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USAID | PARAGUAY

FROM THE AMERICAN PEOPLE

Country Development Cooperation Strategy FY 2014 – 2020



April 2014

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I. Executive Summary

USAID/Paraguay's strategy will align with two of the four pillars of President Obama's framework for U.S. policy toward Latin America (strengthening effective institutions of democratic governance and promoting economic and social opportunity).¹ Additionally, the CDCS aligns with three of the four goals of the WHA/LAC Joint Regional Strategy: 1) increased citizen security and effective democratic institutions and governance; 2) social equity for the peoples of the Americas; and 3) expanded economic opportunity. USAID's vision also directly supports the Government of Paraguay's (GOP) strategic priorities: reducing extreme poverty and eradicating corruption.

This CDCS focuses on strengthening democratic governance and increasing economic opportunities for vulnerable populations in Paraguay's northern zone. It demonstrates a high degree of focus to maximize resources and budget. Since 2010, the mission has consolidated from seven program areas to two. This streamlining allows the mission to better concentrate its budget and resources in promoting good governance and transparency in select government ministries, and supporting inclusive economic growth. USAID will seek to advance the objectives of USAID Forward by implementing its programs through local partner organizations. Sufficient local capacity currently exists in Paraguay and continued development of local partners will be an important focus of sustainability.

USAID/Paraguay's Development Objectives, DO#1 Internal management and governance systems strengthened in select public institutions, and DO#2 Increased inclusive and sustainable economic development for small-scale producers and vulnerable populations in the northern zone will support the CDCS goal of creating ***a more prosperous, well governed democracy in Paraguay***. The goal includes a focus on inclusion of vulnerable Paraguayans.

¹ Arturo Valenzuela, Assistant Secretary, Bureau of Western Hemisphere Affairs
Testimony Before the Subcommittee on the Western Hemisphere, Peace Corps, and Global Narcotics
Affairs of the Senate Committee on Foreign Relations. Washington, DC , 02/17/2011

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II. Acronym List

| | |
|---------|--|
| ABC | Brazilian Cooperation Agency |
| AECID | Spanish Cooperation Agency |
| AGCI | Chile's International Cooperation Agency |
| AMEXCID | Mexico's Agency for International Development Cooperation |
| ARP | Rural Association of Paraguay |
| CBJ | Congressional Budget Justification |
| CEJA | Justice Studies Center of the Americas |
| CDCS | Country Development Cooperation Strategy |
| CSO | Civil Society Organization |
| DA | Development Assistance |
| DAP | Desarrollo Agrícola de Paraguay |
| DCA | Development Credit Authority |
| DO | Development Objective |
| ECLAC | UN Economic Commission for Latin America and the Caribbean |
| ENEP | Paraguayan National Country Strategy Team |
| ESF | Economic Support Fund |
| EU | European Union |
| FAO | U.N. Food and Agriculture Organization |
| FTF | Feed the Future |
| FY | Fiscal Year |
| GIZ | German Cooperation Agency |
| GCC | Global Climate Change |
| HED | Higher Education in Development |
| IDB | Inter-American Development Bank |
| INL | International Narcotics and Law |
| IOM | International Office of Migration |
| G2G | Government-to-Government |
| GDP | Gross Domestic Product |
| GDA | Global Development Alliance |
| GII | Gender Inequality Index |
| GOP | Government of Paraguay's |
| HDI | Human Development Index |
| IICA | Inter-American Institute for Cooperation in Agriculture |
| IIDH | Inter-American Institute for Human Rights |
| ICS | Integrated Country Strategy |
| IZN | Northern Zone Initiative |
| IR | Intermediate Result |
| JICA | Japanese Development Agency |
| KOICA | Korean International Cooperation Agency |
| M&E | Monitoring and Evaluation |
| MCC | Millennium Challenge Corporation |
| MSME | Micro, Small, and Medium Sized Enterprises |
| MOH | Ministry of Health |
| MRR | Mission Resource Request |
| OAS | Organization of American States |
| ODC | Office of Defense Cooperation |
| OE | Operational Expenses |

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| OFDA | U.S. Office of Foreign Disaster Assistance |
| OYB | Operating Year Budget |
| PAHO | Pan-American Health Organization |
| PMP | Performance Management Plan |
| PPP | Public Private Partnerships |
| PWD | People with Disabilities |
| SME | Small and Medium Sized Enterprises |
| SMPR | Women's Secretariat of the Office of the Presidency |
| TIP | Trafficking in People |
| UNA | National University of Asuncion |
| UNICEF | United Nations Children's Fund |
| UNDP | United Nations Development Program |
| USG | U.S. Government |

III. Development Context, Challenges and Constraints

Country Context

Paraguay is a landlocked country bordered by Argentina to the south and southwest, Brazil to the east and northeast, and Bolivia to the northwest. Paraguay's population is approximately 6,541,591², with 28.5% under the age of 14 and 41.4% residing in rural areas. The largest concentration is in the southern tip where the capital Asunción and its metropolitan area account for nearly one third of the country's population.

From 1954 to 1989 Paraguay was ruled by Alfredo Stroessner, who led one of South America's longest lived military dictatorships. Stroessner was toppled in 1989 and free elections were held in 1993. In 2008, Fernando Lugo was elected president in the first peaceful handover of power to an opposing party after 60 years of one-party rule. President Lugo was impeached in June 2012. The Vice President, Federico Franco, then assumed the presidency for the remainder of the term. Elections were held in April 2013 and the new president Horacio Cartes was inaugurated on August 15, 2013.



Governance

With a score of 150 out of 177, Paraguay ranked third to last in the western hemisphere, in Transparency International's 2013 Perception of Corruption index, only ahead of Venezuela and Haiti. Paraguay also ranked 119 out of 148 countries in the 2013 World Economic Forum's Global Competitiveness index, with corruption as one of the leading contributors to the poor business environment. Paraguay ranked 140 in the category of government institutions to improve business function, and 145 in public confidence in politicians. However, progress in combating corruption is being made, including: the creation of a transparent, internet-based government procurement system; the appointment of respected apolitical officials to key posts; and increased civil society input and oversight.

² Dirección General de Estadísticas, Encuestas, y Censos (DGEEC). 2011. "Encuesta Permanente de Hogares 2011: Distribución de Ingresos y Pobreza" DGEEC. Asunción, Paraguay.

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The Paraguayan state struggles to provide quality public goods and services to all its citizens. Weak governance and a fragile rule of law restrain economic growth, especially among the poor, and allow corruption and other illegal activities to flourish. Limited policy dialogue among and between politicians and civil society has hindered effective decision making over public goods and services, and prohibits substantive citizen participation in issues of public interest.

Economy

Landlocked Paraguay has a market economy characterized by a large informal sector, featuring re-export of imported consumer goods to neighboring countries, as well as the activities of thousands of microenterprises and urban street vendors. A large percentage of the population, especially in rural areas, derives its living from agricultural activity, often on a subsistence basis. The agricultural sector dominates Paraguay's economy constituting 15.9% of the GDP in 2012³, and agricultural production employed 26.5% of the workforce. Agriculture production roughly consists of two-thirds crop production and one-third livestock production. Because of the importance of the informal sector, accurate economic measures are difficult to obtain. However, in 2010, the GDP grew by 13%, the largest economic expansion in Latin America that year⁴, due to high prices for agricultural exports. In 2012, severe drought and outbreaks of foot-and-mouth disease led to a drop in beef and other agricultural exports and the economy contracted about 1%, underscoring the volatility of the Paraguayan economy. The dependence on agricultural exports has made the country's economy more susceptible to market and price fluctuations, climatic changes, plagues, and disease.

UNDP Poverty indicators show that even with the GDP boom in 2010, the level of poverty only reduced by 1% in rural areas and extreme poverty in rural areas remained flat. This is mainly attributed to Paraguay's dramatic shift in its agriculturally based economy from a predominantly family farm and labor intensive model to a structure based on capital-and-land intensive activities (soybeans, wheat and beef). Although this generates economic growth, it requires little labor. Approximately 24% of the overall population, or 1.6 million people, fall below the poverty line. Poverty is more widespread and more severe in rural areas, particularly in the Northern Zone, where around 20 percent of the total poor and 50 percent of the extreme poor reside.

Inequality

The GINI index in Paraguay was last reported at 52.42 in 2010, an increase from 2009, with the highest ten percent earning 40.8% of the country's income. Paraguay's Human Development Index (HDI) for 2011 is 0.665 or 107 out of 187 countries. However, when the value is discounted for inequality, the HDI falls to 0.505, a loss of 24% due to inequality in the distribution of three dimension indices. The greatest loss contributing to this adjusted HDI comes from the 33% reduction due to inequality of income. Paraguay's inequality is also reflected in land ownership: 86% of agricultural land is consolidated in just 2.5% of all properties, while 30% of the rural population is landless.

The 2011 Gender Inequality Index (GII) value of 0.511 ranks Paraguay at 87 out of 187 countries. It reflects the disadvantage of women in reproductive health, empowerment and job market. In Paraguay, 13.6% of parliamentary seats are held by women, and 45.4% of adult women have reached a secondary or higher level of education compared to 50.4% of men.

³ CIA world Fact Book 2013

⁴ World Bank, 2011

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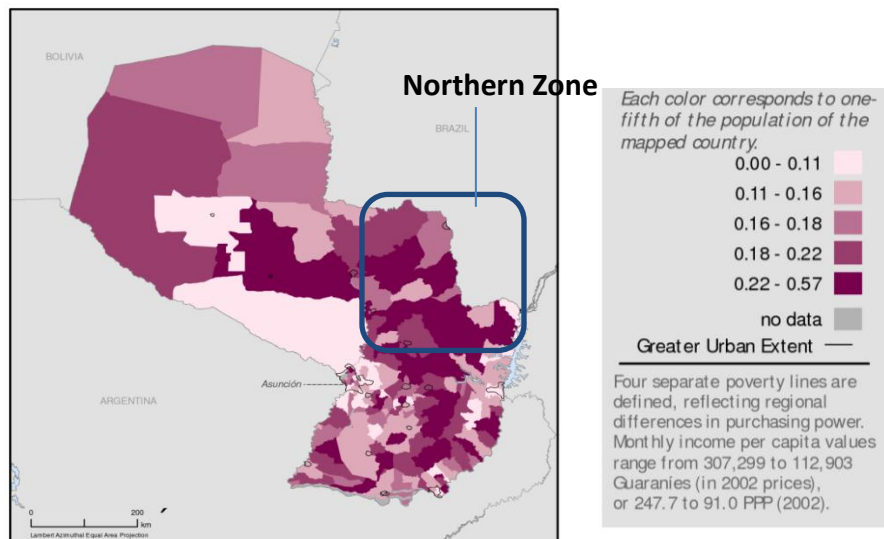
Although women's labor force participation has increased, there continues to be an important wage gap between women and men across sectors. Also, female participation in the labor market is 55% compared to 85% for men.⁵

The 1992 constitution guaranteed gender equality in terms of civil, political, social, economic, and cultural rights, and assigned responsibility for protecting these rights to the state. The creation of the Women's Secretariat of the Office of the Presidency (SMPR) in 1993 marked the most notable gain in efforts to ensure women's constitutional rights. However, gender-related discrimination is widespread, and women still suffer disproportionately from domestic violence and economic deprivation. In rural areas especially, women are informally excluded due to lower education rates and higher illiteracy, as well as cultural norms that afford little power or participation to women, reflected in less access to land, lower wages (especially in domestic service), higher unemployment, and higher levels of extreme poverty⁶.

Northern Zone

The Northern Zone, San Pedro, Amambay, Concepción and Canindeyú, has the highest concentration of poverty and rural poverty is an overarching systemic problem that significantly inhibits Paraguay's development.

The lack of an effective state presence has fostered social, economic, and political instability which is compounded by the presence of drug traffickers due to the proximity to the notorious tri-border region with Brazil and Argentina. Three of the four departments of the Northern Zone (Concepción, San Pedro, and Canindeyú) display the highest rates of extreme poverty in the country combined with the lowest population densities outside of the Chaco.⁷



Poverty Gap Index

By the NASA Socioeconomic Data and Applications Center

⁵ International Labor Organization, 2012

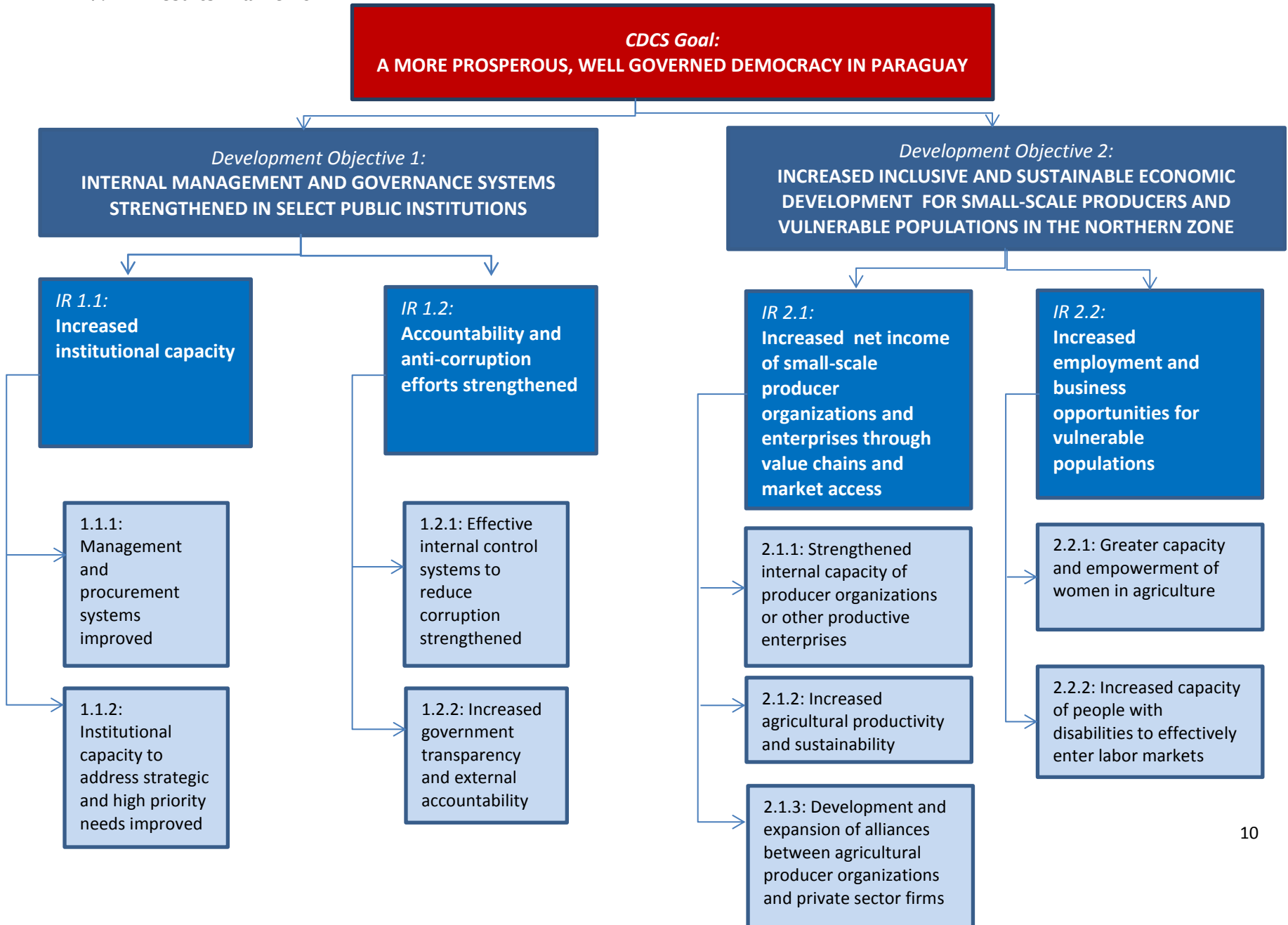
⁶ World Development Indicators:
Labor force structure 2011

⁷ GOP, DGEHC Household Survey, 2008

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The agricultural sector of the Northern Zone presents political problems in Paraguay. Landless farmers' movements continue to stage demonstrations, which have included land invasions, protests for land ownership reform, as well as other social reforms. At the same time, the powerful lobby of the agribusiness sector limits the government's ability to maneuver on environmental and agricultural policies, leaving the GOP under pressure from various sectors, including the international community.

IV. Results Framework



Development Hypothesis

A poorly governed democracy propagates exclusionary practices that limit citizen access to justice, education, healthcare, job opportunities and other State benefits. It also erodes citizen confidence in elected officials and institutions, exploits opportunities for corruption at all levels, and wastes resources that could be used to improve the economy, public health, and the environment. Likewise, non-inclusive economic growth widens the gap between the rich and the poor and exacerbates inequality. High levels of inequality are correlated to higher levels of corruption: the wealthy have both greater motivation and opportunity to engage in corruption, whereas the poor are more vulnerable to extortion and powerless to the rich and powerful. Inequality also adversely affects social norms about corruption and people's beliefs about the legitimacy of rules and institutions, thereby increasing the acceptance and tolerance for corrupt behavior. Since corruption also contributes to income inequality, societies often fall into vicious circles of inequality and corruption.

To address these challenges and reach the goal of “a more prosperous, well-governed democracy in Paraguay,” USAID/Paraguay will strive to strengthen internal management and governance systems (Development Objective I) and to increase inclusive and sustainable economic development (Development Objective II).

By failing to deliver sufficient public goods and to guarantee the rule of law for all citizens, support for democracy is undermined. To pave a clear pathway towards improved responsiveness to citizen needs and demands and a stronger foundation for democracy, under Development Objective I, USAID/Paraguay will improve the government's effectiveness by developing its human and institutional capacity (with strong human resources, tools, and processes) and strengthening accountability mechanisms (that shift the incentive structure). Building on previous efforts and incorporating important lessons learned, the Mission will consolidate efforts to improve management and governance systems in key institutions posed to have the most impact on the quality and quantity of public goods and services received by the population.

The most excluded historically have been concentrated in Paraguay's northern zone departments. To achieve a more prosperous, well-governed democracy, this marginalized population must participate in and benefit from economic growth. Under Development Objective II, USAID/Paraguay will increase inclusive and sustainable economic development for small producers in the northern zone, by strengthening the institutional capacity of producer organizations through value chains and market access, and by increasing economic opportunities for vulnerable populations. The main problem addressed through this Development Objective is how to make agricultural value chains and the agribusiness development work for the rural poor. Agricultural cooperatives and producer organizations can play an important role in helping improve agricultural practices on small farms, linking more small producers to global value chains, and providing an alternative source of credit⁸. Based on lessons learned from previous programming, the new program will enhance sustainability by shifting from on-farm technical assistance to enhancing the capacity of producer associations and cooperatives to access value chains, with particular focus on the role of women.

To achieve strengthened internal management and governance systems in public institutions under Development Objective I, there must be active and engaged citizens that can express

⁸ DGEEC, Paraguay National Economic Census 2011

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their needs and interests and hold government accountable. Based on the 2012 DRG Assessment, as well as lessons learned in previous programs, USAID/Paraguay will work from the premise that, as in most democracies, participation is undermined by the lack of the conditions required for an effective participatory process. High levels inequality lead to lower levels of participation. It also undermines equal consideration of the preferences and needs of all citizens, since political activity is the means by which citizens inform governing elites of their needs and preferences and induce them to be responsive.⁹ We therefore believe that promoting inclusive and sustainable development in the disadvantaged Northern Zone is necessary for achieving improved citizen participation. This will in turn lead to stronger internal management and governance systems. Similarly, to achieve greater economic inclusion, the State must be more capable and accountable to ensure public funds are used for the benefit of the entire population, and that disadvantaged groups have access to economic opportunities, under Development Objective II. It is a two-way street, and both Development Objectives are needed to reach a more prosperous, well-governed democracy in Paraguay.

In order to measure the success in achieving “a more prosperous, well-governed democracy in Paraguay”, Americas Barometer LAPOP indicator on the percent trust in the national government¹⁰ and the percentage of satisfaction with the way democracy works in Paraguay could be used.¹¹

Development Objective (DO) I: Internal Management and Governance Systems Strengthened in Select Public Institutions

By developing the government’s institutional capacity (with strong human resources, tools, and processes) and strengthening accountability mechanisms (that shift the incentive structure), the Paraguayan State will govern more effectively. To achieve this Development Objective, USAID/Paraguay will work with select public institutions to: a) Increase their capacity; and b) Strengthen their accountability and anti-corruption efforts. Work under this objective will center on developing the capacity of and installing accountability mechanisms in the core public institutions necessary for a responsive democracy, focusing on key functions such as civil service, public financial management, and internal controls. To strategically identify interventions, USAID/Paraguay will prioritize those with a high degree of visibility to generate a significant positive impact on the general public and/or key selected audiences. The Mission will emphasize systems strengthening among institutions that provide key public services and/or goods to Paraguayans, such as the Ministries of Health, Education, Environment, Agriculture, and Public Works. These Ministries have a direct impact in the lives of the public at large and a direct relationship with their beneficiaries. The Mission will also ensure that interventions are compatible with the Government of Paraguay’s strategy and demand-driven, and focus on interventions that build upon prior successful reforms supported by USAID.

Indicators:

- Percent change in the Latin American Public Opinion Project (LAPOP) survey responses on Corruption, Clientelism, and Service Delivery in selected sectors.

⁹ USAID/Paraguay’s Democracy, Rights and Governance Assessment. September 2012.

¹⁰ Vanderbilt University’s Latin American Public Opinion Project (LAPOP), Core Questionnaire, Question B14: “*To what extent do you trust the national government.*”

¹¹ Vanderbilt University’s Latin American Public Opinion Project (LAPOP), Core Questionnaire, Question PN4: “*In general, would you say that you are very satisfied, satisfied, dissatisfied or very dissatisfied with the way democracy works in country?*”

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Assumptions

- Champions will remain in leadership positions within the Executive branch with the commitment and legitimacy to lead institutional change.
- A sufficient number of members on the Supreme Court, unions, and the civil society sector will support reforms aimed at increasing judicial independence.
- Key champions within Congress and political parties will support reforms aimed at increasing judicial independence, including at the constitutional level.

Risks

- Executive officials may be replaced with other leaders with different priorities or that are unwilling to support some of the proposed reforms and system improvements.
- Bureaucracy within certain GOP institutions will have no incentive to change, notwithstanding a few key leaders willing to lead reform.
- Lack of technical capacity within segments of the judiciary to effectively respond to increasing citizens demands.

Intermediate Result (IR) 1.1 – Increased Institutional Capacity

USAID will develop the institutional capacity of select public institutions to improve internal management, the management of public resources, and in specific cases, service to citizens. USAID will prioritize management systems that are critical for the government to function efficiently. It will also support the implementation of best practices to improve the government's ability to serve all Paraguayans more effectively. Although these processes take time, advancing key reforms that strengthen human and organizational capacity will ultimately impact the quality of public goods provided and citizens' satisfaction with government. Concurrently, we will seize windows of opportunity that demonstrate an effective government response to high priority needs. These strategic interventions will mobilize citizen support for public institutions in the short term, and develop sustainable capacity to address their demands over the long term.

Performance Indicators:

- % change in the People Management Index (IGP) score in targeted institutions.
- % change in Paraguay's Assessment of the national procurement system.

This IR will focus on achieving the following outcomes through its Sub IRs.

Sub IR 1.1.1: Management and procurement systems improved.

To achieve optimal response to citizen needs and guarantee the rule of law, the government must attract, hire and develop talented personnel with a long-term time horizon to invest their best efforts towards achieving a public service-oriented mandate. In addition to capable staff, aggregate control, prioritization and efficiency in the management of public resources requires sound public financial management (PFM) systems. Under this Sub IR, USAID/Paraguay will: 1) support the National Civil Service Secretariat (NCSS) to further develop a merit-based civil service career and install human resource systems that establish protocol for planning, job classification and organizational structure, recruiting, selection, career path, training, compensation, and performance evaluation, 2) install merit-based reforms and foster continuing education within the judiciary; 3) support the National Procurement Office in increasing the capacity of line ministry procurement units; and 4) develop the government's budgeting capacity.

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Performance Indicators:

- Number of new hires selected through merit-based procedures, disaggregated by sex.
- % compliance with contract administration regulations by targeted line ministry procurement units.
- % change in score on Budget Capacity Index by target institutions.

Sub IR 1.1.2: Institutional capacity to address strategic and high priority needs improved.

To increase public sector capacity and generate tangible benefits for citizens and GOP entities, USAID will support strategic and demand-driven investments in innovative public sector solutions to high priority problems or needs. The Mission will seize windows of opportunity that, while developing public sector capacity, also demonstrate effective and timely government response to high priority needs. These strategic interventions will help mobilize citizen support for public institutions in the short term as they make work to develop sustainable capacity to address citizen demands over the long term. Specifically, USAID will create a fund to support key GOP entities to develop and implement innovative internal management reforms. Additionally, since citizen awareness of the impacts of these reforms is key to promoting accountability, USAID will support a citizen outreach/communications component to ensure that citizens are aware of the reforms and associated benefits. To maximize impact and public awareness of reforms, this component will focus primarily on high impact investments that address key needs in selected institutions. For example, should USAID support management reforms and internal controls within the Ministry of Health, it may also provide funding to expand implementation of the pioneering Automated Information and Inventory Control System (SICIAP in Spanish). Priority needs to be addressed will be identified at the project design phase.

Performance Indicator:

- % change in citizen perception of service delivery in targeted sectors.

IR 1.2 – Accountability and anti-corruption efforts strengthened

To effectively reduce corruption in Paraguay, USAID will work with GOP counterparts including the Anti-Corruption Secretariat, the General Audit Office, the Controller's Office, and the Civil Service Secretariat, to foster internal and external accountability. By strengthening public institutions' internal capacity to monitor and sanction poor performance, government and judicial officials will face strong incentives to act and behave in a more ethical, efficient and effective manner. Likewise, increased civil society oversight will motivate public officials and institutions to comply with Paraguayan laws and regulations. USAID will also provide targeted and timely support for specific legal and policy reforms that promote increased transparency and accountability.

Performance Indicator:

- % of internal audit findings addressed by the Supreme Court.
- % of audit findings addressed by the Executive Branch.

This IR will focus on achieving the following outcomes through its Sub IRs.

Sub IR 1.2.1: Effective internal control systems to reduce corruption strengthened.

Enhanced internal controls are expected to result in greater *upward accountability* because of the increased capacity of managers and supervisors to monitor and sanction subordinates and increase *internal accountability* due to an improved capacity of the audit organs of the government to monitor and sanction public officials and institutions for poor performance. Under this Sub IR, USAID will foster implementation of internal control standards and strengthen institutions that perform vital internal control functions (Comite Interinstitucional de Control Interno, Contraloría, Auditoría General del Poder Ejecutivo and others) to perform policy setting, oversight, and technical support to public institutions regarding internal controls.

Performance Indicator:

- Number and percentage of targeted public sector institutions adopting internal controls standards (MECIP¹²).
- Percent improvement in the MECIP implementation index.

Sub IR 1.2.2: Increased government transparency and external accountability.

USAID will also advance external accountability through heightened government transparency and civil society oversight. As a precursor for effective oversight, civil society and the general public require access to information; the government must *supply* this information through transparent mechanisms. And, to create incentives and promote a more accountable government, civil society must *demand* transparent and ethical government performance. In implementing external accountability mechanisms and the establishment of networks, USAID will take advantage of technology.

Performance Indicator:

- % of Paraguay Open Government Plan under implementation.
- An early warning mechanism on economic crimes and corruption cases implemented.

DO 2: Increased Inclusive and Sustainable Economic Development for Small-Scale Producers and Vulnerable Populations in the Northern Zone

The proposed program is a “next phase” intervention that builds upon and amplifies the impact of prior programs. As a result of the well established relationships with cooperatives and producer associations and linkages with private sector and local government, as well as comprehensive value chain assessments, USAID/Paraguay can achieve significant results with a modest budget. Focus will shift from on-farm technical assistance to enhancing the capacity of producer associations and cooperatives to access value chains, with particular focus on the role of women. The program is designed to spur public and private investment and capitalize on the tri-lateral partnerships with the Government of Chile, Uruguay, Mexico and Colombia, as well as other donor support for the Northern Zone (including IDB, the World Bank and EU). This new

¹² MECIP is the Spanish acronym for Standard Model of Internal Controls for Public Institutions in Paraguay.

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economic growth program is anticipated to impact 20,000 families (representing 20 percent of the rural poor in this region), increasing their income by 50 percent.

USAID will focus its assistance to small-scale producers, through agricultural cooperatives, because this group represents the driving economic force in rural Paraguay and the livelihood of small-scale farmers is at the center of much of the political, social, and economic strife in this region. As mentioned earlier in this strategy, our focus will be primarily in the four departments of the Northern Zone (Canindeyú, Amambay, Concepción, and San Pedro). This region consistently represents the highest concentrations of poverty, the poorest physical infrastructure, the least access to credit and technical assistance for producers, and the lowest capacity of cooperatives and associations. Opportunities exist; however, as local governments are collaborating closely with the private sector and USAID to create and strengthen value chains, and this program will build on our successes with prior value chain projects (Paraguay Vende, Paraguay Productivo, IZN). Although the strategy will have a specific geographical focus, we will also consider the high poverty levels in areas outside the Northern Zone where pockets of rural poverty exist throughout the country when value chains are defined and need is identified. A crosscutting theme will be the focus on the participation of women in the agricultural labor force, by promoting women's leadership and addressing gender gaps. Under this DO, USAID will also support effective labor inclusion for People with Disabilities.

Performance Indicator:

- Total value of incremental sales of affiliated Producer Organizations.
- Change in rural income of target beneficiary group (Cumulative over baseline, collected at farm-level)

Assumptions

- The GOP will continue to prioritize rural development through agriculture in its national development plans.
- The global market and demand for Paraguayan agricultural products will remain strong in the next five years.
- Industrialization and the formalization of the economy in Paraguay will remain a slow process in the next ten years.
- Agriculture will remain a principal driver of the Paraguayan economy for the next ten years.

Risks

- Increased exclusionary practices of large agro-industrial companies with medium and large producers could further isolate the small producer and weaken the viability of the family farm in Paraguay.
- Higher prices for the major export crops and beef could increase the demand for a select variety of crops and reduce the opportunity to diversify Paraguayan agriculture for export and domestic consumption.

To address the issues outlined in this Development Objective, USAID/Paraguay will pursue the following results:

IR 2.1: Increased net income of small-scale producer organizations and enterprises through value chains and market access

USAID/Paraguay will build capacity within producer associations and cooperatives, allowing them to coalesce and formalize into sustainable, profitable, and inclusive organizations. They can leverage economies of scale and enhance their capacity to take advantage of both horizontal linkages with other producer groups and vertical linkages with key “anchor” firms and input suppliers. USAID will explore each association’s and cooperative’s technical, economic, and financial viability through an interactive process of capacity building to strengthen their ability to conduct marketing, sales, investment, technical assistance, and financial strategies.

USAID/Paraguay seeks to increase the Paraguayan departmental and municipal governments’ and the private sectors’ direct involvement in increasing the income of small-scale producers by leveraging planned investments, particularly in productive infrastructure to support selected value chains. Similarly, USAID/Paraguay will integrate local capacity development objectives into relevant work with local governments, civil society and agricultural associations and cooperatives.

Performance Indicator:

- Percent change in average rural income of target beneficiary group.
- Percent change in average farm-level yield of target beneficiary group.

Sub IR 2.1.1: Strengthened internal capacity of producer organizations or other productive enterprises

Strengthening producer group associations and cooperatives and other productive enterprises that promote agricultural productivity and sustainability of small-scale farmers, is a key way to accelerate employment creation (on and off farm) and income generation for significant groups of people, particularly women. By building capacity within these associations and cooperatives, allowing them to coalesce and formalize into sustainable, profitable, and inclusive organizations, they will leverage economies of scale and enhance their capacity to take advantage of both horizontal linkages with other producer groups and vertical linkages with key “anchor” firms and input suppliers. The program will explore each association’s and cooperative’s technical, economic, and financial viability through an interactive process of capacity building pertaining to the strengthening of their ability to conduct to marketing, sales, investment, technical assistance, and financial strategies. These value-added services will include the provision of technical assistance to farmers, joint marketing of crops, procurement of inputs, and possibly the provision of shared mechanized services as appropriate.

Sub IR 2.1.2: Increased agricultural productivity and sustainability

The program will provide technical assistance as appropriate that will foster implementation of economic and environmentally sustainable agricultural practices. While practices may vary based on value chain and location, USAID expects that they will include (but not be limited to) the following techniques: water management, soil preparation, soil management, including direct planting (siembra directa), use of fertilizers including “green manure”, use of improved seed varieties, conservation agriculture, crop rotation strategies, appropriate spacing of plants, and inter-cropping, organic production,

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climate change adaptation systems, natural resources management, integrated pest management, agroforestry, use of low-cost irrigation technologies, production planning, both at the farm level and at the cooperative, association, or comité level, etc.

Technical assistance will also include financial training (how producers can access credit, what the supply in the market is, and how to do business plans focused especially towards women) where appropriate. This financial component will aim to facilitate access to credit to producers' organizations' members that participate in the selected value chains. The program may also provide technical assistance to borrowers and lenders. Bank technical assistance may include helping bank staff revise their evaluation methodologies and/or develop new products.

Sub IR 2.1.3: Development and expansion of alliances between agricultural producer organizations and private sector firms

Local governments typically have equipment and own fiscal resources, as well as other funds that come from royalties and compensation (from Itaipu, Yacyreta, others). If informed by the concrete demands of social actors (producer organizations) and economic agents (companies/exporters or agro-industrial) and articulated into viable business plans, these resources may be applied to infrastructure on rural roads, hubs for distribution of products/inputs, and other services that can support the selected value chains. Investing in small agricultural infrastructure for irrigation, warehouses, packing plants, or roads will improve local governments' political standing, while contributing towards increased productivity.

Agro-industrial and commercial enterprises, pushed by internal and external demands are constantly looking for new suppliers in areas that are traditionally dominated by small agricultural producers. Companies are willing to invest their own resources, as evidenced in former USAID projects (Paraguay Productivo, Paraguay Vende, and FMB/DAP's Alianza San Pedro Sostenible), to promote appropriate technologies and offer guidance in terms of quality, food safety and good agricultural practices. Using a market-based approach, the project will foster alliances with private sector firms to get their commitment to support producers' organizations, in order to improve added value and prices of agricultural products, as well as market access. Rural women and youth can also benefit from job skills training to improve off-farm employment opportunities in the agribusiness value chains.

IR 2.2: Increased employment and business opportunities for vulnerable populations

Sub IR 2.2.1: Greater capacity and empowerment of women in agriculture

USAID will promote female empowerment and economic inclusion by improving participation of rural women in agricultural value chain activities. USAID will set explicit targets for increased participation of and benefit sharing for women, and will also ensure effective access by women to inputs, technology, and skills development.

The Mission will introduce female membership and leadership incentive mechanisms, gender training for male and female cooperative leaders and members, and business management and entrepreneurship training to empower rural women. The project will also identify and reduce barriers to credit for female small producers, and promote training and selection of female agricultural extension agents.

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USAID will support the implementation of new women-led agribusiness initiatives in producer organizations. Market research will be used to identify off-farm and on-farm economic opportunities with financial firms to seek incentives for provision of credit.

Performance Indicator:

- Number of Women promoted to positions of leadership within Agricultural Cooperatives

Sub IR 2.2.2: Increased capacity of people with disabilities to effectively enter labor markets

Certain populations need an intentional focus to make sure they participate in the benefits of the economy. USAID will work with local partners to assure that People with Disabilities (PwD) have new job opportunities available. By working with public and private institutions, including the Civil Service Secretariat and the recently created National Disability Secretariat (SENADIS), the program will help institutions identify accessibility barriers and identify job opportunities for People with Disabilities.

V. Monitoring, Evaluation and Learning

Strong monitoring and evaluation (M&E) efforts to track project implementation and assess project performance is critical to determine if the desired results are being achieved. This will also allow the mission to identify appropriate corrective measures to address implementation issues as they arise. Project M&E efforts will be carried out routinely by project and activity teams with the support of the program office. The baseline studies and beneficiary information will be used to facilitate midpoint and end-of-the-project evaluations. USAID/Paraguay will provide input to review and approve the Statement of Work, the selected evaluator, the evaluation methodology, the sampling plan, survey and/or interview instruments, and the final report. To ensure that USAID assistance makes the optimal contribution to gender equality, performance management systems and evaluations will include gender-sensitive indicators and sex-disaggregated data where applicable.

Performance Monitoring

The Program Office and the CORs/AORs will develop a uniform M&E system to collect the data and information from all implementing partners, to ensure consistency between the projects' M&E Plans and the Mission's Performance Management Plan (PMP). Consistent with ADS 203 guidance, selected key performance indicators identified during the development of the Project M&E Plan, will contribute to the Mission's overall Performance Management Plan. The Program Office will work with the Projects team to seek comments, suggestions, and input for identifying and refining activities from the beneficiaries, public and private sector institutions, and other stakeholders. Annual work plans will be reviewed semi-annually and revised as deemed appropriate.

Evaluation

Evaluation related to all programming will attempt to address and learn from the following aspects of implementation:

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- 1) Project Performance – The efficiency and effectiveness of the project in achieving the expected objectives, outcomes, and impacts; whether there are heterogeneous project effects between males and females;
- 2) Appropriateness of Focus – The efficacy of the primary project objectives given the country context, as well as USAID and GOP strategy and objectives. The sustainability and institutionalization of the activities and processes;
- 3) Cost-effectiveness: Choice of the methodologies employed in the project towards achieving project goals and objectives.

USAID/Paraguay will place a strong emphasis on building institutional and local capacity. This capacity building approach will extend beyond technical knowledge to include monitoring and evaluation and use of data for decision making. Thus, USAID will ensure its implementing partners include these topics as part of their capacity building activities.

Illustrative Evaluation Questions:

DO 1:

1. What is the overall effectiveness of the program on transparency, accountability and responsiveness in of the GOP?
2. Do the objectives of strengthening internal control and upward accountability demonstrate a reduction of corruption in the selected ministries?
3. Are the interventions sustainable and do they show an institutionalization of the activities and processes by the GOP?
4. Do the expected outcomes advance gender goals and female empowerment?

DO 2:

1. Does the production capacity of small producers increase when producer organizations demonstrate improved management capacity from USG assistance?
2. To what extent do the program beneficiaries incomes increase?
3. To what extent did women's participation and role increase in agricultural producer organization that received USG assistance?
4. Were the firms, cooperatives, and committees selected capable of adopting sustainable techniques and institutionalizing improved management practices?

ANNEX: Programmatic Considerations

CHALLENGES

Broad institutional reforms are necessary to strengthen Paraguay's democracy. In some areas, such as in the judiciary, these reforms may require constitutional and/or legislative modifications. Changing the institutional framework that constrains behavior will require a long-term effort prepared to handle dissent.

Different levels of producer organizations exist in Paraguay and many lack effective internal organization, cohesiveness, and connection to the private sector and government resources. They also have difficulty connecting with and improving the production of small farmers, particularly the most vulnerable ones.

The low level of agricultural yield in Paraguay, far below those of developed nations, and below most of their peers in Latin America, complicates the plight of the rural poor, especially small agricultural producers in the Northern Zone. For a number of crops, a 50-100% increase in yield would be an entirely reasonable expectation if good agricultural practices and more efficient technologies were implemented. For small producers, poor agricultural yield is inherently linked to access to credit, weak agricultural associations and cooperatives, limited private sector support, and poor rural infrastructure.

GOP institutions lack targeted technical assistance to respond to and promote policies for the rural poor, especially women. Constant deficiencies can be seen in the government's line ministries of Industry, Agriculture, and Planning. These ministries frequently miss opportunities to coordinate, establish plans, prioritize sectors, and pursue tasks to effectively collaborate with producer organizations and establish value chains.

Rural women have participation rates lower than men in many of the value chains, and Persons with Disabilities (PwD) are often excluded entirely from the labor market. More intentional efforts to include women and PwD will increase the base of the economy and provide greater equity.

OPPORTUNITIES

The new administration has demonstrated commitment towards advancing public sector reforms. The Executive's cabinet is composed of multi-partisan, technical professionals. This administration has made elimination of corruption and poverty its top two goals, and this strategy directly responds to that opportunity.

Agro-industrial and commercial enterprises, pushed by internal and external demands are constantly looking for new suppliers in areas that are traditionally dominated by small agricultural producers. Companies are willing to invest their own resources to promote appropriate technologies and offer guidance in terms of quality, food safety and good agricultural practices.

Attempts by the GOP to incorporate more small producers into value chains, diversify crop production and modernize agriculture have achieved limited success. However, evidence shows

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that where the Ministry of Agriculture has had a direct presence through its agriculture extension service, value chains with functioning cooperatives were more prosperous.¹³

Private initiatives and the market have primarily been responsible for driving the creation of competitive production chains, with the participation of medium-sized producers, and increasingly, small scale producers. Under the previous USAID economic growth program, private firms invested \$27.7 million and expressed interest in expanding their efforts in this area. With an expected GDP growth of 10% in 2013 the universe of private firms requiring quality production will likely increase.

USAID/Paraguay seeks to increase the government and private sector direct involvement in project implementation by leveraging planned investments, particularly in infrastructure. USAID/Paraguay will build on its successful experience developing local organizational capacity through grants to local organizations and integrating local capacity development objectives into relevant work with local governments, and civil society.

The program complements World Bank and other donor activities, ensuring a broader and more sustainable impact.

FOCUS AND SELECTIVITY

Geographic and Programmatic Focus: Programmatic focus will be on USAID's comparative and competitive advantages in promoting democracy, transparency in select government ministries and inclusive economic growth. Democratic governance activities will not be geographically bound, unlike economic growth interventions, which the Mission will geographically focus mainly in the northern zone of Paraguay. USAID/Paraguay will focus primarily on central-level institutions that set the stage for the provision of public goods and services within the capital and extend to the most remote corners of Paraguay. Strengthening support institutions, such as the Civil Service Secretariat and the Ministry of Finance, through interventions in national level policy and service improvement, will benefit the entire country. Similarly, support for the Judiciary will address key issues within the central-level judicial structure that will ultimately have an impact on quality of justice nationwide. Local level institutions clearly have a fundamental role in identifying and responding to citizens' needs and demands. Limited support may be provided to local and regional governments in areas that align with the overall strategy, such as pilot initiatives to decentralize civil service reform or internal controls, or innovative solutions to overcome service delivery bottlenecks. USAID will also incorporate the most relevant civil society groups that are strategically focused on the key issues targeted under this project.

Building on MCC's Threshold Program: USAID/Paraguay's strategy will continue to build upon the achievements of the MCC Threshold Program, including improved human resource management and internal control systems in select public institutions, and greater transparency and external accountability. The strategy will also pursue opportunities to build the capacity of the Ministry of Finance, the Judiciary, the Public Ministry, and the National Procurement Office.

¹³ 2011, UN Economic Commission for Latin America and the Caribbean (ECLAC), AECID: Trade and poverty in Paraguay: the case of an agribusiness value chain.

GENDER AND DISABILITY

USAID/Paraguay's investment under its development objective will seek to achieve two of the three principal outcomes of the USAID Policy on Gender Equality and Female Empowerment: *Reduce gender disparities in access to, control over and benefit from resources, wealth, opportunities, and services – economic, social, political, and cultural; and Increase capability of women and girls to realize their rights, determine their life outcomes, and influence decision making in households, communities, and societies.*

A complete gender assessment of the USAID/Paraguay mission portfolio was conducted in July, 2011, identifying significant gaps in political and economic spheres. To address these issues, this CDCS integrates gender considerations throughout proposed programs. Under DO I, the Mission will seek to leverage women's participation in both civil society and public sector institutions to strengthen citizen demands for services and accountability, ensure that public institutions collect of sex-disaggregated and qualitative data to improve responsiveness to citizen needs, and identify service delivery gaps in the selected ministries where they discriminate based on gender or reinforce negative gender stereotypes.

Gender inequalities, unequal representation in the workforce, and culturally enforced gender roles create an additional dimension to rural poverty. This is most evident in patterns of employment and income, access to resources, control over assets, and access to justice and health care. Under DO II, the Mission will introduce female membership and leadership quotas, gender training for male and female cooperative leaders and members, and business management and negotiation training for women within the beneficiary producer organizations, identify and reduce barriers to credit for female and male small producers, and include training and selection of female agricultural extension agents by recruiting from universities and providing flexible work arrangements that accommodate the domestic responsibilities of female agricultural extension agents.

The Mission will further leverage good practices by strengthening the inclusion of gender criteria in its project design (including the identification of indicators), solicitation documents, and monitoring and evaluation. In accordance with ADS requirements, Mission will systematically capture information regarding positive results of the Agency's work in terms of gender equality and women's empowerment.

Likewise, USAID policy advances a clear vision and framework for the Agency's efforts in the area of disability. The policy states that USAID will not discriminate against People with Disabilities (PWD) and will work to ensure the inclusion of PWD in USAID-funded programs and activities.

In line with USAID's Disability Policy¹⁴ and the DRG strategy¹⁵, USAID/Paraguay will promote greater inclusion by increasing the capacity PwD to access and participate in social and economic development activities. USAID/Paraguay will also seek to strengthen the capacity, coordination and services of Disabled Persons Organizations (DPOs). Activities will foster participation of PwDs and DPOs in policy development and advocacy, while also seeking to increase employment and economic opportunities for PwD, particularly women with disabilities. Activities in this area will also be guided by the values and provisions of the UN Convention on the Rights of Persons with Disabilities.

¹⁴ http://www.usaid.gov/about_usaid/disability/

¹⁵ <http://www.usaid.gov/documents/1866/usaid-strategy-democracy-human-rights-and-governance>

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