



UNDP LAC C19 PDS N°. 17

# Promoting socio-economic recovery in Paraguay Report – Economic Reactivation strategies during COVID-19

UNDP country office Paraguay\*

## Abstract

*This document is part of UNDP Paraguay's knowledge management actions, within the framework of the response for socio-economic recovery during COVID-19.*

*It encompasses an analysis of the Latin American context and the Paraguayan situation, before and after the pandemic. The report focuses on the analysis of labor and vulnerable communities, in order to offer proposals that shall allow for the advancement of 2030 Agenda's commitments.*

*It seeks to encourage different sectors to reflect and analyze collectively, within the socio-economic area so as to move towards an integral, participative and, above all, inclusive response, without leaving anyone behind.*

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Introduction to the series:

## Evidence, Experience, and Pertinence in Search for Effective Policy Alternatives

The Covid-19 pandemic is one of the most serious challenges the world has faced in recent times. The total cost in terms of human lives is yet to unfold. Alongside the cost of lives and deep health crisis, the world is witnessing an economic downfold that will severely impact the wellbeing of large parts of the population in the years to come. Some of the measures that are currently being used to counteract the pandemic may impact our future lives in non-trivial ways. Understanding the association between different elements of the problem to broaden the policy space, with full awareness of the economic and social effects that they may bring, is the purpose of this series.

Thus far, the impossibility of targeted isolation of infected individuals and groups has led to policies of social distancing that impose a disproportionately high economic and social cost around the world. The combination of policies such as social distancing, lockdowns, and quarantines, imply a slowdown or even a complete stop in production and consumption activities for an uncertain period of time, crashing markets and potentially leading to the closure of businesses, sending millions of workers home. Labor, a key factor of production, has been quarantined in most sectors in the economy, borders have been closed and global value chains have been disrupted. Most estimates show a contraction of the level of output globally. For the Latin America and Caribbean region, the consensus forecasts are at -3 to -4%, and it is not until 2022 that the region is expected to go back to its pre-crisis output levels in scenarios that foresee a U-shaped crisis pattern. According to ECLAC, more than 30 million people could fall into poverty in the absence of active policies to protect or substitute income flows to vulnerable groups.

We face a crisis that requires unconventional responses. We are concerned about the level-effect: the impact of the crisis on the size of the economies and their capacity to recover growth after the shock. But we are equally concerned about the distributional impact of the shock. The crisis interacts with pre-existing heterogeneity in asset holdings, income-generation capacity, labor conditions, access to public services, and many other aspects

that make some individuals and households particularly vulnerable to an economic freeze of this kind. People in the informal markets, small and micro entrepreneurs, women in precarious employment conditions, historically excluded groups, such as indigenous and afro-descendants, must be at the center of the policy response.

UNDP, as the development agency of the United Nations, has a long tradition of accompanying policy-making in its design, implementation, monitoring and evaluation. It has a mandate to respond to changing circumstances, deploying its assets to support our member states in their pursuit of integrated solutions to complex problems. This series aims at drawing from UNDPs own experience and knowledge globally and from the expertise and capacity of our partner think tanks and academic institutions in Latin America and the Caribbean. It is an attempt to promote a collective reflection on the response to the Covid-19 health crisis and its economic and social effects on our societies. Timeliness is a must. Solutions that rely on evidence, experience, and reasoned policy intuition –coming from our rich history of policy engagement– are essential to guide this effort. This series also contributes to the integrated approach established by the UN reform and aspires to become an important input into the coherent response of the United Nations development system at the global, regional, and national levels.

Ben Bernanke, former Governor of the US Federal Reserve, reminds us in his book *The Courage to Act* that during crises, people are distinguished by those who act and those who fear to act. We hope this policy documents series will contribute to the public debate by providing timely and technically solid proposals to support the many who are taking decisive actions to protect the most vulnerable in our region.

*Luis F. Lopez-Calva*  
United Nations Development Programme  
Regional Director, Latin America and the Caribbean  
New York, March 2020



## Introduction

The United Nations Paraguayan Program began its Country Program for the 2020–2025 period in alignment with National Policies, Plans and Programs. This includes the National Development Plan (NPD) Paraguay 2030, sectoral programs, as well as the Sustainable Development Goals (SDGs) proposed within the 2030 Agenda.

Just as the period was beginning, the first COVID-19 cases in Paraguay were confirmed in March. This led the National Government to take immediate public health measures – and subsequently, economic and financial measures – that would allow the country to face the imminent threat.

Paraguay has stood out in the last few years for its good performance in the macro-economic sphere, as it has managed to maintain favorable indicators and stability. However, inequality levels remain high, with the Gini coefficient at 4.8<sup>1</sup>. UNDP Paraguay's Country Program contemplates work with vulnerable communities such as people living in poverty, unemployed individuals and informal workers. Now, the Country Program has been adjusted to concentrate its efforts into offering a response to the socio-economic impact COVID-19 has caused on these groups that were in a previously disadvantaged situation.

Before the start of the pandemic, UNDP in Paraguay had set itself the objective to prioritize measures to improve equality, such as promoting poverty eradication and increasing equal opportunity sustainably. This objective requires doubling down on our commitments, taking into account the new context. Preliminary analyses with regards to possible social, economic and environmental impacts have demonstrated that the pre-existing problems related to inequality and access to opportunities could worsen and require quick, coordinated and fundamentally joint responses between actors, key economic sectors and institutions.

This report is part of the knowledge management actions and seeks to encourage different sectors to reflect and analyze collectively, so as to move towards an integral, participative and, above all, inclusive response, without leaving anyone behind.

It starts with a context analysis of Latin America's economic and social situation, as well as the political context that allows for a better understanding of the scenario in the broader sense. In the following chapters, the Paraguayan situation prior to the pandemic is described, so as to advance on the perspectives for 2020, which includes a first reflection regarding the different sectors who have been most affected. Likewise, a special section is dedicated to the pandemic's impact on jobs, the risk situations per economic activity, by gender, and other data that contribute to the analysis.

After presenting the findings and perspectives of key actors, the document advances towards an initial analysis of COVID-19's impact on the country's middle class as well vulnerable sectors. What it implies on job loss, income decrease for families and businesses. Next, it includes a chapter on the National Government's Response Framework for COVID-19, the measures it has taken including areas such as fiscal, monetary, support measures for SMEs as well as health and social measures.

Besides the bibliographic work, this document's structuring includes interviews to leading business representatives from different sectors: commercial, entrepreneurial, industrial, creative, agricultural, automobile, among others; who share their perception with regards to the measures adopted by the National Government. This information contributes to the analysis and above all, the search for sustainable and inclusive solutions.

<sup>1</sup> UNDP Country Program Document– 2020–2025.

This report is the first of several analytical documents that the UNDP Paraguay office will be sharing. The context is even more complex than the one foreseen initially within the 2020-2025 UNDP Country Program. It challenges us and demands higher levels of coordination and strategic alliances, it calls upon us to build innovative solutions in a participative way, which seek to achieve a triple impact, socially, economically and environmentally.

Today more than ever, we find ourselves before an opportunity and the need to build a more inclusive and equal Paraguay. From 2015, the Sustainable Development Goals (SDGs) constitute a common Agenda for development; 2020 arrived with greater difficulties, but the objective remains the same: "Leave no one behind".

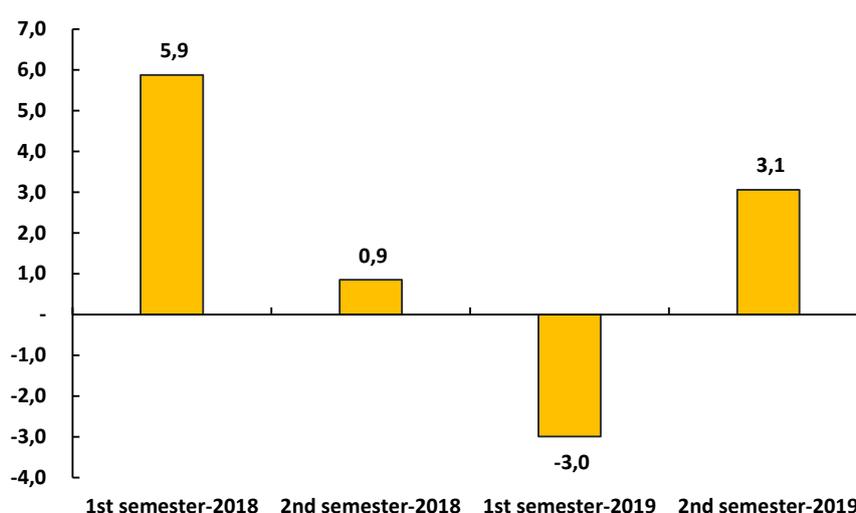
## 1. The Paraguayan Context pre-COVID-19

### Uncertainty without growth

During 2019, Paraguay was impacted by both internal and external shocks. It was a year marked by political uncertainty due to a possible impeachment, a tax reform within the context of political weakness and a slowdown of the internal aggregate demand. As for the international context, commercial tension between China and the United States affected the price of raw material in their global commercial flow, and caused exchange rate depreciations at the regional level.

The combination of these elements led the Gross Domestic Product (GDP), according to data from the Paraguayan Central Bank (BCP), to maintain the same level registered for 2018. After a recession in the first semester, during which the GDP fell 3.0%, the government implemented a public works plan starting August<sup>2</sup>, with which it sought to support economic activity. During the second semester, GDP fell 3.1%. At the end of 2019, growth was registered as 0.0%.

■ Graph 1: Gross Domestic Product semester growth rate (Percentage)



Source: MF Economía with data from the BCP

<sup>2</sup> The amount destined to public investment rose to USD 1.543 billion. However, only USD 1.305 billion were spent, with which the fiscal deficit remained at 2.8% of GDP at the end of 2019.



Meanwhile, monetary policy had a restrictive bias in its actions, despite a decrease in economic activity, during the year's first semester, and inflation (2.8%) below the central value of the established objective range (4% ± 2 percentage points).

### Sectoral economic behavior

With regards to economic sectors, data from the Paraguayan Central Bank (BCP) show that those that exhibited the greatest inter-annual falls in their production were electricity and water (11.2%); agriculture (4.9%); manufacturing (1.0%) and trade (0.4%). Particularly, energy generation was affected by the low flow observed in the Parana River.

Meanwhile, the agricultural sector was affected by the international price decrease in soy, associated both to the commercial tensions between China and the US, as well as the outbreak of African swine flu in China. The Asian giant is the biggest buyer of the aforementioned product in the world, which is destined to feed its animals.

However, climatic factors also intervened (slight droughts and floods) that impacted productivity levels for many crops, especially summer crops. In fact, the Paraguayan Chamber of Oilseeds and Cereals (CAPPRO) highlights that the harvest area yield decreased from 2.90 tons/ha (2018) to 2.37 tons/ha (2019), so that it went from the 9.81 million tons harvested in 2018, to 8.84 million in 2019.

With regards to country family farming, price uncertainty for sesame and mandioc (a local type cassava) has decreased incentives, which is why no crop expansion or increase in productivity levels has been observed. These conditions hindered any income improvements in this sector.

Regarding Paraguayan industry, it is mostly concentrated in agro-industry, meat-processing plants, auto parts, textiles and pharmaceutical products. The last three areas are part of the *maquila* industry, and also, some receive additional fiscal incentives.

Concerning agro-industry, during 2019, data from the Paraguayan Chamber of Goods, Services and Alike Providers (CAPPRO), recognize an inter-annual decline of 7.7% in oilseed processing, where the milling capacity used decreased to 80%. In addition, the meat industry registered a 5.9% decrease in slaughtering.

Industry under the *maquila* system, according to statistics from the Ministry of Industry and Trade (MIC) registered for 2019, the approval of 33 projects, with a USD 54.7 million investment, and the estimated creation of 1,723 job posts, which is below what was registered for the previous year. The number of approved projects was less (31), and the estimated investment (USD 86.0 million) and job post creation (1,940), were greater.

Within the framework of the Fiscal Incentives Law, 76 industrial projects were approved, which is expected to create 3,871 jobs, with an investment of about USD 318.6 million. In 2018, 71 projects were approved, which, with USD 163.3 million, would create 2,052 job posts.

It must be noted that most of these investment plans corresponded to extensions to the original projects; in other words, they did not imply the establishment of a new business. In addition, it is important to note that there are *maquila* system projects that receive fiscal incentives this way.

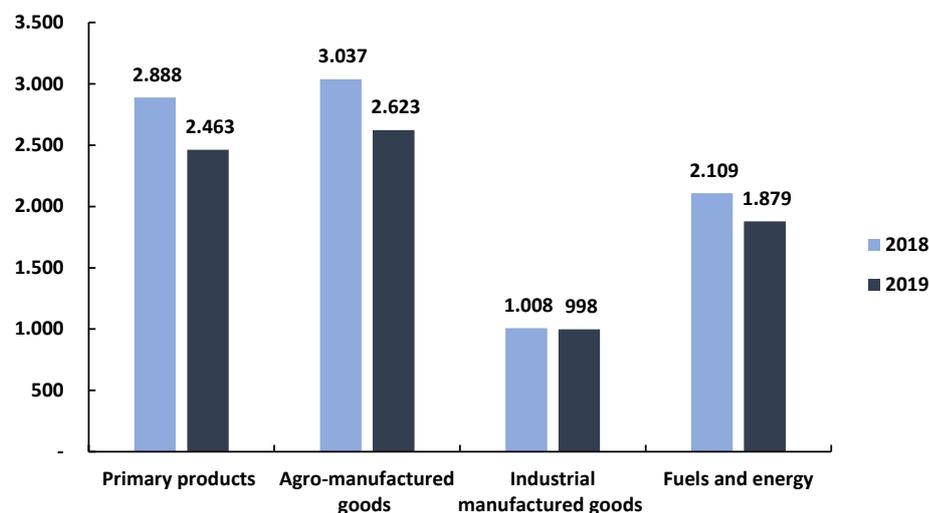
The retail sector experimented the effects of the exchange rate run that has been going on in Argentina since 2018. Thus, the number of tourists coming from that country decreased from 1.6 million people per year to 1.2 million, which impacted the retail sales volume, particularly in the larger shops and clothing shops.



Likewise, the aforementioned decrease in individual income, reduced sales in industries such as the automobile industry, which fell, on average, 10.2%, as well as fuel (3.6%). The sale of construction material would have followed a similar trajectory had it not been for the public works plan, which altered the decreasing pattern during the second semester of the year.

With regards to foreign trade, during 2019, total export reduced by 11.9%, reaching USD 7.962 billion. It must be noted that the main sources of income for the country, which come from energy royalties and agricultural products, were affected. In fact, those related to soy, which represents 64.0% of primary products, decreased 28.5%. A similar pattern was observed with soy oil and flour, which reduced by 17.2% and 27.0%, respectively. Concerning energy, its export decreased by 10.9%, mainly due to the drought.

■ Graph 2. Exports by processing levels (Millions of USD)



Source: MF Economía with data from the BCP

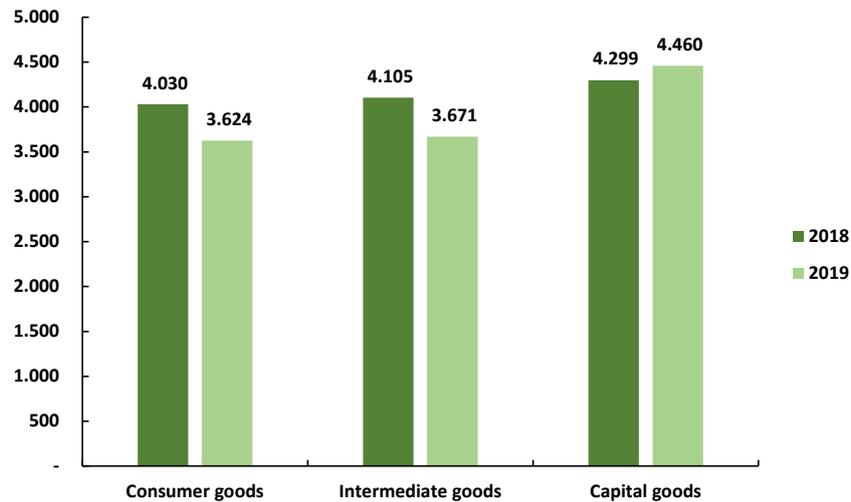
The country's exporting dynamic was also affected by the loss of competitiveness, in comparison to neighboring countries. In effect, in 2019, while the real exchange rate appreciated in Brazil by 1.9%, in Paraguay, it did by 3.0%. While there is no data from Argentina, given the exchange rate's multiplicity, in nominal terms, its official exchange rate parity was depreciated by 71.4% in 2018, which, combined with the inflation registered in 2019 (53.8%), it is pointing towards a real depreciation of its currency, which allowed them to gain relative competitiveness.

Argentina becoming cheaper in comparison with Paraguay, represented an additional issue for the country, which was the smuggling of goods, given the porosity of the borders. This phenomenon, in an environment where the commercial sector had experimented a decrease in sales, produced greater challenges for overcoming the economic context.

This minor source of external income, together with a decrease in productive activity, caused a fall in imports of 5.5%, closing the year with USD 11.755 billion. The purchase of intermediate goods suffered the most, falling back by 10.6%, followed by consumer goods (10.1%), while capital goods increased by 3.8%.



■ Graph 3. Imports by types of goods (Millions of USD)



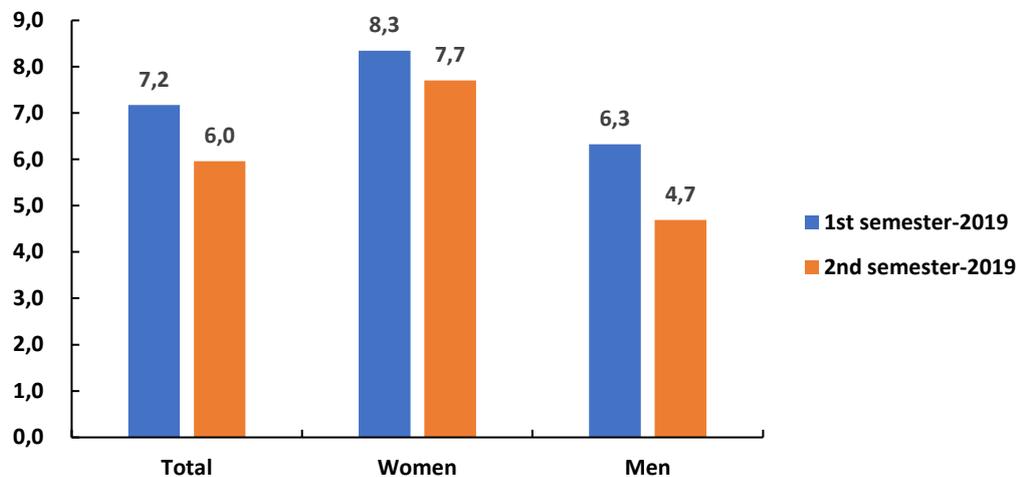
Source: MF Economía with data from the BCP

In short, economically, 2019 could be considered a regular year internally, but aggravated by the regional context conditions, which ended up limiting the economy's growth as a whole.

### Socio-economic context

These results were also reflected in the local market, with an average unemployment rate of 7.2% for the first semester of 2019, and 6.0% for the second semester. It must be noted that the unemployment rate for women was superior to the one registered for men.

■ Graph 4. Unemployment rate (Percentage)



Source: MF Economía with data from the General Office of Statistics, Surveys and Censuses



As is expected during a recession, the country experienced a decrease in individual income. In fact, a decrease from an average of 2,495 thousands Gs (2018) to 2,462 thousands Gs (2019) was observed, which implied a decrease of 4.0% in real salary.

Notwithstanding, the population's segment that was most affected was that of the independent workers, who registered a 7.0% fall in their income, placing it at an average of Gs. 2,179 thousands for 2019. In real terms, salary decreased by 9.5% for this group.

Despite these decreases in income, monetary poverty continued its decreasing pattern, going from 24.2% in 2018 to 23.8% in 2019, which represents 1.6 million people below the poverty line.

Regarding geographic distribution, rural poverty affects 33.4% of the population, while at urban zones, it affects 17.5%. Two phenomena can be observed in the latter differentiation, which will be described as follows. The first is that traditionally, cities represented better life conditions, as well as a varied offer of job opportunities, which have been powerful factors of attraction and social differentiation, and consequently, the exit door from poverty.

Nonetheless, cities seem not to be able to remove people from poverty as they did before, or at least with the same magnitude as they did in previous decades. Second, and very associated to the previously mentioned phenomenon, is that for the first time in a very long time, extreme poverty is decreasing at the national scale, especially in rural areas; but is increasing, although slightly, in urban areas.

Rural poverty presents a hard and stable nucleus, with particular socio-demographic statistics and with an economic structure that is less and less dependent of agricultural activities. About 820,000 people live in poverty conditions in rural areas. Income from social programs and remittances are increasingly maintaining a rural population in a true and inexorable ageing and, in some regions, emptying process.

Physical investments, especially in communication infrastructure, have represented an improvement in conditions to access services and, above all, employment in different urban centers, seizing the growth of a number of cities, currently qualified as intermediate, which finally activated dynamism from urban to rural areas, but without having the latter optimize their traditional agricultural productivity schemes. The productive and demographic crisis of the rural family agricultural sector, generally reflects high levels of poverty, and more often than not, expel its young population, despite ongoing government programs to support them.

These results reveal the fragility, precariousness and informality of the urban employment structure, as well as the regional context in border cities with clear trading tendencies. Scarce economic impulse, added to the low level of efficiency of public policies oriented towards containing and reducing poverty, were not enough to reduce social inequality.

During the last two decades, economic growth, expansion and diversification resulted in a significant poverty decrease as well as a halving of extreme poverty. Concerning informality, it remained at high levels, even as a number of formal jobs were created as a result of economic growth. In effect, improvements in socio-economic conditions were not accompanied with greater job formality, particularly in segments with lower income: youth and women.

Poverty analysis through income must be complemented with approaches that go beyond the economic view and contemplate other social aspects. Multidisciplinary approaches also allow for the visualization of other deficiencies that affect people and homes beyond the income received and therefore incorporate a rights based approach. Thus,



multi-dimensional poverty measurement can turn into a more precise and adjusted source of information<sup>3</sup> for public policy creation.

The Multi-dimensional Poverty Index is a useful tool that is complementary to monetary poverty indicator, created by the DGEEC for 2017. This Index allows for a better understanding of the deficient situation in households, especially regarding access to social security.

## 2. Socio-economic diagnosis of COVID-19's impact

### Socio-economic impact of measures taken against COVID-19

Economic activity was expected to recover in 2020, after a year of economic stagnation and no growth. The BCP estimated an economic growth of approximately 4.1% for 2020, explained, mostly, by the agricultural sector's performance. In fact, Paraguay had a record soy harvest of about 11.5 million tons, which would generate spillover effects in other economic sectors.

Nevertheless, the COVID-19 pandemic's irruption affected this preliminary forecast. The Paraguayan health system's vulnerability, which at the beginning of the outbreak in the country only counted with 700 intensive care unit beds, of which a significant percentage were occupied, led the National Government to apply, initially, preventive isolation, and later, to decree the quarantine and border closure.

Paraguay was one of the few countries internationally recognized for its good performance in combatting the contagium curve during the pandemic.<sup>4</sup> Once the mandatory quarantine, and later the border closure, were decreed, the Ministry of Public Health and Social Wellbeing (MSPyBS) emphasized health vigilance in migratory posts, with significantly more thorough controls on conational entries. Suspicious cases were mandatorily notified and travellers self-reported to health authorities. In addition, isolation shelters were established in military bases.

The MSPyBS prepared a geolocalized app to control and monitor patients, send notifications and protocol updates.

As for testing, in the beginning of the quarantine<sup>5</sup>, Paraguay had the capacity to carry out 30 daily tests. Currently, around 1,800<sup>6</sup> tests are carried out daily. This increase is due to the inclusion of more laboratories, both public and private, as well as new testing sites.

As for health posts, such as the National Institute for Respiratory and Environmental Diseases (INERAM), the Alberdi District Hospital, the Itauguá National Hospital, the Institute for Tropical Medicine, among others, were reconditioned to respond to the pandemic. With this readaptation, the capacity for hospitalization for COVID-19

<sup>3</sup> The General Office of Statistics, Surveys and Censuses is currently adjusting a methodology for multi-dimensional poverty measurement through its Permanent Household Survey, in order to complement monetary poverty measurement. Studied dimensions include: education, health and environment, housing and services, as well as work and social security.

<sup>4</sup> [www.imf.org/en/News/Articles/2020/07/01/na0701220-paraguay-beats-the-pandemic-and-seeks-new-growth](https://www.imf.org/en/News/Articles/2020/07/01/na0701220-paraguay-beats-the-pandemic-and-seeks-new-growth)

<sup>5</sup> The coronavirus pandemic quarantine in Paraguay, whose official name is Aislamiento Preventivo General (General Preventive Isolation), was declared at the national level by decision of the National Government, in a press conference led by President Mario Abdo Benítez on Tuesday, March 10, 2020 at about 6 PM, –three days after the first coronavirus case was reported–. The National Government established sanitary measures (partial quarantine) with Resolution S.G.N°90/20208, with the purpose of avoiding spreading the virus –assuming a possible community circulation from the second patient who came from Argentina by land–. This measure, which at first lasted for 15 days, included the suspension of classes at every level, the suspension and restriction of all activities that imply the gathering of people, such as public and private events.

<sup>6</sup> Last date 14/07/2020



rose to 1,200 beds. Besides, two contingency hospitals with 100 and 102 beds for patients respectively, and 36 for medical staff, were created. According to data from the MSPyBS, in two months, 73 Intensive Care Units were added. In addition, 2,389 medical professionals were incorporated in 72 health posts.

Additionally, besides private donations, medication, as well as medical supplies and equipment were purchased. In total, more than USD 7,000,000 was distributed in personal protection equipment. The expenses in detail are detailed below:

- » 4,545,050 surgical masks
- » 666,710 surgical caps
- » 286,755 surgical gowns
- » 455,750 shoe covers
- » 14,915,287 examination gloves
- » 1,665,431 surgical gloves
- » 10,308 protection goggles
- » 15,537 face shields
- » 358,945 N95 facemasks or similar
- » 19,663 isolation gowns

The Institute for Social Provision (IPS) also took measures against a possible increase in COVID-19 cases and established that the Ingavi Hospital become the attention center for coronavirus patients. It also purchased 2,500 bioprotection kits for medical staff.

Paraguay has 2,980 confirmed cases as of July 14, 2020, with 1,662 active cases and 1,293 recovered patients. Deaths due to the disease amount to 25 people.

It must be noted that social distancing has a high economic cost, which is seen in the losses experimented by businesses due to partial or definite closures; in people, through a decline in their income or job loss, and in the government due to a decrease in tax revenues.

Its economic impact is observed in different sectors and subsequent sub-sectors. A number of value chains have come to a complete halt, while others have managed to maintain the same level of activity. For instance, restaurants, bars and other similar businesses, have not been able to work regularly, which is why income for both businesses and people income has substantially decreased.

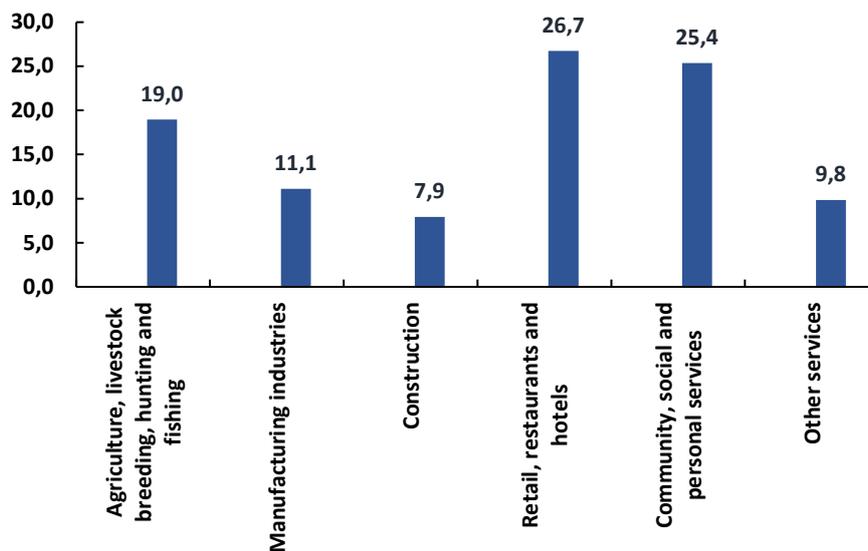
To date, BCP forecasts that GDP will contract by 2.5%<sup>7</sup> this year, with the services sector being the most affected by the implemented social distancing measures. In effect, it projects strong declines in restaurant and hotel activities (80.0%); home services (8.0%), transportation (7.0%) and business services (6.1%). Particularly, this sector is the biggest employer in the country, concentrating 61.9% of the employed population during 2019's fourth quarter.

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<sup>7</sup> This work was carried out with the Paraguayan Central Bank's (BCP) revision of GDP on April 28, 2020. On July 28, 2020, the BCP readjusted its forecast downwards to -3.5%.



■ Graph 5. Employed population by economic sector, 2019's 4th quarter (Percentage)



Source: MF Economía with data from the General Office of Statistics, Surveys and Censuses

It is important to note that, according to data from the BCP's input-output matrix, the service sector has a multiplying factor on the product of 1.61, that is, for each guarani increase in demand for services, the total effect on the product is of Gs 1.61.

In this regard, businesses and people observed that borrowing costs increased and financial conditions hardened, since banks estimate that the latter could not pay their loans back in time. However, as is known, a decrease in credit would magnify the slowdown, resulting from supply shock (an interruption of the value chain; business closures) and demand shock (income decrease). Also, no direct incentives are observed from businesses or people to obtain credit due to uncertainty over the date in which economic activities would relatively normalize.

Thus, in order to lessen the fall in economic activity, and with it, job loss, monetary, financial and fiscal stimuli are needed. The first two are determinant in order to avoid interrupting credit in the economy. Fiscal stimulus is given, initially, as tax relief for businesses and people. Nonetheless, it is also used to carry out transfers to more vulnerable sectors in the population, who mainly hold informal jobs; public services payments are postponed; food is provided, among others.

Nevertheless, the current scenario becomes increasingly more difficult, since businesses could reduce their spending and short-term investments, which would exacerbate business closures, job loss, and would hinder the potential growth of products.



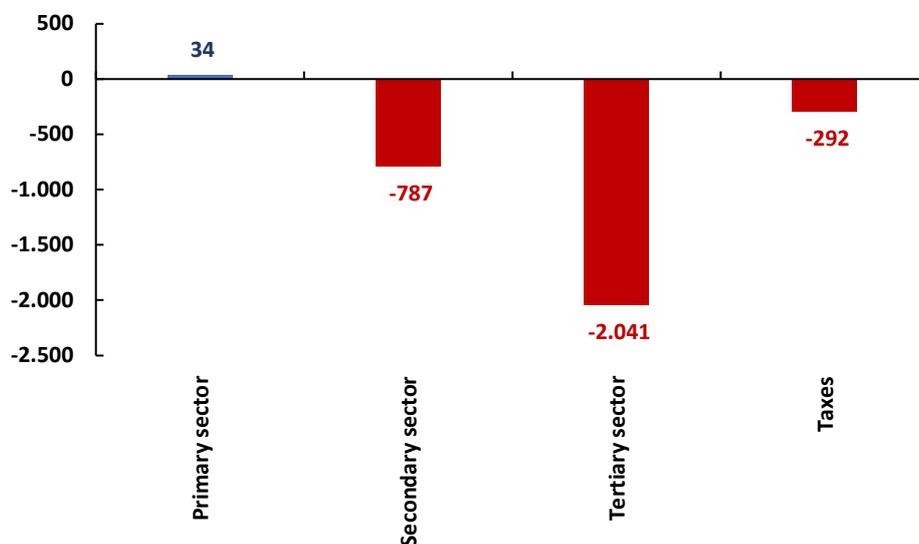
## Economic loss and its impact on employment

Based on the BCP's growth premises, for both scenarios (pre-pandemic and pandemic), the monetary values the country will stop receiving from goods and services production as a result of the COVID-19<sup>8</sup> pandemic were projected. In this regard, it is important to note that estimates must be used with caution, since, as these premises vary, so will the results.

In total, the country is estimated to lose USD 3.087 billion. The only profitable sector will be the agricultural sector, which, as mentioned above, had a record harvest this year<sup>9</sup>. The greatest losses will be given at the restaurant and hotel sector (USD 838 million); manufacturing (USD 468 million); home services (USD 313 million) and commerce (USD 298 million), all of them, with the exception of manufacturing, belonging to the services sector.

In addition, the productive activities with less projected losses include forestry, fishing and mining (USD 5 million), telecommunications (USD 7 million) and livestock breeding (USD 11 million). The latter has faced climatic issues this year, since the drought has caused producers to allocate a greater quantity of animals to slaughter, given the lack of adequate pastures for feeding<sup>10</sup>.

■ Graph 6. Economic profit and/or loss resulting from the COVID-19 pandemic (Nominal USD)



Source: MF Economía with data from the Paraguayan Central Bank.  
(\* The positive sign indicates profit, while the negative sign indicates loss.

Additionally, tax revenues would decrease by USD 292 million, coming from productive activities.

It must be noted that, for 2019's fourth quarter, the economy's tertiary sector employed 2,146,533 people, followed by the secondary sector that employs 660,785 people.

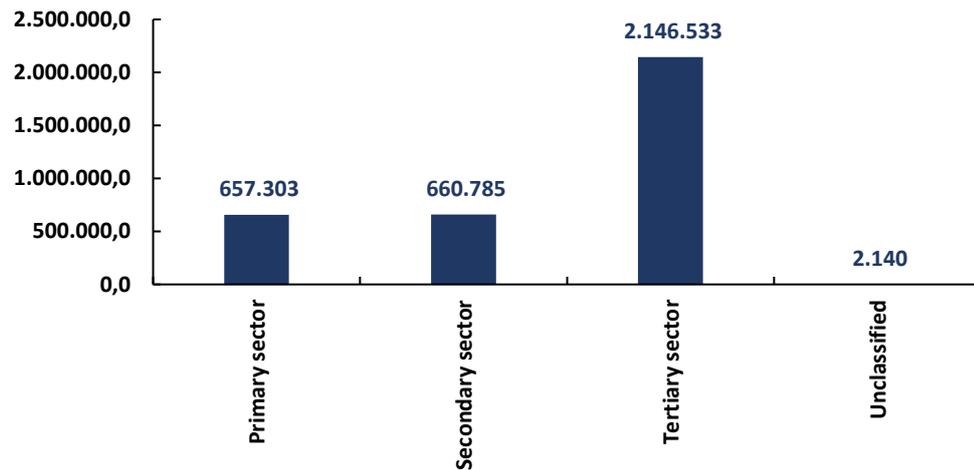
<sup>8</sup> For more on the methodology, see Annex 1.

<sup>9</sup> Although the international price for soy has shown great variability, due, in great measure, to commercial tensions between China and the US and the swine flu outbreak in China, demand decreases due to economic closures during the pandemic results in additional downwards pressure.

<sup>10</sup> An estimate for all economic sectors can be seen in Annex 2.



■ Graph 7: Number of people employed by economic sector



Source: MF Economía with data from the General Office of Statistics, Surveys and Censuses

Concerning fiscal revenue, if the tax structure is taken as a reference with regards to GDP, it is estimated that profit loss could oscillate between 1.4% and 3.3%. Particularly, the Ministry of Finance forecasts that there would be a 2.3% decrease, which falls within the aforementioned range.

Loss expressed in terms of product can also be observed in the labor market. As was previously mentioned, those employed in the secondary and tertiary sectors are the most vulnerable.

In this regard, the Ministry of Labor, Employment and Social Security's (MTESS) numbers reflect that approximately 2.2 million workers are at high risk of being affected (63% of workers)<sup>11</sup>. The sectors that are most at risk of job loss or facing decreases in working hours are: manufacturing industries, shops, restaurants and hotels; community, social and personal services.

Significant differences can be observed by gender. In effect, about 78% of women in the workforce are at high risk of losing their jobs or suffering any sort of modification; meanwhile, for men, the percentage is 52%. This situation is explained, in great measure, by women's high participation in the tertiary sector. In fact, women have limited participation in sectors such as construction, transportation, storage and telecommunications, and manufacturing industries.

<sup>11</sup> Specifically, risk refers to situations in which workers face a decrease in working hours, salary cuts and dismissals. These situations happen as a consequence of isolation measures taken by governments in order to reduce contagium expansion. In order to carry out evaluations, economic and financial data are taken in real time. Next, three types of indexes are selected so as to examine data from economic and financial sources. For more information, visit Technical Annex 3 of the document "ILO Monitor: COVID-19 and the world of work. Second edition".



■ **Table 1.** Workers at risk by economic branch and gender. 2019

Economic activity branch	Risk level	Total		Gender			
				Men		Women	
		Quantity	%	Quantity	%	Quantity	%
Electricity, gas and water	Low	14,346	0.4%	12,146	0.6%	2,200	0.2%
Agriculture, livestock breeding, hunting and fishing	Medium Low	657,303	19.0%	463,188	22.9%	194,115	13.5%
Construction	Medium	275,065	7.9%	271,580	13.4%	3,485	0.2%
Finance, insurance, real estate	Medium	218,327	6.3%	121,062	6.0%	97,265	6.8%
Transportation, storage and communications	Medium High	108,698	3.1%	95,908	4.7%	12,790	0.9%
Manufacturing industries	High	385,720	11.1%	265,506	13.1%	120,214	8.4%
Retail, restaurants and hotels	High	926,133	26.7%	484,278	23.9%	441,855	30.7%
Community, social and personal services	High	879,029	25.4%	312,818	15.4%	566,211	39.4%
Total		3,464,621	100%	2,026,486	100%	1,438,135	100%

Source: Ministry of Labor, Employment and Social Security, 2020

Particularly, private sector workers face a similar situation. The biggest risk lies in the tertiary sector and manufacturing industry. From the total number of private sector workers, 61% have a high risk of being affected by some sort of measure that may impact their work relation (suspension or firing), approximately 900 thousand employees. For formal workers, this percentage is 69%.

■ **Table 2.** Private sector workers at risk by economic branch, by formality, 2019

Economic activity branch	Risk level	Private			
		Private (Total)		Private (Formal)	
		Quantity	%	Quantity	%
Electricity, gas and water	Low	3,013	0.2%	1,009	0.2%
Agriculture, livestock breeding, hunting and fishing	Medium Low	114,932	7.6%	28,273	5.6%
Construction	Low	222,464	14.8%	17,207	3.4%
Finance, insurance, real estate	Low	159,052	10.6%	76,109	15.0%
Transportation, storage and communications	Medium High	83,963	5.6%	33,162	6.5%
Manufacturing industries	High	264,452	17.6%	120,045	23.7%
Retail, restaurants and hotels	High	512,912	34.1%	186,555	36.8%
Community, social and personal services	High	145,266	9.6%	44,917	8.9%
Total		1,506,054	100%	507,277	100%

Source: Ministry of Labor, Employment and Social Security, 2020

With the Emergency Law, the Ministry of Labor, Employment and Social Security achieved the temporary suspension of labor contracts for up to 6 months. Despite the fact that Paraguay does not have insurance against unemployment, the Institute for Social Prevision (IPS) provided support by paying part of workers' salaries from some businesses.



It must be noted that businesses belonging to sectors that have been greatly affected by the pandemic suspended their labor contracts. In fact, 87.6% of suspensions correspond to businesses belonging to impacted sectors.

■ **Table 3.** Percentage of businesses that incurred in contract suspensions during COVID-19 pandemic by economic activity, according to size, 2020

Economic activity	Big	Medium	Small	Uncategorized	Total
Agriculture, livestock breeding, hunting and fishing	0.4	0.7	1.5	1.6	1.4
Construction	1.1	2.3	3.0	3.5	2.8
Finance, insurance, real estate	6.7	2.9	3.6	4.6	3.7
Transportation, storage and communications	1.8	5.0	4.5	3.8	4.4
Manufacturing industries	31.4	13.1	8.6	14.9	10.7
Retail, restaurants and hotels	56.2	61.8	54.4	54.3	55.5
Community, social and personal services	2.1	14.2	24.3	16.8	21.4
Undefined	0.4	0.0	0.1	0.3	0.1
Total	283	824	4,477	368	5,952

Source: Ministry of Labor, Employment and Social Security, 2020

■ **Table 4.** Percentage of workers who incurred in contract suspensions during COVID-19 pandemic by economic activity, according to size, 2020

Economic activity	Big	Medium	Small	Uncategorized	Total
Agriculture, livestock breeding, hunting and fishing	0.0	0.1	1.5	0.4	0.7
Construction	1.3	2.6	5.9	0.2	3.3
Finance, insurance, real estate	1.7	1.5	2.3	1.2	1.8
Transportation, storage and communications	0.7	7.5	5.9	2.2	4.8
Manufacturing industries	49.5	22.1	11.5	8.3	20.1
Retail, restaurants and hotels	46.3	56.3	51.9	17.2	46.2
Community, social and personal services	0.5	9.8	21.0	3.1	11.7
Undefined	0.0	0.0	0.1	67.4	11.3
Total	14,989	21,427	36,462	14,582	87,460

Source: Ministry of Labor, Employment and Social Security, 2020

The closure of economic activity, with the consequential job loss and decrease in personal income, will lead the latter to concentrate their expenses in essential goods, therefore affecting other groups of products and services with different intensities. Additionally, businesses must make contingency plans in order to operate within a pandemic environment, which include maintaining strict security protocols, as well as working with a minimum quantity of employees, in order to continue operating. Also, they must evaluate their viability, for which they must determine the optimum quantity of employees, shops and other dependencies.

Thus, the COVID-19 pandemic that started as a transitional, external shock, could create social effects, through income and job loss, which could turn into a shock with internal effects in the medium and long term, whichever way they are classified. In this regard, it is very likely that both extreme and total poverty will grow, and the middle class will shrink. The most dynamic social mobility will be the one created between the middle, vulnerable and poor segments of the population, with a projected decreasing trend. Therefore, uncertainty regarding economic



conditions, mainly employment and social protection measures, addressed by public policy, will be the main pillars of recovery.

Hence, public policies must sustain people's consumption, preserve jobs, and diminish business bankruptcies, so as to maintain the economy's potential growth in the long term. Policies that improve the Paraguayan economy's productivity, with a particular emphasis in human capital accumulation have also become indispensable.

### Impact on vulnerable social sectors

The economic growth experienced in the last decade and a half generated social promotion mechanisms for a vulnerable sector of Paraguay's population. This progress by part of the middle class<sup>12</sup> can be observed in the report: Multidimensional progress: well-being beyond income (UNDP 2016), increasing from 18.7% of the population in 2004 to 38.1% of the population in 2013. Simultaneously, inequality metrics have had a limited improvement in Paraguay with an average annual change in the Gini coefficient, which from 2003-2013 was -1.31%, and -1.13% from 2003-2015. Inequality levels remain high and unchanged; greatly due to the fact that its bases run deep and measures to reverse it have not been very efficient.

The COVID-19 pandemic has affected the population living in poverty and vulnerable groups with different intensities, due to its economic effects, specifically due to income decrease and loss of social security. Public initiatives towards social care and social protection systems have shown shy advances, and as a result, they have not become efficient tools to contain poverty and reduce vulnerability. Recently created social programs (Ñangareko and Pytyvõ) have begun to incorporate approaches that include this view and focus greatly on the vulnerable population, although still insufficient to continuously reduce existing gaps as well as those that have intensified in the past months.

Social distancing and the constituency of social and economic life of families at their homes also have an influence in multiple dimensions.

Beyond the fall of income, pre-existing social inequality, specifically pertaining to life at home, has been exacerbated during the pandemic. Homes have become, in addition to being a family space, a working and educational space. In lower-income households, the way homes operate has been modified, with new activities and functions, and thus, with a renewed complexity regarding its dimensions, conditions, equipment, and above all, number of users. For example, with regards to education, school has moved to homes and conquered the table as well as technological devices.

Families with greater incomes have several working spaces within the home (desk, living room table, outdoor table, among others) as well as a variety of technological devices (cell phones, tablets, desktops, laptops), while lower income homes, and particularly those with less access to these assets, probably have an unequal performance. The following data from the Permanent Household Survey reflect the percentage of the population that has used the Internet in the last months according to their income level.

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<sup>12</sup> Understood as that whose daily income per capita is of between 10 and 50 American dollars according to parameters established by the World Bank.



People who have used the Internet in the last three months

Quintile	Urban	Rural	Total
1	13%	11%	12%
2	18%	16%	17%
3	21%	19%	20%
4	23%	23%	23%
5	26%	31%	27%

People who have not used the Internet in the last three months

Quintile	Urban	Rural	Total
1	31%	23%	26%
2	22%	22%	22%
3	21%	20%	21%
4	17%	20%	19%
5	9%	14%	12%

COVID-19's economic and social consequences have significantly affected the observed advances. Therefore, the main social effects, analyzed from a socio-economic class perspective, could be schematically summarized in:

- » **Contraction of the middle class:** loss of income, consumption decrease, transition to cheaper products and brands.
- » **Increase in fragility and size of the vulnerable class:** coming from the middle class, created by the decrease in income and consumption.
- » **Poverty increase:** due to the fall of the vulnerable class and deepening of existing poverty.
- » **Deepening of extreme poverty:** interruption of the social promotion process.
- » **Increase in social inequality:** due to decreases in income and access to services.
- » **Widening of educational gaps:** due to differences in Internet access and technological devices available at home.
- » **Increase in income gap:** among different social groups, due to job loss and income decrease in almost every category.
- » **Scarce approach in public policies:** regarding perspectives on gender, childhood and the elderly.

It is assumed that one of COVID-19's social impacts will be a new social stratification characterized a descending social mobility, due to a fall in income, as well as to a poorer performance on multidimensional poverty indicators.

Social impacts have also been observed in other fields such as:

## Gender

The pandemic's effects on different family members are particularly significant. The workings of family's internal dynamics implied greater participation and actions from women at home.

The multiplication of productive and reproductive tasks, to which remote working must often be added, has increased the amount of working hours for women. A rise in the number of calls to the domestic violence call center (78% more between 2019 and 2020) can be interpreted as an indicator of stress within families, created by a complex series of different uncertainties: economic, social, personal, individual and family health.



## **Subsistency family agriculture**

Family agricultural producers have been impacted by COVID-19 to a lesser degree in urban areas, due to the fact that the productive cycles have not been affected, although the commercial cycles have, but at insignificant levels. However, a decrease in urban labor activities could have reduced income for rural family members who work in cities, which could result in a decreased sending frequency of internal remittances.

With regards to product prices and participation in value chains, substantial modifications have not been observed over the past few years, which is why income originating from this source has not increased. Nevertheless, the diffusion of horticultural fairs, almost always led and driven by women, could be considered as a promissory aspect, that allows for the diversification of monetary income, as well as a greater workload for them.

In this regard, rural poverty reduction, especially in the departments of San Pedro, Caaguazú and Caazapá, has not managed to accelerate. This segment is still represented by a highly vulnerable social group, besides dragging a long list of historical reinvidications.

## **Environmental sustainability**

Social distancing, manifested in a strong decrease in mobility and economic activities, has reduced pressure towards natural systems, especially the atmosphere, due to lesser use of vehicles. As for industrial emissions, these are not significant during normal periods, which is why it is estimated that during this pandemic, this sector reduced its participation even further.

Nonetheless, a more relevant aspect is the increased production of solid and liquid waste at home, with lots of cities lacking trash collection systems and solid waste management as well as wastewater treatment plants, thus affecting natural resources. The still scarce investment in house wastewater treatment systems and plants has a significant regional effect, comprising both superficial and subterranean water resources.

The latest data corresponding to employment, as of March 2020, indicates a decrease of one percentual point in employment, with urban areas being slightly greater than rural areas. It is estimated that by the next quarterly cut, with data as of June 2020, will exhibit greater numbers of unemployment, with more elevated numbers in urban areas, especially in border cities that depend on international trade, such as Ciudad del Este and Pedro Juan Caballero.

## **3. The National Government's response framework against COVID-19**

Paraguay's first COVID-19 case was announced on March 7. Low testing capacity and weak hospital infrastructure led the National Government to prohibit massive gathering events and to suspend all school activities. It then proceeded to declare a full quarantine and total isolation.

In this regard, the Law Declaring a State of Emergency (Law 6524), in which the National Congress authorized the Executive Power to implement exceptional measures concerning budget, fiscal and administrative matters, as well as those concerning employment protection, political economy and finance. The latter with the purpose to mitigate the COVID-19 pandemic, strengthen the health system and guarantee the payment system's operation. For this, the hiring of USD 1.6 billion in public bonds (approximately 4.0% of GDP) was approved.



Budget reallocations were carried out in order to mitigate COVID-19's effects, as well as assuming a new debt. Firstly, the budget reallocation approved by the National Congress and the Senate was redirected towards the Ministry of Health, for G 10.545 billion (USD 1.65 million). In addition, there were salary cuts for public employees with salaries over five times the minimum wage. Adjustments were carried out as follows:

- » 10% cut for permanent and hired employees with salaries between 5 and 10 times the minimum wage.
- » 20% cut for employees with salaries over 10 times the minimum wage.
- » Three-month period for cuts.

Thus, monthly savings of USD 1.6 million are estimated. For a three-month period, savings would amount to USD 4.7 million.

Also, in accordance with Art. 33 of the Emergency Law, a USD 1.6 billion debt will be assumed. USD 1.230 billion is currently available. The rest is being processed. Of which, USD 1 billion correspond to Sovereign Bonds at the International Market and 600, to loans with multilateral organizations.

■ **Table 5.** Debt composition related to Art. 33 of the Emergency Law

Detail	Status	Amount (in millions of USD)
Sovereign Bonds at the International Market	Issued	1000
Multilateral Organizations	Approved	230
Multilateral Organizations	In process	370
<b>Total</b>		<b>1,600</b>

Source: Paraguay in a Pandemic and Resource Allocation of the Emergency Law 6524/2020 Report – Ministry of Finance.

In another sense, Art. 35 of the same law states that debt that is currently being constitutionally processed must be added to the funds related to the COVID-19 situation. The sum is USD 390 million.

■ **Table 6.** Debt composition related to Art. 35 of the Emergency Law

Creditor	Status	Amount (in millions of USD)
BIRF	Approved	300
BID	Approved	90
<b>Total</b>		<b>390</b>

Source: Paraguay in a Pandemic Report – Ministry of Finance.



## Measures taken by the Paraguayan government

In the fiscal area, measures were directed, mainly, at providing tax relief to both people and businesses. Some provisions are described in detail below:

	Measure taken
Fiscal policy	Extension for tax presentation and payment due dates.
	Public expense rationing.
	Waiver and/or extensions of public service payments.
	Reallocation of resources or unallocated credit balances towards the health emergency.

Source: Law 6524, which declares a State of Emergency.

In the monetary area, the Central Bank focused on injecting liquidity to the monetary market, with the purpose of facilitating credit in the economy. Other measures are described in the following table:

	Measure taken
Monetary policy	Decrease in the monetary policy rate.
	Decrease in the legal reserve in both the national and foreign currency.
	Renovations, refinancing or loan restructuring granted to people and businesses whose income was affected by COVID-19 will not be computed as delinquent.
	Extension of terms for the sale of personal property and real estate received by financial institutions as payments.
	Formalization of renovations, refinancing or restructuring of capital for loans granted to natural and legal persons, who as of February 29, 2020 have not been expired for over 30 days, shall not be computed as delinquent.
	For operations carried out in installments, the obligation to pay for the operation in total shall not apply, with renovations, refinancing and the partial restructuring of installments and grace period of up to a year, applying the originally constituted guarantees to the new agreement, should there be any.
	Implementation of a new liquidity window, in order to carry out discount operations with high credit portfolios, with repurchasing (REPO).

Source: Paraguayan Central Bank.

Although the BCP's liquidity provision is a necessary condition in order for credit to flow in the economy, it is insufficient, since the operating risks within the financial system must be reduced. For this, the Guarantee Fund for micro, small and medium enterprises, which are job providers, was created. Additionally, the following measures were taken:

	Measure taken
SMEs Support	It was stipulated that 20% the National Development Bank's (BNF) net profits that have not been capitalized, corresponding to the 2019 fiscal year, shall be allocated to the constitution of a trust, in order to support Micro, Small and Medium Enterprises (SMEs), which will be administered by the Financial Development Agency (AFD), as fiduciary. In addition, G 650 billion has been incorporated to the trust.
	The Ministry of Finance provided G 120 billion of capital to the AFD, to mitigate COVID-19's economic effects, focusing on SMEs.
	G 30 billion have been allocated to the SMEs Guarantee Fund to cover the guarantee and/or refinance possible renegotiations of credit operations. It was later complemented with G 654.752 billion.
	Credit lines were implemented through the Agricultural Loans Facility, to which G 120 billion was transferred.

Source: Law 6524, which declares a State of Emergency and the Ministry of Finance.



For the health sector, the objective was to give provisions to the medical system, given its significant vulnerabilities, including not only infrastructure and medical supplies, but also addressing staff scarcity. Some measures are mentioned as follows:

	Measure taken
Health policy	Expeditious public procurement for goods and services.
	Special and exceptional gratification for medical staff.
	Creation of an emergency sanitary fund.
	Purchase of medication, biomedical equipment, reactivities, disinfection services and medicinal gas.
	Construction of contingency hospitals.
	Conditioning of hospital beds.

Source: Law 6524, which declares a State of Emergency

Last, in the social area, the objective was to protect workers' income, notwithstanding their degree of formality, in order to soften family consumption. For more details, see the following table:

	Measure taken
Social policy	Implementation of the temporary economic aid program, Pytyvõ.
	Implementation of the food security program, Ñangareko.
	Payment for work terminations and suspensions through the Institute for Social Prevision (IPS).
	Strengthening of assistance programs for vulnerable families (Tekoporã) and the elderly.
	Payment to active workers for medical leaves of absence, by the IPS.
	Rent payment cannot be a cause for eviction until the month of June 2020, as long as at least 40% of the monthly rent amount is paid. Pending amounts shall be prorated and added to the monthly rent to be paid in total starting the month of July. Prorated debts shall be cancelled within a maximum period of 6 months.

Source: Law 6524, which declares a State of Emergency and the Ministry of Finance.

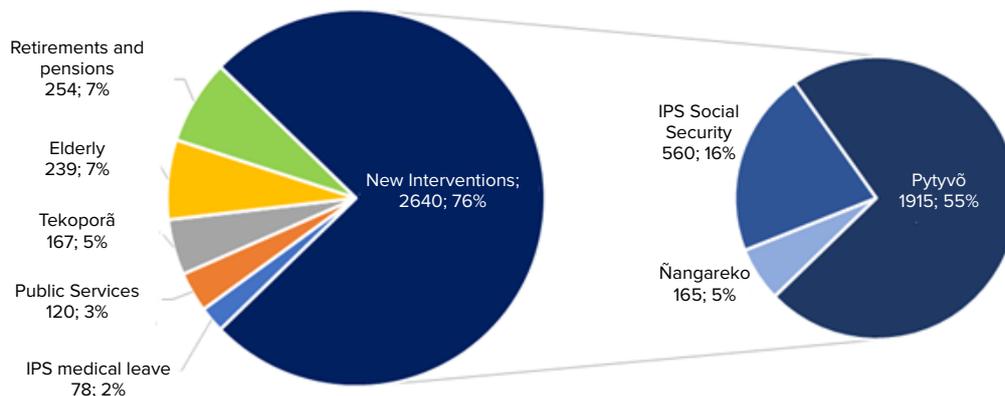
## Management of social programs

The government has designed and implemented a series of health, fiscal, social and monetary measures for SMEs. In social terms, two new social programs were designed and implemented:

Ñangareko and Pytyvõ, which were added to the existing Tekoporã and Elderly programs. As can be observed in the graph, the new social programs demanded the most resources. The new programs were directed at the population directly affected by the COVID-19 pandemic, and it being a somewhat broad group, two more were created, since not only people living in poverty conditions and the elderly were economically affected by this crisis. Both programs' target audiences are detailed as follows.



■ Graph 8. Distribution of resources for social measures, Data as of May 2020 (In billions of guaranis)



Source: Ministry of Finance, 2020.

Subsidies for food bonds for families, known as Ñangareko, started as a food security program that delivered food kits. In order to increase speed in social assistance, avoid gatherings and minimize logistical complexity, the program was quickly modified, transforming into monetary transfers to families who get their income from subsistence activities and activities strongly affected by social distancing. Transfers were carried out through Electronic Payments Entities (EMPEs). Each beneficiary received a single transfer in one month of G 500,000 destined mainly to food purchasing. This amount is equal to 23% of the country's current minimum wage.

As of June 14, 285,340 people had received subsidies from Ñangareko for a total of G. 165 billion. This subsidy reached 14 of the country's 17 departments. The three departments with the most participants were:

- » **Central:** 102,210 beneficiaries and G. 51.105 billion transferred.
- » **Itapúa:** 28,344 beneficiaries and G. 14.172 billion transferred.
- » **Alto Paraná:** 27,491 beneficiaries and G. 13.746 billion transferred

The subsidy program for informal workers, Pytyvõ, implemented by the Ministry of Finance, complements the former and is differentiated by the fact that it focuses on informal workers who carry out independent activities or who are dependent on a micro, small and medium enterprise. The program consists of temporary economic aid for two months of approximately G. 548,000, which corresponds to 25% of the current minimum wage. These payments were carried out twice, in April and June. Beneficiaries add up to a little over 1,150,000 people. The program's total cost is of USD 300 million.

As of June 16, 1,155,037 Pytyvõ subsidies have been granted, for a total value of G. 1.914600 trillion. Pytyvõ reached all of the country's 17 departments, being the program with the greatest scope and capillarity to date. The three departments with the most participants were:

- » **Central:** 238,634 beneficiaries and G. 130.822 billion transferred.
- » **Alto Paraná:** 128,660 beneficiaries and G. 70.533 billion transferred.
- » **Itapúa:** 78.692 beneficiaries and G. 43.140 billion transferred.



For both Ñangareko and Pytyvõ, inscriptions were carried out through a form available online at the responsible institutions' websites. The purpose of this method was to avoid that the programs end up with people who did not really need the support. Likewise, beneficiary registration allowed for traceability and a greater transparency in order to better know the reality of the segment affected by the pandemic. And, as is known, this avoided massive gatherings of people should in-person registration had been used.

In order to become a beneficiary of either program, applicants had to meet certain previously established requirements. One of them included not being an active beneficiary of the existing social programs: Tekoporã and the Eldery.

Nevertheless, a person could be beneficiary of both new programs with the caveat that in Pytyvõ's case, they would only receive the second payment since they had already received the first through Ñangareko. The sum of the amounts destined to both subsidy programs adds up to about 1% of the country's GDP. It is important to note that for the Pytyvõ Program, there is still a remaining balance pending for USD 114 million of the USD 300 million planned for execution.

■ Table 7. Social programs destined for vulnerable populations vis-à-vis COVID-19

Social Programs	Beneficiaries	Periodicity	Amount (millions of USD)	Amount (% GDP)
<b>Tekoporã</b>	165,229 families	Monthly payments	63	0.2
<b>Elderly</b>	205,000 people	Monthly payments		
<b>Ñangareko</b>	285,340 people	Single payment	26	0.1
<b>Pytyvõ</b>	1,155,037 people	Double payment	300	0.8

Source: Ministry of Finance, Ministry of Social Development and National Emergency Secretariat, 2020

Both programs were created very quickly to ameliorate the impact of COVID-19 in vulnerable segments of the population. For this reason, and in order to increase transparency, as well as practicality and security, these programs were implemented using a dense network of electronic payment methods. These instruments had two very significant contributions. The first is that beneficiaries were able to access it in a practical and safe way; secondly, the financial resources were used in their respective communities of residence, thereby boosting commerce.

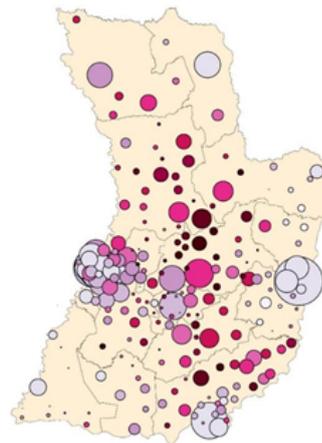
These programs' targeting has been an innovative particularity in this type of measure. If the number of beneficiaries by districts and their poverty levels are observed, a positive correlation can be seen, which indicates that the districts with the highest proportion of families living in poverty (according to the National Population and Household Census of 2012) accessed the programs. In addition, two noticeable facts are observed. The policies have responded to an urban demand, which was impacted in its service, retail and to a lesser degree, industrial sectors, and also in rural areas, especially in those departments and districts where family farming is located.

Two differentiated axes can also be observed, the horizontal one, from Asuncion to Ciudad del Este, which concentrates a larger urban population and with a majority of jobs in commerce and services. The vertical axis is much more rural, with agricultural and livestock breeding activities, where the nuclei of poverty are observed. These primary geographic details, along with others of greater complexity, will be very useful when optimizing targeting, as well as to generate economic and social relaunching programs.



Distribution of financial resources of Social Programs Ñangareko and Pytyvo, by district

1. The BIGGER the circles, the more money the district received (the largest being USD 2 million)
2. The DARKER the circles, the greater the number of poor households in the district (the darkest being 60%)



Source: MF Economía based on statistical data from the Ministry of Finance and the General Office of Statistics, Surveys and Censuses.

In addition to these new programs, advance payments and additional payments have been made to beneficiaries of Tekoporã and the Elderly, totaling more than 165,000 families for the former and 205,000 people for the latter.

The Recovery Plan to be implemented by the government stipulates an injection from the second half of the year for social programs, with amounts that total about USD 455.3 million. These are detailed below;

■ Table 8. Programs for social protection stipulated in the Recovery Plan

Program	Amount (Millions of USD)	Details
Pytyvõ	250	Reaching 770,000 people.
IPS	100	Strengthening the health system.
Senior Adults	48.3	Program maintenance and adding 10,800 beneficiaries.
Tekoporã	28.3	Program maintenance and adding 24,920 families.
Food safety	26.5	Delivery of food kits through the MEC, SEN, INDI and local governments.
Temporary lunchrooms	1.8	Reaching 89,703 people.
Abrazo	0.4	Reaching 1,931 families.

Source: Accountability of the Emergency Law - Ministry of Finance, 2020.

Social programs, especially those designed and implemented during the pandemic, have been efficient in containing the drop in income and job vulnerability. Likewise, its operation was quick and effective, especially in the most isolated rural areas. However, in addition to the high financial effort they entail, targeting tools are required, by specific sectors and in geographic regions with higher demands.

Low interest-rate credits were made available to formal small and medium-sized enterprises through the National Development Bank, the Financial Development Agency and the Agricultural Loan Facility. In any case, these measures have not been sufficient to meet the needs of the different social sectors; especially those employed in the retail and services sector, especially the self-employed, including micro and small entrepreneurs, the latter of an informal nature. Nonetheless, a limited number of businesses used these loans because the operating and billing conditions were still restricted, and therefore, they did not always find incentives to take the loans.



Informal entrepreneurs were served by the Pytyvõ program, with food transfers, but they require alternative strategies aimed at redirecting production and, above all, the commercial scheme. This segment includes several branches of activity, and thus requires greater attention so that once they get out of the vulnerable and uncertain situation; they can formalize and access other social benefits.

Micro-enterprises and informal entrepreneurs require aid packages that include training regarding the new context as well as the inclusion of adaptation and creative reconversion concepts. These and other actions can be developed through remote modules, on, for example, product innovation, market segmentation and marketing systems, led by the Ministry of Labor, Employment and Social Security.

■ **Table 9.** Non-agricultural formal and informal employed population, by occupational category in their main occupation

Occupational category	Year 2020 1 <sup>st</sup> Quarter				
	Total employed	Formally employed		Informally employed	
		Absolute value	%	Absolute value	%
Total	2,642,590	985,282	37.3	1,657,308	62.7
Worker / Public employee	341,792	271,178	79.3	70,614	20.7
Worker / Private sector employee	1,210,340	458,912	37.9	751,428	62.1
Employer or boss	172,334	113,464	65.8	58,870	34.2
Self-employed worker	617,496	119,175	19.3	498,321	80.7
Unpaid family worker	73,610	-	-	73,610	100.0
Domestic employee	223,741	22,553	10.1	201,188	89.9
Not available	3,277	-	-	3,277	100.0

Source: General Office of Statistics, Surveys and Censuses, 2020.

■ **Table 10.** Formal and informal businesses by size

Type	Total	Micro	Small	Medium	Big
Formal (with TIN*)	263,106	236,989	18,640	4,293	3,184
Informal (without TIN*)	607,492	607,492			
Total	870,598	844,481	18,640	4,293	3,184

\*TIN: Taxpayer Identification Number

Source: Accountability of the Emergency Law - Ministry of Finance, 2020.

The reduction in employment, caused by restrictive social distancing measures, required quick and focused responses in the informal sector and the self-employed sector, which lacked records, that for a long time impeded monitoring and greater attention to this segment. In this context, support and aid programs for informal workers, entrepreneurs and self-employed workers are designed and implemented.

The pandemic's contingency ended up generating two new social programs that, in addition to responding to social needs, constitute new tools of knowledge, analysis and monitoring of various sub-sectors that for decades had remained diffuse and therefore, without the deserved attention from public policies.

The new programs, no longer aimed at segments in poverty and extreme poverty such as Tekoporā and the Elderly, complement each other very well, since they serve vulnerable social sectors and middle-income sectors.



Nonetheless, Ñangareko and Pytyvõ are destined to change from delivering temporary money to creating alternative and innovative labor capacities that result from a new demand for goods and services. In this regard, new opportunities that arise in the market must be explored in order to serve them effectively. For example, by observing the import matrix, it is possible to identify products that can be created, cultivated, and industrialized in the country in order to create added value internally, as well as create and maintain jobs.

These workers' new data and records will allow us to monitor and represent a new opportunity to generate new public policies, as well as adapt and focus the current ones, in order to integrate and formalize the sub-sectors most vulnerable to economic and social shocks.

Thus, the country's new social offer is structured in the following way:

- » Population living in poverty: Tekoporã and programs for the Elderly.
- » Population in a social vulnerability situation: Ñangareko.
- » Self-employed and dependent on micro, small and medium-sized businesses population: Pytyvõ.
- » Population working in formalized businesses: social protection (IPS).

The latest employment data (Continuous Permanent Household Survey), which compares March 2019 with March 2020, and therefore reflects only the first 15 days of social distancing, show a nationwide advance in unemployment from 6.9% to 7.9%, that is, 33,000 additional unemployed people. In urban areas, unemployment was felt more strongly, going from 7.6% to 8.8%.

Social measures were very useful to respond to the social and economic contingency, but they did not alter the pre-existing conditions of inequality. It is also estimated that the situation of the most vulnerable population groups weakened in the last three months. Similarly, it can be assumed that the conditions of monetary poverty, and especially those associated with the multidimensionality of poverty, have increased and deepened.

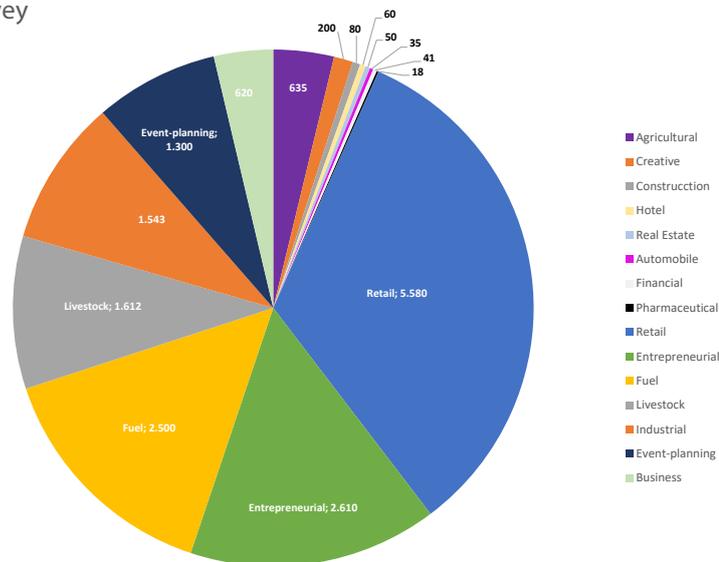
## 4. Context according to sectorial actors - identifying institutional gaps and opportunities for action

With the COVID-19 pandemic, it was considered very useful to apply a survey to the country's main economic sectors using 28 business chambers. This survey aims to capture their vision of the problems they have faced, as well as their expectations and challenges for the end of the year. In this regard, 28 chambers that cover 11 economic sectors and group approximately 16,700 businesses completed the form.

Regarding the composition of the sample by business size, 50% is made up of large businesses (51 or more employees); 25% of micro (1 to 10 employees); 14% for medium-sized businesses (31 to 50 employees) and 11% for small businesses (11 to 30 employees).



■ **Graph 9.** Distribution of chambers by industry and number of businesses that have answered the COVID-19 Impact Measurement Survey

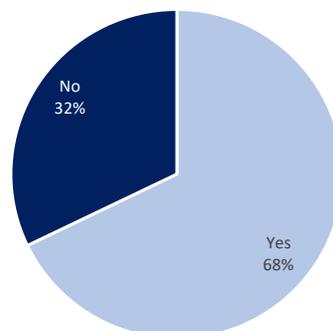


Source: MF Economia based on the gchambers' survey.

Once the chambers had been characterized, the COVID-19 pandemic's impact on their productive activity was analyzed.

In order to face the health crisis, the implementation of measures such as social distancing and quarantine was required by the State, which affected the productive activity of the businesses that make up the chambers. This led to 68% of those surveyed to stop operating, momentarily. For their part, the chambers that were not forced to stop their activities are concentrated in the livestock; agricultural; pharmaceutical; financial and mass consumption sectors.

■ **Graph 10.** Need to stop activities at some point

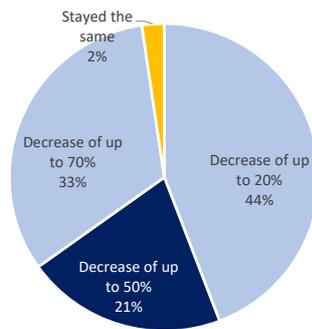


Source: MF Economia based on the chambers' survey.

This halt caused 98% of those surveyed to affirm that their sales decreased, however, these reductions were not uniform. 44% of those surveyed experienced a reduction of up to 20% in their sales; for 21%, a drop of up to 50% and for 33% it was up to 70%. Only 2% of the surveyed chambers did not register variations in their sales.



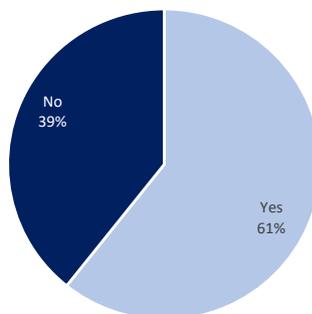
■ Graph 11. Sales variation during the pandemic



Source: MF Economia based on the chambers' survey.

With regard to work, 61% of those surveyed stated that they offered their employees the possibility of remote working to face the situation. On the contrary, chambers whose businesses belong to sectors such as livestock; industry; trade and event planning could not implement this working method.

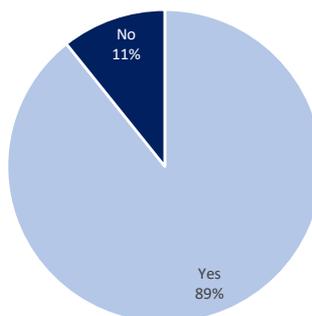
■ Graph N° 12. Possibility of remote working



Source: MF Economia based on the chambers' survey.

Regarding working hours during the workday, these decreased in 89% of the chambers. It should be noted that only the pharmaceutical and agricultural sectors maintained their normal working hours.

■ Graph 13. Need to reduce working hours

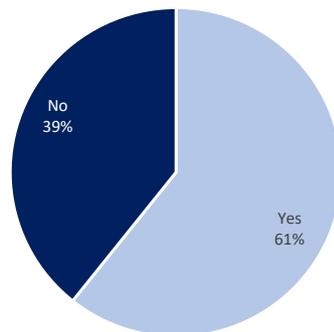


Source: MF Economia based on the chambers' survey.



In addition, 61% of the unions surveyed reduced the salaries of their employees, significantly impacting family income. If the size of the business is considered, it is important to note that 57% of the unions that used this measure correspond to large businesses, 19% to micro, 14% to medium and the remaining 10% to small businesses.

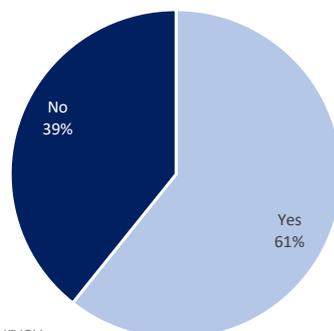
■ Graph 14. Need to reduce salaries



Source: MF Economia based on the chambers' survey.

Similar behavior is evident when consulting about the suspension of employment contracts, under the Institute for Social Prevision (IPS) modality. This mechanism was established, within the framework of the Law that declares the State of Emergency, as a measure to face the health crisis.

■ Graph 15. Need to suspend employment contracts

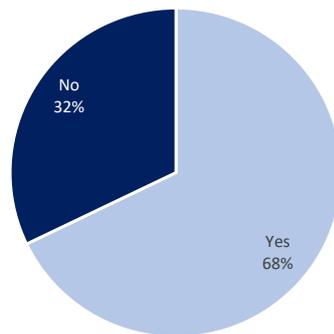


Source: MF Economia based on the chambers' survey.

A more complex scenario is observed when the need to terminate employment contracts arises. Faced with this question, 68% of the chambers surveyed indicate that they terminated their contracts with their employees. There is no additional information that allows inferring if this measure will be permanent or if workers will be hired when the hardest part of pandemic is overcome. The remaining 32% that maintained their employment contracts corresponds to chambers whose businesses are in the real estate, pharmaceutical, mass consumption, livestock and agricultural sectors.



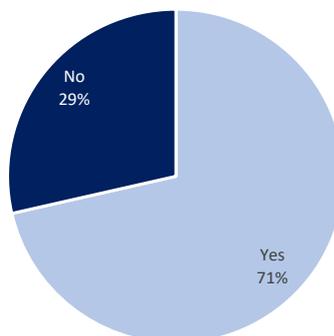
■ **Graph 16. Need to terminate employment contracts**



Source: MF Economia based on the chambers' survey.

Given the sales reduction and the partial relief obtained by the implemented salary measures, 71% of the businesses belonging to the surveyed chambers opted to take at least one loan.

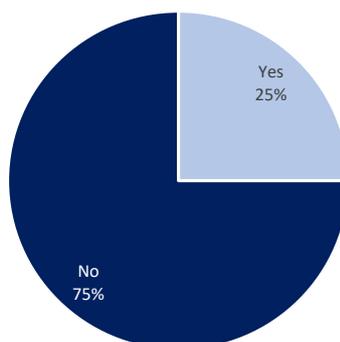
■ **Graph 17. Need to take loans during the pandemic**



Source: MF Economia based on the chambers' survey.

Finally, 75% of the unions mentioned that they did not feel a relief with the financial, fiscal and economic measures applied by the government. Within this percentage are businesses from the industrial, retail, livestock, motive, real estate, hotel and event-planning sectors.

■ **Graph 18. Relief for chamber businesses due to financial, fiscal and economic measures taken by the government**



Source: MF Economia based on the chambers' survey.



Based on the characterization previously presented, several points must be highlighted. Given the strong decrease in the income of businesses, while their operating costs remained almost unchanged<sup>13</sup>, they faced the decision to continue operating or close. Most of those that continued with their activities implemented adjustment measures in their hiring, in order to reduce their operating costs and fulfill part of their salary responsibilities.

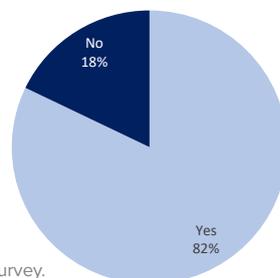
In other words, employment was preserved, but the measures applied affected, to some extent, people's income, either because they had a reduction in their remuneration or in their working hours. Obviously, in the case of the businesses that closed, many lost their jobs and, therefore, their source of livelihood.

Additionally, some chambers had access to a tool through which the Institute for Social Prevision was responsible for covering part of the worker's salary.

In any case, whatever the measure applied to the worker may be, their monthly income registered a decrease, which placed them in a highly vulnerable scenario, even more so if they were the head of the family.

When the interviewed chambers were asked for a perspective moving forwards, they highlight their favorable expectations. In this sense, 82% of those surveyed consider that the economic situation will improve in the year's coming months.

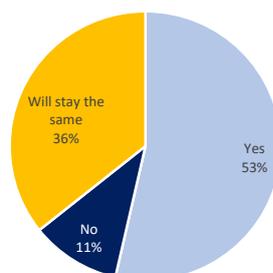
■ **Graph 19.** Expectation for improvements in the following months of the year



Source: MF Economia based on the chambers' survey.

Furthermore, 53% expect their sales to pick up during the year, while 36% estimate that they will remain the same and only 11% believe that they will worsen.

■ **Graph 20.** Expectation for sales improvement for the following months of the year



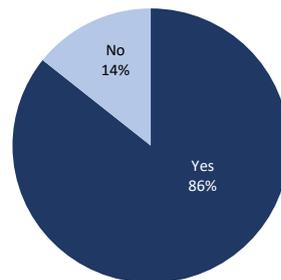
Source: MF Economia based on the chambers' survey.

<sup>13</sup> The businesses agreed to an extension in their tax settlements, as well as in the payment of public services. Except for specific cases that received payment exemptions for some public services.



Despite the recovery estimated by the majority of chamber members, 86% of those surveyed will not hire additional staff during the year, while 14% expect to do so.

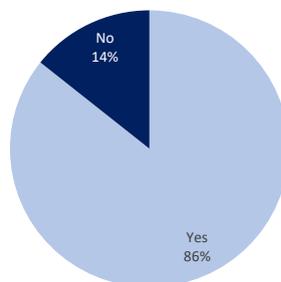
■ Graph 21. Will hire more staff during the year



Source: MF Economia based on the chambers' survey.

With regards to financing, 86% of chambers foresee that they will obtain a loan in order to alleviate their business's current situation, while 14% will not. It should be noted that those surveyed who hope to access financing consider term extensions to be decisive, as well as a drop in interest rates. There are also requests for a procedure simplification for the use of the Guarantee Fund (FOGAPY).

■ Graph 22. Will take loans during the year in order to alleviate the situation



Source: MF Economia based on the chambers' survey.

Finally, numerous reflections can be extracted from this instrument; one of them is the importance of business formalization, which resulted in some workers receiving part of their remuneration through the Institute for Social Prevision.

Another element is the need to have unemployment insurance, which guarantees that people who lost their job can access remuneration, which allows them to meet their family group's basic needs.

Likewise, it is important to remember the contributions that Carmen Reinhart has made to the study of economic crises, where she shows the fundamental role that credit plays in supporting spending, either for households or for businesses. In other words, an interruption in the banking financial intermediation activity prolongs and deepens the economic recession.

People need access to credit to sustain their consumption; otherwise they will face problems to satisfy their needs. For some, this may imply a reduction in the purchase of durable consumer goods, such as vehicles, but, for others, it may represent problems to cover food needs, which implies a loss of calories that will affect their future performance.



In the case of businesses, financing is directed mainly to cover the labor payroll and fixed expenses, which are necessary to keep the business operating. This, in turn, maintains employment, people’s income and favors economic recovery.

Although the measures taken by the Paraguayan Central Bank (BCP) were initially aimed at increasing liquidity in the financial market, through the reduction of legal reserve requirements, as well as the provision of liquidity facilities, the fall in the business sales and people’s income increased their credit risk.

Furthermore, the BCP lowered its monetary policy rate to a historical minimum, as a sign that the economy’s interest rates should be lowered. However, for the financial system, the increase in the probability of default by the potential loan recipient led to the application of credit contraction measures.

Therefore, tools such as credits guaranteed by the State allow the fluidity of resources in the financial system, by minimizing the risk that the applicant represents for the institution. Currently, they are mainly aimed at covering the operating capital of businesses. However, it is expected that, in the near future, it will be available to people.

The COVID-19 pandemic generates enormous challenges for the country. If the necessary measures are not taken to smooth household consumption and support businesses’ operation, the levels of poverty, unemployment and informality will increase, which represents a strong setback for the country. Furthermore, recovering lost positions takes years of public policy. In line with this, the chambers presented some policy proposals.

### Policy proposals suggested by surveyed parties

In tax matters, the request for tax incentives persists

Taxes	
Proposed measure	Establish tax incentives for formalized businesses.
	Tax adjustments for Ciudad del Este’s commercial sector.
	Tax and fee exemptions.
	Tax simplification and incentives for SMEs

Regarding financing, they propose simplification in procedures, which includes loans with government active support.

Financing	
Proposed measure	Access to long-term financing and low interest rates.
	Maintain customers’ credit rating.
	Facilitation in loan approvals.
	Promotion of financing through the National Development Bank.
	Strengthening credit lines for SMEs.
	Refinancing of loans with longer terms.
	Simplification of procedures to access credits guaranteed by the State (FOGAPY Guarantee Fund).
	Coordination between economic reactivation objectives and regulatory tools for credit risk management.
	Loans for operating capital.
Implementation of longer grace periods.	



Regarding the institutional area, the implementation of electronic procedures in public entities stands out, which helped to overcome corruption problems in other countries of the region.

Institutions	
Proposed measure	Facility in formalization and creation of new businesses.
	Independence, institutional strengthening and improvement in the National Office for Health Surveillance's management.
	Strengthening of the National Competition Commission's management.
	Implementation of electronic procedures in public entities.
	Facilitating and simplifying procedures at public institutions.
	Control of informality.
	Legal security.
	Work on the maquila regime renewal within Mercosur.
Formalization of businesses free of charge.	

For trade, the greatest concern is concentrated at the border. It also seeks to improve import and export logistics. In fact, it should be remembered that, in 2018, World Bank data showed that Paraguay ranked 74th out of 160 countries in terms of the Logistics Competitiveness Index, with countries like Ecuador in a more favored position, despite the fact that the degree of openness of that economy is considerably lower.

Commerce	
Proposed measure	Strengthening of demand.
	Improve import and export logistics.
	Schedule change for border trade.
	Opening the border with sanitary measures.
	Updating the tourism regime or modification towards a border trade regime.
	Establishment of thorough inspection controls for imports.

Concerning the industry, the deglobalization phenomenon is highlighted, since there is concern about the supply of raw materials, but the construction of regional industries is also being thought of, in other words, they are looking towards the region and not towards the world.

Industry	
Proposed measure	Control of anti-competitive structures.
	Establish alliances with countries that produce raw materials, to guarantee their supply.
	Advice and support for SMEs.
	Make alliances with Latin American countries for the development of the pharmaceutical and chemical industries in the region.

The central issues for management of the State are widely known, such as, for example, public spending rationing, which is why it was also included in the Law that declares the State of Emergency.



State Management	
Proposed measure	Efficiency in public spending.
	Reactivation plan.
	Retirement and health system reform.
	Allow the participation of private capital in public and energy works.
	Greater participation of SMEs in public sector purchases.
	Employer's contribution exemption to the Institute for Social Prevision.
	Adjustment in utility rates.
	Purchase of national products in public tenders.

## 5. Public policy pillars: promoting socio-economic recovery

When the pandemic started, fiscal accounts showed a deficit of 2.8% in the GDP, above of what was established in the Fiscal Responsibility Law (1.5% of GDP), mainly due to the public investment plan implemented during the second half of 2019, with a view to reactivate economic activity. Therefore, the fiscal authority lacked internal resources to face the pandemic's effects, beyond certain expense reallocations. This led to the use of external debt, which Congress authorized up to a maximum of USD 1.600 billion.

The COVID-19 pandemic has brought societies on different continents and countries into a situation of deep social, economic and institutional stress. Countries, regardless of their development level, do not have enough tools or instruments to face the magnitude of the health challenge and contain the economic impact.

The first challenge is to contain the pandemic, which would allow us to return as soon as possible to a state of social activity that can be called the new normal, with a very significant burden of uncertainty.

The Paraguayan economy and society are in a situation of high demand for public policies, but at the same time with extremely limited resources. The main challenges revolve around employment maintenance and recovery and, on the other hand, the improvement, expansion and deepening of the social protection system.

The central pillars for an economic recovery are presented as follows.

### Support for employment and business recovery

The employment and business support approach must be targeted at the most vulnerable in order to mitigate the social and economic consequences of the confinement period. Given the vulnerability of small businesses and workers in the informal economy, governments should explore all options that allow the financing of measures to support businesses and their workers, and provide adequate social protection. Despite the great challenges, there is room to calibrate public policies to address certain key pillars.

**a. Financing support.** Optimize credit and guarantee systems to reduce risk levels and strengthen the capacity to generate employment for all types of businesses. Risk perception should be reduced through the guarantees generated by the State, reactivating the different economic sectors, especially services and retail. The Paraguayan Guarantee Fund (FOGAPY) should be expanded to constitute a better financial instrument designed to improve access to loans. The extension should have the following characteristics:

- i. Provide more FOGAPY resources to have a greater reach.
- ii. Expand FOGAPY's scope to businesses of all sizes, including individuals.



- iii. Increase the coverage level of the Fund to 90% so that financial institutions incur less risk.
- iv. Create conditions for competition between financial institutions when using funds and granting loans so as to guarantee better rates.
- v. That covered funds, granted by guarantee, are under a rate that is within the FOGAPY regulations (less than 10%). While funds not covered by the guarantee remain in accordance with market rates.
- vi. Through this premise, competition is generated between entities for deposit rates and efficiency costs so that loans' final rates are attractive for both parties (financial entity and clients).

These financial instruments will be key to sustaining businesses during the period of productive and commercial activity reduction. In addition, it is important to favor the survival of economic units in the short term. The support must be well calibrated and geared towards SMEs, increasing the available loans and targeting support by stages and sectors of the economy according to levels of effects and impact on employment.

**b. Support for businesses affected by the crisis.** It is suggested to consider the possibility of monetary support for the most affected microenterprises. These contingency lines can help them survive the impact, avoiding asset loss and maintaining sources of employment. Legal and institutional mechanisms and tools must be created to prevent the death and disappearance of job-creating businesses. It should be noted that, with the interruption of activities, the payment capacity to meet financial commitments is reduced, destroying the quality and credit capacity of these businesses. Policies should seek to alleviate the high costs imposed by isolation measures, avoiding the loss of the Taxpayer Identification Number, and postponing entry to Inforcomf (the debtor reporting system).

State subsidies have managed, to a limited extent, to maintain family income, but at a very high cost. The little help has offered some relief, focusing the assistance on food resources, although lacking any other tool, method or strategy for reintegration and linkage with the labor market. The progressive loosening of social distancing cannot be the tacit answer to the economy's relaunch. Cross-cutting interventions are required to maintain and generate new jobs, such as reconversion towards sectors that will have greater demand (meal preparation or home improvement and maintenance products, among many other creative resources that can be thought for each sub-sector) as well as to integrate more people and workers into the Social Protection System, through an increase in economic activity formalization.

Finally, family businesses have been the refuge for many of those who lost jobs. Therefore, their realities must be considered when designing assistance measures, and flexible measures must be taken so that businesses, regardless of size, are able to maintain jobs.

**c. Prioritize public spending on health and social protection.** State spending should prioritize the strengthening of health systems and focus its scarce resources on innovative social programs that assist the affected population.

**d. Encourage public works with high employment demand and a greater multiplier effect on the economy: urban connectivity routes, cobblestones, sidewalks, social housing, among others.** On the other hand, work reintegration programs must also be carried out, as well as the modification of the commercialization pattern, favoring direct sale to the final consumer, using digital sales tools and channeling local businesses, among others.

With the drop in revenue, the State will have less fiscal space to make public investments in certain key sectors. Furthermore, in a context where political conditions to increase the level of indebtedness are limited, it is essential to strengthen the incentive scheme to attract investments in infrastructure from the private sector through public-private participation projects.



**e. Simplify and streamline regulations to ensure greater private sector participation in public investments.** Given the decrease in maneuvering room for public finances, the State must provide greater agility to investments with high social impact. For example, housing infrastructure project initiatives can be carried out with the private sector's participation, through existing tools, such as the Public-Private Alliance Law. These regulations should be adapted to achieve higher levels of implementation, for example, with the modification of decrees to reduce bureaucracy levels and thus channel private investment to areas of interest to the public sector. In the same sense, if ministries could probably carry out some procedures and processes with greater agility, project feasibility analysis can be facilitated and accelerated.

**f. Improve efficiency in public spending, prioritizing saving in superfluous expenses and linked to management by results.** Similarly, the generation and processing of information on social programs and other public services can become a very valuable tool to increase the public investment targeting. Social Cabinet initiatives aimed at characterizing the different sub-national territories and depending on their characteristics, problems, challenges and vocations, implement the respective public policies with greater precision and efficiency, especially in the social aspects of the policies and programs.

**g. Increase the different sectors' formalization through the use of investments in technology that automate procedures, optimizing data and expanding the tax base.** For example, a significant percentage of businesses that participated in the Ñangareko and Pytyvõ operations could formalize, if the technological instruments that would also enable an increase in VAT collections existed. Operations to reduce formalization obstacles are necessary, as well as using social programs to obtain consolidated data on consumption patterns, through inter-operational technological systems that allow for data feedback that contributes to a better targeting of said programs.

In a less positive scenario, with a resurgence of social confinement measures due to an increase in the number of cases and fresh outbreak, the State's fiscal ability to continue assisting vulnerable and heavily impacted sectors will not be sufficient.

Structural adjustment measures to generate savings and a more efficient use of resources will be required. The downward adjustment of public salaries, the elimination of superfluous expenses, and redirecting programs and projects towards new needs, will require great administrative efforts, as well as courage in their management. The traditional State, with its historical institutions, is called to become more agile, efficient, small, cheap and useful.

Faced with a quarantine prolongation scenario even until 2021, it will be necessary to rethink the functions, responsibilities and actions of various ministries and public offices. They should be modified and adapted to a new way of life that ensures the fulfillment of their objectives in a different way. If traditional state management carries decades of challenges in terms of spending, the pandemic may be the turning factor to achieve reform, adapt and build a government structure with clear, focused, practical public policies that ensure attention to the different strata of the population.

### **Support for the Social Protection System for vulnerable communities**

The COVID-19 pandemic has required high levels of social distancing, which has resulted in a weakening of living conditions for social groups that already experienced situations of vulnerability and exclusion. Social protection, historically limited to the minimum wage and social security, must be complemented with access to quality public services, health, and protection for families and individuals.



The economic precariousness of the lower-income groups, due to limited availability of assets, will be deepened by pre-existing inequalities. In a context such as that of COVID-19, the social protection policy must face the contingency, in order to limit the effects of social exclusion while rebuilding the production system that generates jobs. This pillar's components are:

- **Maintenance, monitoring and exhaustive targeting of social programs:** Tekoporã, the Elderly, Ñangareko and Pytyvõ, in order to ensure that the transfers meet the needs of families and at the same time generate an impact on local and regional businesses.
- **Intervention strategies by risk and social vulnerability type and according to age groups:** childhood and adolescence, youth, adulthood and the elderly. Childhood and adolescence require differentiated attention, given the effects of academic activities suspension. Furthermore, especially for children, school is no longer a platform with access to school meals. Reformulated and adapted social care practices are therefore required. It is necessary to increase the level of Internet connectivity, through the participation of private providers, to ensure children and adolescents' access to the school system. Likewise, contents must be reorganized by recording classes, so that they are replicated in all schools and public colleges, in order to reduce infrastructure and equipment asymmetries between teachers and between regions of the country. The existing digital gap could increase even more between the different regions and social segments, especially in those homes with school-age children who do not have any technological devices or Internet. In the event that the pandemic extends its effects until 2021, due to continuity or a fresh outbreak, the mechanisms for access to education must be identified in advance. Innovation and the use of the different communication channels (radio, television, Internet) should be mobilized to satisfy the educational demand. The creation of a platform with specific videos for each of the educational levels, which can be recorded once and played many times, and with the best teachers, can be an alternative solution.
- **Renewed social security that allows adjustments in contributions' engineering and operation, and containment programs in the event of job loss.** Strategies cannot be uniform, but must respond to specific problems and situations in terms of geography, life cycle and type of service. The current situation should be used to rethink the different social security and retirement schemes, in order to achieve a better distribution of the social burden, even more so considering the aging of the population. An alternative after the pandemic could include the private sector in the labor contribution model, generating incentives towards the formalization of workers, businesses of different sizes and entrepreneurs.
- **Public offer of services must improve, expand and specialize, in order to adapt not only to the new demographic structure (aging) but also to social practices resulting from social isolation.** Obstacles that limit access and permanence in the educational system must be reduced and eliminated. Training options and human capital development should be generated through open and public television channels, as well as through social networks and specific sites. The creation and implementation of a formal and non-formal educational platform can be valuable tools to reduce the educational impact in schools and colleges, in order to take advantage of the time available at home.
- **Reinforce the gender perspective in all interventions,** considering that women are the ones in charge of care activities and especially because in urban areas, a greater number of female productive and reproductive tasks are assisted in households, especially when they are heads of household.
- **Reduce geographic, gender and age group gaps in the supply of public services and in social infrastructure and investments installation.** The precarious urban settlements of Asunción, Central, Caaguazú, and Alto Paraná should receive focused and appropriate attention to each territorial context.



- **Rethink strategies to contain, support and strengthen peasant family agriculture**, depending on productive rates, demographic structures, business relationships and the presence of value chains in each of the regions. Attack the hard nuclei of poverty and extreme poverty concentration. The return of the urban population to the rural ones represents an opportunity to relaunch productive and value-adding processes. Mobility reduction could lead to a limitation of producers' access to markets, as well as a decrease in the demand for agricultural products that, in several areas, could be offset by a greater supply and proximity to cities, which could increase their demand for food.

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## Annex 1: Calculating economic gains and / or losses methodology

Gains and / or losses for the different economic activities that make up the Gross Domestic Product (GDP) were constructed from the macroeconomic relationship that exists between nominal and real GDP. The premises used come from the estimates made by the Central Bank of Paraguay (BCP), which considered, for the pre-pandemic scenario, real economic growth of 4.1% and inflation of 4.0%. For the pandemic scenario, the BCP forecasts a 2.5% drop in economic activity and 2.4% inflation.

Real and nominal GDP are linked by the following relationship:

$$\text{Real GDP} = \frac{\text{nominal GDP}}{\text{GDP deflator}/100}$$

In terms of growth rates, the relationship would be:

$$(1+g) = \frac{(1+v)}{(1+\rho)}$$

Where:

g = Real GDP growth rate

v = Nominal GDP growth rate

ρ = Inflation measured through GDP deflator

We worked with the growth rate equation, for which the previously mentioned premises were used. Inflation was approximated through the interannual variation of the Consumer Price Index (CPI). Gains and / or losses are obtained by difference between both scenarios (pandemic and pre-pandemic).



## Annex 2: Economic gains and / or losses calculation

■ **Table 11.** Economic gain and / or loss derived from the COVID-19 pandemic (Nominal USD)

Productive sector	Gains and / or losses (*) (In USD Millions)
Agriculture	50
Livestock and breeding	-11
Logging, fishing and mining	-5
Primary sector	34
Manufacture	-468
Construction	-122
Electricity and water	-197
Secondary sector	-787
Trade	-298
Transportation	-178
Telecommunications	-7
Financial Intermediation	-116
Real State services	-155
Business services	-114
Restaurants and hotels	-838
Household services	-313
Governmental services	-22
Tertiary sector	-2.041
Taxes	-292
Gross Domestic Product	-3.087

Source: MF Economía based on data from the Paraguayan Central Bank.  
 (\*)The positive sign indicates profit, while the negative sign indicates loss.



## Annex 3: Surveyed chambers

■ Table 12. List of consulted chambers

Nº	Chamber
1	Paraguayan Association of Poultry Farmers (AVIPAR)
2	Paraguayan Association of Banks (ASOBAN)
3	Paraguayan Association of Entrepreneurs (ASEPY)
4	Association of Paraguayan Businesses - Events Suppliers (ASSEPE)
5	Association of Micro, Small and Medium Enterprises (ASO MIPYMES)
6	Association of Owners and Operators of Service Stations and Related (APESA)
7	Paraguayan Hotel Industrial Association (AIHPY)
8	Paraguayan Association of Meat Producers and Exporters (APPEC)
9	Paraguayan Chamber of Food and Beverages (CABE)
10	Paraguayan Chamber of Advertisers (CAP)
11	Paraguayan Chamber of Shopping Centers
12	Ciudad del Este Chamber of Retail and Services
13	Pedro Juan Caballero Chamber of Retail and Services
14	Chamber of Automotive and Machinery Distributors (CADAM)
15	Chamber of Credit Businesses
16	Paraguayan Chamber of Maquiladora Businesses (CEMAP)
17	Paraguayan Chamber of the Pharmaceutical Chemical Industry (CIFARMA)
18	Paraguayan National Chamber of Retail and Services (CNCySPy)
19	Paraguayan Chamber of Meat (CPC)
20	Paraguayan Chamber of Parceling and Real Estate Businesses (CAPELI)
21	Paraguayan Chamber of Exports (CAPEX)
22	Paraguayan Chamber of Cereals and Oilseeds Exports and Retailers (CAPECO)
23	Paraguayan Chamber of Construction (CAPACO)
24	Paraguayan Chamber of Supermarkets (CAPASU)
25	Executive Club
26	Paraguayan Federation of Creative Industries (FIC)
27	Union of Production Chambers (UGP)
28	Paraguayan Industrial Union (UIP)

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