



ACCOUNTABILITY AND ETHICS IN PARAGUAY

Assessment Report Fall 1999

Introduction

As a part of its anti-corruption efforts begun in Paraguay in 1997, the National Democratic Institute for International Affairs (NDI) conducted an assessment mission from May 9 to 15, 1999, to determine the feasibility of continuing the Institute's anti-corruption programs with Congress, the municipality of Asunción and the executive branch after the impeachment of President Raul Cubas Grau and the establishment of a new government in March of 1999. This report provides an overview for anti-corruption activities.

While the events of the last year indicate an unprecedented opportunity to battle Paraguayan corruption and strengthen public and investor confidence in the country's democratic process, this window of opportunity is closing. If international actors are to work to strengthen democratic health in Paraguay, they must move quickly.

Summary

As increasingly meaningful and legitimate elections have become more common, the early euphoria in Paraguay and across Latin America is giving way to the sobering realizations of the significant challenges facing many new democracies. One of the main challenges is the threat corruption poses to democracy and it is particularly apparent in Paraguay, a nation with historically systemic corruption that flourished under 35 years of authoritarianism. Transparency International's 1998 "Corruption Perceptions Index" ranked Paraguay the second most corrupt country out of 85 countries in terms of public perception of corruption.

Nobel Laureate Oscar Arias noted, "Corruption is best exposed, and best attacked, in a democracy. Corruption can only be examined and eradicated in an environment of pluralism, tolerance, freedom of expression, and individual security -- an environment that only democracy can guarantee." Ultimately, corruption is a political problem, best solved democratically.

To that end, NDI has been actively involved in Paraguay since 1988 (see Annex 1). The NDI program initially focused on helping local civil groups open democratic spaces and organize in anticipation of a democratic transition. Since then, the program has expanded to include civic education; government decentralization; voter education and pollwatcher training; political party building; observation of presidential and municipal elections and presidential primaries. In 1997,

recognizing the continued threat of corruption to the health of democracy, NDI started working with Paraguayans to pursue greater accountability and transparency. NDI conducted several surveys to gauge public attitudes, initiated extensive electoral reform discussions between congressional representatives of all political parties, provided several international experts to discuss campaign finance laws, hosted a round table discussion which brought together international and Paraguayan experts to discuss transparency in a democratic system, and worked to help civil society and the public sector work together on anti-corruption efforts (see Annex 2 for NDI activities in Paraguay).

In the latter part of 1998, growing political will to fight corruption and the positive response of all political sectors to NDI's activities led the Institute to undertake a larger anti-corruption program. In response to requests by President of Congress Luis González Macchi, Mayor of Asunción Martín Burt, and Finance Minister Gerardo Doll, NDI initiated a program to help Congress and the municipality of Asunción develop and implement anti-corruption programs (see letters of invitation in Annex 3). Many leaders of the Paraguayan Congress were in favor of initiating an anti-corruption program to closely monitor irregularities in the executive branch. In turn, President Cubas Grau saw the anti-corruption fight as a means of gaining international legitimacy, particularly in the eyes of the US government.

Tragic political events forced NDI to postpone its activities. On March 23, 1999, unidentified gunmen assassinated Vice President Luis María Argaña. Immediately after the assassination, a growing number of students and other protestors filled the streets of the nation's capital calling for the resignation of President Raul Cubas Grau and the jailing of his political mentor and former coup leader General Lino Oviedo. On March 26, located on buildings surrounding a downtown plaza, several snipers, allegedly followers of General Oviedo, began shooting. Seven protestors were killed, and up to 200 were injured. These events forced President Cubas to resign two days later. Immediately following Cubas' resignation, a coalition comprising Vice President Argaña's supporters and the two main opposition parties formed a "National Unity" government headed by González Macchi.

In the wake of these events, NDI conducted an assessment mission and follow-up trips to measure the disposition of the new government and Congressional leaders toward the proposed ethics programs and to identify the locus of corruption in Paraguay. NDI found a strong consensus that the current coalition government, the climate of public involvement, and the expectations raised in the March crisis offered a unique opportunity to deal with the issue of corruption (see letters requesting technical assistance from NDI in Annex 4). Most notably, President González Macchi publicly made the fight against corruption one of his administration's highest priorities. Unlike his predecessors, González Macchi was perceived by Paraguayans as credible in his anti-corruption statements -- a perception bolstered by the fact that he leads a government of *national unity* representing most major political parties¹. NDI has a history of cooperation with González Macchi starting in 1997 when, as a congressman, he worked with NDI on electoral reform legislation.

¹ At the final authoring of this report, the governing coalition was increasingly fragile and the leading opposition party, El Partido Liberal Radical Auténtico (PLRA), had already withdrawn.

Another positive development was the rise of new, vocal non-governmental organizations (NGOs). Groups such as *Jovenes por la Democracia* (Youth for Democracy) and *Ahorristas Estafados en Acción* (Defrauded Depositors in Action- AEA) have joined established civic society institutions like the Catholic Church to advocate the adherence to constitutional government.

However promising, these openings are fragile and require immediate support – support that recognizes the underlying political issues at work.

Background

Corruption has been pervasive in Paraguay for much of its history as an independent nation. The country's location between the much larger nations of Brazil and Argentina has long made it a favored location for contraband trade. In recent years, traditional smuggling of alcohol, tobacco products, perfume, and other luxury items and weapons has expanded to include narcotics trafficking, money laundering, migrant smuggling, and massive motor vehicle theft. Furthermore, entire areas of Paraguayan territory were isolated and developed to serve as centers for illicit business and havens for those individuals involved in the wide variety of international crimes. For instance, Ciudad del Este, originally named Puerto Stroessner, was created specifically by long-time ruler General Alfredo Stroessner with the idea that criminality could be limited to specific geographic areas.

The 35-year dictatorship of General Stroessner institutionalized the system of internal corruption that has plagued government operations and services, discouraged foreign investment, and undermined public confidence in both government and private institutions. Not only did the central government treat public resources as personal assets, the regime also created a network of regional "fiefdoms" as a way of rewarding loyal supporters and buying off potentially threatening political opponents. Stroessner referred to these practices as "the price of peace." The construction of the Itaipu dam illustrates the level to which corruption was embedded into Paraguay's political and economic system. Colonel Gustavo Stroessner, the general's son, granted his cronies permission to build the dam, a Brazilian-Paraguayan project, without a transparent licensing process. The construction of the dam cost \$30 billion, of which an estimated one-third was used for personal gain by businessmen and government officials in both countries. In Paraguay these beneficiaries became known as the "Barons of Itaipu."

Neither the system nor the attitudes engendered by this heritage disappeared with Stroessner's fall in 1989. Unlike other transitions to democracy in Latin America, Paraguay's transition was prompted by a power struggle between Stroessner and a group of generals, all within Stroessner's dominant Asociación Nacional Republicana, or Colorado Party. General Andres Rodriguez staged a coup in 1989 to prevent Stroessner's son from becoming the next president. Immediately after the coup, Rodriguez called for elections and was elected to serve as president until the general election of 1993. Despite his reputed complicity in the Itaipu development scandal, businessman Juan Carlos Wasmosy became President of Paraguay in 1993. His victory may have been the result of an alleged scheme designed and implemented by Rodriguez's close advisor, Army General Lino Oviedo, that ensured Wasmosy's victory of the Colorado Party nomination at the expense of party leader Jose María Argaña. Thus, despite the internal plots and rivalries, the Colorado Party remained the nation's undisputed political force,

and would win both post-Stroessner presidential elections. Police and military impunity continued, public confidence in the administration of justice sank, and corruption flourished.

However, despite this relative strength and success, the Colorado Party's problems with internal divisions continued. A 1996 coup attempt by Oviedo marked the end of his partnership with Wasmosy. Due to strong international pressure, Oviedo failed in his effort and was dismissed from the military. Nevertheless, he remained a prominent force within the Colorado Party, reflecting public nostalgia for the order of the Stroessner era. To prevent his potential success in the 1998 presidential election, President Wasmosy had Oviedo arrested, tried and convicted of attempting to overthrow the government, thus producing a new political crisis. This crisis was resolved by the Colorado Party statutes which established that Oviedo's running mate, Raul Cubas Grau, would become the party's presidential nominee and that the runner-up in the primary elections, Luis María Argaña, would become the vice-presidential candidate.

Cubas won the 1998 election and promptly precipitated a new crisis. Just three days into his presidency, Cubas freed Oviedo and restored his purged supporters to the military. A grim economic environment, still reeling from the massive banking crises in 1995 and 1997, contributed to heightened tensions across the nation. While Congress was in the process of impeaching President Cubas, Vice President Argaña was assassinated on March 23, 1999. Public unrest, most visible in the popular demonstrations led by Jovenes por la Democracia, ultimately forced both Cubas and Oviedo to flee into exile and brought Senate President Luis González Macchi to the presidency. González Macchi formed a "Government of National Unity" with representatives of the opposition parties for the first time in the country's history and began a purge of Oviedo's supporters from the government and the military.

Assessment Format

NDI's first mission to Paraguay from May 9 to 15, headed by Gerardo Le Chevallier, the Institute's Director for Latin America and Caribbean, included Richard Millett, Latin America expert, Leslie Wilcox, former Deputy Ethics Counselor at the General Accounting Office, and Dale Crowell, NDI Program Officer. This mission was conducted in conjunction with a World Bank mission headed by María González de Asis and designed to consider launching a joint anti-corruption program. This mission was originally scheduled for March but was postponed following the assassination of the vice president. In the aftermath of the crisis, NDI held consultations with the new government and ensured the support of the new president to carry out the assessment mission in May. Le Chevallier and NDI staff members Sharon White and Claudia Barrientos later conducted a series of follow-up assessments.

During the assessment mission, the delegation met with a broad range of leaders from Paraguayan civil society and government including, but not limited to, the Industry and Commerce Minister, the Treasury Minister, the Justice and Labor Minister, the Interior Minister, the Comptroller General, the Supreme Court President, members of Congress, the Defense Minister, business associations, and several NGOs, including Paraguay Jaipotava and Transparencia Paraguay. (See Annex 5 for assessment mission agendas).

Findings

Several basic points emerged from the meetings. There was a strong consensus that the current coalition government and the climate of public involvement and expectations created from the March, 1999 political crisis offer a unique opportunity to deal with the issue of corruption. However, there was broad agreement that this window of opportunity could be brief and that concrete measures would have to be taken quickly to maintain momentum and prevent a loss of public faith and interest.

NDI reached some basic understandings about the issue of corruption. Everyone with whom NDI met seemed to recognize the gravity and urgency of the situation. Each readily acknowledged that corruption is a principal obstacle to both the consolidation of democracy and economic development. There was consensus on the following:

- corruption is confined to neither the government nor the private sector;
- corruption is pervasive in the Paraguayan system of government and economics;
- corruption is rooted in long-standing practices, in the weakness of legal mechanisms, and in the size of the informal and underground criminal economy (approximately two-thirds of the national economy); and
- corruption is due in large part to a civic culture accustomed to tolerate corrupt practices with low expectations of government efforts to deal with this issue. (Indeed, according to Horacio Galeano, a well-known and respected Paraguayan lawyer, corruption for Paraguayans is “a way of life; it is not seen as a problem.”)

Furthermore, corruption in Paraguay cannot be addressed without a deep understanding of the larger political environment with which it is fundamentally related. For example, many politicians benefit financially from corrupt practices such as customs fees. Ending corruption in one area may remove a politician’s primary source of funding. With corruption so deeply rooted in the country’s political system, efforts for change must be made with caution to ensure their political viability.

Also, Paraguay is currently paying for what General Stroessner called “the price of peace.” The general acted on the belief that by institutionalizing and organizing criminal activity, he could limit its geographic spread and social impact while ensuring internal stability. To that end, he developed the system that awarded geographical and functional fiefdoms to his generals and friends. With Ciudad del Este as the center of illegal activity, the rest of the country remained relatively untouched by crime. For example, while drugs were shipped through Paraguay, none was allowed to stay in the country for consumption.

However this structural restraint was only effective with the heavy hand of authoritarian government. With the transition to democracy in 1988, criminality easily spread to other regions of the country and pervaded society. For instance, the weak banking laws and lack of transparent oversight required for money laundering under the Stroessner regime lead to the financial crises of 1995 and 1997.

NDI’s assessment meetings also identified several positive developments that may provide opportunities for future anti-corruption activity. The emergence of new NGO’s, such as

Ahorristas Estafados en Acción, Jovenes por la Democracia and Transparency International-Paraguay¹, combined with the strengthening of older organizations such as the Centro de Información y Recursos para el Desarrollo (CIRD) and Decidamos makes it possible to involve citizen groups more directly in such efforts. The human resources mobilized by these groups will be critical to the success of any anti-corruption program.

The coalition government makes it possible to pursue anti-corruption legislation with a lessened degree of political conflict, since there is a reduced danger of converting debates on corruption into efforts to damage the image of the existing government.

Civil-military relations are less an obstacle to effective reform than they have been though most of Paraguay's history. There are individuals in key positions, such as Minister of Defense Nelson Argaña and Commander of the Navy Admiral Rafael Ocampos Alfaro, who appear committed to reform efforts and who have higher degrees of public credibility than has generally been the case in previous administrations. Fierce internal fights in recent years have discredited the most politicized factions of the armed forces and strengthened advocates of greater professionalization. These internal fights have also broken down the tradition of military impunity and mutual cover-up.

There are, however, serious obstacles to any effort to curb corruption. First and foremost is the prevailing civic culture that both accepts corruption and discourages efforts to combat such practices. According to an NDI focus group report conducted by Argentine pollster Graciela Römer, honesty for Paraguayans includes the practice of misusing government resources but sharing them with others. Tolerance for smuggling is especially high, given the nation's long tradition of the practice. One common indicator of public acceptance of illegal practices is the widespread sale of automobiles without legal documentation, usually advertised on the classified sections of major newspapers. It is also expected that low salaries will be supplemented by bribes and other illegal means. Government employment is viewed largely as a reward for political loyalty; there is little expectation that competence will play a role in securing a job nor retaining it. Such practices are a key to both maintaining political loyalties and securing funds for future campaigns, and they can cripple political efforts to deal with this situation.

Second, the current coalition government is fragile. The issue of electing a new Vice President in August 2000 has the potential to disrupt the coalition, as do problems over the control of appointments in the various ministries. However, it should be noted that most of those with whom the NDI delegation met, regardless of party affiliation, seemed to believe that these obstacles would be overcome and unity maintained, at least until 2002, the year before the next general elections.

Third, there are a host of specific problems in Paraguay's Constitution and laws. Among the most important are: Law 200 regulating public employment, which serves as an obstacle to the establishment of any effective civil service system; the inability of the Comptroller General's

¹ NDI helped the Christian Business Association (Asociacion de Empresarios Cristianos - ADEC) establish the Paraguayan chapter of Transparency International through exchanges of information and experience with TI chapters in Argentina, Chile and Venezuela.

Office to secure sanctions for violations of government regulations; the lack of effective control over customs officials; and the questionable nature of the bidding and contracting process at all levels.

Fourth, the state lacks adequate financial, material, and human resources in almost every area, a situation exacerbated by the ongoing financial crisis. The government needs improved allocation of existing resources and international assistance if any anti-corruption program is to achieve success.

Fifth, the conflict between the Mayor and the Municipal Council in Asunción has made it impossible to begin any effective program of assistance to the municipality until this situation is resolved. Even then, should there be a change in administration, it will take additional time and effort to establish needed working relationships.

Finally, the scandals connected with recent bank failures highlight a general lack of effective regulation of private sector activities and the prevailing weakness and corruption of the administration of justice. These scandals and regulatory shortcomings increase dangers of privatization and public skepticism.

Recommendations

It is clear that Paraguayans want and need international support in dealing with the issue of corruption. The country needs assistance in making effective efforts that will maintain the momentum for reform. Exposure to successful experiences in other nations such as Bolivia, Chile, and perhaps El Salvador, would be beneficial in this regard. It would also be useful to publically study the negative cases where the failure to enact reform and maintain political unity in this area produced high economic and political costs.

Paraguayans need to act in a manner that will be highly visible to the public and produce immediate, short-term results. Possibilities are numerous, but priority areas should include the following areas:

Leadership

- *Encourage Congress to lead an all inclusive fight against corruption including approval of the control measures outlined below. As the key representative institution in a democracy, Congress must lead any anti-corruption effort in partnership with civil society. Indeed, Congress constitutes a critical pillar in the overall fight against both grand and petty corruption, both through legislation and its constitutional mandate to oversee government agencies. Congress should begin by creating its own Code of Conduct to serve as an example to other sectors. In addition, as part of its state reform efforts, Congress should be encouraged to pass legislation to strengthen its oversight capability.*
- *Support local NGO efforts to conduct civic education and to increase citizen participation in and oversight of government operations.*

Incentives

- *Promote the creation of corruption-free government institutions* to create showcases of clean government and to show Paraguayans that corruption can be controlled.
- *Initiate training programs in basic financial procedures for public officials* at the national and municipal levels.

Control Measures

- *Reform of Law 200* to establish reasonable and enforceable standards of professional competence in the public sector, thereby facilitating the removal of corrupt and/or incompetent public employees.
- *Strengthen the authority of the Office of the Comptroller General* to enable it to properly investigate corruption cases and prosecute violations.
- *Support efforts at police and judicial reform* to strengthen the ability and authority of these institutions and to facilitate efforts to purge corrupt elements.
- *Support efforts to improve the country's capacity to monitor Paraguay's customs service, airports and rivers* to deal more effectively with narcotics trafficking, contraband, piracy, and illegal migration, all of which contribute to the prevailing climate of corruption.
- *Promote efforts to strengthen controls over financial institutions.* This will help restore public confidence and combat growing problems of money laundering.

Political Considerations

It should be noted that in the Paraguayan context any effort must make clear both the costs of failure to reform and the benefits to public officials and the private sector of effectively confronting the issue of corruption. Priorities and detailed programs must be generated by Paraguayans and not imposed by the international community. Reform efforts can only succeed if those in power truly realize that failure to promote positive change will severely damage both their own interests and the future of their nation. The sense of urgency must be maintained; there must be some assurance that international support for reform efforts will be sustained; and ultimate responsibility and direction must clearly remain in Paraguayan hands.

There are some positive developments on which to build international cooperation, as illustrated by improved Paraguayan perceptions of corruption in Transparency International's "Corruption Perception Index". First, in 1998 the Paraguayan chapter of Transparency International was established to help civil society increase accountability in the public sector and educate the public about anti-corruption strategies.

Second, Ahorristas Estafados en Accion -- a group founded by 10 depositors who lost their life savings in the 1995 and 1997 banking crises that implicated the president, the entire government and the central bank president -- could be a partner for international donors. During

the crisis, 14 banks and 40 savings and loan institutions failed leaving 350,000 Paraguayan small depositors without savings. The AEA seeks to empower the small depositors by providing them with advocacy skills and encourages each individual to become actively involved in the campaign to get full restitution from the government. The 1,500-member AEA presented a bill to Congress outlining a complimentary law that would allow the government to fully compensate all 350,000 of the victimized depositors.

Third, a Consejo Nacional Anti-Corrupción (National Anti-Corruption Council, CNA) was formed by the unity government to fight corruption. The CNA is made up by the General Comptroller's Office, all government ministries, Transparency International-Paraguay and other non-governmental organizations, and the Catholic Church.

Fourth, human rights organizations established the Tribunal Ético contra la Corrupción y la Impunidad (Ethical Tribunal against Corruption and Impunity) to build an ethical society based on diversity, solidarity, justice and liberty. The Tribunal is made up of well-known human rights activists who are also committed to the fight against corruption.

Fifth, Congress is studying the possibility of setting up a bicameral ethics committee that would pass anti-corruption laws and monitor government institutions. During several trips, NDI provided comparative studies on ethics committees and their roles to senators Raul Ayala (National Encounter Party) and Juan Carlos Ramirez Montalbetti (Liberal Party), who are involved in the creation of this bicameral committee.

Conclusion

NDI conducted its last trip to Paraguay from October 29 to November 7 to reassess the political situation and determine the feasibility of continuing its programs with Congress and the mayoralty of Asunción. NDI held meetings with political parties, Congress, nongovernmental organizations, the World Bank, the Inter-American Development Bank, USAID, Transparency Paraguay and the Paraguayan government. The following are some conclusions from this assessment.

The window of opportunity to work with the National Unity Government on anti-corruption issues appears to be closing quickly. The government has other urgent priorities that make it difficult to carry out anti-corruption programs at this point in time. Paraguay is undergoing a severe economic crisis evidenced by the fact that the government lacks the necessary revenues to pay public administration employees. The government will use a loan from the Chinese government to cover these expenses.

The National Anti-Corruption Commission set up by the government with World Bank support to lead the fight against corruption is working at a much slower pace than expected. The close relation between the head of this commission, Minister of the Presidency for Political Affairs Agustin Gonzalez Insfran, and President Gonzalez Macchi, leads many Paraguayans to assume that the government is not committed to fight corruption. Another challenge facing the CNA is the refusal by leaders of Congress and political parties to participate thus far. Some congressmen believe that, according to the Constitution, the legislative branch should be the primary actor in anti-corruption efforts. Many congressmen propose to use as a guide for

Paraguay the Bolivian model, where the head of the anti-corruption commission is the president of Congress (and national vice president).

The fight against corruption operates within a political arena. Without political will, any sincere efforts for reform will be futile. Anti-corruption programs in Paraguay further depend on intimate knowledge of the country's unique political environment. NDI feels confident in its ability to conduct ethics programs in Paraguay but understands the importance of program timing.

Despite the closing window of opportunity for action in certain areas, NDI will continue to support anti-corruption efforts. NDI will continue: working with Congress to help senators set up a bicameral committee on ethics; providing material and technical assistance to civil society groups; and providing financial support for an anti-corruption public service announcement campaign in conjunction with the Latin American and Caribbean Network of Community Radios.

However, NDI has decided to suspend its work with the mayoralty of Asunción because of conflict between Mayor Martin Burt and the Municipal Council amidst allegations of corruption.

As corruption is a political issue, focusing on legislation is not the only solution. Success in addressing corruption requires mediation among political classes and civil society. NDI can offer assistance in such mediation. Through its programs, NDI has successfully encouraged civic and political leaders to focus on common objectives and work cooperatively.

NDI has enjoyed a solid relationship based on democratic development with the government and people of Paraguay since 1988. We will maintain that relationship and work towards mutual goals.