

Republic of Paraguay

(*República del Paraguay*)



Capital: Asunción

Inhabitants: 6.158.000 (2006)

Area: 406.752 km²

1. Introduction



Paraguay is a land-locked country in the heart of South America with an area of 406.752 sq. km. and an estimated population of 6.2 Million (2006). It is one of the most highly centralized countries in Latin America. There are four main reasons for this: (i) the perceived threat to national sovereignty resulting from its involvement in two of the three wars fought between Latin American nations in the post-independence period; (ii) a generally low density of population which, until the 1970s, was heavily concentrated around Asunción, which retains a virtual monopoly of all major economic and political decision-making; (iii) weak civil society organizations arising from decades of authoritarian rule; and (iv) the absence of any strong regional identities based on cultural differences. The centralist tradition was reflected in municipal legislation passed in 1882, 1909, 1927 and 1954 under which the president appointed municipal mayors and this was markedly reinforced during the authoritarian regime of

President Stroessner (1954-89) when central government corporations stripped local government of basic functions and the ruling party was converted into a hierarchical political machine extending down to the sub-municipal level. Through a mixture of repression and electoral fraud, the ruling party controlled every municipality through this period.

Modern legislation began with a 1954 municipal code, replaced in 1987 by a new municipal code, the Ley Orgánica Municipal No.1294 of 9 December. Local government was granted very low priority during the Stroessner period. Although the number of municipalities doubled from 104 in 1954 to 199 by 1989, this primarily reflected the concern of the regime to maintain political control at the local level during a period of rapid population migration to areas of new colonization in the eastern border region of the country. The merging of party and government institutions was such that it became common practice for the same person to hold the post of municipal executive head and head of the Colorado Party branch, either concurrently or consecutively. This arrangement was reinforced by the close identification of the local police force with the Colorado Party. Mismanagement and corruption was rife and municipal office was generally viewed as a mechanism for personal enrichment rather than for displaying civic responsibility.



Avenues for citizen participation in municipal affairs were extremely limited. The popular image of local government was extremely negative, as manifested by high rates of electoral abstention, widespread evasion of municipal taxes and generalized fear of local government authorities.

The overthrow of the Stroessner regime in 1989 led to the introduction of democracy at the local government level. In May 1991, municipal elections were held under a new electoral code which introduced the direct election of mayors for the first time in Paraguayan history. This reform put an end to over a century (1882-1991) during which municipal executive heads had been appointed by central government, despite guarantees of municipal autonomy in successive constitutions. The electoral code also replaced the undemocratic 'majority plus' system for electing councillors by a system of proportional representation. The elections led to the establishment of a multiparty system at the local government level after decades in which all municipalities had been controlled by the Colorado Party.

2. Territorial Organization

Paraguay is a unitary state with a three tier system of government – national, departmental and municipal. The national president and vice-president are elected for five-year terms and may not be re-elected. The bicameral legislature is composed of an 80-member lower house, the Chamber of Deputies, elected on the basis of departmental constituencies, and a 45-member Senate elected from a single national constituency, both using closed party lists. The 1992 constitution introduced 17 departments as a new intermediate tier of government. Governors and departmental councils are directly elected but their powers, responsibilities and financing are still limited. Below the department level, the country is covered by 231 municipalities. The Municipality of Asunción, the capital city (pop.700,000), does not belong to a department. All municipalities, including Asunción, are accorded the same legal rights. The Metropolitan Area of Asunción ([Area](#)

Table 1: Departments – area, municipalities and sub-national permanent staff, 2002

	Population	Area (sq.km.)	Municipalities	Depart. Staff	Municipal Staff
Asunción	510,910	117	1	-	2,787
Concepción	178,900	18,051	6	34	77
San Pedro	319,540	20,002	18	52	57
Cordillera	233,170	4,948	20	40	110
Guairá	178,130	3,846	17	44	97
Caaguazú	443,311	11,474	20	58	142
Caazapá	139,080	9,496	10	36	26
Itapúa	459,480	16,525	30	78	322
Misiones	102,230	9,556	10	80	68
Paraguarí	224,850	8,705	17	63	61
Alto Paraná	559,769	14,895	19	73	386
Central	1,362,650	2,465	19	51	888
Ñeembucú	76,730	12,147	16	43	52
Amambay	115,320	12,933	3	40	112
Canindeyú	140,250	14,667	10	39	42
Pte. Hayes	82,030	72,907	5	42	133
Boquerón	43,480	91,669	1	65	12
Alto Paraguay	13,250	82,349	2	53	n/a
TOTAL	5,183,080	406,752	224	891	5,372



Metropolitana de Asunción - AMA) comprises the Municipality of Asunción and ten surrounding municipalities and has a population of some 1,500,000 but this is an informal arrangement and there is no metropolitan government in place. The major governance activities of the AMA consist of public transport and refuse disposal.

3. Local Democracy

Local government elections are pluralistic and are contested by all major national political parties. Non-party candidates may stand for local government posts but the numbers standing and elected are extremely small. The municipal mayor and councillors are elected for a five year term of office. The mayor is directly elected and councillors are elected by the D'Hondt proportional representation system with closed party lists. The electoral turnout has fallen markedly since local democracy was introduced – from around 80% in 1991/1996 to 50% in 2001/2006. Electronic voting was introduced for the November 2006 local government elections.

There is no legal provision for local referendums. However a few municipalities have introduced simplified versions of participatory budgeting. The law does provide for neighbourhood organisations, known as *comisiones vecinales*, but they have not deliberative powers vis-à-vis local government. In 2006 there were 650

comisiones vecinales in Asunción, organised in 63 neighbourhoods with 20,000 active members. Nepotism and clientelism are still powerful influences on the day-to-day behaviour of local government. For example, the Colorado Party has long reserved a place for a representative of the taxi drivers' union on its list of candidates for councillors in Asunción because of the support that taxi drivers give to the party at election times.

4. Central – Local Relations

Article 166 of the 1992 Constitution grants 'political autonomy' to municipalities as well as 'autarky' in revenue collection and expenditure. However, despite this legal autonomy and the democratisation underway since 1991, municipalities remain under strong central government control. The National Congress is the only body empowered to legislate on local government matters. The departmental governments established by the 1992 Constitution are very weak. They have no powers of supervision over local government as in other parts of Latin America. Two central government bodies have oversight responsibilities regarding local government – the National Audit Office (Contraloría del Estado) and the National Congress (Tribunal de Cuentas). In practice oversight is weak, a problem compounded by the duplication of attributions. The mayor is not subject to a recall procedure from voters but may be removed from office by the vote of an

Table 1: Local Government elections 1991-2006 – turnout and results

	1991	1996	2001	2006
Registered Voters	1.350.000	1.817.353	2.233.800	2.760.820
Turnout	80%	83.3%	54.5%	50.2%
No. of Municipalities	203	222	223	230
- Colorado Party wins	160	162	146	150
- opposition parties win	43	60	77	80



absolute majority of the National Congress, following a request by an absolute majority of councillors on the grounds of 'poor performance of duties'. However the lack of clarity over the grounds for such action has often led to the abuse of this accountability mechanism. Between 2003 and 2005 Congress received 33 requests for removal, many of which were motivated by purely political considerations and had little to do with evidence of malpractice. A 2005 study by the Instituto de Estudios Comparados en Ciencias Penales y Sociales (INECIP) of these cases revealed that most mayors did not properly understand their responsibilities as heads of public administration and it proposed a system of local mediation in order to resolve conflicts between mayors and councillors.

A central government agency, the Instituto de Desarrollo Municipal (IDM), was established with the support of foreign aid donors in 1971 order to provide credit, training and technical assistance to local government but was closed down in 1992 because of its previous association with political repression. A national association of municipalities, Organización Paraguaya de Cooperación Intermunicipal (OPACI), has been in existence since 1971 but is weak. An association of regional governors, Consejo de Gobernadores, was established in the 1990s and in 2000 a National Council for Decentralization, Consejo Nacional para la Descentralización del Estado (CONADE) was created. But none of these initiatives have been successful to date in obtaining greater powers and financial autonomy for sub-national tiers of government, as strikingly demonstrated by the failure of many efforts to reform the outdated municipal code of 1987.

5. Local Government Responsibilities

The 1987 Municipal Code refers to the 'autonomy' of local government and the first article of the new democratic constitution promulgated in 1992 defined Paraguay as a 'decentralised' nation. However, as a result of the long centralist tradition, there is still an enormous gap between rhetoric of a general competence enshrined in the legislation and the reality of a quite limited and functional service delivery role for local government.

The 1987 municipal code granted responsibility to local government for twenty functions, including urban planning, road construction, regulation of public transportation, public housing, and employment generation. Water supply and sewerage was also defined as a municipal responsibility in situations where this service is not provided by other government agencies. However the respective competencies of local and central government are not defined in the code. Instead, the code states that there should be coordination between municipalities and other government agencies in the public interest. In practice, the functions of most municipalities are restricted to street cleaning, street lighting, slaughterhouses, markets, and bus stations. Very few municipalities even operate public libraries.

Central government still carries out a major role in delivering basic public services, most noticeably in the case of water supply, education and public transport. Two central government companies dominate the water and sanitation sector to the exclusion of local government – respectively Empresa de Servicios Sanitarios del Paraguay (ESSAP) in large urban areas and Servicio Nacional de Saneamiento Ambiental (Senasa) in smaller communities of less than 10,000 persons. The Ministry of Works and Communications, rather than



municipalities, also carries out most construction and maintenance of feeder roads. Despite a comprehensive educational reform programme since the early 1990s, with extensive financial support from the World Bank and Inter-American Development Bank, local government continues to play a minimal role in basic education. This is largely confined to providing financial and technical support to community school-building initiatives. The Ministry of Public Works oversees public transport, even in the capital city.

In spite of this strong tradition of centralised service provision, the health sector has witnessed some limited decentralization since the mid-1990s. The health reform law of 1996 created departmental and municipal health councils - *Consejos Departamentales de Salud* (CDSs) and *Consejos Locales de Salud* (CLSs). Enabling legislation in 1998 empowered municipalities and CLSs with health planning and oversight functions, as well as the administration of local funds through *acuerdos de compromiso* (agreements) with the Ministry of Health. In order to sign *acuerdos*, the municipality had to form a CLS and assign five percent of the annual municipal budget to finance the Local Health Plan that the CLS designed and administered. The *acuerdos* transferred management and oversight of physical and financial resources of health establishments to CLSs for a one year period with an option to renew, while the Ministry retained control over personnel. However subsequent moves by central government to deny local health care facilities control over user fees were not resolved until further enabling legislation was passed in 2006. By mid-1998, 23 municipalities (10% of the total) in three departments (17 in Central, two in Cordillera, and four in Misiones) had signed such *acuerdos* with the Ministry of Health. However, only ten (all in Central Department) were able to meaningfully implemented changes regarding the role of

CLSs in administering revenues from service fees. Between 2004 and 2005 34 new decentralisation agreements were signed and implemented, and many more CLSs were formed with the intention of seeking decentralisation agreements.

In a separate health decentralisation initiative, in 1996, the Department of Itapúa began the *Fondos Rotatorios de Medicamentos Básicos para Farmacias Sociales* (Revolving fund for social pharmacy basic medicines). This program was designed and administered by the CDS of Itapúa, and provides medicines at low cost to patients who attend local health centres. The program began with seven social pharmacies and a list of 18 medicines. By 2002, the program had grown to 70 pharmacies in 30 municipalities, with a list of 94 basic medicines. The social pharmacies are administered by local CLSs, which also have to raise the initial capital to buy the first lot of medicines. Medicines are purchased in bulk by CLSs at low cost from the regional government of Itapúa.

6. Local Government Finance and Management

Local revenues: Sub-national tiers of government accounted for only 2.6% of total public expenditure in 1997, of which 0.7% represented departmental government and 1.9% represented municipalities. This share had risen to 6.0% by 2001. Local government in Paraguay has no independent powers of taxation. The main source of own revenue is property taxation, for which the rates are determined by central government. This follows a ruling in the 1992 constitution (Article 169) which transferred control over the collection and use of urban and rural property taxation from central to local government. It also allowed municipalities to retain 85 per cent of the proceeds from this tax. This is now by far



the major source of tax revenue. The other main sources of own-revenue are an industry and business tax, a tax on vehicle registration and a passenger transportation tax. A composite charge for solid waste management, public lighting and cemeteries is an important major source of income in larger municipalities, and charges are also made for the rental of municipal land. Revenue from fees is minimal in the budgets of most municipalities, except for Asunción and a few other large cities where car-parking fees are a significant source of income.

Uniquely in Latin America, local government receives no explicit financial transfer from central government in the form of revenue-sharing, earmarked funding or conditional grants. Consequently, most municipalities are highly dependent upon their own locally-generated sources of revenue in order to finance recurrent and capital expenditure. Although local government receives no general budgetary transfer from central

government, Law 1309 of 1998 introduced sharing of royalties between central and local government from two bi-national hydro-electric projects in which Paraguay is engaged - Itaipú Binacional (with Brazil) and Empresa Binacional Yacypetá (with Argentina). Central government retains half of the royalties, while the rest is distributed as follows: 5% is shared equally between all Departments affected by the projects, 5% is shared equally among all Departments not affected by the projects; 15% is shared among the municipalities affected by the projects, and the remaining 25% is shared among all municipalities not affected by the projects. Law 1308 states that 80% of these funds should be earmarked for capital expenditure. In practice, these royalty transfers have operated in a manner akin to a general budgetary grant. Despite the clarity of the formula, there is considerable lack of transparency and long delays with regard to the allocation of the transfers. Nevertheless, in recent years they have become the major source of revenue for a majority of smaller municipalities.

According to the 1992 Constitution, local government has the power to borrow from domestic and international financial institutions but in practice this is severely restricted by central government. In recent years the Municipality of Asunción has sought to borrow from the Inter-American Development Bank for a multi-purpose Asunción Bay project. This has faced strong resistance from central government, which wishes to retain control over foreign borrowing. Some municipalities receive grant aid earmarked for specific projects from bilateral donor agencies, noticeably USAID, GTZ and JICA.

Departmental government finances are totally dependent on transfers from central government. These consist of these sources: i) 15% of VAT receipts originating in each department and which are

Table 3: US \$m Municipalities consolidated balance sheet, 2005

EXPENDITURE		INCOME	
(Mil. \$US)		(Mil. \$US)	
Personnel	52.2	Tax revenue	92.9
Non-Personnel	8.3	Non-tax revenue	7.7
Consumables	8.9	Sale of goods and services	3.9
Physical Investment	15.6	Current transfers	17.4
Debt Service	0.4	Sale of fixed assets	2.9
Transfers	17.9	Capital transfers	8.5
Other expenditure	34.1	Other income	22.3
Depreciation	2.2		
TOTAL	139.6	TOTAL	155.6

Source: Ministerio de Hacienda, Cuentas Consolidadas 2005



earmarked for health, education and public works, ii) 15% of revenue from property taxation collected by municipalities in the department, and iii) 30% of the licence fee and revenues from legal gambling activities in the department plus 20% respectively from those in Asunción.

Municipal employees: In 2004 there were 13,254 municipal employees, accounting for 7.7 per cent of total public sector employment in the country. This number was barely six times that of the number of executive heads and councillors (around 2,000). Total employment is highly concentrated - the Municipality of Asunción alone employed around 6,500 staff in 2004, equivalent to half of total municipal employment.

Table 4: Employment in the Public Sector, 2004

	Total employees	Share
Central Government	119,277	69.8%
Autonomous Agencies	36,922	21.6%
Departmental Government	1,538	0.9%
Municipal Government	13,254	7.7%
Public Sector (Total)	170,991	100%

Source: Censo Integral de Funcionarios Públicos, Secretaría de la Función Pública, 2004

Although the 1987 municipal code states that local government should have its own personnel system, at present none exists. In the absence of specific municipal labor legislation, local government employees are covered by a 1971 law which provides for a public administration service but this has likewise never been implemented. As a result, issues such as staff rights and duties, recruitment, promotion, discipline, salary scales, and social benefits have no legal structure and are, in practice, dealt with in an arbitrary fashion by municipal authorities.

In theory, unfair dismissal can be challenged in the court of appeal. If the tribunal authorizes re-instatement, however, this can still be refused on the grounds that a vacancy no longer exists, in which case the maximum compensation is four months' salary. In common with the rest of public sector employees, municipal employees suffer from the complete absence of a career system, and a pension scheme for municipal employees exists only in embryonic form. The lack of job stability, low salaries, and rapid turnover of staff represents a serious obstacle on efforts to professionalize the municipal service. Partly because of these structural considerations, efforts to improve the quality and efficiency of service delivery by local government remain limited and sporadic.

The administrative capacity of local government remains very weak and there is a serious shortage of trained personnel of all kinds. Although the educational level of the newly elected municipal authorities increased considerably after the introduction of local democracy in 1991, mayors and councillors are often surprisingly ill-informed about the role of local government in the overall development process, as well as about the respective roles and responsibilities of elected officers and administrative staff. In conclusion, the local government system in Paraguay has remained stagnant over the period 2001-2006, with little evidence of experimentation and innovation. Nor has there been any sign of commitment to transfer of responsibilities from central government. A long-standing campaign by the national association of municipalities to reform/update the core legislation – the 1987 Local Government Act – has still not borne fruit. The only sign of reform is in the provision of basic health services, where a few municipalities have introduced local-level and self-funded health insurance systems, notably the Municipality of Fram in the Department of Itapúa.

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