for producers.

In 1990 cotton accounted for 34% of total exports; following the 2002-03 harvest it accounted for just 5%; and preliminary estimates for 2003-04 indicate a share of between 8% and 10%.

Until 1994, financing for cotton production was channelled through cotton gins by means of rediscount operations with the Central Bank. The Government intervened directly, at no cost to the producer, in marketing and distributing seed. In addition, cotton is financed with special credit lines from BNF, CAH and FDC.

The Government has attempted to scale back its intervention, eliminating the rediscount facility in 1995 and allowing greater private involvement, but political pressures and constraints together with financial sector issues have prevented it from achieving that objective, so that state financing and supply of inputs continue in effect.

Cotton growing is the most important activity for poor peasant farmers, and has a marked socio-cultural incidence on attitudes. This goes beyond production to encompass attitudes toward life, association with others, relations with the authorities, and economic and social subordination. The agroindustrial system is structured such that peasant farmers are labourers who receive, rather than income for the sale of a product, a daily wage in kind provided by the cotton gin and/or bulking agent. This situation generates passivity among peasants and their associations, committees and cooperatives with respect to diversifying production, commerce and income sources, or building alternative commercial networks and channels in other areas, even in the cotton subsector itself under different contractual and technological conditions.