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INTRODUCTION

ECONOMY AND SOCIETY AIMS TO CONTRIBUTE TO BROADENING THE SPACE FOR DEBATE BY OFFERING ITS READERS AN ANALYSIS OF PARAGUAY'S ECONOMIC PROCESS. PROFESSIONALS COMMITTED TO THE COUNTRY ADDRESS HERE THE CAUSES AND CONSEQUENCES OF EVENTS AND SEEK TO PROMOTE DISCUSSION AMONG THE VARIOUS SOCIAL ACTORS AND ECONOMIC AGENTS.

Readers' responses and suggestions are welcome. With this initiative, CADEP, consistent with its principle of not reflecting sectoral or political interests, hopes to contribute to the public debate with objective analyses that help foster critical thinking and channel citizens' demands.

Asunción, March 2026

CLIENTELISM, CORRUPTION, AND ORGANIZED CRIME IN PARAGUAY. THE PROCESS OF SUBMITTING POLITICS AND THE STATE TO DRUG TRAFFICKING

Marcelo Lachi[1]

Paraguay is a country deeply affected by clientelism, corruption, and organized crime. Reports on these phenomena are becoming increasingly frequent, whether through the press or at the initiative of the Public Prosecutor's Office itself, revealing a reality in which they not only coexist but are closely interrelated.

However, these three phenomena have generally been studied in isolation. Most available analyses are limited to exploring binary links—for example, between clientelism and corruption, or between corruption and organized crime—which has led to partial approaches that fail to capture the complexity of their joint interplay.

Through a comprehensive and complex study funded by CONACYT[2] (Project PINV01-1098), we have sought to overcome this limitation and assess how patronage, corruption, and organized crime interact in Paraguay. We have used politics as a common denominator, as it is generally associated with each of these three phenomena.

Clientelism as a Political Practice

Clientelism within the Paraguayan political and electoral system is the central point around which the other two are structured. It is the essential catalyst through which the development of corruption and organized crime in the country is ensured and, through these, a concrete process of undermining the democratic regime is driven.

Clientelism—defined as an instrumental dyadic relationship (between two people) in which an individual of higher socioeconomic or political status (patron) uses their power, influence, and resources to provide benefits to a person of lower status (client), in

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[2] CONACYT: National Council of Science and Technology of Paraguay.

exchange for their political and electoral loyalty—is a widespread phenomenon in Paraguay.

This is not, however, a mere form of commercial exchange clientelism (votes for resources), but rather "a chain of favors and reciprocities structured around moral obligations and emotional imperatives." In fact, due to the presence of two traditional parties—the ANR and the PLRA—which together account for three-quarters of the electorate and are organized on the basis of emotional ties and identity, internal clientelist logic takes on particular relevance, becoming the very way of understanding politics.

Data from a national survey conducted as part of this research shows that 69.2% of citizens accept clientelist practices, endorsing the partisan use of the state to meet the needs of party members—whether directly or under the justification of an "emergency"—compared to only 28.8% who reject it.

In this regard, interviews and focus groups have allowed us to identify that, among this majority of citizens open to clientelist practices, the politician's "reputation"—that is, their willingness to respond favorably to the electorate's clientelist requests—is what is most sought after when deciding how to vote. In the voters' own words: the "good politician" is the one who fulfills voters' requests; the "useless" one is the one who does not. With one additional point to emphasize: for the public, what matters is not the source of the resources, but that the requested solution is delivered.

Corruption as a means of political financing

The prevalence of patronage practices in Paraguay's political-electoral system leads us to examine the second phenomenon addressed in this study: corruption, specifically political corruption. Indeed, if a political career in Paraguay depends largely on building patronage networks—to which resources must be allocated in order to meet the needs of the voters who comprise them—the central problem lies in how to finance these practices. Corruption, in this sense, becomes a key element of financing.

It is no coincidence that political corruption in Paraguay is a widespread and persistent phenomenon, active for decades and still considered one of the main concerns of the public. In interviews and focus groups, informants have described corruption as a necessary mechanism for financing politics and sustaining patronage structures. Some even consider it understandable that those who attain public office use it to obtain personal benefits or, at the very least, to recoup what they invested during the campaign.

However, over time, this form of financing has revealed its limitations. Improved living conditions, increased demand for goods and services, and comparisons with the living standards of neighboring countries have led to an excessive rise in citizens' clientelist demands. However, the country's low tax burden—which has not exceeded 10% in the last two decades—leaves the state with limited resources, making it increasingly difficult to meet clientelist demands solely by depleting the public coffers.

Organized crime as a partner in politics

It is against this backdrop—and in the face of the growing financial demands of "politics"—that a new player emerges: organized crime—primarily drug trafficking—which, with vast amounts of money at its disposal and a need for protection and impunity to operate, becomes the perfect partner for politics and its need to finance clienteles.

With the boom in marijuana cultivation and export to Brazil and the transit through Paraguay of nearly 90% of the cocaine destined for Europe, Paraguay has become the hub of massive international illicit trafficking. This has allowed several Brazilian criminal organizations, notably the First Capital Command (PCC), to establish a network of complicity within politics and institutions, develop corruption networks among public officials, take control of many prisons, and ultimately establish their own territorial dominance along the border with Brazil. Through a process of social, economic, and political integration in these territories, these organizations are gradually replacing the state, which either disappears or is assimilated by them.

Thus, in the border region with Brazil, the presence of organized crime has become normalized; it has become fully integrated into daily life, to the point of being perceived as a natural part of the local reality. Citizens acknowledge that drug traffickers coexist with the community, behave like "good neighbors," and participate in celebrations, religious activities, and community events. Furthermore, their economic activities represent an essential source of income: they stimulate local commerce, generate seasonal work for thousands of people

—especially in marijuana production and processing—and offer opportunities that neither the state nor the formal market can guarantee. Marijuana cultivation is seen as a more profitable and stable option than any conventional agricultural alternative. Likewise, post-harvest work, such as "leaf removal," mobilizes large numbers of young people and adults, providing daily incomes far higher than those of formal employment.

Even more decisive is the social role played by criminal groups: providing financial assistance, aid in cases of illness or death, logistical support for collective needs, and security. In contrast, with an absent state and authorities perceived as corrupt or inefficient, drug traffickers come to be seen as protectors of the community, capable of resolving immediate problems and ensuring order and peace through the violent elimination of thieves or assailants, effectively replacing the police.

This process of integration with communities has ultimately led to a structural transformation of the relationship between organized crime and politics. While initially the "unscrupulous" political leader used patronage to secure electoral support and organized crime to finance and sustain his political and electoral career, over time, the progressive and constant entanglement of politics with organized crime has radically altered those original conditions.

Politicians as Members of Organized Crime

Between these two actors, the relationship based on the simple exchange of electoral financing for impunity was definitively surpassed, and organized crime—by acquiring near-absolute power in the territories where it operates, displacing formal authorities and subjugating broad sectors of the police, the prosecutor's office, and the judiciary—has become such an important actor that it now aims to enter politics directly and without intermediaries.

This process has been greatly facilitated by the clientelistic nature of the Paraguayan electoral system, where, as already noted, the "good politician" is one capable of addressing individual needs and providing constant assistance. Therefore, if what matters is managing resources rather than ideological categories, and providing concrete aid rather than delivering rhetorical speeches, criminal organizations that provide security, employment, and social assistance in the territories they control automatically become more attractive to the electorate than traditional politicians, and their members have a greater chance of being elected than the politicians they used to finance.

Candidates backed by criminal organizations, thanks to the abundance of illicit funds at their disposal, can finance successful campaigns, maintain patronage networks, buy votes, and thereby displace traditional candidates. The latter, unable to compete financially with them, have been left with only one alternative: to abandon politics or join criminal organizations directly, but no longer as external accomplices, but as full-fledged members.

The Inclusion of More Actors in the Organized Crime Chain

The moment when it became viable for organized crime to enter politics directly, forcing career politicians to choose between resigning or joining the criminal organization, represented a decisive qualitative leap in its activities and propelled the process of transforming these organizations from predatory groups into mafia-like structures.

Organized crime, as we have described it so far, is based on a three-pronged scheme: the first consists of criminals who commit illicit acts; the second of politicians who protect and sustain these activities from within institutions; and the third of white-collar professionals who launder illicit assets, reinvest them in legitimate assets, and ultimately manage them for the benefit of the criminal group.

However, while criminal organizations operate in a predatory manner, this structure is made up of "distinct" and "autonomous" actors, each seeking their own benefit: for criminals, to carry out illicit activities with total impunity; for politicians, to be elected and remain in office; and for white-collar professionals, to enrich themselves in a way that the honest practice of their profession would never have allowed them to achieve.

Now, the process that is currently beginning to emerge—and which the replacement or integration of traditional politicians into criminal organizations is accelerating—is the formation of mafia-like structures where the autonomy and differentiation of the actors gradually tend to disappear. In mafia-like structures, each actor can play all three roles: running for political office, managing legitimate businesses, or running illicit operations. When this happens, the organization becomes a "family," and its various members cease to be mere accomplices and become active members.

In this way, what were once mere criminal organizations transform into structures of social, political, and economic power that impose their dominance on neighborhoods, cities, and regions, progressively appropriating the power that once belonged to the state and now belongs to them. The result is the progressive erosion of democratic institutions, the weakening of the rule of law, and the subordination of the public interest to mafia logic.

This gives rise to a sort of criminal state that occupies territories, public institutions, political parties, businesses, and social spaces; that gradually imposes itself over the democratic state; that assumes real power and, encountering no resistance, can ultimately come to exercise it with virtually no limits.

FISCAL BEYOND THE PUBLIC PENSION FUNDS

Lucas Boh[1]

As reported in several publications in recent weeks, the Public Pension Fund are in a critical financial situation. The balance sheet shows a negative trend and is projected to reach a deficit of 1.16% of GDP by 2030.

The actuarial assessment report, published by the Ministry of Economy and Finance (MEF) in January of this year[2], states that no sector, except for the Public Administration, is entirely supported by contributions from its members. Even the pension funds of the Armed Forces and the National Police depend on tax revenue to cover their deficits, as they have no accumulated funds. This creates significant horizontal inequality, since all taxpayers in the country are financing, through their tax payments, the benefits of a group of public sector retirees.

The government is responding to this situation with a bill for parametric reform, which was passed by Congress on March 17. The proposal adjusts retirement ages, contribution periods, and replacement rates, and increases workers' contributions. These changes could be viewed as positive, as studies suggest that the current financial situation is partly the result of the system's high generosity, in the form of few contribution years (in some cases only 10 or 15 years), high benefits (currently, the average benefit for retirees exceeds the average wage of active workers), and undefined retirement ages (in the case of teachers) (Apella and Montt, 2024; MEF, 2026). Furthermore, the reform introduces a 10% government contribution, the absence of which was also identified as one of the main causes of the deficit.

However, according to the MEF, the reform would reduce the deficit by only 40% to 50%, a percentage even lower than the 60% initially estimated before the amendments introduced in Congress (MEF, 2026b). On the other hand, the aforementioned actuarial report estimates that a parametric reform similar to the government's proposal would only delay the depletion of the surplus funds in the Public Administration fund until 2032.

This demonstrates that the government's proposal, despite introducing necessary parametric changes, is merely a stopgap measure that delays the problem: in a maximum of 6 years, the Treasury will depend entirely on the general revenues of the reform.

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[2] Based on the Actuarial Study of the Fiscal Fund as of December 31, 2023, prepared by Victor Hugo Molinas Gwynn, M.A. in Actuarial Economics, in September 2024

On the other hand, the situation of the IPS (social security for the private sector), despite being financially stable at present, is not far from the same fate: a 2021 report projects that reserves will be depleted by the end of the 2030s (IPS, 2021).

For these reasons, the discussion should not be limited to adjustments to the Public Pension Funds. It is necessary to broaden our perspective and begin to understand the pension system as a whole.

The 'pillars' of Paraguay's pension system

Pension systems serve multiple functions, which is why they are typically organized into "pillars" that complement one another to achieve all their objectives (ILO, n.d.). The specific structure and funding mechanisms of these pillars vary from one national system to another, but the coverage of each pillar and its benefit levels are generally linked to a specific population group and its income level.

The multi-pillar pension model promoted by the International Labour Organization (ILO), which serves as a reference framework for the systems of a large number of countries, is organized as follows:

- Pillar 0: Establishes a subsistence floor for all, funded through taxes (non-contributory), with the aim of preventing poverty.

- Pillar 1: Mandatory and defined-benefit, funded through contributions from employers and workers. Its objective is to provide higher levels of pension benefits to maintain the standard of living after retirement.

- Pillar 2: A complementary contributory component, voluntary or mandatory, employment-based, occupational or non-occupational, defined-benefit or defined-contribution, generally administered privately, with the aim of supplementing Pillars 0 and 1.

- Pillar 3: A set of voluntary private pensions, aimed at groups with the financial capacity to make additional personal savings.

On the other hand, Paraguay's pension system has two pillars:

1. Non-contributory (Pillar 0): This primarily covers pensions for older adults, with beneficiaries being those over 60 living in poverty.

2. Contributory (Pillar 1): This covers the IPS, the Public Pension Funds, and other existing funds, and targets all formal workers, both employees and the self-employed.

In the chart illustrating the pillars of the Paraguayan system (Fig. 1), a gap in coverage is evident. This is because there is a segment of the population with an income below the minimum wage, and therefore unable to contribute to the contributory pillar (1), yet at the same time failing to meet the eligibility requirements for the non-contributory pillar (0). The result is that this segment of the population—which is by no means small—is left completely unprotected.

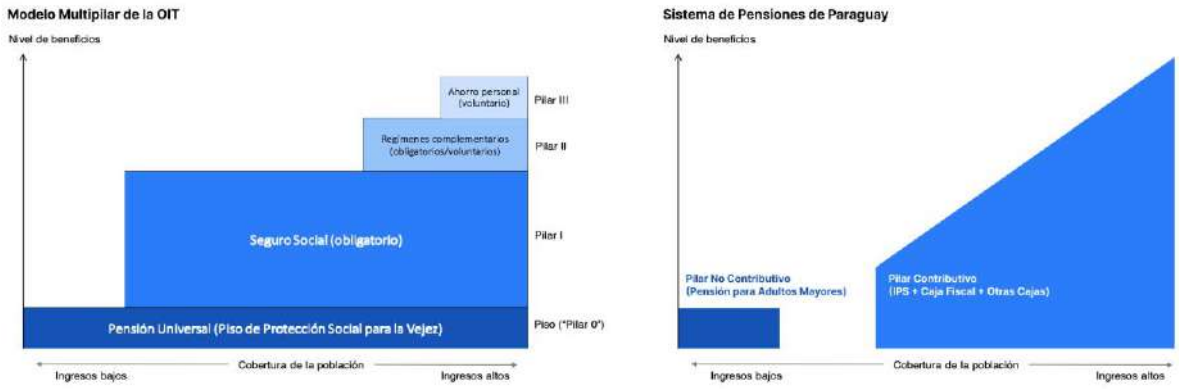

Fig. 1: ILO multi-pillar pension model (ILO, n.d.) (left) and diagram of Paraguay's pension system (author's own work).

Added to this is the fact that the two pillars are completely disconnected from one another. In other countries, such as Uruguay and Chile, non-contributory pensions were designed to be compatible with access to contributory pensions. In Paraguay, however, making intermittent contributions throughout one's working life without reaching the minimum required to qualify for a pension from the contributory pillar does not result in an increase in the non-contributory pension. This disconnect discourages formal employment and contributions to the system.

The contributory pillar is also notable for its fragmentation. The IPS and the Public Pension Funds cover more than 95% of workers in the formal sector, but there are also four other funds (Banking, Railway, Municipal, and Parliamentary) and two supplementary funds (ANDE and Itaipú).[3] Each of these funds was created by separate laws, with no connection between them and no common framework (Navarro and Ortiz, 2014). The very existence of these fragmented funds suggests how sectors with bargaining power and political clout managed to establish their own pension system, separate from that of other workers.

There are marked differences when comparing these funds and their various internal schemes (particularly those of the Civil Service Fund), as they maintain different contribution rates, minimum contribution periods, retirement ages, and benefit calculation methods. This results in inequities among workers within the same public

[3] ANDE is the public electric company and Itaipu is a binational (Paraguay and Brazil) hydroelectric dam.

sector and between the public and private sectors, since contributors with similar career paths receive different benefits (Apella and Montt, 2024).

Fragmentation also increases administrative costs and discourages labor mobility, since transferring funds between funds is difficult.

The socioeconomic context

One cannot analyze the pension system or propose structural reforms without considering the country's socioeconomic context.

The pension system introduced in the middle of the last century was designed for a small segment of the population: those who could access quality jobs in formal companies, generally with greater resources. Rural workers, the self-employed, and other vulnerable sectors were excluded from this design, even though these groups make up the majority of the country's workforce. This gap between the system's design and the national productive structure explains the exclusion of broad sectors of the working population (Navarro and Ortiz, 2014).

Paraguay has one of the lowest coverage rates in the region, both in terms of contributors and beneficiaries, reflected in high rates of informality (58% according to the Permanent Household Survey 2025). But in this context of high inequality, low incomes, migration between formal and informal jobs, and weak institutional foundations, the low pension coverage of the contributory system is not surprising (Navarro and Ortiz, 2014). The current pension system lacks mechanisms to integrate this large sector of the population that moves between formal and informal jobs, and it does not provide incentives to contribute to the system.

Studies show that for every 10 years a person is of working age, they contribute to the IPS for only 2 years and 9 months (Apella and Montt, 2024). As a result, more than half of the people who contributed to the IPS do not accumulate the necessary contributions to qualify for a pension. These contributions that do not translate into benefits are equivalent to a regressive subsidy, as they generally come from the population with the lowest incomes (Bai and Zelko, 2022).

Expanding social security coverage to self-employed workers and those in small businesses requires adopting approaches tailored to the characteristics of the labor market. Several countries in the region have implemented simplified taxation mechanisms that facilitate access to social security for these sectors, while simultaneously promoting the transition to the formal sector. One example is the "monotributo" schemes in Argentina and Uruguay, where workers contribute a fixed

monthly fee that covers both taxes and social security contributions.[4] The reduced contribution burden and administrative simplicity aim to incentivize the incorporation of this sector into the system that necessarily requires the provision of subsidies to sustain it (Apella and Montt, 2024).

In this regard, the State's contribution is key to formalizing, sustaining, and supplementing pensions for the most vulnerable sectors. However, Paraguay ranks among the Latin American countries that allocate the least public resources to social protection in old age, equivalent to only approximately 4% of GDP in 2025 (Paraguay in Results, 2025), compared to ~5.7% in Colombia, ~8% in Brazil, and ~11% in Uruguay (OECD 2023; OECD 2017; FIAP, 2020).

This low level of commitment is related to the fact that Paraguay has one of the lowest tax burdens in the region, with tax revenue accounting for only 11.4% of GDP (World Bank, 2024), a figure below its potential given the country's per capita income level (Apella and Montt, 2024).

Conclusions and Recommendations

The current situation of the Public Pension Funds is just one more symptom of the crisis facing the entire pension system, presenting three major challenges: low coverage, caused mainly by high levels of informality and low contribution density; high fragmentation and inequality, characterized by significant differences in rules and benefits among the funds, as well as a disconnect between the two pillars; and, finally, an unsustainable financial situation in the medium term (IPS) and short term (Public Pension Funds).

The government is proposing a parametric adjustment, postponing the collapse of the Fiscal Fund by a few years, but what is needed is a structural reform of the entire pension system, consistent with the country's situation.

In line with global trends, Paraguay should begin a transition to an integrated multi-pillar system, consisting of (1) a universal basic pillar financed by taxes, (2) a mandatory savings pillar, with a unified fund for the entire public and private sectors with harmonized retirement parameters and rules, and (3) a voluntary individual capitalization savings pillar.

At the same time, efforts should be made to integrate the informal sector and self-employed workers, who are currently excluded from the system (Navarro and Ortiz, 2014).

[4] In Paraguay, there are simplified regimes for small businesses (RESIMPLE) and for medium-sized businesses (SIMPLE), which are also intended for sole proprietorships, but these are not linked to social security contributions.

In turn, this reform would need to be designed in conjunction with a tax restructuring that finances increased social security spending, in order to sustain a universal non-contributory pillar so necessary for the country's most vulnerable population.

The use of revenue from tax collection to finance a pension system (the Fiscal Fund) that covers only a small segment of the population means that these resources are not used to fund pensions for the most vulnerable groups, nor for the provision of other public services that could benefit society as a whole. Therefore, although the focus of the discussion is on the sustainability of the Public Pension Funds, the technical decisions made in this regard are not only economic but also political, and this presents one of the greatest challenges for the Paraguayan society.

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MORE JOBS, SAME WAGES

Rodrigo Ibarrola

In recent years, Paraguay has exhibited a combination of factors that, at first glance, might be interpreted as favorable: sustained economic growth, rising employment, and a historically low unemployment rate. However, when examining the evolution of real wages, the picture is different.

Following the decline in purchasing power during the pandemic and the inflationary shock, the recovery has been partial and uneven, failing to bring about a sustained improvement in labor income. This decoupling between employment and wages is not a temporary phenomenon. The data suggest a more structural pattern: the economy is generating more jobs, but with a limited capacity to increase output per worker and, consequently, real wages.

Economic Growth and Employment Expansion

Between 2017 and 2024, the Paraguayan economy followed a moderate growth trajectory, with average real GDP expansion of around 2.2% annually. At the same time, employment grew steadily. The number of employed individuals rose from approximately 2.79 million to 3.08 million, representing an increase of nearly 285,000 people over seven years.

This employment growth was also reflected in a reduction in unemployment to historically low levels. From a quantitative perspective, the labor market demonstrates absorption capacity.

However, this dynamic did not translate into equivalent improvements in real wages. The trajectory of labor income, adjusted for inflation, shows a significant decline in 2020 and a subsequent incomplete recovery. In aggregate terms, real wages have remained virtually stagnant compared to pre-pandemic levels.

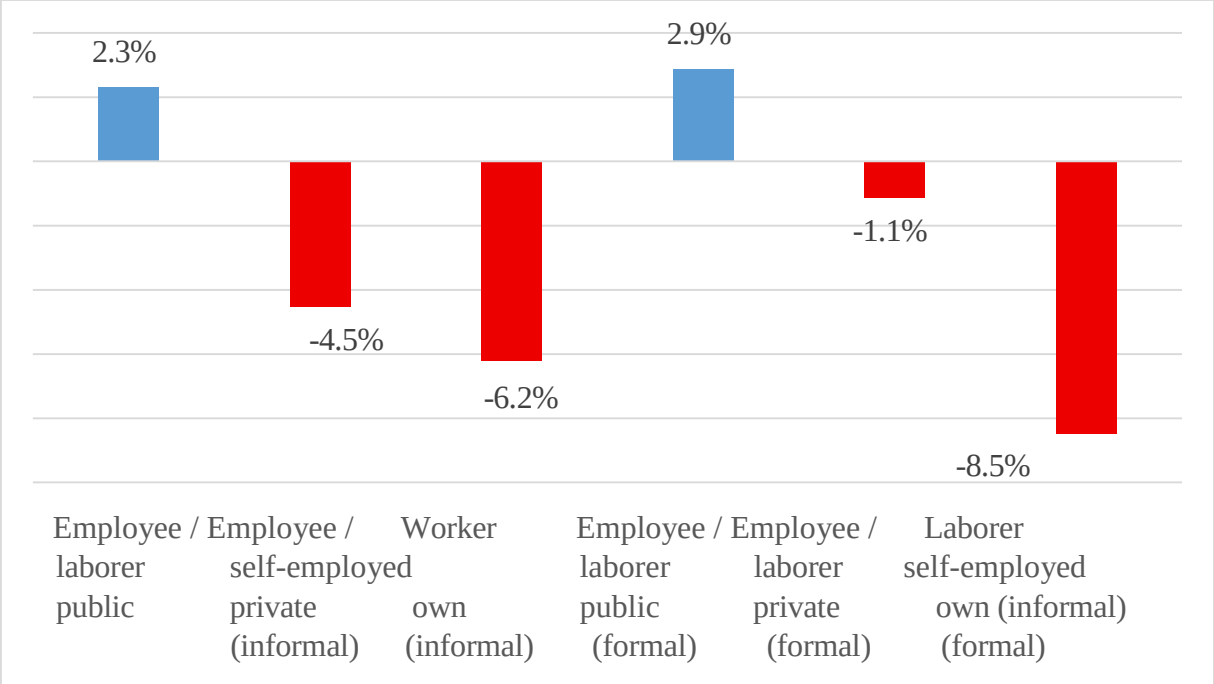
This result highlights a key point: economic growth and job creation do not, by themselves, guarantee improvements in labor income.

Real wages: partial and uneven recovery

The trend in real wages helps refine the analysis. The trend has not been uniform across occupational categories or income levels.

On the one hand, incomes show a post-pandemic recovery, but one that is insufficient to establish a clear trend of sustained improvement. On the other hand, there are marked differences between groups. Public-sector employment shows greater resilience, while private-sector employees and the self-employed face significant declines, particularly the latter group.

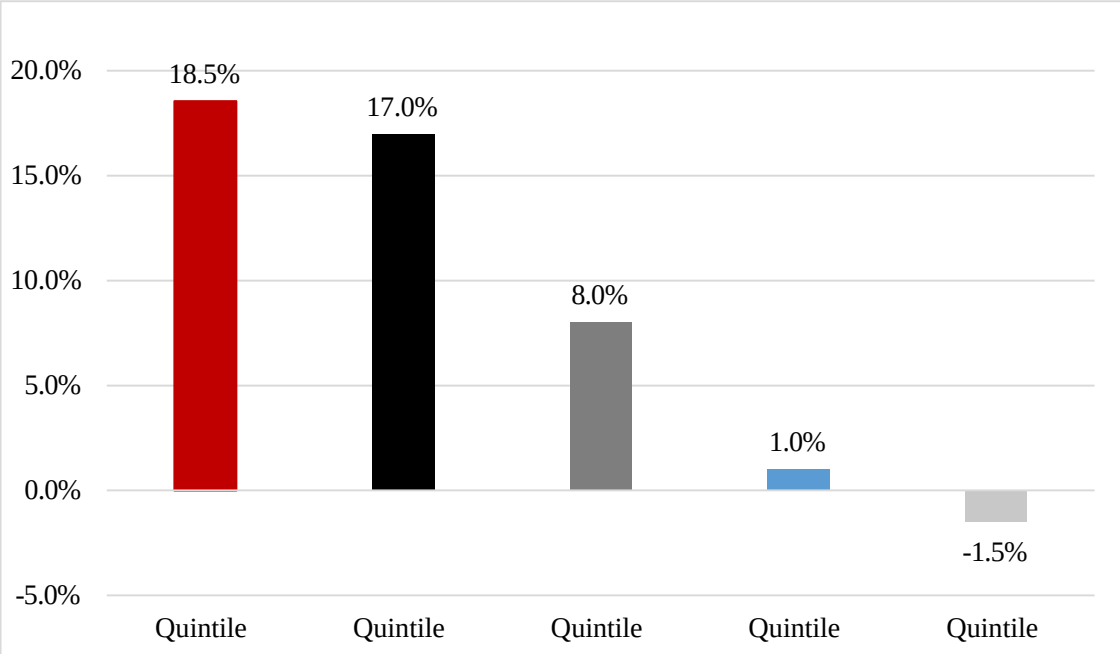
Figure 1. Cumulative change in real wages by occupational category and employment status



Source: Author's own analysis using microdata from the Permanent Household Survey (EPHC) of the National Institute of Statistics (INE).

When examining the distribution by quintiles, an additional dynamic emerges: the lowest quintiles show real increases, while the upper segments exhibit stagnation or decline. This suggests some compression in the wage distribution, likely influenced by adjustments to the minimum wage and changes in the composition of employment.

Figure 2. Change in real income, 2017–2025, by income quintiles



Source: Author's own analysis using microdata from the Permanent Household Survey (EPHC) of the National Institute of Statistics (INE).

Overall, the evidence reinforces the idea that the problem lies not only in the level of employment, but in what kind of jobs are created and under what conditions.

Share of wages in total income

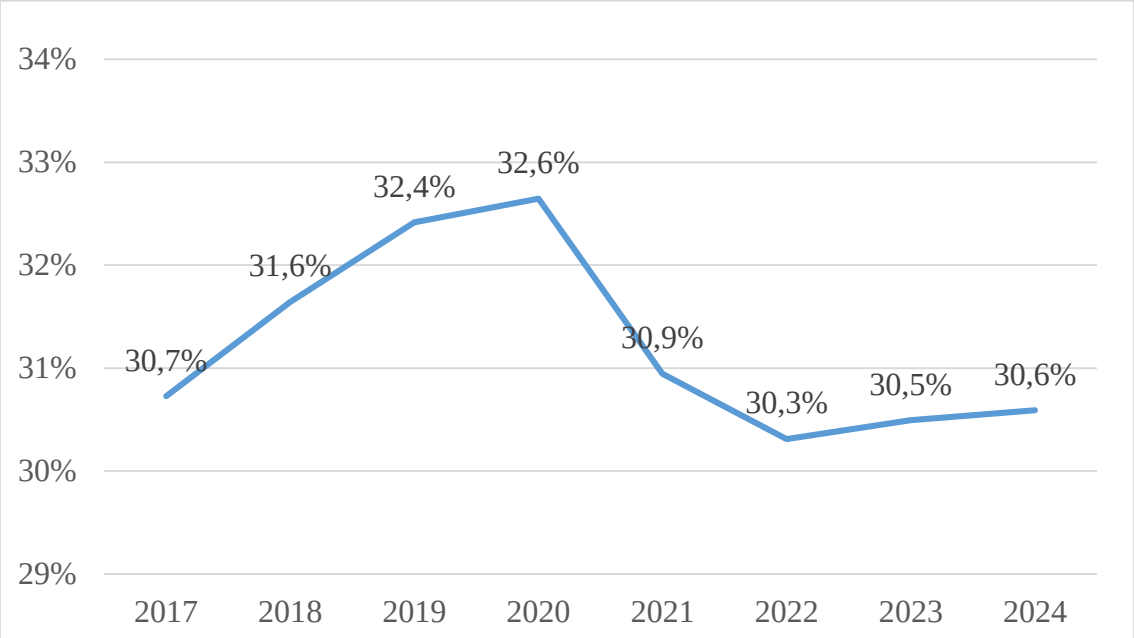
National accounts provide a key element for understanding why wages are not keeping pace with growth.

The share of wages in gross domestic income has remained relatively stable, at around 30–32% in recent years, with a slight downward trend toward the end of the period.

This implies that the increase in the economy's total income has not translated into a larger share going to wages. In other words, there is no evidence of redistribution that favors labor.

In this context of economic growth combined with stagnant wage share, the scope for sustained increases in real wages is limited.

Figure 3. Share of wages in gross domestic income



Source: Prepared by the author using data from the System of National Accounts (SNA) and the Income Generation Accounts of the Central Bank of Paraguay.

Labor productivity: the real bottleneck

The determining factor behind this dynamic is the evolution of labor productivity.

Between 2017 and 2024, real GDP grew by approximately 2.2% annually, while employment grew at a rate of around 1.4%, and productivity per worker increased by only about 0.8% annually. In absolute terms, output per worker rose from approximately 72.6 to 76.9 million constant guaraníes.

This indicates that more than half of economic growth was driven by employment expansion, rather than by improvements in output per worker. It is, therefore, growth of an extensive nature.

In this context, the scope for sustained increases in real wages is necessarily limited. Without significant improvements in productivity, wages tend to stagnate, even in the presence of economic growth and rising employment.

Employment is shifting away from the primary sector, but…

The sectoral evolution of employment is another factor that helps explain the weakness in aggregate productivity.

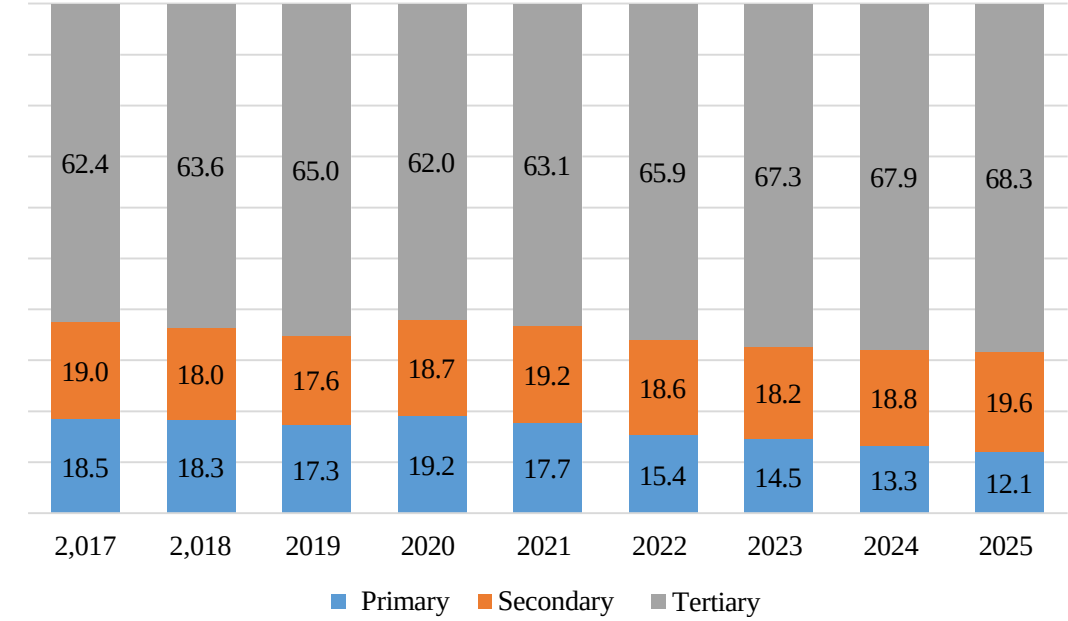
Between 2017 and 2025, the primary sector reduced its share of employment, while the tertiary sector (trade and services) increased its share to account for nearly two-thirds of the workforce. Meanwhile, the secondary sector (manufacturing) remained virtually stagnant in its capacity to absorb labor.

This pattern is significant because the secondary sector, on average, exhibits productivity levels above the economy-wide average but employs a relatively small proportion of workers. In contrast, the tertiary sector accounts for the majority of employment but with lower productivity levels.

Furthermore, within the service sector, much of the expansion is concentrated in traditional, small-scale activities with low value added.

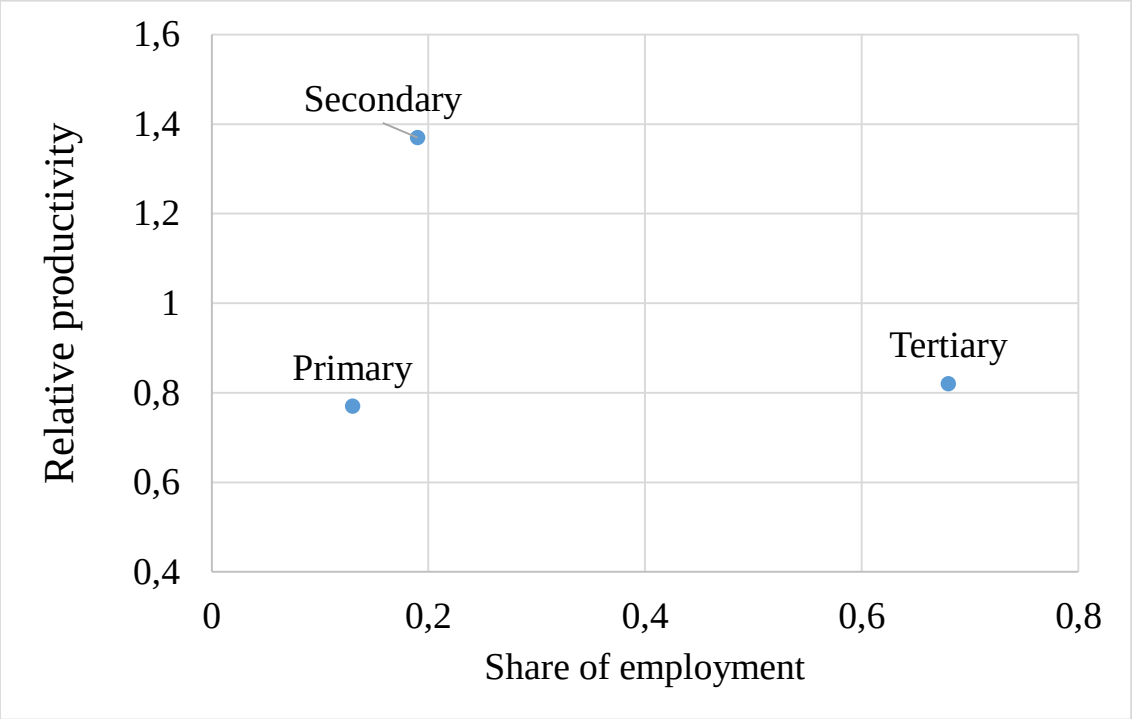
The result is that employment is shifting out of the primary sector, but not toward high-productivity segments capable of significantly raising output per worker.

Figure 4. Employment Share by Major Sectors, 2017 vs. 2025



Source: Compiled by the author using microdata from the Permanent Household Survey (EPHC) of the National Institute of Statistics (INE).

Figure 5. Relative productivity and employment share, by sector, 2024



Source: Author's own calculations based on data from the BCP's System of National Accounts and the INE's EPHC.

Note: value 1 = productivity equal to the economic average

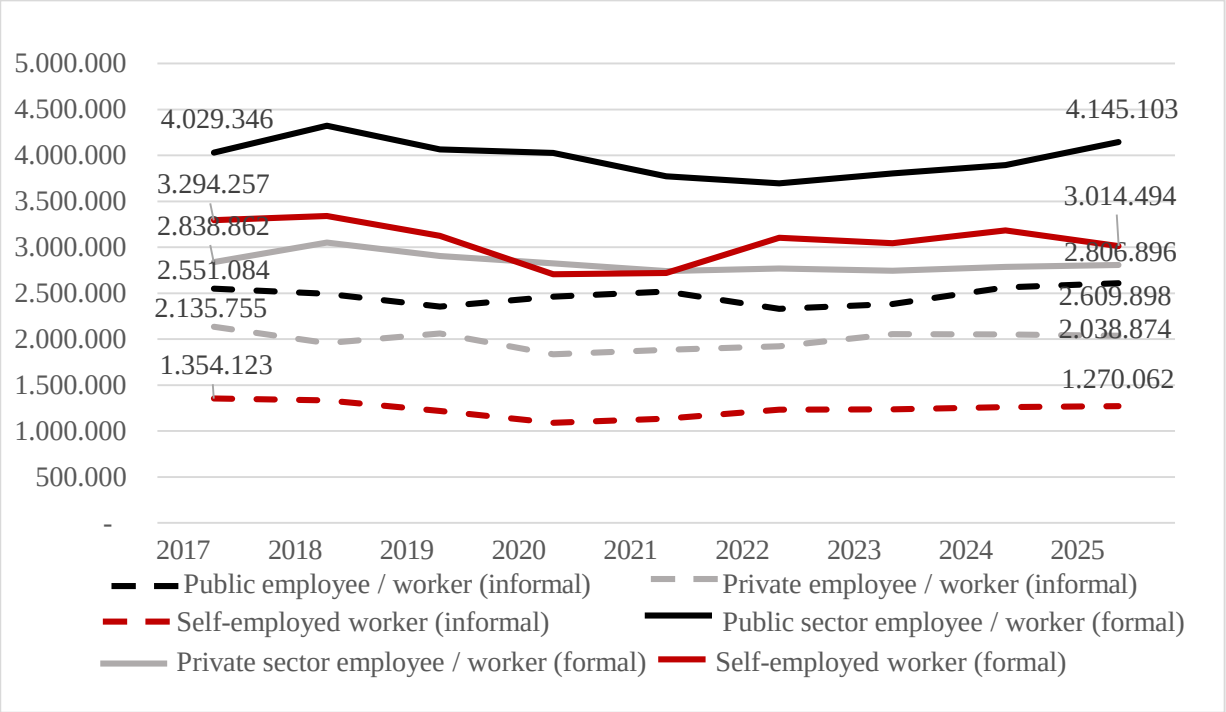
Informal employment and job quality

The composition of employment also reflects structural differences in productivity and income.

The data show that formal employment, on average, offers higher wages; however, informality continues to account for a significant proportion of the workforce, where incomes are lower and more volatile. This suggests that a significant portion of employment growth occurs in segments where the scope for increasing income is limited.

In this context, low unemployment coexists with weaknesses in job quality and the ability to generate rising incomes.

Figure 6. Average income from primary occupation adjusted for CPI (base year: 2017)



Source: Author's own analysis using microdata from the Permanent Household Survey (EPHC) of the National Institute of Statistics (INE).

The role of female employment

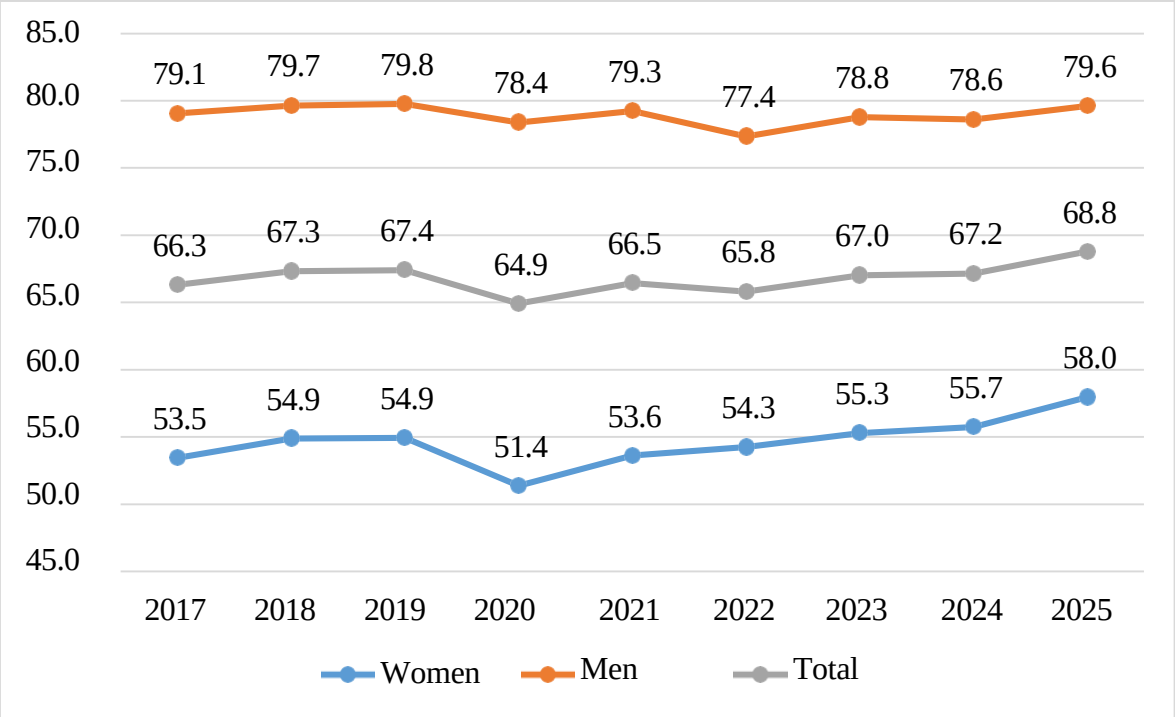
Another significant finding from this period is the composition of female employment growth.

Between 2017 and 2025, the female employment rate increased by 4.5 percentage points, while the male rate rose by just 0.6 percentage points. When breaking down this trend, more than three-quarters of the increase in female employment is explained by more women entering the labor market.

Narrowing the focus, we find that between 2024 and 2025 alone, the male employment rate increased by 1 percentage point, while the female rate rose by 2.2 percentage points. Thus, hourly earnings (a better indicator than monthly income) increased by 3% for men and decreased by the same proportion for women.

An increase in female labor force participation is always good news from the perspective of economic inclusion. The problem is that the productive structure is not generating enough high-productivity jobs to absorb this increase in the labor supply under better conditions, or it is creating such jobs in sectors where there is already a surplus of labor. As a result, the rise in employment associated with greater female participation did not translate into a proportional increase in aggregate wages.

Figure 7. Total employment rate and by sex



Source: Author's own analysis using microdata from the National Institute of Statistics' (INE) Continuous Permanent Household Survey (EPHC).

Conclusion

In summary, the evidence shows that the economy is growing, employment is rising, and unemployment remains low. However, labor productivity is growing slowly, wage share is not improving in a sustained manner, employment is concentrated in low-productivity sectors, and informality remains high.

The result is a structural constraint, in which the economy is expanding its use of labor faster than its capacity to generate value per worker has improved.

This assessment has clear implications for the interpretation of recent economic performance.

Finally, low unemployment alone is not a sufficient indicator of workplace well-being. An economy can generate jobs while at the same time experiencing stagnant incomes if growth occurs in low-productivity sectors.

The central challenge is not merely to create more jobs, but to transform the productive structure to boost productivity and, thereby, real wages.

This requires progress on three fronts: a productive transformation toward sectors with higher value added, an improvement in productivity through technology, human capital, and business organization; and formalization linked to better economic conditions—not just regulatory ones.

Without these changes, the economy may continue to generate employment, but it will struggle to translate this into sustained improvements in income and well-being.

MAQUILA IN PARAGUAY: AN INDUSTRIAL SUCCESSFULL STORY THAT JUST STARTED

Julio Ramírez

Maquila is probably the greatest success story of industrial policy in our recent history. Along with the investment law,[1] it represents one of the few industrial strategies that has yielded real and tangible results. However, there is a truth we must acknowledge: this achievement is due far more to the drive of private entrepreneurs and managers than to precise public management.

The Maquila Numbers

Statistical data from the Maquila Regime show that it has become one of the most dynamic engines of our current "macro" economy.

By 2025, with exports totaling US$1.309 billion, the maquila sector will account for 70% of Paraguay's industrial manufacturing exports,[2] giving it a leading role in the export sector. The maquila sector's export growth rate stands at 21% annually for the 2015–2025 period—far higher than any other sector—which is highly promising for addressing the constraints of the Paraguayan market.

[1] Law No. 7,548/2025 on the "New Tax Incentive Regime for Domestic and Foreign Investment" replaces the historic Law 60/90 in Paraguay.
[2] The food processing industry is not included here.

Indicators of Investments Under the Maquila Regime		
Indicator	Data as of 2025	Remarks
Exports	$1.309 billion	Consumer Goods: 96% Intangible Goods: 4%
Imports	$675 million	Millions of dollars
Average Export Growth last 10 years 2015–2025.	$ 786 million annually	21% annual average.
Employment	35,357 jobs	Men: 55% Women: 35%

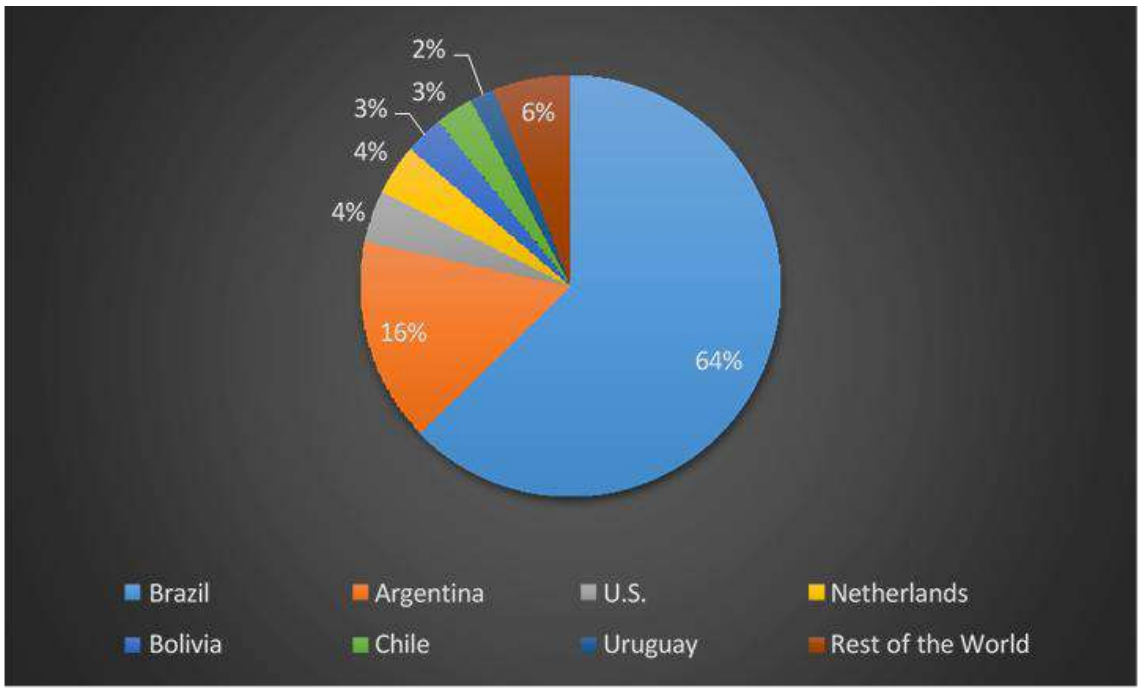
Source: Prepared by SSEI/MIC, using data from the Single Window for Exports (VUE); DNIT-SOFIA; BCP (*) Data as of November 2025 – preliminary figures subject to revision

The data on job creation also reflect a significant social impact: the sector currently generates more than 35,357 direct jobs and serves as a key driver for first-time employment and the integration of women into the workforce, with women accounting for 35% of the workforce. Its formal nature has made it a highly attractive sector for labor demand and, in turn, helps address the informality of the Paraguayan labor market

Brazilian Entrepreneurship or Paraguay's Attraction Strategy?

Brazil is a country of entrepreneurial investors who are always seeking new business opportunities and market diversification, particularly given the persistently high tax rates and changing regulations in the Brazilian market. This factor, combined with the country's proximity, has made Brazilian companies the primary investors and, consequently, exporters within the maquila regime, with Brazil also becoming the main destination market for maquila exports. Argentina ranks as the second-largest destination for exports, accounting for 16%—a significant figure—indicating a rapidly growing market for the maquila sector. While the other countries shown in Figure 1 represent smaller shares, the diversification of maquila export destinations is noteworthy.

Figure 1: Exports by Destination Market (*)



Source: Prepared by SSEI/MIC, using data from SE-CNIME and DNIT-SOFIA. (*) Preliminary figures subject to revision

There are several factors suggesting that the development of the maquila sector in Paraguay was largely due to the decisions of Brazilian businesspeople (the regime's largest investors) who came to Paraguay based on information about the benefits of the maquila regime provided by Brazilian and Paraguayan private-sector businesspeople and consultants. The first factor is the small budget of the Vice Ministry of Industry relative to the total budget of the Ministry of Industry and Commerce (MIC), which has not exceeded 11.5% over the past ten years[3] . It should be noted that the budget covers all the functions and divisions of the Vice Ministry of Industry, which suggests that CNIME and REDIEX have a meager budget for the functions under their purview.

Therefore, it is difficult to credit the government as the primary promoter of the maquila regime.

While efforts have been made in this regard, their scope is limited due to budgetary and technical constraints. These efforts occurred in the early stages, as the maquila regime has been in operation since 1998. Furthermore, since 2014, maquila has been promoted as the primary tool for attracting investment. Under the current government, the issue of attracting investment has become the top priority, but the focus is not only on the maquila sector, but on all existing instruments and, above all, on the country as an ideal platform for investment across all sectors. However, it is emphasized that specifically for

[3] Figure based on data from the MEF

Limitations for maquila investors

With this in mind, it is important to first warn about the 'little foxes that ruin the vineyards[4] . These animals can seriously compromise production by destroying the roots and consuming the fruit during the vineyard's flowering stage. Similarly, the maquila regime is undergoing a phase of successful consolidation thanks to the favorable business climate. However, much like a vineyard in bloom, this sector demands meticulous attention, including bureaucratic details. For an entrepreneur with limited time, administrative obstacles not only represent an operational burden but also tarnish the country's image in the eyes of foreign investors.

In this regard, entrepreneurs complain about the cumbersome procedures involved in obtaining the documentation required for their residency and ID cards. Entrepreneurs also point out that there are low levels of service infrastructure in Paraguay, ranging from roads in poor condition to poor electricity service and water supply. Access to industrial infrastructure such as warehouses and storage facilities is another problem they face, since, while such facilities do exist, they are scarce and expensive, particularly due to the bad practice of private property owners or real estate developers of raising property prices, rents, and industrial space rates when dealing with foreign investors.

The shortage of skilled labor is another critical issue that even affects the recruitment of technical managers (industrial engineers, food engineers, etc.). It is also difficult to find key information for decision-making, such as a database of domestic suppliers of machinery, equipment, inputs, raw materials, or importers, which should be provided by the MIC and REDIEX but which, in practice, does not exist; and although it can be requested online, the process is always time-consuming and imprecise.

The advantages that attract investors

The biggest draw of the maquila system is definitely the tax aspect. The maquilador imports raw materials and inputs with tax suspension for up to two years, during which time they are required to use them entirely; otherwise, they must nationalize or re-export them.

Likewise, for the importation of machinery, they may utilize Investment Law 7548/2025 (formerly Law 60/90). This law permits the importation or domestic purchase of

[4] Song of Songs, the Bible

new and used machinery with full tax exemption. The benefit extends for a period of 10 years, after which the machinery may be nationalized or re-exported. Furthermore, once the benefit is obtained, the acquired machinery may be sold tax-free to another business owner who also qualifies for the benefit.

Furthermore, the tax authorities refund VAT to maquiladora companies for purchases made within Paraguayan territory, since they are exporters. Only shareholders of maquiladoras are required to pay 8% of the IDU (tax on dividends) when they are residents. Finally, they pay a 1% tax on their exports. Likewise, remittances of profits from maquiladoras abroad are tax-free. They also do not pay municipal business licenses, customs valuation fees, consular fees, public port fees, or loans to finance maquila operations, among others. In addition to this, entrepreneurs are attracted by lower non-tax production costs, such as labor and electricity.

Furthermore, another advantage is that, under the rules of origin (40% regional and 60% extra-regional), Mercosur countries do not impose tariffs or import taxes.

One advantage that maquila investors are often unaware of is that they can set up a company in ten days; specifically, Simplified Joint-Stock Companies (EAS) are suitable for maquiladoras, which, in turn, allows them to open a checking account within 30 to 45 days at banks with which the MIC has agreements. The entire EAS process is conducted online, including communications regarding shareholder meetings.

Recommendations

The recommendations for promoting the maquila sector in Paraguay are as follows

1. Establishment of a National Identification Directorate office within the SUACE offices. This step will help not only maquiladoras, but all foreign investors obtain their residency and ID cards more efficiently.

2. Strengthen Paraguay's investment and export promotion systems with greater technical and financial resources. This promotion is key, as nearly 310 maquiladoras have been established in Paraguay over the past 28 years since the regime's inception, yet Brazil alone has nearly 370,000 industrial companies.

3. The other challenge in promoting the maquila sector is attracting service companies, as the new Law No. 7547/25 on the Maquila Regime includes this sector in its regulations.

4. Create a database of domestic suppliers of inputs, raw materials, and machinery to facilitate purchases by maquiladoras from Paraguayan companies.

5. Create a database of high-level consultants and professionals to provide convenient services at reasonable costs to maquila companies.

6. Promote the construction of logistics parks, industrial parks, and private dry ports through partnerships with the private sector within Paraguay.

7. Significantly improve the training of the Paraguayan workforce in specific skills. To this end, the demand of maquiladora companies for each type of labor required must be studied.

8. Improve road infrastructure, ports, and the electricity grid.

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