



USAID
FROM THE AMERICAN PEOPLE

PARAGUAY



**PROJECT
APPRAISAL
DOCUMENT (PAD)**

**CULTURE OF
LAWFULNESS**

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ACRONYM LIST

APS - Annual Program Statements

CA - Cooperative Agreement

CEAMSO - Center for Environmental and Social Studies

CSOs - Civil Society Organizations

CUST - Custom Indicator

DR - Democracy, Human Rights and Governance Indicator

EG - Economic Growth

FECOPROD - Federation of Production Cooperatives

FSN - Foreign Service National

FY - Fiscal Year

GAFILAT - Financial Action Task Force of Latin America

GDP - Gross Domestic Product

GOP - Government of Paraguay

HECEET - Higher Education Center for Ethics, Equity and Transparency

ICS - Integrated Country Strategy

IDEA - Institute for Rights and Environmental Economy

IMF - International Monetary Fund

LAPOP - Latin American Public Opinion Project

MEL - Monitoring, Evaluation, and Learning

NGOs - Non-governmental organizations

PAD - Project Appraisal Document

PO - Program Objective

PSE - Private Sector Engagement

SMEs - Small and Medium Sized Enterprises

SP - Sub-Purpose

UDEA - Economic Crimes and Anti-corruption Specialized Unit (of the Public Ministry)

UNDP - United National Development Fund

WWF - World Wildlife Fund

I. BACKGROUND

Widespread corruption, perpetuated by impunity, is the number one impediment to Paraguay's development. Sustainable development requires all people and institutions to be subject and accountable to laws that are fairly applied and enforced. The Rule of Law levels the playing field for all citizens and businesses, and spurs licit competition and innovation. Along with a leveled playing field, sustainable development requires opportunities for formal economic engagement, for law-abiding citizens and businesses to prosper and for equity to exist. Finally, sustainable development requires a strong, yet responsible citizen oversight to detect corruption, and to hold those responsible accountable for their wrongdoings.

For the USAID/Paraguay Mission, the Culture of Lawfulness Project Appraisal Document (PAD) focuses on three key sub-purposes where USAID believes it can make a meaningful contribution to Paraguay's development, as well as complementary activities.

II. PROJECT PURPOSE

In a mid-course Stocktaking exercise in 2019, the Mission came together to review current programs and lay the groundwork for future work. During this process, the Mission took into consideration ambition that is judged to be attainable given the Mission's resources. The Mission determined that corruption was the number one impediment to Paraguay's development, and the purpose that guides this Development Objective is an "Improved Culture of Lawfulness to Reduce Corruption in Paraguay".

III. CONTEXT

USAID's development cooperation was recently focused on building democratic governance and inclusive economic growth. Despite considerable progress, Paraguay continues to face challenges on its development journey, especially as pertains to building a culture of lawfulness, strengthening the rule of law and fostering a formal economy.

Levels of poverty and extreme poverty have had a modest decrease during the last decade. Despite Paraguay's sustained economic growth over the last decade, inequality persists, and migration to urban places continues to rise. The quality education is the lowest in the region, and access to vocational training is limited. This restrains access to formal economic opportunities. Additionally, illicit businesses continue to thrive as a result of a weak rule of law. Economic growth is largely based on the production of commodities for export, which has a high impact on natural resources. In the democracy space, Paraguay's relatively new democracy has meant limits to there is limited civil society capacity to hold the government accountable. Regarding demographics, Paraguay is characterized by a demographic window of opportunity (60 percent of the population is within working age, and 30 percent are youth.)

IV. PROJECT DESCRIPTION

This Project Appraisal Document (PAD) is the highest-level strategy document for USAID/Paraguay. USAID/Paraguay will continue to work to support Democracy, Rights and Governance activities in Paraguay with the primary goal of fighting corruption.

This section describes the programs to be undertaken and the anticipated results to be achieved with funds obligated under this PAD to focus primarily on building a culture of lawfulness to effectively tackle

corruption by strengthening the rule of law, advancing a more formal economy, and improving civil society oversight of corruption. This PAD also includes a complementary and cross-cutting Local Works activity, which is an integral part of this PAD, to empower communities to assess their needs and lead their own development journey at the grassroots level. USAID/Paraguay believes that empowering communities to lead their own development should be an integral part of any development project. The ability of a community and its individuals to self-identify the hurdles to their development and to draft and execute a plan to overcome them is at the cornerstone of the Journey to Self-Reliance. Local Works is intended to do just that. It is a complementary, yet integral part of the Culture of Lawfulness PAD. Activities under the Local Works component of the PAD will be designed after conducting a listening exercise and a needs assessment. In line with guidance received from Local Works and consensuated with LAC/SPO, USAID/Paraguay will draft Activity Approval Memos (AAMs) to approve activity designs under Local Works.

Additionally, USAID/Paraguay also manages a sustainable landscapes activity that supports LAC/RSD's regional efforts to reduce deforestation and CO2 emissions through private sector alliances leading to environmentally sustainable economic growth. This activity is covered under LAC/RSD's 2018-2023 LAC ENVIRONMENT PROJECT Project Appraisal Document.

To achieve this PAD's purpose, USAID/Paraguay' Theory of Change is:

If

- The Rule of Law is Strengthened,
- Formal Economic Opportunities are Advanced, and
- Citizen Oversight is Improved, ... and

If communities are empowered to lead their own development Journey,

Then

- A Culture of Lawfulness will be Improved in Paraguay...

... thus contributing to the ultimate goal, which is to fight Corruption.

Challenges to this Theory of Change include: Entrenched corruption, fueled by impunity; a weak rule of law; the social and economic impacts of the COVID-19 global pandemic; a perception that the only way to succeed is through informal or illicit businesses; a weak legal framework that does not allow for small formal businesses to thrive; lack of formal economic opportunities; low quality of education resulting in a poorly trained workforce; lack of independent media; and weak civil society organizations, sometimes leading to irresponsible citizen oversight.

For this Theory of Change to work, communities must be empowered to lead their own development journey, and the following overall assumptions must be met: Political will exists within all levels of the Judicial System to fight corruption and end impunity; there is a strong commitment from reform champions in the Judicial System and throughout the government to tackle corruption; the private sector is hoping to and willing to engage in licit and formal activities if and when the Rule of Law prevails; civil society, including media and the private sector, is willing to conduct responsible oversight

of the government and of their own doing. In order to measure USAID's contribution to this theory of change, the Mission will use the "Percentage of Paraguayans who believe paying a bribe is justifiable" indicator, which is collected every two years by the Americas Barometer public opinion survey.

Each Sub-Purpose (SP) below has a detailed section on Problems and Opportunities, the Theory of Change for that SP, expected results as well illustrative activities and indicators. The assumptions underlying each SP will be covered in the Monitoring, Evaluation and Learning Plan.

Government to Government (G2G) assistance is not contemplated under this PAD, and resources will be channeled through implementing partners, preferably local partners.

A. SUB-PURPOSE 1, RULE OF LAW STRENGTHENED

Problem and Opportunities

Rampant corruption fueled by impunity is one of the most important impediments to Paraguay's Journey to Self-Reliance. The enactment of a Freedom of Information Law and its entry into force in September 2015 have given way to unprecedented levels of transparency. As a result, considerable high-profile corruption cases have been unveiled. Yet a still weak and politicized Judicial system enables pervasive impunity, undermining Paraguayans' public support for democracy--which fell sharply from 66.9 percent in 2012 to 51.2 percent in 2019 (Americas Barometer)--one of the lowest in the region. More problematic is the fact that according to the same public opinion survey, no more than 28.2 percent of Paraguayans have confidence that the judiciary would punish those guilty of crimes.

If corruption is to be tackled, then prevailing impunity must be halted. Corrupt officials must be tried and convicted for their crimes to demonstrate that nobody is above the law and furthermore to discourage corrupt practices. Although many cases of corruption are being investigated, and some high-ranking officials have been indicted, there have been a few convictions to date.

As stated in USAID/Paraguay's 2018 Rule of Law Assessment, an independent yet accountable judiciary as a separate branch of government having co-equal status with the executive and legislative branches is perhaps the most important institution of all in a democratic society that respects the Rule of Law. Moreover, this assessment underscores the importance of engaging a broader audience in advancing the fight against impunity and corruption, including the private sector, civil society organizations (CSOs), academia, and others.

The respect for the Rule of Law requires highly functioning institutions that hold individuals and the government accountable for their actions. USAID will continue to support the development of a justice system in Paraguay that ensures due process, judicial independence, and the reduction of impunity.

The Mission will provide technical assistance to the Supreme Court and the Public Ministry to improve courts and prosecutors' performance with an emphasis on corruption cases, increase efficiency, transparency and accountability within the justice system. USAID will also support other Judicial and Executive Branch institutions that play a key role in advancing the Rule of Law. USAID will also support productive relationships between the three branches of government and other entities such as the Council of Magistrates and the Jury for the Prosecution of Magistrates, to ensure a more robust judiciary in areas such as selection and removal of judges and prosecutors, and budget allocation for the justice sector, among others. In addition, taking into account projected elections during the upcoming

five years, USAID will promote a dialogue during election processes that ensures candidates and political parties commitment to the Rule of Law.

The effective prosecution of corruption cases to a great deal relies on sound preliminary administrative investigation of public officers. Therefore, it is important to support the investigative capacity of key stakeholders such as the National Anticorruption Secretariat, the Comptroller Office, the General Audit of the Executive Branch, and internal affairs units of key ministries, as well as coordination with the judiciary, including criminal and administrative courts, and the Public Ministry.

Furthermore, academia and the higher education sector currently have been almost absent in advancing the Rule of Law. There is a need to increase collaboration and engagement of Higher Education Institutions (HEIs) with the community, particularly to contribute through research, debates, and analysis to advance reforms in the Rule of Law and anti-corruption areas. Another important challenge is to strengthen the capacity of local universities and training centers to address gaps in the area of Rule of Law, while building a culture of lawfulness necessary for Paraguay to embark on its Journey to Self-Reliance.

Finally, USAID will engage with civil society and the private sector to foster a culture of lawfulness through legal literacy, public awareness, and civil society engagement and collaboration in advancing the Rule of Law.

Theory of Change

If:

- The institutional capacity of select justice-related institutions is strengthened;
- Internal controls, transparency and accountability throughout the government are improved;
- The quality of education in legal and related professions is enhanced; and
- Engagement with civil society and the private sector are increased;

Then:

- The Rule of Law will be Strengthened.

Expected Results

Output 1.1 Select Justice-related Institutions With Strengthened Capacity To Fight Corruption And Impunity

- Judicial independence increased;
- Judicial transparency increased;
- Judicial efficiency increased by improving case management and reducing caseload;
- Effectiveness increased due to better investigation and prosecution of economic crimes and corruption cases; and

- Collaboration between justice-related institutions improved.

Output 1.2 Capacity of Justice-Related Higher Education Institutions to advance the rule of law improved

- Higher Education Institutions contribute to a more informed public policy debate around judicial reforms;
- Judicial reforms advanced with the support of Higher Education Institutions; and
- Quality of education in ethics and legal related professions improved.

Output 1.3 Civil Society And Private Sector Engaged In Advancing The Rule Of Law

- Civil society and private sector collaboration in advancing the Rule of Law increased;
- Judicial independence strengthened through civil society engagement, including political parties and candidates.

Illustrative Activities

Output 1.1 Select Justice-related Institutions With Strengthened Capacity To Fight Corruption And Impunity

- Provide technical assistance to the Supreme Court to establish new specialized courts for economic crimes and corruption cases. Technical support will aim at developing and implementing organizational structure, workflow, and functions manuals for them, as well as providing training and mentorship to new staff;
- Support the Supreme Court and the Prosecutors' Office in better handling high-impact cases (cases of corruption of highly public interest that attracts media and public attention);
- Provision of technical assistance to increase efficiency and reduce caseload at criminal courts, replicating a successful experience USAID implemented with civil and commercial courts;
- Support the Economic Crimes and Anti-corruption Specialized Unit of the Public Ministry (UDEA) to implement standard criteria for the investigation and prosecution of economic crimes and corruption;
- Provide technical assistance to improve investigative capacity over corruption cases of justice-related institutions such as the National Anticorruption Secretariat, the General Audit Office of the Executive Branch, the Comptroller Office, among others;
- Support UDEA to improve coordination and creative approaches for information sharing with the Supreme Court and other key stakeholders such as Customs, the Tax Vice-Ministry, the Comptroller General, the National Anti-corruption Secretariat, and the General Audit Office of the Executive Branch;
- Strengthen internal control and disciplinary system at the judiciary and the Public Ministry;

- Strengthening the capacity of court enforcement to ensure that court decisions can be executed in a timely, fair and transparent manner;
- Strengthen the capacity of judicial institutions to garner and manage their funds, including their own funds and those from the state budget;
- Expand usage of judicial information systems within the judiciary and outside stakeholders;
- Support institutional arrangements that defines relationship between the judiciary, executive and legislature with regards to judicial independence;
- Support the Jury for the Prosecution of Magistrates in defining and implementing standard procedures for the removal of judges and prosecutors, and to improve coordination with the Supreme Court in matters related to the removal or suspension of judges; and
- Provide technical assistance to the Council of Magistrates and the Supreme Court to improve the selection process for judges and prosecutors.

Output 1.2 Capacity of Justice-Related Higher Education Institutions To Advance The Rule Of Law Improved

- Engage higher education institutions including law schools, the Judicial School, and the training centers of the Supreme Court and the Public Ministry to improve the quality of continuing education and to increase universities engagement in promoting a culture of lawfulness and judicial reforms;
- Support increasing the quality of legal services through professional certification programs and engagement of bar associations; and
- Support ethics and transparency programs at higher education institutions as well as key public offices.

Output 1.3 Civil Society And Private Sector Engaged In Advancing The Rule Of Law

- Support civic education and communication activities to strengthen the culture of lawfulness in Paraguay, engaging the private sector and with a special focus on youth;
- Promote engagement and collaboration of the private sector and the judicial system;
- Support civil society, including political parties, in fostering a candid dialogue over judicial independence and the Rule of Law during election processes; and
- Promote a culture of lawfulness with a human rights lens that will consider inclusion of vulnerable populations and marginalized groups.

Indicators

Output 1.1 Select Justice-related Institutions With Strengthened Capacity To Fight Corruption And Impunity

- DR.1.5-1 Number of U.S.-assisted courts with improved management systems.
- [CUST] Percentage of economic crimes and corruption cases with accusations and/or convictions increased.

Output 1.2 Capacity of Justice-Related Higher Education Institutions To Advance The Rule Of Law Improved

- ES.2-1 Number of host-country tertiary education institutions receiving capacity development support with USG assistance.
- [CUST] Number of justice-related education institutions with improved programs of studies.

Output 1.3 Civil Society And Private Sector Engaged In Advancing The Rule Of Law

- [CUST] Number of private companies engaged in supporting Rule of Law reforms.
- STIR-11 Number of innovations supported through USG assistance with demonstrated uptake by the public and/or private sector.

B. SUB-PURPOSE 2, FORMAL ECONOMIC OPPORTUNITIES ADVANCED

Problem and Opportunities

For Paraguay to advance in its Journey to Self-Reliance, it is necessary to promote the culture of lawfulness in its entire spectrum, and break trends of unidimensional disconnected visions for development. As stated in the new USAID Economic Growth Policy¹, economic growth is essential for human development since the human capital of a country is what determines its success and its progress. A large informal economy, which is fueled by corruption and a general culture of illegality, is an important impediment to Paraguay's Journey to Self-Reliance. That is because it allows for inequality in Paraguay to continue, and therefore the benefits of economic growth in agro-business, industry, and the services sector do not trickle down and result in inclusive economic growth.

The informal sector in Paraguay covers more than half of the economy, and is so problematic that the International Monetary Fund (IMF) refers to it as "Unusually high"². Informality accounts for around 40% of Gross Domestic Product (GDP)³, while informal workers represent 65% of the market⁴, and 71 percent of the population is underemployed. In addition, a large portion of Paraguayan society does not comply with the law⁵. Although informality is a visible problem in everyday life, many times its causes and consequences are not so obvious since this practice is so common that it is seen as normal in the common people. In addition, informality is a problem that contains more complex issues that clearly transcend the legal-normative spectrum and include social, political and even cultural aspects that need

¹ Draft for Public Comment as of 1/2020.

² World Bank, 2017.

³ PRO Desarrollo Paraguay.

⁴ Acosta, 2017.

⁵ MTESS Labor Observatory, 2016.

to be overcome. For example, regarding culture, international studies say that in a sea of corruption people are more likely to engage in acts of corruption because it is acceptable. There is a distinct opportunity for Paraguay to change cultural norms to make it socially, politically or culturally unacceptable to engage in informal and illegal economic situations.

The root causes of informality in Paraguay can be divided into three main areas: Market, governance and human capital. Regarding the market, informality causes a problem of economic inefficiency, which produces macroeconomic distortions⁶. With such a large portion of the economy based on informal businesses, there are between those that follow the law and those that don't follow them. The playing field is not leveled. This further limit's Paraguay's competitiveness. Despite a weak investment climate, Paraguay continues to prioritize foreign direct investment (FDI), which has tripled in the last decade.

Regarding governance, there are many challenges, including institutional weaknesses, bureaucratic barriers, the high cost of formalization, deficiency in the provision of public services, and Paraguay's feeble investment climate. This leads people and businesses to avoid unwanted interference from the government, as a societal reaction to bureaucratic inefficiencies.

Regarding human capital, problems include a lack of decent economic opportunities, especially for vulnerable populations, including women, youth, people with disabilities, rural small-scale producers and indigenous peoples. Problems also include non-compliance of the law in the absence of enforcement or a social reproach, and a lack of trained workers. There are some troubling statistics for women in this area. Overall, only half of women (53.6)⁷ are employed (vs. 80% of men).⁸ Urban women are four times more likely to be unemployed than rural women. Though women are heavily engaged in agriculture-related activities, women are less likely than men to own land, access credit, and receive technical training in the agriculture sector. In addition, women are overly represented in the informal sector, leaving them without social security and more vulnerable to workplace abuses.⁹ Most work as vendors or in services (29.1%), or as unskilled laborers (22.7%). Regarding access to productive resources, only 29.2% of women have a bank account, which is both less than their male counterparts (32.9%) and considerably less than both the regional and world averages (48.3% and 52.1% respectively).¹⁰ Therefore women should be considered predominantly for any assistance in this area.

Another especially vulnerable sector is that of People with Disabilities (PWD). PWD have less access to basic services, such as education and healthcare, and therefore also less economic opportunities. Women with disabilities suffer double discrimination, and are especially vulnerable. The 2018 Paraguay Human Rights Coordinator Report underscores continued marginalization from economic opportunities, and asserts that indigenous populations represent "the most disadvantaged segment of Paraguayan society." Rates of poverty and extreme poverty among indigenous peoples are 75 percent and 60 percent respectively, thus far exceeding the national average of 26 percent. Despite these challenges, Paraguay has a demographic window of opportunity (60 percent of the population is within working age, and 30 percent are youth) that USAID's assistance should capitalize on.

⁶ MTESS Labor Observatory, 2016.

⁷ Although higher than regional and world average (47.7). US also around 50%.

⁸ <https://idea.usaid.gov/cd/paraguay/gender/employment>.

⁹ <https://lac.unwomen.org/en/donde-estamos/paraguay>.

¹⁰ <https://idea.usaid.gov/cd/paraguay/gender>.

The education system needs to leave theoretical rhetoric behind, and instead train for the practical as well as develop leaders that Paraguay needs to run the formal market. Furthermore, there is a need to increase engagement of the university sector with the private sector and the community to improve hard and soft skills that respond to the needs of the market, promote formalization and good-practices for legality in business.

Although there is a strong presence of informality in Paraguay, the country itself also has several natural benefits that make it an appealing place to invest. Cheap labor, and the Mercosur market of over 300 million consumers, along with lax tax regulations, are just some of the advantages for businesses when considering investment options¹¹. We need to formalize the economy by fostering entrepreneurship, facilitating access to finance, and mobilizing private sector resources for women and youth. To achieve the formalization of the economy a “Cultural paradigm shift” is needed, including through social behavior change, to create a holistic and comprehensive approach to solving the problem.

If corruption is to be addressed and a culture of lawfulness is to be encouraged in Paraguay, then the private sector must play a key role in partnering, denouncing and overseeing corrupt practices. USAID/Paraguay’s challenge will be to identify private sector reform champions, those who seek a more levelled playing field so they can become more competitive, while complying with the law. The next step will be to engage with them to identify market-driven solutions to Paraguay’s development challenges.

Finally, to promote stable development over time, it is important to consider the volatility of markets and production factors. The well-being of the population depends largely on the sustained functioning of the markets. Economic diversification is essential to reduce volatility. This volatility can be increased due to extreme effects of the weather and other external factors. COVID will be a strong destabilizing factor that must be considered in the design of new programs. It is already known that the expected economic recessions under normal conditions will now be more severe, and with a more negative impact on long-term growth, especially affecting small entrepreneurs, informal workers and startups or recovering companies, and those that do not have a good financial back to overcome the situation and stay resilient.

USAID’s support for resiliency’s capacity building in commerce, the private sector, financial and investment sectors, and markets, as well as better management of natural resources that are essential to the Paraguayan economy, can play an important role for promoting a more formal and stable development.

Theory of Change

If:

- Market efficiencies and access to resources are improved;

¹¹ World Economic Forum’s Global Competitiveness Index, 2017-2018 edition.

- The government improves the enabling environment for business;
- Human capital is improved, changing social behavior and improving resiliency;

Then:

- Formal economic opportunities will be advanced to build a culture of lawfulness in Paraguay.

Expected Results

Output 2.1 Improved Market Efficiencies and Access to Resources

- Increased economic incentives for formal businesses;
- Increased supply chain competitiveness;
- Businesses are better educated on the costs of corruption; and
- Modernization and technologies increase resiliency in companies and the market systems.

Output 2.2. Improved Enabling Environment for Economic Governance

- Improved the business climate;
- Government strengthened to better support business development and incentives;
- A more effective and accountable formal economy promoted; and
- Improved capacity to support strategies for risk reduction, safety and efficiency.

Output 2.3 Improved Human Capital through Behavioral Change and Increased Resilience

- Human capital trained;
- More opportunities for formal employment, especially for vulnerable populations, including women, youth, people with disabilities, rural small-scale producers and indigenous peoples;
- The culture of informality is denaturalized;
- Increased incentives that encourage formalization; and
- Competitiveness of Small and Medium Sized Enterprises (SMEs), with a focus on women and youth, improved.

Illustrative Activities

Output 2.1 Improved Market Efficiencies and Access to Resources

- Use participatory approach to improve local buy-in, sustainability and local capacity development of enterprises and workforce;
- Technical assistance for increased value chains competitiveness;
- Decrease use of companies that outsource informal entrepreneurs or employ unreported employment;
- Educate enterprises and workforce on the costs of corruption in doing business;
- Private capital/foreign direct investment mobilized; and
- Support resilience by promoting sustainable technologies that reduce risks and promote savings and income diversification.

Output 2.2 Improved Enabling Environment for Economic Governance

- Easing the regulatory framework, decreasing rigidity of regulatory burdens, and increasing uniformity of administrative procedures that reduce formalization costs;
- Improved technology to simplify business registration procedures and business services;
- Cost reductions for SMEs for laws and regulations;
- Best practice reforms that penalize illegality and that promotes incentives for the formalization and recognition of good business practices; and
- Certification systems for companies under “Cleaner production integrated strategy” schemes, applied to processes, products and services to increase efficiency, safety, and reduce risks.

Output 2.3 Improved Human Capital through Behavioral Change and Increased Resilience

- Technical assistance to vulnerable populations in areas such as labor skills, microfinance, technical education, entrepreneurship and internship opportunities to level the playing field;
- Education for SMES on registration, regulations, procedures, and worker rights¹², including incentives from larger private sector companies to come into the formal economy;
- Development of micro-finance instruments to support local development and entrepreneurship;
- Assistance to individual entrepreneurs and SMEs to evolve into more advanced and self-sustainable companies;
- Increase in job-skills training, technical schools, access to technology, especially for women and youth;

¹² <https://www.wiego.org/rethinking-formalization>.

- Work with universities, in conjunction with the private sector, to improve curriculum on formalization and good-practices for legality in business; and
- Promote the development of protocols of health and welfare of workers to improve resiliency (safety equipment, protection, healthy habits, nutrition and medical services).

Indicators

Output. 2.1 Improved Market Efficiencies and Access to Resources

- EG.5.2-1 Number of firms receiving USG-funded technical assistance for improving business performance.
- [CUST] Amount of Private Sector resources leveraged.
- [CUST] Amount of private capital/foreign direct investment mobilized.

Output 2.2 Improved Enabling Environment for Economic Governance

- [CUST] Number of policy reforms/regulations/administrative procedures drafted and presented for public/stakeholder consultation as a result of USG assistance.
- [CUST] Number of improvements in laws and regulations affecting the registration and operation of micro or small enterprises drafted with USG assistance.

Output 2.3 Improved Human Capital through Behavioral Change and Increased Resilience

- EG.5-3 Number of microenterprises supported by USG assistance.
- EG.6-15 Percent of individuals with better employment following participation in USG-assisted workforce development programs.

C. SUB-PURPOSE 3, CITIZEN OVERSIGHT IMPROVED

Problem and Opportunities

Paraguay has the second lowest level of support for democracy in the region¹³. In the last decade, civil society has been the driving force behind anti-corruption reforms. However, much remains to be done if corruption and impunity are to be tackled.

To contribute with this, USAID will support quality of information and independent reporting, especially at a moment when the media has become a key player in unveiling corruption allegations and putting pressure for reforms. In a country where the largest media companies are controlled by few corporate groups, training of journalists and promoting independent financing for media are much needed efforts. Considering the impact that media reporting already had on the mobilization of several groups of citizens across the country that led to the dismissal of corrupt high-ranking officials, there is a latent risk

¹³ According to the survey of the Latin American Public Opinion Project (LAPOP) - its lowest level since 2008.

that biased media and misinformation can also play a distorting or destructive role in society. Given the wide penetration and use of social media and information and communication technologies among Paraguayans, harmful mis-information can quickly spread across the country and undermine the legitimacy of social demands. USAID will support efforts to build an informed citizenry to ensure resulting social behavior changes aim at building a culture of lawfulness.

As stated by the Rule of Law Assessment, to build a culture of lawfulness in Paraguay “scattered support for and efforts by civil society organizations (CSOs) to influence public policy will not be effective in the face of an entrenched, closed justice system [...] citizens’ demands for changes must be channeled into a more structured, constructive, and coordinated effort, seeking to reach critical mass for impact”. More specifically, USAID should go beyond the CSOs’ sector and partner with the private sector, faith-based organizations, political parties, youth and women.

Additionally, USAID will promote dialogue among political parties and between political parties and key stakeholders on anti corruption efforts and other relevant reforms. An opportunity for changing the role of political parties can be seized with the upcoming electoral and political processes and the entry into force of the new provisions of the Electoral Code that regulates the financing of political parties and the implementation of the open list systems.

USAID will build on the private sector’s anti corruption outcries to find market-based solutions and leverage their resources to fight corruption. Considering the private sector’s growing interest to join local and international initiatives that include commitments and standards to promote a culture of lawfulness, USAID will support the adoption of ethical standards and the establishment of internal compliance units and due diligence. These efforts will contribute with the government’s efforts to prepare the country for obtaining an A investment grade, which will trigger more foreign direct investment.

Faith-based organizations should also be considered by USAID/Paraguay’s new strategy, considering the influence that these stakeholders can have in the promotion of values and ethics. Recently, the Catholic Church has been the most visible voice denouncing corruption and calling its members to tackle this issue through its latest actions plans. USAID will increase coordination and collaboration between faith-based organizations and citizens to support promotion of values and ethics to move from rhetoric to action.

Paraguay is experiencing a demographic dividend with 60% of its total population under the age of 30¹⁴. This characteristic represents both an opportunity and a challenge if one considers the results of the LAPOP survey that reveals that those under the age of 35 trust the most in democracy than those over 36 years old but at the same time would be more open to support a military coup than those Paraguayans over 36 years old¹⁵. USAID will engage youth in the implementation of citizen oversight activities related to elections and in training programs to improve the use of available public information to advocate for reforms.

Women have been an essential part of Paraguay’s history. In recent years, women have marked a before and an after in recent years by leading protests against allegedly corrupt officials and by articulating social and legislative demands for much needed reforms. Yet, women gained a limited space in the

¹⁴ According to a 2018 World Bank Diagnosis of Paraguay.

¹⁵ According to the results of the LAPOP survey.

decision making processes with 15% of the congressional seats held by women. Future programming should advance gender equality and improve women's empowerment in decision making processes.

Over the last two decades USAID/Paraguay has been working to build the capacity of local civil society organizations. Working primarily at the national level, much has been achieved. As part of its technical assistance, USAID has supported the development and strengthening of CSOs through the creation of advocacy networks and the implementation of instances for government-citizen engagement to fight corruption. Although these efforts resulted in the existence of a handful of well-established CSOs, much remains to be done to strengthen the capacity of CSOs, especially outside of Asuncion. USAID has the opportunity here to build capacity both in traditional (through implementing partners) and non traditional (direct assistance from our staff) ways. Our staff takes the time to mentor local partners in different areas, including project design and financial management, so they can become meaningful drivers of change. As we continue to train and mentor local partners, we are also taking on new roles as conveners, catalyzers and facilitators of development assistance in Paraguay. Building on successful experiences in the region, USAID will support CSOs and other stakeholders in developing their capabilities for strategic planning, monitoring and evaluation, strategic communications and fundraising.

Finally, the recent COVID-19 outbreak has set forth promising conditions for an increased civil society engagement and oversight of government's actions, particularly in the area of public expenditures and the reform of the state.

Theory of Change

Strong and responsible citizen oversight is another requirement to advance democratic governance through a culture of lawfulness. Only with strong pressure from strategic non-government actors will this be achieved.

Specifically, USAID/Paraguay's Theory of Change is the following:

If:

- The quality of information and independent reporting are improved,
- Engagement and coordination of diverse stakeholders is increased, and
- Civil society capacity is strengthened,

Then:

- Citizen oversight will be improved and contribute to strengthen the culture of lawfulness.

Expected results

Output 3.1 Improved Quality Of Information

- Strengthened investigative journalism; and

- Citizens and organizations have the information they need to be effective participants in the democratic process.

Output 3.2 Increased Engagement And Coordination Among Key Stakeholders

- Improved engagement of non-traditional stakeholders in citizen oversight initiatives;
- Increased communication and collaboration between a citizens; and
- Increased capacity of organizations and citizens in oversight activities.

Output 3.3 Civil Society With Strengthened Capacity

- Advocacy in anti-corruption reform processes increased;
- Non-state actors play a key role in discovering fraud, waste or abuse in public administration;
- Decreased public tolerance for corruption; and
- Public sector open to citizen oversight or public participation.

Illustrative Activities

Output 3.1 Improved Quality Of Information

- Training of journalists on data analysis, proper sources, misinformation, criminal procedures, ethics, privacy matters, etc;
- Promote the adoption of fact checking modules within newspapers and/or third party sources;
- Foster transparency and promote the use of public information by civil society writ large; and
- Implement social behavior change communications campaigns to increase understanding, particularly among youth, of the social consequences of corruption.

Output 3.2 Increased Engagement And Coordination Among Key Stakeholders

- Foster collaboration among non-traditional actors such as faith-based organizations, youth and the academia in the fight against corruption;
- Promote ethical standards in the private sector, and best practices such as the establishment of internal compliance units and due diligence;
- Engage existing anti-corruption champions to leverage resources;
- Identify successful cases of seed funding mechanisms in the region that can be replicated to support joint CSOs efforts; and
- Promote dialogue and anticorruption debates in elections and within political parties.

Output 3.3 Civil Society With Strengthened Capacity

- Develop citizen understanding of public financial management to hold public officials accountable;
- Support civil society advocacy for improved quality of public expenditures;
- Establish an on-line corruption tracking system with early warnings to prevent statute of limitations;
- Encourage training for female civil society leaders and women's democratic participation;
- Support citizen oversight of elections; and
- Build civil society capacity in areas such as strategic planning, project design, monitoring and evaluation, strategic communications and financial management and fundraising.

Indicators

Output 3.1 Improved Quality Of Information

- DR.5.2-2 Number of journalists trained and supported.

Output 3.2 Increased Engagement And Coordination Among Key Stakeholders

- DR4.2-2 Number of CSOs receiving USG assistance engaged in advocacy interventions.

Output 3.3 Civil Society With Strengthened Capacity

- CBLD-9 Percent of USG-assisted organizations with improved performance.
- [CUST] Number of mechanisms for external oversight of public resource use supported by USG assistance.

D. COMPLEMENTARY ACTIVITIES - LOCAL WORKS

In 2019, USAID/Paraguay won approximately \$9.5 million of funding from the E3 Local Works Office in Washington. The Local Works program seeks to empower and strengthen the capacity of communities to lead their own development. This activity is complementary to the Culture of Lawfulness development objective, and therefore falls under the same PAD. Under Local Works, USAID will work with grassroots organizations, with a special focus on women and youth, to help them self-identify their needs and determine their own development solutions, fostering ownership and empowerment.

Empowering communities to lead their own development journey is at the cornerstone of building accountability, with oneself, within the community and at the national level. Accountability leads to a stronger culture of lawfulness, as citizens become responsible and accountable to one another. Accountability fosters a stronger demand for the rule of law, advances a more formal economy, and improves citizen oversight of corruption. USAID/Paraguay believes that for a culture of lawfulness to reign in Paraguay, communities must become accountable and empowered to lead their own development.

Problem and Opportunities

The Country Roadmap helped visualize one of Paraguay's greatest development hurdles: "social group equality" is one of the lowest in the region. Vulnerable communities remain isolated and deprived from access to quality public services, and a crumbling infrastructure combined with important language barriers impede social group equality.

However, the foundations for development exist. There are a number of advanced grassroots platforms, cooperatives perhaps being the best examples. They are built around the principles of common good, mutual respect, and self-determination, and have been the drivers of Paraguay's recent economic development. In addition, there is a culture of solidarity or "minga", a traditional form of collaboration that helps communities work together to solve problems, especially when the government is absent. Notably, women play a key role in mingas, - and their voice is growing. In addition, USAID/Paraguay also has vast experience working with grassroots organizations, strengthening their institutional capacity, and fostering their membership into networks.

USAID will initiate a complementary Local Works project to empower communities to assess their needs and lead their own development journey, and a complementary project to foster alliances for environmentally sustainable economic growth.

Local Works will allow USAID/Paraguay to support Grassroots Organizations to identify their own needs and priorities, come up with their own solutions, and then convene and facilitate their engagement with Resources Partners through a Multi-sectoral Network approach. More seasoned local CSO partners will be Allies in Development, providing training and capacity building in line with Local Solutions 2.0, as determined by beneficiaries, who will actually become KEY STAKEHOLDERS. USAID's role will be that of a facilitator, catalyzer and convener, not a leader. Treating beneficiaries as stakeholders is at the essence of our approach.

Theory of Change

Specifically, USAID/Paraguay's theory of change is the following:

If:

- Locally set priorities are identified through broad consultations, and
- Supported through the involvement of more advanced organizations (both through resources and capacity building),

Then:

- Communities will be empowered and strengthened to lead their own development.

Expected results/Illustrative Activities

As this is a fluid program, the expected results and illustrative activities will result from the listening exercise and systems analysis.

V. OTHER LEVERAGED RESOURCES

USAID/Paraguay's decades-long experience working with and through local partners has allowed it to build a base of strong, reliable and committed partners, capitalize on local knowledge and understanding of context, and achieve important cost-savings for a more efficient use of our scarce resources. This section will describe how USAID/Paraguay facilitates financial and non-financial resources from other sources, to increase the likelihood that Purpose-level outcomes will be sustained over time.

A. THE ALLIANCE FOR SUSTAINABLE DEVELOPMENT

The Alliance, implemented by WWF, is a Global Development Alliance (GDA) started in 2015 that brings together key private sector actors in the beef sector and environmental NGOs. The Alliance supports the development and implementation of more environmentally sustainable production practices to reduce rates of deforestation and carbon emissions in the Chaco region. The program is for \$8.9 million, and the private sector provides a 1:1 matching contribution for this initiative.

B. LOCAL ACTORS

Major emphasis is and will continue to be placed on building local capacity by partnering with local institutions, including the Government of Paraguay (GOP), civil society organizations, non-governmental organizations (NGOs), and the private sector.

Regarding the GOP, USAID, especially in the Democracy and Governance Area, has always had a robust engagement with the GOP, and this continued collaboration will be especially important in SP1, especially with the Judicial branch. In SP2, USAID will also engage robustly with the Ministry of Industry and Commerce and the Ministry of Work to ensure programs are helping enhance GOP goals.

Regarding the Private Sector, USAID/Paraguay Developed a robust Private Sector Engagement Strategy in December 2019. In it, USAID/Paraguay noted we are also looking to broaden our engagement with the private sector, building on successful experiences in the area of inclusive economic growth, as we convene all stakeholders to develop a culture of lawfulness. If corruption is to be addressed and a culture of lawfulness is to be encouraged in Paraguay, then the private sector must play a key role in partnering, denouncing and overseeing corrupt practices.

C. OTHER DONORS

Donors, both bilateral and multilateral, make up an important part of the development landscape in Paraguay. In 2019 the Ministry of Foreign Affairs reignited a donor table led by Heads of Cooperation.

In the Democracy and Governance Sector, the largest donors in terms of dollar value are the World Bank and the Interamerican Bank, who provide loans and direct grants in areas ranging from E-Government to transparency to customs. After USAID, the European Union is the next largest donor. Their assistance has ranged recently from elections to citizen participation to general governance to women's empowerment. Spanish Cooperation, AECID, has also been a prominent player in civil service reform. The United Nations (UN) Agencies, especially the United National Development Fund (UNDP) and UN Women, are also prominent in this space. However, no one donor other than USAID has focused on justice reform for quite some time, leaving a gap in this area, one that the Supreme Court of Justice has

included as a priority area in its 2016-2020 Strategic Plan. UNDP and USAID have just agreed to reactivate a donor roundtable for Governance as of the writing of this PAD.

In Economic Growth, the World Bank, the International Fund for Agricultural Development (IFAD) and the Food and Agriculture Organization (FAO), both of the United Nations, the Japan International Cooperation Agency (JICA), and the German Cooperation, GIZ, are very active. There is not a donor roundtable in this area. During the COVID Pandemic, the International Monetary Fund loaned Paraguay money for health and social safety net expenditures. The EU is also supporting the strengthening of GOP's social programs, including the conditional cash transfer program.

In Environment, the UN plays a prominent role, but often their assistance is not coordinated with other donors. Local actors, such as the Municipalities of the Chaco Region, have started their own donor roundtable of sorts, which is called Chaco Integrado. USAID supported the founding of this national coordination platform and its annual conference, but it now runs almost exclusively by the Municipalities themselves.

VI. SUMMARY OF CONCLUSIONS FROM ANALYSES

Environment and Climate Risk

USAID/Paraguay has gotten approval as part of this PAD process of a Categorical Exclusion for the majority of activities, and a Deferral for activities regarding SP2 and Local Works.

USAID/Paraguay requested assistance from the Environment Team in the LAC Bureau's Regional and Sustainable Development Office to conduct a PAD-level climate risk screening. As a result of this review, it was determined that Sub-Purpose 2, Formal Economic Opportunities Advanced and Local Works, poses a moderate risk to climate change. The project will take extra considerations in regard to activities regarding women's livelihoods, government resources to natural disasters, supply chains, and micro finance to mitigate any climate-related risks. Specifically, the project will promote economic opportunities that account for climate change impacts over different time horizons and are more resilient to these risks.

Gender

The Mission conducted a Gender Analysis at the PAD level in December 2019, following the guidelines from ADS 205 and with the advice of the LAC/Gender Advisor. Paraguay has traditionally been a very machista society, but one where women have played an important role. Women are expected to do the majority of work in the home and with the family. Prejudice, gender stereotypes and actual time limitation of women (due to house and work duties) restrict their involvement in public life, although women score high compared to the regional average on decision-making. Women in Paraguay are generally treated equally in legislation as it is written, but implementation, which is based on gender stereotypes. Of all of the sub-purposes, it is in the second one, Formal Economic Opportunities Advanced, where women face the worst as they have less access to resources and productive assets. In this regard, specific training and extra access for women is recommended to help meet that gap.

VII. MONITORING, EVALUATION, AND LEARNING (MEL)

A robust USAID monitoring, evaluation and learning system is critical to the success of the USAID/Paraguay strategy. The USAID/Paraguay MEL system will help mission staff and leadership collect data, analyze information and learn whether expected results are being achieved, as suggested by the strategy’s results framework.

The Results Framework for the project is as follows.

