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## Duarte Takes Office

*by LADB Staff*

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Nicanor Duarte Frutos, whose party, the Asociacion Nacional Republicana (ANR, Partido Colorado), has governed Paraguay uninterrupted since 1947, took office as Paraguay's president on Aug. 15. Duarte takes over a country wracked by widespread poverty and endemic corruption, with an economy bordering on collapse.

During his inaugural address, Duarte strongly criticized neoliberalism and promised development "with a human face." He said, "Neoliberalism has been a failure because it denies and enslaves human dignity." Duarte criticized the "oracles of joblessness and misery" and rejected any application of "imitative cultures" or service to "foreign interests." He said that "the human person is more than the market."

The 46-year-old Duarte was raised in the city of Coronel Oviedo, 300 km east of Asuncion. He worked as a sports announcer in his home city and moved to Asuncion after earning a law degree in the city of Villarrica. He was a journalist with the daily newspaper Ultima Hora, studied philosophy and political science, and taught sociology and ethics at the Universidad Nacional.

Duarte joined the Partido Colorado when he was 14. He was vice minister of culture during the government of Gen. Andres Rodriguez (1989-1993) and minister of education under both Juan Carlos Wasmosy (1993-1998) and Luis Gonzalez Macchi (1999-2003). He later became an outspoken critic of Gonzalez Macchi and was elected president of the Partido Colorado in 2001, a position often described as more powerful than the presidency (see NotiSur, 2001-05-11).

Paraguayan political and economic analysts said Duarte Frutos would immediately have to deal with reducing the fiscal deficit, reforming the state apparatus and the social security system, battling corruption, and implementing a monetary policy that can reactivate production.

### *Economy is a disaster*

Despite Duarte's criticism of the policies of international lending organizations, soon after his election, he sent a delegation to Washington to talk with representatives of the IMF, the Inter-American Development Bank (IDB), and the World Bank. One of the delegation's tasks was to explain Duarte's "100-day plan," which puts a priority on seven legislative initiatives, including several pushed by the IMF.

Nevertheless, the economic situation left by the Gonzalez Macchi administration will make it difficult for Duarte to achieve his "immediate objectives" of reactivating the economy and strengthening the financial sector. The new government started with a US\$1.8 million negative balance, after paying salaries and suppliers the US\$15.4 million owed when Duarte took office.

The Central Bank says the GDP should grow by 1% this year, but the IMF and private analysts say the economy will shrink by 1%. In 2002, GDP fell 2.2 percentage points, the fiscal deficit reached US \$140 million or 3.2% of GDP and the trade-balance deficit topped US\$606 million.

In June, arrears in private banking were 30%, and 50% in public. The fiscal deficit is now US \$200 million, the foreign debt almost 60% of GDP, and the illicit economy of contraband and counterfeiting is believed to exceed legitimate economic activity. One of the few favorable indicators has been the slight improvement in monetary reserves, which grew from US\$732 million to US\$781 million from April to June.

Economist Luis Campos said the biggest problems faced by the new administration would unfold in the Ministry of Finance. He said Paraguay's fiscal revenues are stagnant, which will require a combination of measures that will lower state expenses and increase tax collection."

Asuncion-based firm Consultores y Asociados estimated that tax evasion jumped from 42.5% in 1998 to 73.5% in 2002. Recently, the state barely met its salary obligations for public employees and had stopped paying its suppliers and its interest on debt.

Another immediate problem is state reform, because cutbacks "will necessarily involve reducing state employees," said Campos. That could lead to widespread layoffs of employees who do not actually work but receive salaries as a result of electoral clientelism, which would push the unemployment level even higher.

Official figures put unemployment at 16.4%, although with underemployment the figure is double that. Campos said these problems require specific programs with external support to dissipate the social tensions and retrain people who are laid off. He also suggested measures like early retirement, "to ease the social impact until public spending can be redirected toward public investment, an area that is also practically paralyzed."

"Another area that merits immediate attention is the foreign debt," says Patricia Munoz, business analyst and consultant. "As revenues stand today, nothing would be left over to pay the service on the foreign debt while at the same time carrying out economic reactivation efforts."

Paraguay's debt clouds its future. It is behind on interest payments for nearly all its foreign commitments. As of May, the sum owed to multilateral financial organizations like the World Bank, IMF, and IDB was US\$2.27 billion.

## *Poverty called most serious problem*

On Aug. 25, the Direccion General de Estadisticas y Censo (DGEEC) said that 48.8% of the population lives below the poverty line, a 44.8% increase in the last three years. Those figures are based on data gathered in late 2002. In 1999, the percentage of people living in poverty was 33.7%. "Nearly 2.6 million Paraguayans live in poverty because their incomes are less than the cost of a basic basket of consumer goods (US\$32.30 per person)," said the report, which put the rural-poverty

figure at 52.3% and the number of "extreme poor" those who cannot afford even the basic food basket (US\$16.40) at 1.4 million.

In March 2001, the per capita monthly income was US\$72.05, while in December 2002 it was US\$52.87. About 27% of the population have no access to health care, and more than 50% lack potable water. The growing inequality is attributed to the economic recession that the country has been in since 1999, during which the average growth rate was 0.2% and the average yearly population growth rate was 2.6%.

"For the past ten years the clearest transition in Paraguay is from poverty to extreme poverty," said Duarte during the campaign. "It is difficult to choose which problem is the worst," said analyst Alfredo Boccia, "but it is definitively poverty. Paraguay is among the poorest countries on the continent and has more than a half million people unemployed."

### *Corruption is a costly problem*

Along with the high unemployment rate, corruption must also be considered a major problem. Hopes run high that Duarte will make good on his promise to fight corruption which costs the country US\$5 billion annually. But corruption is deeply entrenched and eradicating it will be difficult. In the latest study published by German-based Transparency International, Paraguay topped the list as the most corrupt country in Latin America and third-most-corrupt in the world.

"True power in this country lies with the mafia," political scientist and economist Victor Jacinto Flecha told Inter Press Service. "The governmental, legislative, and judicial structure of Paraguay is practically a facade inside which democracy is utilized by sectors of the mafia." Flecha, director of the nongovernmental think-tank Coplanea, said the unknown variable is whether Duarte Frutos has sufficient political muscle "to confront that powerful machine" behind the Paraguayan government.

In this context, both Duarte's discourse and the small signals being sent by the new administration should be taken with a grain of salt, he said. "If Nicanor is able to stop corruption and reduce the level of poverty, he will have done enough to be remembered as a good president," said Boccia, who added that the public's expectations of a president are based more on desperation than on rational analysis of what can be accomplished.

Former Presidents Gonzalez Macchi and Wasmosy both face charges of corruption, and Gonzalez Macchi narrowly escaped impeachment in January (see NotiSur, 2003-02-14). Still pending are charges against him for alleged illegal diversion of US\$16 million from two banks under state intervention to accounts in the US. Now that Gonzalez Macchi is out of office, he is without immunity.

On Aug. 14, Paraguayan Judge Hugo Sosa barred him from leaving the country pending the completion of the investigation into the corruption charges, and, on Aug. 27, Sosa said he would prosecute Gonzalez Macchi for the diversion of funds.

## *Jobs creation is public priority*

Even though they are experiencing the worst economic crisis in history, many Paraguayans are optimistic about the new administration. Of those consulted by the Instituto de Comunicaciones y Arte (ICA), 62% said they expect the new administration to perform well or very well. Eighteen percent said performance would be average, while 13% said it would be poor, and 7%, very poor.

A poll by First Analisis y Estudios published in the daily ABC Color Aug. 12 showed jobs creation was the priority of most Paraguayans. In Asuncion, 50.6% of respondents said the first thing Duarte should do is create jobs. While the recent polls suggest that citizens are ready to give the new government some time, the homeless movement and campesino organizations are preparing to mobilize and press their demands for decent housing and a better standard of living in rural areas.

On Aug. 19, Treasury Minister Dionisio Borda said people are expecting the new administration to reverse "20 years of stagnation, five years of recession, growing levels of poverty and unemployment, increased debt, and the government's failure to keep its commitments." But he warned that the crisis calls for far-reaching measures and that results "cannot be magic nor can they happen from one day to the next."

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