

Oxfam Discussion Papers

# **CREATING A FAIR TAX SYSTEM TO BENEFIT PARAGUAY'S SMALL-SCALE FARMERS**

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Oxfam

## **Oxfam Discussion Papers**

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## EXECUTIVE SUMMARY

Paraguay has a dual agricultural model, similar to much of Latin America over the past three decades. Two sectors coexist in the country; the first is organized around smallholding, family-based agriculture with a maximum extent of 20 hectares, which gives priority to food security crops and sells on local markets. The other is a very dynamic sector specializing in soybeans and, to a lesser extent, soybean derivatives. It is strongly oriented to satisfying international demand, which represents more than 35% of Paraguay's agropastoral exports on average, and over 64% of exports from the agricultural sector, and uses most of the country's productive resources such as land and capital.

The imbalance between these two agricultural sectors is seen as a significant obstacle that prevents Paraguay from achieving its social goals. The survival of family farming, in the context of an exclusive export growth, is also threatened by a lack of funding, the regressivity of the tax system and the poor coordination of fiscal policies (taxes and spending) with other key issues relevant to the development of family farming.

Soy cultivation has been expanding into areas traditionally occupied by livestock ranching and family-based agriculture. In Alto Paraná, smallholder farmer settlements look like tiny islands in the midst of uniform seas of soy: faced with undercapitalisation and lack of financing, small-scale farmers are often left with no choice but to sell or rent their lands to large-scale soy producers.

The displacement of small-scale farmers also means the displacement of other crops, a disincentive to domestic food production and a breeding ground for the deepening legal chaos surrounding property and land tenure. Furthermore, the intensification of soybean production has been accompanied by an increase in complaints filed and cases of people believed to be sick due to the use of agrochemicals in soy production, as well as clear environmental impacts.

The Atlantic forest of Alto Paraná covered 8 million hectares of Paraguay's Eastern Region in 1945; today, only 700,000 hectares are left. This staggering decline is mainly due to soy production.

The dynamic agribusiness sector has generated a number of positive contributions in recent decades. However, there is a long way to go before it can adequately compensate the country and facilitate government actions to neutralize the currently non-virtuous coexistence between soybean and smallholder farmers in Paraguay, and place the development of smallholder agriculture at the heart of policies to reduce poverty and inequality.

Brazilian investors in the soybean business have brought in an average of 46% profit annually over the last decade, so it would appear to be a valuable endeavour. However, the direct contribution to the Treasury from soybean producers through the IMAGRO (the tax on income derived from agricultural activity) today amounts to less than 0.5% of total tax revenues; land tax intake is almost nonexistent and there is no personal income tax. Over 70% of government revenue comes from indirect taxes on consumption; exemptions and subsidies have a doubtful social impact.

Meanwhile, programmes and projects related to family farming only represent 5% of public expenditure. In 2008, only 12.4% of estates smaller than 20 hectares received technical assistance, and only 15% of producers with farms smaller than 20 hectares had access to credit. Inequality in land ownership in Paraguay is the worst in the world, and there is significant displacement of people living in poverty to cities with no prospect of productive and decent employment. Furthermore, the limited environmental regulation of soybean production threatens the livelihoods and ecosystems of smallholder farmers who strive to provide food for their families and, if possible, beyond.

This report presents a proposal for redistribution, based on increased tax receipts from agribusiness and others that aims for greater fairness in Paraguay's tax system. This proposal is based on two main pillars: a) collecting more through a more progressive and fairer tax

system, and b) making public spending “productive”. Suggested methods for increasing revenue include a temporary tax on the export of soybeans; the final implementation of a strong personal income tax; fighting tax evasion and overcoming the loopholes and shortcomings that limit tax collection; as well as rationalizing tax exemptions, eliminating unfair subsidies and revising the social security system.

The limited effect of direct taxes, the loopholes that allow tax evasion, and the lack of a redistributive effect of Paraguay’s tax system are not random consequences. The technical obstacles to a fairer tax system are not insurmountable, but the existing situation is the product of internal political factors interacting with economic factors based on the international context and with certain cultural components. This report also proposes taking into consideration further measures to deal with non-technical limitations restricting the development of a more egalitarian society in Paraguay: the concentration of economic and political power, the weak tax culture and the poor transparency of the public apparatus towards citizens.

In Paraguay, there are three main elements that might be playing a role in opposing redistributive tax reforms. First, a dynamic economic sector that is concentrated in the hands of a few powerful foreign companies and large landowners. Second, a political process that often leads to decisions protecting the interests of a few to the detriment of the many. Third, the limited power of civil society – itself partly a product of the first two factors – means that citizens are unable to make demands to politicians and therefore do not have a say on public policy.

Unfortunately, all attempts to increase taxes on agribusiness, assign more resources to institutions working for agrarian reform, and/or provide greater support for family-based agriculture (such as stronger environmental regulation in the soy production process) have hitherto been partially or completely blocked by Congress. On many occasions, public opinion has been tainted due to debate in media lacking journalistic rigour.

There is a lingering widespread perception that Congress, with its direct and indirect links to agribusiness, has acted as an ally of large producers and exporters: minimising the sector’s tax contributions, limiting its responsibility in environmental matters, deepening inequalities in land ownership or the displacement of smallholder farmers from their traditional lands, as well as limiting the political and technical resources needed for agricultural reform.

# 1 INTRODUCTION

Discouragement and hopelessness among the rural population in Paraguay is a painful reality that has gone on for too long. To address this situation, the government's capability and, particularly, financial resources need to be strengthened.

The rural situation is unlikely to be overcome without removing the obstacles that prevent more public resources from being obtained by a fairer and more consistent taxation system. This should be applied to a large extent to the agribusiness sector of soybeans, one of the most dynamic economic sectors and which has been most favored by the country's fiscal policies in recent decades. It is also one of the sectors that with its commanding and lively presence, in view of an ineffectual state and the resulting unequal access to resources of all kinds, has led to a constant threat to the survival of small family farms, nowadays considerably diminished and weakened.

It is worth noting that it is not only a matter of aspiring to more resources for the public sector but also ensuring a consistent tax scheme with greater equity and social justice, which obviously requires greater reciprocity from all the more affluent economic sectors.

There is sufficient evidence to indicate that the low level of tax collection linked to the soybean sector is largely a reflection of well-established structures of the concentrated economic and political power. Their elites have avoided duly compensating the Paraguayan state despite the privileges they enjoy from the land and what is apparently a very favorable environment for investment. This situation also reveals a systematic refusal to assign any part of these privileges to the poorer people and therefore to balance the opportunities for the different models of agriculture in the country, thereby failing to tackle inequality. Proof of that are the systematic blocks of Congress to progressive tax reforms which would carry a greater sense of justice for the rural situation.

The tax issue has been an important ingredient in the country's political debate, and it has intensified, in the current context of political polarization, with the presence of Fernando Lugo in the Executive Branch since 2008. However, this matter has not been submitted to thorough debate, which is sufficiently broad and informed as to lead to real change: in the name of "efficiency" many disasters have been perpetrated in the field of "equity" and Paraguay is no exception to this fact.

Therefore, this report, even with the limited data and analysis of the situation in Paraguay, hopes to contribute to a constructive and deep debate, which should result in greater fairness of taxation in Paraguay. To this end, it submits, among other things, a proposal – to be openly debated – to increase tax revenues through a temporary tax on the export of soybeans together with other revenue measures (i.e. improving tax revenues on land, implementing a robust Personal Income Tax, more effectively combating tax evasion, rationalizing tax exemptions, eradicating unfair subsidies, revising in depth the social security system, etc.); it also proposes the adoption of actions to increase the effectiveness of public expenditure; and finally, it proposes to take into consideration further measures which would be intended to deal with non-technical limitations that are obstacles on the road to a more egalitarian society in Paraguay.

## Document structure

Chapter 1 affirms that the situation of the family farming was worsened by the precarious fiscal policy and its poor coordination with other key public policies to minimize the negative externalities of soybean production. Chapter 2 summarizes tax injustices and their effects on the rural sector. Chapter 3 presents a discussion about some proposals for a fair tax reform; and finally, Chapter 4 considers the obstacles to progress in this as well as other proposals in Paraguay for redistribution.

## 2 POLICY ENVIRONMENT THAT FAVOURS BIG BUSINESS OVER SMALL-SCALE FARMERS

*'...The most serious problem facing the rural sector is the total absence of the State in every way. There is no technical and financial assistance, nor is there an equitable distribution of land. There are many landless peasants, even if our production is based on the land. The peasant does not produce without a land, unfortunately, and our country needs food, there is a worldwide food crisis. Our major problem is that family farming receives no support. The Ministry of Agriculture does not support the small-scale farmers, it only supports large-scale agriculture, there are no programs for small-scale farmers; the Vice Ministry of Family Farming is starting a basic program, but it is not enough.*

*That is why small producers are self-financing and self-managing their production. If after a long struggle a settlement is achieved, the farmers must manage to install their self-financed electricity, their self-financed school and must come up with a way to pay the teacher, everything must be self-financed. There is a total absence of the State...*"

**Manuel Medina, CENOCIP relations secretary (National Centre of Indigenous and Popular Organizations).**

*'(...) the debt of the Paraguayan society in general and all governments, of having a more active and effective rural presence and this way generate proper conditions for the development of the rural communities (...) full public services, technical assistance, supporting their integration into the market, etc. There has been a large deficit for years and it is difficult to reverse it in a short time ...'*

**Andrés Wherle, Vice Minister of Agriculture.**

Oxfam believes that hunger is a by-product of our damaged food system – an imbalance that has been demonstrated in the dangerous volatility of food prices over the past five decades,<sup>1</sup> during the race to gain the most productive lands, amid the hegemony of a few enterprises in the production and commercialization of food and, worse, the tragic rise in the number of people affected by hunger.

Part of this problem comes from dynamics created by developed countries – such as the US and European Union (EU) policy of promoting biofuels, which leads to the substitution of crops produced for human consumption and therefore limits the availability of food<sup>2</sup>, while it encourages investments in land for biofuel production. Another part is the result of the systematic abandonment by the state of small, family-run farms that produce food in developing countries.

Paraguay has a dual agricultural model, similar to the general experience in Latin America over the past three decades.<sup>3</sup> Two sectors coexist, but one – smallholder, family-based agriculture – is marginalised, lacking access to credit and production resources. Most small-scale farmers grow food crops on plots of less than 20 hectares,<sup>4</sup> which they sell on the local market. The other sector, agribusiness, is very dynamic and represents on average more than 35% of exports from agropastoral sector and over 64% of exports from agricultural sector<sup>5</sup>, as well as concentrating production resources such as land and capital. Agribusiness focuses on satisfying international demand for soybeans and, to a lesser extent, soybean derivatives. The family-based agriculture sector has no capital or land but comprises the largest number of producers and families in agriculture in the country. Out of 278,000 producers, 84.8% have farms of less than 20 hectares. The household members of these farms number 960,602 people, accounting for 89% of the total number of people in these farm households.<sup>6</sup>

The imbalance between these two agricultural sectors is seen as a significant obstacle that prevents Paraguay from achieving the Millennium Development Goals (MDGs). As detailed in the following paragraphs and sections, the emphasis of the agro-export model caused the greatest barriers to the development and survival of the family farming; which has really

meant a missed opportunity given the importance of smallholder agriculture in order to reduce poverty and inequality.<sup>7</sup>

Much remains to be done to halve the number of people living in extreme poverty (on less than \$1 a day) by 2015 (the percentage was 19% in 2009).<sup>8</sup> Another target is to provide access to basic education for around 10% of Paraguayan children who are today not in the first and second degrees in school. The maternal mortality rate is still very high (112 women out of every 100,000 die in childbirth). And more than 2.5 million Paraguayans (almost half the population) need access to clean drinking water and, consequently, better health and hygiene conditions.<sup>9</sup>

The survival of the family farming, in the context of an exclusive export growth, is also threatened by the lack of funding, the regressivity of the tax system and the poor coordination of fiscal policies (taxes and expenses) with other key issues to the full development of family farming. The combination of a poor tax policy and its poor articulation with other necessary policies is probably, from a domestic point of view, what worsened the situation of the rural population in Paraguay (See Table 1).

Indeed, it is fair to say that a number of factors have combined to promote soy agribusiness to the detriment of family-based agriculture. External factors include among other: the recovery in international soy prices; the role of entrepreneurs in neighbouring countries who have considerable production experience and access to capital; much more restrictive legislation and greater capacity for enforcing the law in neighbouring countries; and the accelerated pace of technological development in agribusiness that has made possible impressive production performance in the past decade.

Among the internal or 'domestic' factors is the lack of suitable public policies, principally an unjust tax system and, creating a vicious circle, very little financing available to meet the social and economic needs of those engaged in family-based agriculture.

**Table 1: How the tax system and other policies harm small-scale farmers**

<b>Lack of public policies</b>	<b>Lack of tax policy (taxes and public spending) and financing</b>	<b>Impact on small-scale farmers' livelihoods</b>
<ul style="list-style-type: none"> <li>• Lack of public sector support for the diversification of production</li> <li>• Legal uncertainty with regard to land ownership</li> <li>• Lack of efficient regulations controlling the indiscriminate sale of land to foreign entrepreneurs</li> <li>• Almost total absence of aid for the development of technology that meets the agricultural needs of the poor in rural areas</li> <li>• Scarce technical assistance adapted to family-based agriculture. Only 12% of farms of less than 20 hectares receive technical assistance</li> <li>• Lack of legislation regarding the use of agro-toxins</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient tax collection, which limits the financing possibilities of the family farming.</li> <li>• Regressive and unfair taxation system which intensifies inequality between rural and urban areas</li> <li>• Scarcity of resources and low expectations of local government's ability to efficiently implement greater public spending</li> <li>• Insufficient public spending to achieve a real, comprehensive development policy for small-scale farmers</li> <li>• Lack of public banking for financing smallholder agriculture</li> <li>• Structural deficiencies in the credit system for small producers</li> <li>• Public investment in technical assistance (where it exists) targets</li> </ul>	<ul style="list-style-type: none"> <li>• Rising poverty</li> <li>• Increasing migration from the countryside to the cities</li> <li>• Greater food insecurity</li> <li>• Extreme concentration of land ownership</li> <li>• More landless farmers (estimated between 74,179<sup>10</sup> and 310,000<sup>11</sup> families).</li> <li>• Large number of female farmers with land but without property deeds: only half of the farms in the family farming have a final title, a proportion that represents four-fifths of the group of medium and large producers.<sup>12</sup></li> <li>• Loss of indigenous knowledge about farming</li> </ul>

<ul style="list-style-type: none"> <li>• Insufficient means and opportunities for smallholder organisations to directly market their production internationally</li> </ul>	<p>export sectors</p>	<ul style="list-style-type: none"> <li>• Devaluing of culture and identity of smallholder farming communities</li> <li>• Intense discrimination against rural women, their work, their role in the family, their participation in organisations</li> <li>• Small-scale farmers lack popular (and credible) leaders</li> <li>• Accelerated destruction of natural resources Deforestation and pollution: according to monitoring carried out by Guyra Paraguay, the rate of daily deforestation has again risen. From 1,000 hectares/day in August of 2011, it had increased to 1,202 hectares/day by the end of September 2011.</li> <li>• Increased vulnerability to external shocks (climate or food price crises, for example)</li> </ul>
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Source: Our analysis based on PNUD (2010), interview with Andrés Wheeler (Vice Minister of Agriculture)<sup>13</sup>, National Agricultural Census – CAN (2008), BASE-IS (2010), Ramírez (2011), Paraguay.com (2011),<sup>14</sup> América economía (2011),<sup>15</sup> ABC,<sup>16</sup> Stads and Santander (2008)<sup>17</sup>.

Without underestimating some of the positive contributions that have come from the dynamic agro-business in recent decades, such as the technological developments and the positive domino effect on other sectors that are part of the value chain of soy production and marketing. But there is a long way to go before this sector adequately compensates the country and thereby enabling the government actions which can neutralize the current uneasy coexistence between soybean producers and small-scale farmers in Paraguay and place the development of smallholder agriculture in the heart of the policies aimed to reduce poverty and inequality.

## The uneasy coexistence of soy producers and small-scale farmers

*‘... We see more and more problems: the low price of the products we plant for consumption; rural communities are disappearing; they are in the middle of the soy fields, and what can they do? They sell their land for good money and come to the urban area near Asunción, San Pedro or Concepción (...) Here in the city, we meet many people who were our neighbours, the homeless in los Bañados<sup>18</sup>, peasants who had to migrate due to the absence of the State ...’*  
**Nicolasa Trinidad. Head of the CENOCIP (National Centre of Indigenous and Popular Organizations).**

*‘(...) initially our settlement had about 460 families but now there are only 35 families left... There is a constant threat from the rental of land due to the expansion of soy... The 35 families that are left are fighting; the others rent out their land because of a lack of resources and training...’*

**Luis López, Agro-Ecological Fair of vegetable farmer organisations in the Alto Paraná.**

*‘(...) money is a weapon too...’*

**Teodoro Galeano, Comunidad del Triunfo Alto Paraná KM 34**

*‘... My settlement is called Tierra Prometida (Promised Land), we know our rights, we know it is not allowed to plant soy beans near the settlement, but some people do not respect us and they came and planted near us; some of us sold their lots and left for the town or came here to Asunción, but only to enlarge their misery...’*

**Antonia Pereira. Production Department of San Pedro**



*'(...) the progress in some way excessive, disproportionate and almost out of control of these agro-business endeavours where many times some environmental aspects, aspects that have to do with standards of production, are not taken into account. Streams are contaminated, there is deforestation, pulverizations contaminate the villages, and this makes people leave the place when they do not die from poisoning or because they drink non-potable water ... '*

**Andrés Wherle, Vice Minister of Agriculture**

Soy became the engine for economic growth in Paraguay in the mid-1990s, while the production of cotton declined. Cotton production fell from 246,594 tons in 1999/2000 to 64,282 in 2007/08. The surface area planted with cotton fell from 194,760 hectares in the 1999/2000 harvest to 65,000 in 2007/08.<sup>19</sup> Soy replaced cotton as the primary commercial and export crop. The characteristics and functioning of the production model for soy seems to have had a more detrimental effect on small-scale farmers than the previous model based on cotton production (see Box 1).

#### **Box 1: Cotton, mainstay of the economy in the 1980s**

As recent history would have it, the worsening situation of small-scale farmers in Paraguay began at the end of the 80s when cotton prices crashed. The export price fell from \$1,625 (at current rates) per ton in 1991<sup>20</sup> to \$1,336 per ton in 2000, to \$985 per ton in 2008.<sup>21</sup>

Due to its high price on the international market, cotton or 'white gold' was more favourable for the small farmer. However, it was not without its problems. It caused some environmental deterioration, was often substituted for food crops, and the restrictions on the credit market for small producers with no guarantees limited the economic benefits they could derive from cotton production. Moreover, the volatility of international prices made the sector's profits very unstable.

Even so, a farmer with 10 hectares could earn enough to survive, and the harvest was done manually. Therefore, it was a crop that required intensive labour power, which was a source of work for the farmers. Cotton is the highest-performing crop for small-scale farmers, especially if conservation techniques are used that improve the land and make extraction cheaper. Moreover, it does not require fertilizer. It produces 1,000kg per hectare and requires one person for each hectare farmed each 21 days.<sup>22</sup>

*Source: Oxfam analysis based on Central Bank of Paraguay and Ministry of Agriculture and Livestock and Lange y Moriva (2004)*

In 2008, 87% of the total surface area planted with soy was comprised of plantations larger than 100 hectares.<sup>23</sup> Given the substantial capital and assets required to begin production in this sector, soy production is dominated by large businesses. Compared with other agricultural crops, it is more capital intensive (it requires use of machinery and technological inputs)<sup>24</sup>; it is also more intensive in its use of land and water, but does not require much labour power. In its primary production phase, soy barely requires one person for every 100 hectares.<sup>25</sup>

The Alto Paraná and Itapuá are the regions where soy is traditionally produced in Paraguay, currently accounting for 60% of the plantation area and of total production. However, production is being expanded in other regions, including Canindeyú, Caazapá, Misiones, San Pedro, Guairá, Concepción and Caaguazú.<sup>26</sup> Soy cultivation has been expanding into areas traditionally occupied by livestock ranching and family-based agriculture. Faced with undercapitalisation and lack of financing, small-scale farmers are often left with no choice but to sell or rent their lands to large-scale soy producers, who offer good prices.

In Alto Paraná, small farmer settlements look like small islands in the midst of uniform seas of soy. The displacement of small-scale farmers also means the displacement of other crops. The surface area of cultivated land dedicated to soy production increased dramatically from 552,656.9 (ha) to 2,463,510.4 (ha) over an 18-year period.<sup>27</sup> This figure contrasts sharply with the progressive reduction or minimal growth in the amount of traditional crops such as manioc or beans grown for local consumption, and traditionally linked to 'mini-farms'.

*“...What the Cargill, the Monsanto, the Favero produce, never ends on a Paraguayan table, it is for European livestock instead...”*

**Manuel Medina, CENOCIP relations secretary (National Centre of Indigenous and Popular Organizations)**

Soy production is also a deterrent to domestic food production. The country produces soybeans to satisfy external demand, but imports half of the country's tomato consumption from Argentina.<sup>28</sup> Also, 70% of onions, 82% of peppers, 98% of potatoes and 100% of garlic are imported. This happens even though there are no visible technical or climatologic barriers to the production of these crops in Paraguay.<sup>29</sup>

Food, including meat, is becoming more and more expensive. Whereas the rate of inflation in recent years has been moderate (for example, under 10% on average from 2005 to 2007), food prices rose in the same period by 37%.<sup>30</sup> Due to this phenomenon, in 2005, the average income of the extremely poor population in Asunción covered 73% of the cost of the basic food basket, but in 2007 it only covered 66%.<sup>31</sup> In 2006, the increase in food prices was responsible for nearly 60% of rural poverty that year.<sup>32</sup> Poor households often spend up to three-quarters of their income on food, and are therefore very vulnerable to sharp changes in prices.<sup>33</sup> For the poorest people, food price inflation has the effect of a regressive tax.<sup>34,35</sup> Therefore, neglecting local food production may represent a big threat to the poorest, most vulnerable sections of society.

The displacement of farmers also intensifies the legal chaos that exists with regard to land ownership, and ignorance about the amount of public land that is in the hands of foreign investors or persons who, according to the law, should not have benefited from previous public land distribution processes. This represents a major impediment to greater equality in rural areas.<sup>36</sup> In 2008, the Fernando Lugo government implemented a measure to try to bring this situation under control, although the effectiveness of this measure is not known with certainty (see Box 2).

#### **Box 2: Guaraní land – a temptation for foreign investors**

In recent decades, the process of property purchases by foreign nationals began around 1963, when then-President Alfredo Stroessner abandoned the Land Act of 1940, which forbade the sale of property (mainly on the country's borders) to foreign nationals.

After Stroessner's order, investors from various South American and other countries set their sights on buying up land in Paraguay. They found a conducive regulatory environment, and, most importantly, fertile lands that guaranteed the success of future agricultural and livestock ventures. The facilities offered were such that seven years later, in 1970, foreign nationals already made up 5.6% of the country's total population, according to a United Nations Population Fund study.

Many foreign landowners settled in the Alto Paraná department, while some opted for the north of the country and discovered the rich soils of Amambay, Concepción, Canindeyú and San Pedro. Others saw greater opportunities in Itapúa, Misiones and various areas of the Western Region.

Through joining forces, forming cooperatives, and capturing support and investments, they strengthened production. As time went on, the sector achieved an important role in the domestic economy thanks to major soy and meat exports.

According to the latest available data, at least 19.4% of Paraguayan land (7,708,200 hectares) is owned by foreign nationals – an area equal to the departments of Itapúa, Alto Paraná, Canindeyú, Amambay and Concepción combined. Of the total land under foreign ownership, 4,792,528 hectares belong to Brazilians and 3,096,600 to other nationalities.<sup>37</sup>

Many of the Brazilian settlers are dedicated to and make a name for themselves in soy production in several of the country's departments. When speaking of 'Braziguayans', as they

are known, it is impossible to avoid mentioning the foremost member of the sector, Tranquilo Favero, who is considered the 'soy king'. A naturalised Paraguayan, he arrived in the country in 1965. He currently owns at least 40,000 hectares of cultivated land.

In 2008, the National Institute for Land and Rural Development (INDERT) took a firm position with Resolution 0395, and suspended the sale of lands<sup>38</sup> to foreign nationals or bi-nationals not subject to the Agrarian Statute.<sup>39</sup> The provisions of the resolution also stated that foreign nationals would no longer benefit from this statute. Indeed, until 2008, Paraguay did not limit the sale of land to foreign nationals, with the exception of a margin 50km wide around the country's border, where land sales to Bolivians, Argentinians and Brazilians are respectively prohibited.<sup>40</sup> But apparently, despite the current regulations, since 2008 the sale of land to foreigners has increased and there is no ban on the sale except in this 50km range.<sup>41</sup>

Source: Ramírez Ortega (2011)<sup>42</sup> y Waller (2011).

There is also a significant ecological impact from the large quantity of agro-toxins (pesticides, fungicides, or agrochemicals) that are used on large plantations of single crops such as soy. Soy production is in a part carried out by the 'direct sowing' method. Over time, this requires more and more agrochemicals to control weeds and the numerous pests that appear thanks to an ever-evolving acquired resistance to the chemical products continually applied.<sup>43</sup> This is not just a concern on the part of the many farmers whose livelihoods, health and ecosystems are affected. More than 24 million litres of agrochemicals are used each year on Guaraní land, which means that Paraguay has been on the United Nations Food and Agriculture Organization's (FAO) list of countries of concern since 2003.<sup>44</sup> There have already been many complaints filed and cases of people seen to be 'affected' by agrochemicals.<sup>45</sup>

According to the monitoring carried out by the organization GuyraParaguay, the daily rate of deforestation rose again at an alarming rate. From 1,000 acres per day in August 2011 rose to 1,202 hectares per day in late September 2011.<sup>46</sup> The need for land also drives the massive deforestation of the few forests that remain in the country, favouring desertification and the erosion of broad areas affected by this production method.<sup>47</sup> The Atlantic forest of Alto Paraná covered 8 million hectares of Paraguay's Eastern Region in 1945; today, only 700,000 are left, and this staggering decline is mainly due to soy production.<sup>48</sup> One major concern is that the land will be useless after the 'soy boom' ends.<sup>49</sup>

### 3 HOW DOES TAX INJUSTICE AFFECT THE AGRICULTURAL SECTOR AND OTHER VULNERABLE SECTORS?

One of the issues is the lack of revenue collection. In the period 1990-2010, the increase rate of the tax burden (including contributions to social security) in the Latin America and Caribbean region was 34.5%.<sup>50</sup> However, the increase in the tax has been unequal in different countries. Despite the two tax reforms in the country occurred in 1991 and 2004, Paraguay is among the countries with the lowest increase in tax collection. The same applies to its tax burden level: it is one of the lowest in the region (13.5% of the GDP) and it is low compared to its potential.<sup>51</sup>

With the enactment of Law 125/91, as amended and extended by Law 2.421/04, the tax scheme in force was systematized as a limited set of taxes. Among the main direct taxes on business income, the tax on the income derived from commercial or industrial activities or those services that are not of a personal nature (IRACIS), and the tax on income derived from agricultural activity (IMAGRO) are still in force. Among others, the IRACIS taxes agro-exporters and the income from industrial commercial activity or services related to agribusiness. It does not apply to agricultural producers, who pay taxes through the IMAGRO. There is no personal income tax. The sole tax on capital is the property tax (land), which is currently under the administration of local governments. With regard to indirect taxes, the system is essentially based on the value added tax (VAT), the selective consumption tax (ISC) and import tariffs. There is no tax on exports.

The primary strength of the 1991 law can be summarised as advances relating to efficiency, achieved by simplifying and rationalising the current tax system. Meanwhile, in its purest version, the 2004 tax reform included the formalisation of the economy and sought to correct the still very low tax burden.<sup>52</sup>

Unfortunately, the reform of 2004 was only partially implemented. The personal income tax did not overcome the obstacles imposed by the powerful groups and the agribusiness sector got a privileged position, thus eroding the contribution of the wealthiest sectors of the populations. This was due both to a clear intention to lighten the tax burden, as well as the loopholes and contradictions that remained in the tax and fiscal scheme as a whole.<sup>53</sup>

In addition to low tax rates, the Paraguayan tax system is a victim of a great tax evasion (estimated at 50% only in VAT) and has loopholes that encourage tax avoidance. The most important of these gaps is the absence of a personal income tax. This coupled with little control on the operations of transnational corporations which control the soybean business value chain and, in particular, the very low contribution of the IMAGRO and almost no contribution derived from the property tax (land) largely explain the lack of revenue collection. Additionally, this system coexists with a large number of exemptions for which there is no clear measurement of the impact on public finances and equity.

The IMAGRO contributes less than 1% of the total revenues by taxes and the very low level of revenue to date is mainly the result of specific and general design flaws in the Paraguayan tax system, of “ad hoc” decrees favouring agribusiness, and of obstacles to its implementation, including effective controls and sanctions. As for the land tax, the lack of a proper rural cadastre and the use of tax values as a base for its estimation, which are well below the market value of the land, are the main causes of its non-existent contribution.<sup>54</sup>

*“...The tax injustice also affects them in what refers to the distribution of land, because as there are no taxes on land in Paraguay, many have it as an asset or as savings, and they do not feel the urge to produce because they do not pay or pay very few taxes. And that causes that the*

*land belongs to those who can buy it, and the system does not work in general nor does the land market. Those who want to buy for producing do not find land or find it at very high prices...'*

**Verónica Serafini. Coordinator of the Unity of Social Economy in the Ministry of Treasure.**

The other issue that merits serious consideration is the inequity of the Paraguayan tax system. The result of adding VAT, other consumption taxes (such as fuel) and the rights or tariffs on imports accounted for 79% of Paraguay's total tax revenues in 2010 (74% if contributions to social security are included). In contrast, income taxes, which are potentially progressive, accounted for 17% of total tax revenues, while in other South American countries this figure was on average 31% of total tax revenues.<sup>55</sup>

VAT is applied to all goods, except those in a raw or unprocessed state and there is little difference between the rates levied on basic consumer goods and luxury goods. In 2011, a study concluded that VAT implemented in Paraguay in 1991 and updated as part of the reform of 2004 is regressive relative to income. A more recent study confirms that the average rate (payment of VAT / income) tends to decline as income increases: the poorest 20% pay 18% of their income as VAT, while the richest 20% pay 14%.<sup>56</sup>

*'...The tax structure is very VAT centred and this means that those who pay the VAT at the end<sup>57</sup> are the last ones on the chain and they cannot deduce taxes, and who are the last? Consumers and peasants. Most of their income, as they are poor, is destined to the consumption of basic goods, which are the VAT charged ones (...)*

*As the economy is not well formalized because there is no personal income tax, there are less resources coming from collection, because on top of it if VAT applies to basic consumption goods in this country, how much can consume 40% of the poorest population? Therefore, all the social expenses cannot depend on the VAT collection so that the same poor pay the public sector (...)*

*In Paraguay, he who has more does not pay more taxes. There is no equity. This is how the tax structure works nowadays, even when compared to their incomes, those who have less pay more than those who have more.*

*For instance, the poorest 25% of the population pay around 12% of taxes on their incomes: if they get a million, 12%, they pay 120,000 of taxes. Meanwhile, the richest quintile, as they can deduce and use the VAT to obtain tax credits, they are paying less than 6% of their income (...)<sup>58</sup>*

*(...) there are many mechanisms that cause that those who have more end up, proportionally to their income, paying less ..."*

**Verónica Serafini. Coordinator of the Unity of Social Economy in the Ministry of Treasure.**

Finally, to complete the picture, there are large-scale unfair subsidies. Petropar, the state company that supplies fuels, sells at a loss and has an estimated debt of \$400m, due fundamentally to subsidies (gasoil).<sup>59</sup><sup>60</sup> Roughly speaking, approximately 30% of diesel fuel is consumed by the agriculture sector (mainly soy producers with more and better machinery), 50% is consumed by middle and upper-class households with private cars and vans, and only 20% is used for industry and transportation in general.<sup>61</sup> Between 1995 and 2000 over 70% of public expenditure on agriculture was used for subsidies, most of which benefited large agro-export producers.<sup>62</sup> Some analysts suggest that from 2003 to 2008, the subsidy received by the soy agribusiness sector, based on the reduction of its production costs, was greater than \$100m.<sup>63</sup>

Unfortunately, on several occasions, attempts made to increase taxes on agribusiness, to assign more resources to key institutions working for agrarian reform, and/or to provide greater support for family-based agriculture, such as stronger environmental regulation in the soy production process, have been partially or totally blocked by Congress, and on many occasions they have tainted public opinion through a media debate that lacked journalistic rigour.

There is a lingering widespread perception that Congress, with its direct and indirect links to agribusiness, has acted as an ally of the large producers and exporters, minimising the sector's tax contributions, limiting its responsibility for environmental matters, deepening the inequalities in land ownership and the displacement of small-scale farmers from their traditional lands, and limiting the political and technical resources needed for the agricultural reform.

In fact, at the beginning of Fernando Lugo's presidency, an attempt was made to recover public lands (with technical studies on properties that extended further than indicated in the titles). In the face of this, an all-out war was launched against the INDERT (National Institute for Land and Rural Development) by Congress, the UGP (Union of Production Guilds), the Asociación Rural del Paraguay (Paraguay Rural Association, which functions in practice as a lobby for agriculture and livestock businessmen)<sup>64</sup> and the press. The ex-head of INDERT, Alberto Alderete, was subject to innumerable tax and legal actions, and the latest proposal to increase regulation on agribusiness in environmental matters – supported by small-scale farmers' organisations – was also defeated in Congress.<sup>65 66</sup> One of the main justifications for voting against it seems to have been that this bill, in contrary to the provisions of the National Constitution, assigned powers to governments and municipalities that do not correspond to them, but rather to the SENAVE (National Vegetable and Seed Quality and Health Service).<sup>67</sup>

### **The need for greater financial support**

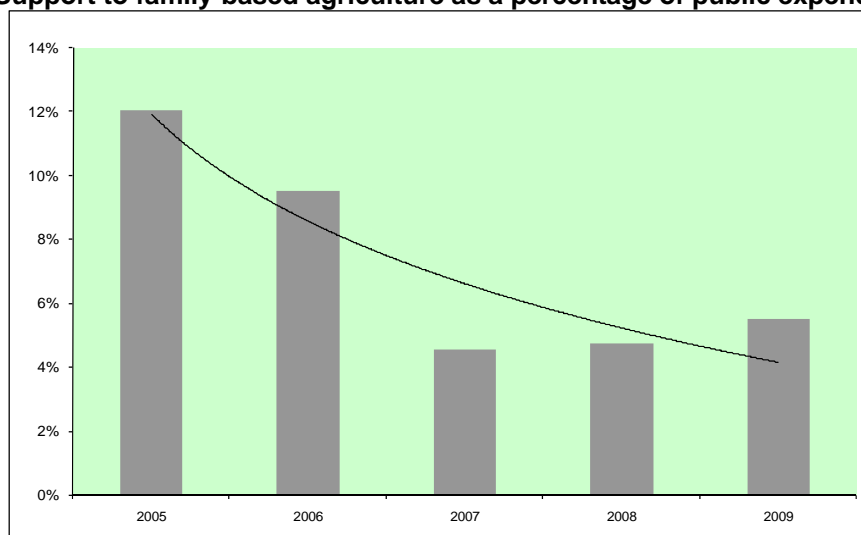
*'...Most farmers work with self-financing, there are very few loans and sometimes they come too late. We get them when it is not possible to invest and also sometimes we are afraid to invest in the farm because it is not a safe market. Now as an organization we had nearly 300,000 kilos of cotton and we had last year's price in mind, but we do not know what to do now as it took us so long to start (...) but then the drought started and the prices dropped; if you invest a lot in farming you end up with high debts and do not get it back. This is what the colleagues fear the most and this is why farmers use self-financing, because loans are not enough...'*

**Liberato Bracho. Production Department of San Pedro, General Resquín.**

In recent years, public financing for programmes and projects to support small-scale farmers has remained static, at the same level it was at 20 years ago, despite greater public spending.<sup>68</sup> From 2005 to 2009, Paraguay's government budgeted \$902m for spending on agriculture. Out of this, it actually spent approximately \$588.1m.<sup>69</sup> This represents an average annual expenditure of \$118m, with an average implementation rate of 66.3%.<sup>70</sup>

On average, real growth in public expenditure on family-based agriculture was 15.5%, starting at \$146.5m in 2005 and reaching \$236.5m in 2009. In absolute terms, agricultural spending increased by \$66m in the period studied. However, in relative terms, the proportion of public spending dedicated to family-based agriculture has fallen over time: from 10–12% at the beginning of the decade to approximately 5% in 2009.

**Figure 1. Support to family-based agriculture as a percentage of public expenditure**



Source: Our analysis with data from IO and CADEP data.

*‘... There are fewer loans for women. Last year we cooperated with the Department of Women, and there was a resolution saying that women have the same rights as men to access loans. In Concepción, we women gathered and went to talk to the Department of Farm Loans, and we were asked why our husbands did not come and ask themselves for the loans, and we replied that we are producers, that we organize a permanent fair and that we would use the loans to enhance production and the fair, but no one of us got it (...)’<sup>71</sup>*

**Nicolasa Trinidad, Head of the National Centre of Indigenous and Popular Organizations**

*‘... There is a deficit in the technical assistance in the countryside, and it is not only a deficit in quantity but also in quality and efficiency. It is not easy, for instance, to find technicians who are able to work on the family farming (...)’*

*Loans for family farming are also loss-making...’*

**Andrés Wherle, Vice Minister of Agriculture**

Small producers have very limited access to technical assistance and the financial support that would allow them to invest in productive farms or have operating capital during each production cycle. According to the Agricultural Census of 2008, among those surveyed, only 12.4% of the estates which are smaller than 20 hectares get technical assistance and only 15% of the producers with farms smaller than 20 hectares had access to credit. A significant proportion (37%) of what they did receive was provided by the Crédito Agrícola de Habilitación (CAH), followed by the cooperatives (26%), while 15% were bank loans (BNF—Banco Nacional de Fomento). In 2009, on average, the CAH granted 700,600 guaraníes per unit financed in agriculture<sup>72</sup> (about \$178).<sup>73</sup> This figure is quite low, even for a family budget.

*‘...Loans for family farming are loss-making. In Paraguay, the entity responsible for loans is the Department of Farm Loans (Crédito Agrícola) and it is the only public entity that offers loans for family farming with semi subsidized programs; these were programs which mixed the input distribution and the granting of credit (...). This was linked to items such as cotton and what it caused is that at the end producers got in debts and got poorer as a consequence. This also impacted on the Enabling Agricultural Credit, which ended up with a weaker structure, both from a technical and a financial point of view.*

*The other pending task is adapting its credit offers to the rural population (...)’<sup>74</sup>.*

**Andrés Wherle, Vice Minister of Agriculture**

In 2007, public and private banks and financial institutions (BNF) allocated 30% of 10.9bn guaraníes (\$651m) to the agricultural sector, 34% of 19.9bn guaraníes (\$1.532bn) in 2008, and 35% of 24bn guaraníes (\$1.672bn) in 2009.<sup>75</sup> In addition to the overall figures channelled by the private sector –

fundamentally to commercial agriculture (CA) – there were resources paid out by the Fondo Ganadero (FG – Stockbreeding Fund) for the financing of investment and operating capital in the livestock sector, and by the Financial Development Agency (FDA), also mainly allocated to CA.<sup>76</sup>

According to the FDA's Management Report at the end of 2008, it had granted a total of 1,177 loans to agriculture that year and 1,128 credits to ranching. The total amount came to 310.100 million guaraníes. However, FDA's PMCR (rural micro-credits) programme barely represented 1% of the total of loans granted in 2007, and 0.97% in 2008.

*'...As we know, in our country exist both public and private entities, and lately our colleague producers tend to ask the private entities for loans. Earlier, the Crédito Agrícola and the National Development Bank (Banco Nacional de Fomento) used to grant credits to the colleague farmers, but they cannot ask for any more credit as they are in debt due to the high interests. And also, if they do not return their loans, they do not get other possibilities. That is why they must ask private entities. If they have not paid after one year they will not receive any more loans and this is what happens to most of them, and on top of that the State credit policies create the conditions for the installation of private financial institutions, and this is tougher, due to the high interest rates, more than 35% in 6 months, up to 45% in a year, it depends on the time (...)If you go and ask for a loan, the first question you are going to get is about your patrimony and your property title (...) This leaves the important consequences on the countryside, because our colleagues have debts with private institutions, and when they enter a crisis they have to sell their land. Many producers go through this (...), as the production crisis has an economical crisis as a consequence and afterwards comes the massive producer depopulation...'*

**Barcilicio Ruíz. Production Department of Caaguazú, district of Pastoreo. Community of San Isidro. Member of the Movimiento Campesino Paraguayo**

It is important to note that the difficulties small-scale farmers faced in getting access to credit from private sources were intensified by the collapse of Paraguay's finance system in the mid-2000s. Approximately 85% of the banks went into bankruptcy,<sup>77</sup> and out of 37 national banks, only 14 survived this difficult period.<sup>78</sup> Indeed, international banks do not give small loans to small producers, as they are perceived as risky.<sup>79</sup> Another major problem is that the small-scale farmers do not access credit through collective structures.<sup>80</sup> Only 27.5% of small producers are members of a production association.<sup>81</sup>

### **No tax reciprocity by agribusiness**

*'...The large producers appropriate the means of production and on top of that they use large land extensions and destroy our territory; this is why they must pay taxes. Moreover, we do know the consequences when they try to produce on great extensions and displace the farming families (...). When peasants are displaced there are no more labour sources, the result of this tax injustice, and that is why the misery circles grow. There is a lack of balance on the fair payment of taxes. This can contribute to the economy balance of the majority, which means the consumers...'*

**Barcilicio Ruíz. Production Department of Caaguazú, district of Pastoreo. Community of San Isidro. Member of the Movimiento Campesino Paraguayo.**

Most of the irregularities that exempt agribusiness from paying more taxes are even more questionable morally when the profits obtained by that sector are analysed. All measures indicate that the economic profitability of agribusiness (specifically the soy sector) has increased considerably in recent years. The FOB price<sup>82</sup> of soy beans rose from \$260 per ton in 2005 to \$508 per ton in 2008 – an all-time high. In 2009, it stabilised at \$431 a ton in 2009,<sup>83</sup> up to \$499 a ton in 2011.<sup>84</sup>

Given the importance of Brazilian investors in the soy sector, another way to calculate the profits obtained by agribusiness investors in Paraguay is to check the performance of the Brazilian stock index over the past 10 years.



It is fairly reasonable to assume that a rational investor who intends to invest for a period of time in a foreign country – with all the risks involved in exchange rates and geographical distances – would expect that his or her investment would bring greater returns than any that could be made in their own country, in a completely liquid market like the stock exchange. To make this calculation, the Bovespa stock index is used as a reference. In 2001, it stood at 13,936 points,<sup>85</sup> compared with 63,673 points at the close of business on 17 May 2011. In other words, over these 10 years, the index value has risen by 457%.<sup>86</sup> This is without the annual dividends sent out by companies in the market, which would increase the investor's profits even more.

Although gaining access to other markets may be a necessity in order to achieve economies of scale or for diversification, it is not unreasonable to conclude that agribusiness in Paraguay must have brought in an average expected annual profit to its investors of at least 45.7%. Otherwise, rational Brazilian investors would not invest in the soy sector in Paraguay, and would instead have put their money into their own securities market, which is more accessible, totally liquid and risk-free with regard to the exchange rate. In fact, data from other sources allow us to confirm this assumption:

According to data from Paraguay's Ministry of Agriculture, the average profitability for soy agriculture grown by conventional methods was 69% in 2008. *This estimate already includes both the direct costs of sowing and harvesting and the indirect costs from the amortization of equipment and leasing of land, among other costs.*<sup>87</sup> In the case of agricultural production based on direct sowing, the costs are reduced. Thus, profitability in this case was 82.08% (according to data from the Paraguayan Direct Sowing for Sustainable Agriculture Federation).<sup>88</sup>

Concluding, a tax policy that reinforces the problems faced by small-scale farmers in terms of scarce financing and limited access to productive resources seems rather unjustifiable. This is particularly true given a context, where there is a sector like agro-export reporting such large profits for private producers, that produces negative externalities or results that are not socially optimal, and is not an intensive source of local employment. All of this is fairly consistent with a general criticism of agribusiness in South American countries: the subsidies, loans, tax exemptions and major irrigation structures provided often benefit large-scale producers at the expense of small-scale farmers, who receive little in the way of funding and technical support. The rural population is assisted through social programmes often based on cash transfers that try to compensate for the low incomes associated with family-based agriculture.<sup>89</sup> In fact, reinforcing the sense of fiscal injustice, some analyses indicate that in Paraguay, between 1995 and 2000, over 70% of public expenditure on agriculture was used for subsidies, most of which benefited large agro-export producers.<sup>90</sup>

## 4 A PROPOSAL FOR DISCUSSION

### Increase tax revenues through a fairer, more progressive taxation system

- The present tax system severely limits the ability of the Paraguayan government to finance its poverty reduction goals. Moreover, in order to tackle tax evasion and tax avoidance, there needs to be at least a greater allocation of human and technological resources to the Tax Administration. It also requires greater efficiency in the penalty for tax evasion. Although the task is not simple, achieve real progress in controlling this drain on resources is essential.
- One way to increase tax revenues is to formalise the economy. This expands the taxable base as a result of creating productive jobs that, in turn, stimulate increased domestic consumption. However, what is fair is not only ensuring greater revenue collection but also ensuring greater efforts to prevent the setting of the tax system from affecting even more and in a negative way the unequal distribution of income and wealth that characterizes Paraguay. From a poverty and inequality point of view, promoting decent work opportunities should be one of the first strategies for this population segment who do not have access to them today.
- Formalisation of the economy must be done carefully, given that it would be morally questionable and even absurd to justify tax reforms that further threaten the precarious situation of the poorest people in the country. There is enough evidence to suggest that the growth in self-employed or 'freelance' workers in Paraguay is partially a consequence of increasing migration from the countryside to the cities. Therefore, it is necessary to increase taxes from wealthier sections of society and not create – through unjust taxes – poverty traps by taxing those in the informal sector, most of whom have irregular or low-paid jobs.<sup>91</sup> The first big step toward formalisation would be the introduction of a personal income tax on the highest incomes.<sup>92</sup>
- A personal income tax is necessary to reduce incentives to tax dodging, as a powerful source of information and formalisation for the Tax Administration and due to its potential redistributive impact. However it will not substantially increase public revenues unless there are clearly defined limits on the expenses that can be deducted. If this project is implemented without change in this matter, in the end it will tax savings and not income. This problem should be resolved.
- Indirect tax collection methods such as VAT have a regressive effect. Even when exemptions are very well designed, the impact of this type of tax on the incomes of relatively poorer families is much greater than on the incomes of relatively wealthier families. In Paraguay, there is already an extreme imbalance, given the large difference between the ratios of tax revenues raised from indirect taxes as opposed to direct taxes.
- Taxing land ownership is another alternative that would lead to a more progressive tax system. However, this requires investment in a cadastre or a self-declaration system for rural property and its use, as well as other devices such as a system to update the market value of land. There is also the need to extend technical support and access to credit for small-scale farmers. International experience shows that these measures are vital for a progressive tax system to function effectively in this way. We cannot assume that redistribution is automatic as an effect of a land tax. Therefore, major public investment is also required in order to implement this land ownership tax. See Table 2.

- The large number of flaws in the IMAGRO (tax on agricultural income) and IRACIS (corporate tax) hinder the functioning of the Tax Administration. Among these flaws are the loopholes that encourage numerous arbitration possibilities as well as the suspected abuse of international practices such as the alteration of transfer prices and the flight of revenue to tax havens. Moreover, without a greater capacity of the Tax Administration for monitoring and tracking throughout the country, many of the deficiencies that make soy tax contribution (in both taxes) much lower than should be will persist. At the same time, this situation will reinforce the lack of reciprocity of the soy sector in relation to poverty and inequality in the country and the horizontal inequity between what is paid in direct taxes by medium and large producers/exporters of soybeans (who pay the IMAGRO and IRACIS taxes) and what is paid by the other economic sectors not associated with soybeans (paying the IRACIS tax). Aligning as closely as possible the rules for both taxes remains a pending task.
- In a first stage, taxing exports seems to be the only reliable way to tax the income of the agricultural sector at present, while other structural questions are resolved to achieve greater direct taxation.
- A tax on soybean exports is one that could be implemented simply and quickly and could provide considerable tax revenues. Taxes on exports economise on information because they are easy to monitor.<sup>93</sup> They are collected at customs when settlement is made for the goods and services exported. Moreover, any inefficiencies of this kind of tax are minimised in the case of Paraguay, given that soy is a product that is not consumed domestically, and has negative impacts on small-scale farmers. See Table 3.
- A tax on soybean exports could be implemented as a temporary, transitional measure to be gradually replaced when the administration of the tax system improves – when the income of businesses in the sector can be taxed efficiently; when an updated, and updatable cadastre is introduced to be able to tax the land; and, above all, when a comprehensive programme of rural development and social protection for small family-based agriculture is under way. This transition is important because, among other causes, despite the administrative efficiency of export taxes, they would not resolve the volatility of tax revenues.
- The tax on exports could be flexible based on price (when the price goes above a fixed ceiling, the tax rate would also rise) in order to share the super-profits stemming from high international soy prices with the Paraguayan state. These high international prices promote the stagnation of food crops that, unlike soy, require intensive labour power. In a second phase, differentiation could be made based on land value; however, the dubious applicability<sup>94</sup> of this policy in the short term may require that initially the tax is generally applied. Once advances have been made in the taxation information system, a further differentiation could be made based on the size of the producer/exporter in order to guarantee that the tax policy is indeed progressive and to be able to make the proper adjustments otherwise.
- There is also a need to look at ways to dismantle the universal subsidies that are inefficient or not progressive, reversing exemptions that are socially unjustified, or do not represent benefits or actual value for the country.
- Finally, it is essential to complete the picture of the existing opportunities to achieve a more progressive and fair tax collection, which combined with other reforms required on the side of the public revenues (social security system and hydroelectric royalties received by municipalities) as well as on the environmental and labor subjects, articulate the possibilities for the Paraguayan state to deal effectively with the tasks of protecting the most vulnerable and fighting against poverty and inequality.

**Table 2. Land tax on market values: theoretical considerations and the case of Paraguay**

<b>POTENTIAL EFFECTS ACCORDING TO ECONOMIC THEORY</b>	<b>CONSIDERATIONS IN THE CASE OF PARAGUAY</b>
<ul style="list-style-type: none"> <li>- If the tax incentivises the efficient use of land it could energise the land market, given that it increases the opportunity cost of underuse. The effect of a land tax on land use is equivalent to increasing the cost of owning underused land and, therefore, creates incentives to use it at the optimum intensity or to sell it instead.<sup>95</sup></li> <li>- The effect on prices is unclear, although various studies suggest that in the mid-term, prices adjust to the present discounted value of agricultural revenues. Property taxes can correct property prices in economies where they are above their real value.<sup>96</sup></li> <li>- It is a tax that can be progressive if a rate is applied according to land use, quality and size.</li> <li>- If collection is destined to investments on infrastructure and public services at the local level, this in turn causes the value of the estates to go higher and also a growth of the taxable base. This is known as the virtuous circle of the predial tax<sup>97</sup> (land tax).</li> </ul>	<ul style="list-style-type: none"> <li>- If energising the land market is successful and the State has sufficient resources to be an agent that acquires and redistributes land, it would be possible to reduce the concentration of land ownership and generate greater information about this market.</li> <li>- If more land is available due to greater restrictions on unproductive, speculative ownership, the price may decrease, but it is also true that at present, there is greater pressure for scarce land due to world demand for soy and soy products. The prospect of rising international soy prices may put more pressure on land prices. This is why the State would have to have adequate resources to acquire land for redistribution purposes at not necessarily lower prices.</li> <li>- Unless access to credit is provided for small producers, the redistributive effect and the land ownership reform will not succeed. In the face of capital market failures, small-scale farmers, although more efficient in their production methods<sup>98</sup>, cannot get the financing they need to increase their production. This means that larger estates (which have more collateral/assurances) can easily buy out the smaller ones. Given this lack of financing for small-scale farmers, a land tax may harm even them, as maintenance costs for land (in principle as a speculative investment, but also the total cost could increase) and in contrast for the large landowners, the cost of buying land could decrease.</li> </ul>

*Source: Oxfam analysis based on various sources.*

**Table 3. Export tax on soybeans: theoretical considerations and the case of Paraguay**

POTENTIAL EFFECTS ACCORDING TO ECONOMIC THEORY	CONSIDERATIONS IN THE CASE OF PARAGUAY
<p>- Reduces the price received by the exporters. This reduces profitability, which may discourage – in the profit margin – production, investments, and the export of the taxed goods, especially when the rates applied are high.</p> <p>- The export taxes transfer part of the companies' profits to the State treasury.</p> <p>- The effects of the equitable distribution of taxes on exports will depend on which consumers benefit from the reduction of the price of exportable goods (which quintile of the income distribution do they belong to), on which producers are hurt by the reduction of sale price and what is the destination assigned to the State income withholding from such taxes.</p>	<p>- The margins in the soy business are high, expectations of international prices are optimistic, and producers from neighbouring countries are unable to increase production there significantly, which makes it probable that production and soy export in Paraguay will not be threatened if a tax is introduced.</p> <p>- At any rate, this may be an opportunity to combine tax policy with other policies that promote the production of alternative crops (including corn and wheat) where the agribusiness sector's 'know how' can be utilised. This could also be part of a global strategy to combat the harmful effects of specialisation in raw materials and the monoculture strategy that threatens food production.<sup>99</sup></p> <p>- It requires an efficient source of collection (from the Tax Administration point of view) for redistributive purposes.</p> <p>- It could help promote greater social and economic equality in the country, as soy and its derivatives are export products (non-consumption) and production is concentrated in the hands of medium and large producers.</p>

Source: Our analysis based on various sources.

### Make public expenditure 'productive'

- For an export tax<sup>100</sup> to have an effect on income distribution, the key is in knowing where the revenues are going. For example, it would be progressive if these revenues contributed to an increase in spending on education and health care for those who need them most, if subsidies were distributed on demand to sectors with the lowest income, or if they were used to improve infrastructure to increase the competitiveness of small producers or more disadvantaged regions.<sup>101</sup> It is also vital to include actions that reduce poor people's vulnerability to shocks, such as natural disasters or food price volatility. This could be done through a buffer fund, for example, or a counter-cyclical fund<sup>102</sup>. In other words, it is *how* revenues are allocated that determines whether the system is progressive and provides by itself the support needed to strengthen the family-based agriculture sector.
- To this end, the first step must be a clear calculation of the financing needs of a comprehensive development programme for family-based agriculture that would guarantee the productivity of the land and settlements. None of the plans surveyed contains an estimate of the necessary budget. This should be the first requirement for discussing the minimum tax rate to apply to soybean exports.
- This initiative need not exclude the agribusiness sector. It would be quite important to reproduce the positive experiences of the two sectors (family-based agriculture and agribusiness), building on the advantages and strengths of each type of agriculture and especially incorporating the technology, access to markets and the agro-business stock.
- It is essential to intensify the efforts carried out by the Office of public services in coordination with other public instances to strengthen the institutions, and rationalise and improve the implementation of public spending.<sup>103</sup> This should be extended at both national and local levels. If budgeted funds cannot be spent as planned, any tax reform would be a waste. In

fact, the potential of any proposal to increase tax revenues should consider the investment needed to strengthen the capacity of public institutions to implement social projects.

- Finally, the levels of transparency of public decisions should be increased as well as the effectiveness of accountability mechanisms at all levels and social participation in budget process: from formulation to final implementation. Without these elements, the results of fiscal reforms oriented to social purposes will be very uncertain. Coupled with this, it is imperative to take action through formal (such as formal education) and informal mechanisms to promote a greater tax culture in Paraguay.

## 5 SOME OBSTACLES TO OVERCOME

*'(...) there also exist some political obstacles when it comes to getting legislation aimed at the equity of the tax system and also in the budget formulation in the moment of deciding where to invest.*

*Unfortunately, politicians are not aware that votes are also gained thanks to the wellbeing of the people and not thanks to poverty. Many politicians are used to earn their voters through nepotism, clientelism, and they believe that as long as they keep their voters dependent they are going to keep winning (...)*

*We hope that one day politicians will realize that they are going to make more profit if they enhance the people's life quality and not if they maintain these conditions of broad social and economical exclusion so that they can benefit themselves when the elections come...'*

**Verónica Serafini, Coordinator of the Unity of Social Economy in the Ministry of Treasure.**

The limited effect of direct taxes, the loopholes that allow tax evasion, and the non-existent redistributive effect of the tax system in Paraguay are not a random consequence. The technical obstacles to a fairer tax system are not insurmountable, but the existing situation is the product of internal political factors interacting with economic factors based on the international context. These factors need to be addressed as part of the quest for growth that promotes greater equality in Paraguay.

Recent studies provide different explanations of the forces behind tax policy and, in this case, the obstacles to a more progressive and just tax system in developing countries. Some of these explanations include the different contexts, economic structures and levels of development, as well as the political institutions, cultural and ideological factors, and the social contract between the States and their societies as possible explanations.<sup>104</sup>

In Paraguay, there are three elements that play a role in opposing redistributive tax reforms. First, a dynamic economic sector that is concentrated in the hands of a few, powerful foreign companies and large landowners. Second, the political process often leads to decisions which protect the interests of the few to the detriment of the many. Third, the limited power of civil society – itself partly a product of the first two factors – means that citizens are unable to make demands of politicians and therefore have a say in public policies.

*'...Social sectors are not strong enough yet to be able to represent themselves in some subjects; for instance, there was an approved credit for \$120 million for the "metrobus", to improve the public transportation system in Asunción, and the House of Representatives decided not to pass it, without any technical argumentation; the citizen mobilization is minimal. Society is also responsible for the changes; it is a joint responsibility ...'*

**Andrés Wherle, Vice Minister of Agriculture**

Civil society, which could play a key role in promoting a fairer tax system to redress the current injustice and imbalance, is particularly weak in Paraguay. Unfortunately, the country's limited tax base, political passivity (a legacy of the dictatorship)<sup>105</sup> and the persecution of social activists in recent years have all played a part in this. Political co-option and fragmented initiatives have also played a part, and are among the indirect barriers to achieving urgent reforms for a fairer tax system.

### **The concentration of economic power in this sector**

There are many different elements that manage, promote and expand agribusinesses. However, as indicated above, there is a small group of powerful companies that control the sector and the production model through their control over the necessary inputs and the outputs for marketing

and processing. The current agricultural production model (based on agribusiness) is controlled by transnational corporations in Paraguay like all over the world (see Box 3).

It could be said that the main goal of production is the export of the country's products, based on the demands of international trade rather than the consumption requirements and needs of the local population<sup>106</sup> as the foreign demand has transnationalized production.

### Box 3: Transnationals involved in soy production in Paraguay

The North American corporation **Cargill** settled in the country in 1978 and currently has more than 20 silos, three private ports and an industrial plant. It has been the main exporter for several years. It mainly exports soybeans and, to a lesser degree, oil and soy pellets. The second largest agro-exporter is another North American transnational, **ADM Paraguay Saeca**, which has been in the country since 1997. It has 30 silos, six private ports and two convoys of barges, most of which were built by the group's company **Naviera Chaco**. For its part, **Bunge Paraguay S.A.** belongs to **Bunge Limited**, a multinational that operates in countries like Brazil, Argentina, Paraguay, and the USA.

The transnational **Monsanto** markets its transgenic seeds and agrochemicals, such as the well-known 'Roundup Ready', through companies that are authorised to represent its products. Foremost among these companies is **Agrofertil S.A.**, whose owners are originally from Brazil. Monsanto's second associate is **Dekalpar S.A.** This company also markets the products of another transnational, **Bayer**. Using the same system, the transnational corporation **Syngenta**, headquartered in Switzerland, distributes its products in Paraguay through **Agrosan S.A.**

The primary importer of agricultural inputs is **Agrotec S.A.**, which belongs to Brazilian investors. It produces its own agrochemicals, and imports and sells the products of large transnationals, including **Basf, Pioneer and Bunge**.

**Louis Dreyfus Paraguay S.A.** is a company of French origin that operates in the cotton and seeds sector in Paraguay. The Louis Dreyfus Group is based in Paraguay since 2004, and operates through its subsidiary LDC Paraguay SA. As with cotton, Louis Dreyfus used its extensive experience at the global and especially regional level to become in a few months among the largest exporters of grain in the country. Among other properties, it owns four cotton gins.

**Noble Paraguay S.A.**, which used to be known as Baelpa, has its headquarters in Hong Kong, and has undergone strong growth in Paraguay.

**Contiparaguay S.A. (formerly Capsa)** belongs to the English-Dutch transnational **Unilever**, which bought it in 1996. It processes and manufactures oils, flour and other products, but it has also been involved in the export of oilseeds.

Three companies handle industrial processing: **Cargill, Contiparaguay** and **Parmalat**. Another two, **Nestlé** and **Unilever**,<sup>107</sup> do processing through their subsidiaries in other countries; in Paraguay, they just import their products and distribute them to commercial establishments.

**Cargill** has a processing plant in the city of Minga Guazú, Alto Paraná, the country's top soy-producing area. The plant has a processing capacity of 1,300 tons of beans per day, which makes it the largest industry in the sector in the country. There, they make vegetable oils and flour, mainly from soy, and it is the largest exporter of these products. **Parmalat Paraguay S.A.**, a subsidiary of the Italian food products transnational, has a plant in the city of San Lorenzo. **Contiparaguay S.A.** mainly processes oils and flour, and packages soaps and detergents for Unilever.

**Nestlé Paraguay S.A.** is a subsidiary of the largest agri-food business company in the world, which maintains its headquarters in Switzerland. It imports foods manufactured in other countries, mainly Brazil. **Unilever Paraguay S.A.** is an import company for products manufactured by the transnational in other countries, mainly foodstuffs, and cleaning and personal hygiene products.

Source: Oxfam analysis based on Rojas Villagra (2009) and the Web page of the Group Louis Dreyfus<sup>108</sup>

Among the four companies that control more than 50% of the seed industry's world sales are Monsanto and Syngenta, both of them present in Paraguay. Six companies, among them Monsanto, control 75% of agrochemicals. Cargill, Bunge and ADM, the largest exporters, control together almost 90% of the world cereal trade.<sup>109</sup> Therefore, it is not naive to conclude that transnationals play a decisive role in Paraguay's economy, and could have an influence on the social and environmental challenges the country is facing.<sup>110</sup>



While preparing this report, several of the sources we consulted pointed to links between the soy transnationals, the landlords, the press, the traditional political parties, and private banks in the country.<sup>111</sup>

*‘...there is a very marked imbalance in the subject of soybeans, and despite the efforts made by the government to create the conditions that would improve tax revenues, these are very powerful sectors that influence different levels, and prevent that from happening. Nevertheless it is necessary that...’*

**Andrés Wherle, Vice Minister of Agriculture**

## **Policies of particularism and patronage**

Analysing how political decisions are made in Paraguay,<sup>112</sup> one study concludes that the process tends to be flexible for the adoption of policies that award particularist benefits; however, it is quite rigid when the aim is to approve redistributive policies or regulations on a broader scale.<sup>113</sup> Almost every president has had a difficult time approving policies of a national character and, therefore, has resorted to particularist-type policies (many of which were necessary in order to approve policies of greater scope). This tendency seems to have been strengthened in the period after 1993. For various reasons, from that time onward, successive presidents have been much weaker in terms of their ability to carry out their political agenda. The first of these reasons seems to be linked to the National Constitution of 1992.<sup>114</sup>

*‘The Republic of Paraguay is free and independent forever. We hereby constitute a social State based on the rule of law, unified, indivisible, and decentralized in the form provided for in this Constitution and under the law....’*

**National Constitution of 1992, in its opening article.**

Being ‘unified’ means that the country is ruled by a central government with full power over the whole of the national territory, with legislative unity, and with full power over the departments and municipalities. ‘Decentralized’ means that the political power, resources, responsibilities and administrative functions are ceded from the central administration to other bodies whose territorial bases are regional or local, and which have enough authority to create their own regulations – in this case, the departmental and municipal governments.

According to the National Constitution of 1992, the central government is made up of the legislative, executive and judicial branches in a system of separation, balance, coordination and reciprocal checks. As a Unified State there exists only one judicial branch (jurisdictional function), one National Congress (legislative function on a national scale) and one national executive (administrative function). However, a ‘healthy’ balance among those powers favouring the collective wellbeing of the population has not been achieved in practice.

The current Constitution (1992) reduced presidential powers in relation to the legislative branch. The president’s right to veto is weak, and can be overturned by an absolute majority of both Houses of Congress. The Congress also received powers to broaden the tax budget, decide on military promotions, and set up investigative committees. The President cannot dismiss Congress, but the legislative branch can remove the President from office<sup>115</sup> through a political trial.

In fact, the vagueness surrounding political trials has paved the way for numerous requests of this type in recent years, which has greatly increased the instability of already-weak institutions in Paraguay, and sharpened the antagonistic relationship between the executive and legislative branches. Most recently, both Presidents Nicanor Duarte (a victim of the fragmentation of support within his own party) and Fernando Lugo<sup>116</sup> have been subject to numerous requests for a political trial.

The introduction of primaries for the selection of candidates has also played a role, unleashing ferocious competition to sign up new party members under the aegis of each faction. As a consequence, despite the fact that re-election to Congress is not forbidden under Paraguay's Constitution, the electoral context has created greater uncertainty with respect to the political survival of legislators. Therefore, legislators generally are not very interested in designing policies with a broad scope (on a national, regional or sectoral level) that would be distributive or regulatory. On the contrary – they might be tempted to promote initiatives that will produce concrete benefits for their supporters.<sup>117</sup>

Suspicion of corrupt practices in Congress, in particular the demands for bribes and favours in exchange for votes, has made things even more complicated. There are no efficient devices to monitor party financing. There are regulations that govern their financing, but in practice it is impossible to validate compliance, since there is no personal income tax and there is a lack of co-ordination among organisations responsible for carrying out such monitoring.

For example, there is no specific regulation on anonymous donations; it is 'understood' that this is somehow compensated by an obligation on the part of parties and political movements to justify the origin of funds or donations received.

So, although anonymous donations are not regulated, and since individual donations of over \$30,000 are not permitted, the risk of misuse of donations is covered by the obligation of political parties to justify the origin of their funds. However, someone could, for example, officially donate the maximum legal amount stipulated and at the same time contribute much more through frontmen, without there being any good measures to monitor the process. This occurs because there is no income tax and therefore there exist no obligation to state the income.<sup>118</sup>

Since 2003, democracy has entailed the presence of a large number of players with veto capacity, which has made change difficult.<sup>119</sup> The judiciary seems to play a part, which is not as neutral as it should be. Recently, the Vice-Minister of Taxation, Gerónimo Bellasai, said this on the matter: '...the perception of risk in Paraguay has an Achilles heel, represented by the judiciary branch, since the bigger the amount to be paid in taxes after an audit, the more the businessmen go all the way to the Supreme Court just to avoid having to pay...'. Also, there seems to be no effective penalty for tax offenses in Paraguay.

The combination of the weakness of presidential prerogatives, the low level of legislative support, the suspicion of corruption in the Congress, and political fragmentation, might have been the ingredients for the political stagnation and weak governance. It was foreseeable that this problem would intensify when Lugo assumed the presidency, since his victory broke the Partido Colorado's hegemony after decades in power, and in principle would modify the ideological bases of politics in the country. Fernando Lugo won the presidency, but he seems to have lost the whole Congress.

*'The left has raised its voice and had to be heard. Its ideas and questions enriched the electoral debate. Topics were raised that were not mentioned before – because they were bothersome, unknown or controversial – such as energy sovereignty, reproductive health or land ownership. From now on, no one will be able to present themselves as a candidate without addressing these questions. That is no small achievement (...).*

*But it isn't enough to make our left happy. In a political system like ours, the place of real power is the Parliament. And there... it is definitely not present. Fernando Lugo will have to patiently weave an alliance made up of the liberal members of the majority and other parties in order to be able to govern...'*<sup>120</sup>

**Alfredo Boccia. Blog of the journal "Última Hora".**

## Congress's obstruction of tax reforms

*"... We accompany the subject of Personal Income Tax, which can propitiate a tax justice. Furthermore, in our country there is a large land estates regime, where these owners appropriate large extensions of land in the country, and do not pay taxes; then the land tenure needs to enter the tax package because there is speculation.*

*Much of our means of production is the land and it is controlled by few people. As an organization, we follow that line of action, that there must necessarily be a rule so that those with economic power pay their share of taxes, and so we believe that the personal income tax is a need. We know that the Congress does not approve this because the large land owners are in the parliament and, as a consequence, there are no possibilities of development...'*

**Barcilio Ruíz. Production Department of Caaguazú, district of Pastoreo. Community of San Isidro. Member of the Movimiento Campesino Paraguayo**

Recent attempts to reorganise the tax system began in 2001, but it was not until 2003 that these efforts had built up enough steam to get proposals into Congress. Given that Paraguay is a Unified State, all tax laws have to be approved by Congress, unlike Federal States.

The Administrative Reorganization and Fiscal Adjustment Act (2004) was clearly a step in the right direction. In practice, however, the groups that always continued to apply pressure to delay the application of some of the law's provisions did so again. Although the Colorado Party candidate, Nicanor Duarte Frutos, won the elections, his party did not win the majority of seats in Congress, which was divided more or less equally between three parties: the Colorado, the Liberal and the Patria Querida.

The Colorado Party supported the new law, the Liberal Party opposed it, and the Patria Querida<sup>121</sup> promised to support the law on condition that some of the provisions that went against their special interests were eliminated. The Patria Querida became the power broker, with the ability to make or break the law. In the end, the law was diluted, and while the portion of tax revenues corresponding to the agricultural sector did increase, the overall contribution continued to be relatively small.<sup>122</sup>

Until the beginning of the 1990s, there was a 12% tax on soybean exports that was eliminated in order to attract investments.<sup>123</sup> Since then, attempts to revive this tax have been unsuccessful.

In February 2004, President Nicanor Duarte announced Decree No. 1668/04. This set a taxation rate of 4% on the export of soy in its unprocessed state. It was the first firm resolution of the Duarte Frutos government that affected what would be called the 'soy homeland' – a phrase that was coined during the debate over the business model of agriculture that is non-inclusive, neglectful of social and fiscal responsibility, and creates almost no rural employment.<sup>124</sup> Through this decree, a tax was established that had been provided for in Law 125/91 on tax reform, which came into effect in 1991, but the rate for which was 0% as of 1992.<sup>125</sup>

In addition, the government decreed that soy exporters had to pay a tax of 1% as an advance payment on their income tax. Both taxes were to be calculated on the product's customs value. The decree stated that the revenue generated by the application of the tax would be used preferentially to finance projects for the eradication of rural poverty and strengthening the small farmer, family-based agriculture sector. This decree, which was strongly resisted by the productive sector in general, was short-lived. It was overturned just a few months later by Law 2421/04.<sup>126</sup>

Later, various bills were presented to Congress that would provide for a re-application of the law. They were presented by some legislators or at the behest of some non-government

organisations (NGOs) working with rural communities. However, many of them were filed away in the different commissions or do not even appear in Congress's archives (see Box 4).

#### **Box 4: The tax proposals archive**

- **2004:** Colorado Party senator Juan Carlos Galaverna presented a bill in the Senate that would create a tax on the export of soy in an unrefined state, taking into account that the Adjustment Act overturned the provisions of Law 125/91.
- **2007:** The same senator, Galaverna, together with Liberal senators Modesto Luis Guggiari and Juan Carlos Ramírez Montalbetti, once again presented the bill to tax soy, setting a maximum rate of 15%.
- **2008:** Congressmen Elvis Balbuena and Pedro González presented a bill in the Chamber of Deputies to tax the sale of agricultural products in an unrefined state.

Colorado Party senator Juan Carlos Galaverna, one of the key figures in the regime at that time, drew up a proposal regarding the government's position on agro-exporters. It was presented to the Senate in 2004 as a bill 'that creates a tax on the export of soy in an unprocessed state'. In spite of Galaverna being a member of the political party in power at the time, his proposal was sent through three different commissions without ever being discussed in a plenary session of Congress. In 2007, the proposal was presented again. Both times, it never even received a report from the commissions and was most probably filed away in some forgotten drawer in the Senate.

When the new Parliament had just been convened in 2008, the senator for Tekojoja presented another bill that appears in the Congress's archives, with the intention of taxing 'the export of raw oil seeds'. However, the Lugo government decided to postpone handling any tax matters due to the global financial crisis that was under way.

Another attempt was presented by Senator Sixto Pereira in December 2009. This proposal was to tax soy exports at 12%, wheat at 5% and sunflower products at 2.5%. In March 2011, there was another addition to the pile of blocked proposals – a bill presented by Liberal senator Ramón Gómez Verlangieri, who suggested establishing a 6% tax on the export of seeds, aimed mainly at soy, and 5% on meat. This bill had the support of Treasury Minister Dionisio Borda, but at the time of publication, there had been no specific progress made.

*Source: Our analysis based on various sources*

With regard to changing the property tax to broaden the tax base and raise more revenues, in 2004, the then Vice-President of the Republic, Luis Alberto Castiglioni, proposed the creation of a tax on rural property of 1%, and 2% on the land's market value for owners of properties of 20 hectares or more. In 2007, the *Servicio Jurídico Integral para el Desarrollo Agrario* (SEIJA—the Comprehensive Legal Service for Agrarian Development)<sup>127</sup> and the *Central Nacional de Organizaciones Campesinas, Indígenas y Populares* (CNOCIP—the National Centre for Farmer, Indigenous and Popular Organizations) tried to get a law passed that would create a tax on unused land. This proposal does not even appear on the congressional record.

Moreover, personal income tax is not yet applicable. In order to prevent its approval, given that it would be a scandal voting against it—what has happened on several occasions, the members of Congress could decide to leave and thereby block the possibility of the vote at all.<sup>128</sup>

Beyond speeches and rhetoric, there has not yet been a comprehensive national debate to specify the terms of any of the three taxes or to improve the tax system and formalise the economy in a way that promotes social and economic justice. Examples of how this could be done include clarifying the land ownership situation or ensuring the implementation of a real cadastre.<sup>129</sup> The Nicanor Duarte government made considerable effort to include a wide variety of groups in the dialogue around tax reform, including civil society, business groups and trade unions. But as has been indicated above, this debate did not result in changes that would secure a more progressive tax system.

Without an effective cadastre, it is practically impossible to identify the true size of a property or how the land is being used. However, the creation of a land registry has been systematically resisted by business sectors. Apparently, the Supreme Court of Justice even opposes it. Civil servants say they are against it because they have too much work and/or because there is no way to handle the necessary cross-referencing of information.<sup>130</sup> National and local initiatives have failed spectacularly. The promise of instituting a National Cadastre announced by President Lugo during his election campaign has not yet materialised, nor does it seem likely that it will. It would seem that no one is interested in clearing up the confusion over property borders,<sup>131</sup> and in more than two years, the government has not spoken of the subject again.

## The politicised public budget

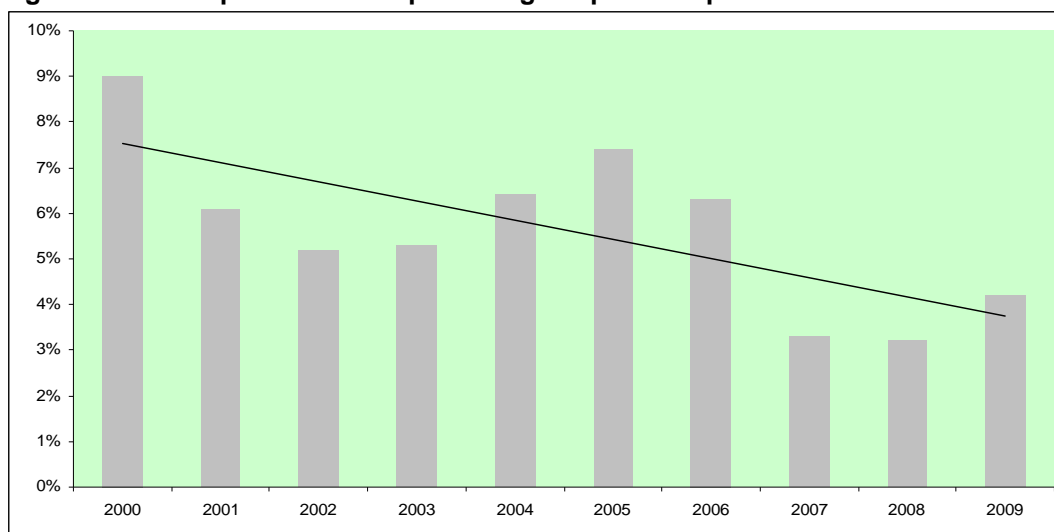
*'...also, the distribution system is unfair, because whenever there is an economic growth in the country, the Congress quickly raises their own salaries and so the production development never enters the political agenda. Therefore, it is a very bad situation, as the resources not only are few but they are also unevenly distributed. They give them to non productive institutions ...'*  
**Barcilicio Ruíz. Production Department of Caaguazú, district of Pastoreo. Community of San Isidro. Member of the Movimiento Campesino Paraguayo**

The General Budget of the Nation bill<sup>132</sup> is presented annually by the President on or before 1 September, and its consideration by Congress is an absolute priority.<sup>133</sup> The two houses of Congress can totally reject the project presented for their consideration by the President with an absolute majority of two-thirds in each of them.

In Paraguay, the General Budget of the Nation bill is changed significantly during the course of its hearing.<sup>134</sup> Once it is approved and enacted it is sent to the Treasury, where a financial plan is drawn up with the objective of maintaining the budget balance and ensuring the fulfilment of the Budget Execution Plan.<sup>135</sup> There are important differences between the Budget Project and the resulting Financial Plan, which affect the real resources available to the institutions that are key to agricultural reform: the Ministry of Agriculture and Livestock (MAG) and INDERT. In decisions on public spending, political criteria still take precedence, with major disputes between the executive and legislative branches of government.<sup>136</sup>

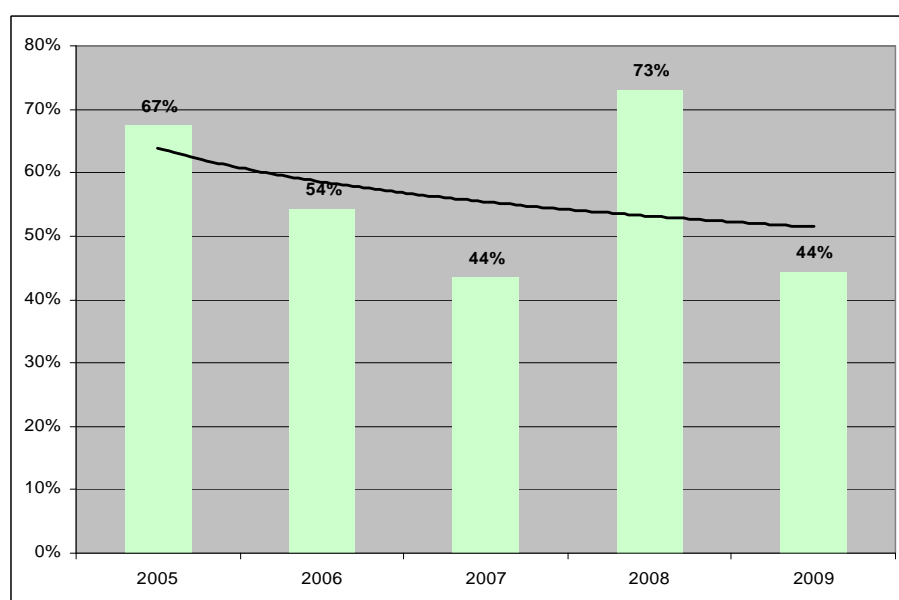
Some isolated incidents help confirm the above statement. In recent years, Congress has cut the land budget to a minimum. The INDERT has minimal resources with which to organise itself and carry out its work effectively. The resources received by MAG, as a proportion of GDP, vary significantly over time and have tended to reflect the decreasing importance of MAG within public expenditure (see Figure 2). Therefore, the percentage of spending dedicated to family-based agriculture that comes from MAG is also somewhat irregular, and has tended to fall in recent years (see Figure 3).

**Figure 2: MAG expenditure as a percentage of public expenditure**



Source: Oxfam analysis based on CADEP data.

**Figure 3: Expenditure on family-based agriculture as a percentage of MAG budget**



Source: Oxfam analysis based on CADEP and Ramírez (2010) data

Overall, political polarisation and its effects on public financing have further weakened the institutions that are key to promoting sustainable development for small-scale farmers and the family-based agriculture sector, and for reversing the great disparity of wealth that exists in the Paraguayan countryside.

A further problem is the total lack of consultation with civil society groups and other organisations during the budgetary process. This severely limits the ability of civil society to influence the way government money is allocated and spent.<sup>137</sup> This, coupled with the low tax culture, is a breeding ground for stagnation.

*'Many times we do not ask for the bill and so we cannot act in a more exigent way. Yesterday, on my way to the area of Tacuati I could not find a peasant village, and reached an area in Amambay where I decided to refuel; I know there are not taxes on fuel but the service station of the foreigners who live in our country do not offer an invoice accounting for their business. I go*

*there, I do my shopping and then I cannot prove I bought it in any way. It is not just the tax they do not pay for their production, but they are not paid either in the place they are selling their cookies, their things.*

*You can buy but you just get a receipt. People who not pay at all should be slowly forced to pay at least a little, there is still a lack of awareness, even the last person there should ask and be able to see what is the contribution as tax so that it can revert there, it is a tough work and we need to know more and learn more in order to work more.*

*That is the origin of the resources used to invest in infrastructure, roads, water systems, health, school material, human resources, all of which are necessary.'*

**Fidelina Vázquez. Social promoter, Paraguayan Studies Centre (CEPAG).**

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## NOTES

<sup>1</sup> Bailey (2011) p. 36.

<sup>2</sup> *Ibid.* p. 16.

<sup>3</sup> Guereña (2011).

<sup>4</sup> *Ibid.* p. 22.

<sup>5</sup> Ramírez (2011) Annex 2, using average data of the Central Bank for the period 2005-2009.

<sup>6</sup> Ramírez (2011) using data from the Censo Agropecuario (Agricultural Census) 2008

<sup>7</sup> See Guereña (2011) p. 23-24.

<sup>8</sup> Directorate General of Planning (DGEEC - Dirección General de Planificación) and Social Cabinet data.

<sup>9</sup> 'Objetivos de Desarrollo del Milenio: La Meta'; <http://www.sigpa.org/gastosocial/gastosocial.php?dts=presu>.

<sup>10</sup> 'Hay solo 74.179 campesinos "sin tierra" en todo el país, según INDERT',

[http://www.paraguayrural.org/index.php?option=com\\_content&view=article&id=184:hay-solo-74179-campesinos-sin-tierra-en-todo-el-pais-segun-indert-&catid=3:noticias&Itemid=1](http://www.paraguayrural.org/index.php?option=com_content&view=article&id=184:hay-solo-74179-campesinos-sin-tierra-en-todo-el-pais-segun-indert-&catid=3:noticias&Itemid=1).

<sup>11</sup> Palau Viladessau (2011), "Según centro de investigación, habría más de 310 mil familias campesinas sin tierra"; <http://ea.com.py/segun-centro-de-investigacion-habria-mas-de-310-mil-familias-campesinas-sin-tierra/>

<sup>12</sup> PNUD (2010) quoting Agricultural Census (CAN- Censo Agropecuario)(2008)

<sup>13</sup> Interview carried out in March 2012.

<sup>14</sup> 'Piden que más royalties vayan para intendencias y gobernaciones', <http://www.paraguay.com/nacionales/piden-que-mas-royalties-vayan-para-intendencias-y-gobernaciones-72139>.

<sup>15</sup> 'Gobierno de Paraguay transfirió 100% de royalties a municipios', <http://www.americaeconomia.com/economia-mercados/finanzas/gobierno-de-paraguay-transfirió-100-de-royalties-municipios>.

<sup>16</sup> 'Deforestación del Chaco paraguayo se reaccera', <http://www.abc.com.py/nota/deforestacion-del-chaco-paraguayo-se-reacelera/>.

<sup>17</sup> Stads and Santander (2008);

[http://www.ifpri.org/node/7793?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed%3A+Ifpriupdate+%28IFPRI+Website+Update%29](http://www.ifpri.org/node/7793?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Ifpriupdate+%28IFPRI+Website+Update%29)

<sup>18</sup> Zibechi (2008); 'Bañados de Asunción: La potencia de la comunidad'; <http://www.cetri.be/spip.php?article758>.

<sup>19</sup> Central Bank of Paraguay and Ministry of Agriculture and Livestock (Ministerio de Agricultura y Ganadería – MAG), <http://www.iica.org.py/observatorio/producto-paraguay-algodon-produccion.htm>

<sup>20</sup> Ministry of Agriculture and Livestock - Directorate General of Planning - Agro-economic Research Unit, 'Algodon 2007/2008', <http://www.mag.gov.py/dgp/isa%20algodon.pdf>

<sup>21</sup> Central Bank of Paraguay -BCP (Banco Central de Paraguay), <http://www.iica.org.py/observatorio/producto-paraguay-algodon-precios.htm>

<sup>22</sup> According to Lange and Moriya (2004).

<sup>23</sup> Giménez (2010).

<sup>24</sup> According to the MAG (Paraguay), the estimated cost of soybean production was \$ 676 (3.4 million Guaranies approximately) per hectare (using conventional-mechanized technology, the most commonly used by producers of large scale items);

<http://www.mag.gov.py/dgp/PARAGUAY%20ISA%202008%202010%2014%2006%2010.pdf>.

<sup>25</sup> Average figure, according to an interview with Luis Rojas Villagra (BASE-IS) in April 2011.

<sup>26</sup> Among these new departments, the most rapid growth has occurred in Canindeyú, where the total surface area planted with soy increased from 12% in 1980 to 17% in 2005.

<sup>27</sup> Census and Agricultural Statistics Management (2008).

<sup>28</sup> Internal document of BASE-IS (2011) quoting the Marketing Management of the Ministry of Agriculture and Livestock of Paraguay.

<sup>29</sup> "The overall numbers show that while in 2008, Paraguay imported 21 thousand tons of cereals, citrus, fruits, vegetables and legumes, in 2010 the entry of these products quadrupled, reaching 89 000 tonnes, according to a statement of the National Vegetable and Seed Quality and Health Service (SENAVE)"; <http://ea.com.py/el-alimento-de-los-paraguayos-depende-de-la-importacion-de-alimentos-extrajeros/>.

<sup>30</sup> UNDP Paraguay (2008).

<sup>31</sup> *Ibid.*

<sup>32</sup> According to an interview with Verónica Serafini (Treasury) carried out in April, 2011.

<sup>33</sup> Bailey (2011) quoting Ivanic and Martin (2008).

<sup>34</sup> Regressive tax, the greater the profit or income, the lower the percentage of taxes to be paid on the total tax base.

<sup>35</sup> UNDP Paraguay (2008).

<sup>36</sup> Ruiz Diaz (2008) 'The struggle for land', Inter Press Service (IPS), <http://ipsnews.net/news.asp?idnews=44584>

<sup>37</sup> Glauser (2009)

<sup>38</sup> "Paraguay prohíbe venta de tierras a extranjeros"; <http://www.hoy.com.ec/noticias-ecuador/paraguay-rohíbe-venta-de-tierras-a-extranjeros-310293.html>

<sup>39</sup> This is a law that seeks to regulate smallholder rights and includes the possibility of expropriation of large estates that are not productive and the awarding of land to landless farmers who have 'behaved well'. It is also designed to regularise land belonging to indigenous communities, thus recognising their rights over the use and ownership of lands that they use and have used always. On the other hand, it is intended to protect smallholders from themselves (from pressure to sell their land for example) by stating that the expropriated lands cannot be transferred, forfeited or mortgaged, although they can be transferred through an inheritance. According to the law, the farmer's obligation is to work the land and not leave it fallow.

<sup>40</sup> This appears in Law number 2,532/5 which modified regulation number 2,647, which "establishes the Republic of Paraguay's border safety zone".

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- <sup>41</sup> Waller (2011); 'Las inversiones en tierra paraguaya'; <http://www.carle-andrioli.com/espanol/boletines/nuevos/LasInversionesEnTierraParaguaya.pdf>
- <sup>42</sup> 'Suelo guaraní, tentación extranjera'; <https://vivapy.wordpress.com/2011/04/10/suelo-guarani-tentacion-extranjera/>
- <sup>43</sup> Rojas Villagra (2009a)
- <sup>44</sup> IRC - International Water and Sanitation Centre, quoting Diario Última Hora, Política, Asunción, 12 May 2006; 'Paraguay: preocupantes niveles de uso de agrotóxicos, FAO'; <http://www.noticias.irc.nl/page/35072>.
- <sup>45</sup> BASE-IS (2006) y GRR (2006); 'Peasant family in Paraguay condemned by agrottoxins', Upside Down World (2006), [http://upside-downworld.org/main/index.php?option=com\\_content&task=view&id=412&Itemid=0](http://upside-downworld.org/main/index.php?option=com_content&task=view&id=412&Itemid=0).
- <sup>46</sup> 'Deforestación del Chaco paraguayo se reaccelera', <http://www.abc.com.py/nota/deforestacion-del-chaco-paraguayo-se-reaccelera/>
- <sup>47</sup> Rojas Villagra (2009a).
- <sup>48</sup> ONG Repórter Brasil and Base Investigaciones Sociales (BASE-IS) (2010)
- <sup>49</sup> Ciciolli (2004), 'Impuesto a la Exportación de Soja (Primera parte): La resistencia de los privilegiados', <http://www.rel-uita.org/agricultura/impuestos-soja.htm>
- <sup>50</sup> Kacef (2009).
- <sup>51</sup> See Itriago (2012)
- <sup>52</sup> *Ibid.*
- <sup>53</sup> *Ibid.*
- <sup>54</sup> *Ibid.*
- <sup>55</sup> Rodríguez (2011) based on data from CEPAL and González (2008).
- <sup>56</sup> See Itriago (2012)
- <sup>57</sup> The value added tax (VAT) is a general consumption tax that applies to commercial activities involving the production and distribution of goods and services. The VAT is to pay ultimately by the final consumer, as a percentage applied to the final price of the good or service. The final price is the sum of the value added at each stage of production and distribution.
- <sup>58</sup> Continuation of Verónica Serafini's quote: "(...) if they earn 10 millions, barely 6% of it represents taxes (...) because he who earns less spends all and all that he consumes has taxes and there are no ways to deduct the VAT. If I earn 1,600,000, and I go to the supermarket and pay loans to build my house and pay my clothes and other fees, I am paying 10% VAT and I cannot deduce anything. But if I earn 16 million and I spend just half of it, and I save the other half, I am not paying for what I save, for instance. Also, if I own a business I can deduce the VAT (...)"
- <sup>59</sup> FAO (2010) quoting journal Diario ABC, page 38; [http://www.rlc.fao.org/uploads/media/politicas\\_publicas\\_sobe\\_biocombustibles\\_paraguay.pdf](http://www.rlc.fao.org/uploads/media/politicas_publicas_sobe_biocombustibles_paraguay.pdf).
- <sup>60</sup> Estado no podrá mantener subsidio al combustible por presión tributaria actual"; <http://www.mercosurtime.com/2012/01/estado-no-podra-mantener-subsidio-al-combustible-por-presion-tributaria-actual/>
- <sup>61</sup> Villalba Digalo (2010). 'El mal negocio de subsidiar el gasoil', Sindicato de periodistas del Paraguay"; <http://periodistaspy.blogspot.com/2010/12/el-mal-negocio-de-subsidiar-el-gasoil.html>
- <sup>62</sup> Guereña (2011), quoting De Ferranti et al (2005).
- <sup>63</sup> Rojas Villagra (2009b), 'Estado subsidia a los sojeros a través de Petropar por 36 millones de dólares', <http://ea.com.py/gobierno-subsidia-a-los-sojeros-a-traves-de-petropar-por-36-millones-de-dolares/>
- <sup>64</sup> The UGP is made up of various agricultural and livestock associations: ASOCIACIÓN DE PRODUCTORES DE SEMILLAS DEL PARAGUAY (APROSEMP), ASOCIACIÓN DE PRODUCTORES DE SOJA, CEREALES Y OLEAGINOSAS DEL PARAGUAY (APS), ASOCIACIÓN RURAL DEL PARAGUAY (ARP), CÁMARA DE FITOSANITARIOS Y FERTILIZANTES (CAFYF), COORDINADORA AGRÍCOLA DEL PARAGUAY (CAP), CÁMARA PARAGUAYA DE SANIDAD AGROPECUARIA, CAMARA PARAGUAYA DE LA STEVIA (CAPASTE), CAMARA PARAGUAYA DE EXPORTADORES DE CEREALES Y OLEAGINOSAS (CAPECO), CÁMARA PARAGUAYA DE LA CARNE (CPC), FEDERACIÓN DE COOPERATIVAS DE PRODUCCIÓN (FECOPROD), FEDERACION PARAGUAYA DE MADEREROS (FEPAMA), SOCIEDAD NACIONAL DE AGRICULTURA and the CENTRO AZUCARERO PARAGUAYO.
- <sup>65</sup> Riquelme *et al* (2010)
- <sup>66</sup> Valenzuela (2009), 'Aprobaron polémica ley de agrotóxicos en Paraguay', <http://paraguaycontaminada.blogspot.com/2009/05/aprobaron-polemica-ley-de-agrotoxicos.html>
- <sup>67</sup> See news archive of 'Paraguay: Ley de plaguicidas es bloqueada por agroexportadores'; [http://www.rap-al.org/index.php?seccion=8&f=news\\_view.php&id=219](http://www.rap-al.org/index.php?seccion=8&f=news_view.php&id=219)
- <sup>68</sup> Ramírez (2011)
- <sup>69</sup> Values represented in 2005 dollars
- <sup>70</sup> Ramírez (2011), see Annex 15A, page 117.
- <sup>71</sup> Continuation of Nicolasa Trinidad's quote: "(...) We do not argue about the resolution, but there is no money" they told us. And our answer was that those who do not have the need, the big owners, they get the loans, but there are no loans for the small-scale farmers. They have offices in every department, but there are no resources. Big owners get them, but smallholders do not get anything. Many female producers who are also the head of their families need help. The situation in the countryside has become worse (...)"
- <sup>72</sup> Giménez (2010) based on data from the Banco Nacional de Fomento (2009) and the Crédito Agrícola de Habilitación (2009).
- <sup>73</sup> Our calculations using the exchange rate dollar/guaraní of 26th April 2012 (1 dollar was 4342 guaraníes)
- <sup>74</sup> Continuation of Andrés Wherle's (Vice Minister of Agriculture) quote: "...In this moment, the Crédito Agrícola has between 12 and 15 offers of different loan types, including *bancas comunales*, which are loans aimed at the population with less resources so that they can have a capital that can circulate and they can use as a support in their activities, such as production, handcraft and agro-industrial activities; nevertheless, coverage is still low (...). The *Crédito Agrícola* has an action field of approx. 45,000 families, on a base of 240,000 families which are among the 20 ha level. That means that on the one hand it is possible to grow within the subject of credit, but on the other hand there must be different credit alternatives and this is what occupies us. These different credit alternatives, following the levels of family farming, should come together with other regulations such as farming insurance, which would be aimed to protect the

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family farm production or serve as a shelter for the production against the weather conditions; in such a manner that whenever such a circumstance appears, the credit does not become a second problem on top of the draught..."

<sup>75</sup> Giménez (2010)

<sup>76</sup> *Ibid.*

<sup>77</sup> According to an interview with Luis Bareiro (Última Hora) carried out in April 2011.

<sup>78</sup> In Paraguay, there are now 13 private banks (7 national and 6 foreign), and 1 public bank, out of the 37 that existed in 1995; <http://www.websparaguay.com/bancos> (last accessed 18 October 2011).

<sup>79</sup> According to an interview with Luis Bareiro (Última Hora) carried out in April 2011.

<sup>80</sup> *Ibid.*

<sup>81</sup> Ramírez (2011)

<sup>82</sup> Freight on Board

<sup>83</sup> According to data from [www.fedeagro.org](http://www.fedeagro.org)

<sup>84</sup> Mathematical mean from March to September, <http://www.indexmundi.com/es/precios-de-mercado/?mercancia=soja>

<sup>85</sup> *Conjuntura Económica*, December 2008 p. xiv and xv.

<sup>86</sup> A very long timeframe was used, allowing us to limit the risk of short-term stock market volatility that might cloud the results.

<sup>87</sup> 'Costos de producción', <http://www.iica.org.py/observatorio/producto-paraguay-soja-costos.htm>

<sup>88</sup> *Ibid.*

<sup>89</sup> Rojas Villagra (2009b), 'Estado subsidia a los sojeros a través de Petropar por 36 millones de dólares',

<http://ea.com.py/gobierno-subsidia-a-los-sojeros-a-traves-de-petropar-por-36-millones-de-dolares/>

<sup>90</sup> Guereña (2011), quoting De Ferranti *et al* (2005)

<sup>91</sup> Informal workers can be self-employed, workers in family enterprises for self-sustenance or employees of companies with no social protection. A significant part of workers in the informal or black economy are simple survivors. See proposal of classification in Itriago (2011), Table 6: Defining informal workers.

<sup>92</sup> To better understand this matter, see Itriago (2011)

<sup>93</sup> See Garriga and Rosales (2008); <http://www.depeco.econo.unlp.edu.ar/doctrab/doc75.pdf> and 'Protective mechanisms and their economic repercussions' in FAO (2000); <http://www.fao.org/docrep/003/x7352s/X7352s03.htm>

<sup>94</sup> A similar analysis is made by Arceo and González (2008) in the case of Argentina.

<sup>95</sup> As it does not apply to production nor to the improvements carried out, a tax on land acts as an incentive to assign land to its most productive use, reducing its subutilization. When the tax applied is significant, the joint strength of the tax and the land market pressures towards the optimization of the use of land through a greater investment and production which allow facing the cost of this tax. See Childress, Hansen, Solomon y van den Brink (2009).

<sup>96</sup> As a tax reduces the attractiveness of the asset.

<sup>97</sup> United Nations (2008).

<sup>98</sup> In theory, the smaller the property, the more intensely it is used and therefore, in marginal terms, small landowners are more productive than large landowners – in other words, under conditions where both can have access to credit to guarantee the financing of their harvests, and where there is no unequal information in the market that would provide an unfair advantage to large landowners over small ones.

<sup>99</sup> Beyond a loss in efficiency, promoting value-added industries through taxes on exports may be unfair in practice. Frequently, primary goods producers are many, and the beneficiaries at the next stage of production are few. Where equality problems exist, the costs of the taxes on exports should be weighed against the efficiency costs of the distortions introduced, as well as the alternative measures for addressing questions of equality.

<sup>100</sup> Or deductions on export.

<sup>101</sup> Díaz Frers and Castro (2008), quoting Nahón (2008)

<sup>102</sup> Counter-cyclical means moving in the opposite direction to the overall economic cycle: growing in strength when the economy is weakening and the other way around.

<sup>103</sup> "Proyecto de Innovación Estructural del Poder Ejecutivo" (Project of structural innovation of the executive force);

<http://www.sfp.gov.py/sfp/?node=page.760>; [http://www.undp.org.py/images\\_not/diagnosticoinnovacionestructural.pdf](http://www.undp.org.py/images_not/diagnosticoinnovacionestructural.pdf)

<sup>104</sup> Sabaini (2011), quoting others

<sup>105</sup> UNDP (2008)

<sup>106</sup> Rojas Villagra (2009)

<sup>107</sup> Although Contiparaguay is a subsidiary of Unilever in Paraguay.

<sup>108</sup> <http://www.ldc.com.uy/LDC/Pages/Site/Publicador/PublicacionShow.aspx?S=0&P=76&T=LDCPar-LouisDreyfusenParaguay>

<sup>109</sup> Bailey (2011)

<sup>110</sup> Rojas Villagra (2009)

<sup>111</sup> .. Real powers in Paraguay are currently under the control of the commercial sector. This situation is reflected in who preside the most influential institutions of the State (...)" See Cicioli (2004) quoting to Deijó, 'Impuesto a la Exportación de Soja (Primera parte) La resistencia de los privilegiados', <http://www.rel-uita.org/agricultura/impuestos-soja.htm>.

<sup>112</sup> In four periods: The 'Golden Age' under the Stroessner dictatorship (1954–81), the last Stroessner period (1982–89), the democratic transition regime during the Rodríguez government (1989–93) and the democratic period (1993–2008).

<sup>113</sup> Molinas *et al* (2011).

<sup>114</sup> *Ibid.*

<sup>115</sup> Silva-Leander *et al* (2004)

<sup>116</sup> 'Impulsa oposición paraguaya juicio político contra Lugo',

<http://www.informador.com.mx/internacional/2009/98497/6/impulsa-oposicion-paraguaya-juicio-politico-contra-lugo.htm>;

'Senador Jaeggli pide juicio político para Lugo', <http://www.abc.com.py/nota/36712-senador-jaeggli-pide-juicio-politico-para-lugo/>;

'Congreso amenaza con juicio político a Lugo y ministros de la Corte', <http://www.abc.com.py/nota/62621-congreso-amenaza-con-juicio-politico-a-lugo-y-ministros-de-la-corte/>;

'Pedido de Juicio Político a Lugo',

<http://www.taringa.net/posts/noticias/2571272/Pedido-de-Juicio-Politico-a-Lugo.html>

<sup>117</sup> Molinas *et al* (2011)

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<sup>118</sup> Marchewka, 'Análisis comparativo sobre financiamiento de campañas Y partidos políticos Paraguay', <http://pdba.georgetown.edu/Parties/Paraguay/Leyes/Financiamiento.pdf>

<sup>119</sup> *Ibid.*

<sup>120</sup> Boccia (2008), 'Claroscuros de la izquierda paraguaya', <http://blogs.ultimahora.com/post/783/50/claroscuros-de-la-izquierda-paraguaya.html>

<sup>121</sup> In 2003, the party was led by a group of progressive technocrats from different sections of society, particularly the business sector. They are generally conservative Catholic businessmen although they have shown some openness and 'modernism' with regard to tax matters.

<sup>122</sup> Stein *et al* (2006)

<sup>123</sup> Lluís O'Hara (2010) quoting Tomás Zayas

<sup>124</sup> 'Nicanor criticó falta de responsabilidad social del modelo agrícola empresarial'; <http://www.mre.gov.py/paginas/boletines/informaciones/Anteriores/boletin171020062.asp>

<sup>125</sup> Lluís O'Hara *op. cit.*

<sup>126</sup> The tax was applied to soy from 2004 until March 2005; the rate was 3.2% on a taxable value of \$80 per ton.

<sup>127</sup> A Paraguayan NGO that works in favour of the human right to food through access to land, and for diversified, sustainable agriculture. To this end, it provides legal and organisational support and training for groups of small-scale farmers and their communities.

<sup>128</sup> 'El Impuesto a la Renta es bloqueado nuevamente en el Congreso paraguayo'; [http://www.larioja.com/agencias/20120419/economia/impuesto-renta-bloqueado-nuevamente-congreso\\_201204192151.html](http://www.larioja.com/agencias/20120419/economia/impuesto-renta-bloqueado-nuevamente-congreso_201204192151.html).

<sup>129</sup> One that includes a system for updating land values and ensures that its use is efficient and feasible.

<sup>130</sup> According to an interview with Edwin Cetrini (Minister of Public Works) carried out in April 2011

<sup>131</sup> 'De Presidentes de la República a campesinos sin tierra', <http://www.rel-uita.org/internacional/tierras-malhabidas.htm>

<sup>132</sup> According to article 216 of the General Budget of the Nation.

<sup>133</sup> A joint commission of the two houses of Congress is formed which, when it receives the project, will study it and present a report to the respective houses in a maximum of 60 days. When the reports have been received, the Chamber of Deputies will dedicate itself to studying the project in plenary sessions and must complete it in a maximum of 15 days. The Senate has the same amount of time for studying the project, with the modifications made by the Chamber of Deputies, and if it is approved, the project is enacted. If not, however, the project is sent back to the other House with the disagreements, where it must be dealt with within 10 days. All of the deadlines established in this Article are fixed, and if any of the project versions are not handled within the timeframe, it is understood they have been approved.

<sup>134</sup> Rojas Ortigoza (2003) and Zárate (2010).

<sup>135</sup> In other words, the Treasury can establish limits on expenditure financed with Treasury resources and public and institutional loans by the General Treasury in accordance with the financial resources available and the revenue collection amount predicted for the fiscal year in force. Finally, the Treasury regulates the budget by decree in the month of January each year. The objective of the regulation is to standardise procedures, methodologies and the interpretation of the articles in the Budget Act in a way that standardises and facilitates management by state organisation administrators in the execution phase.

<sup>136</sup> Ramírez (2011).

<sup>137</sup> *Ibid.*

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