Paraguay

It is all about the river

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INTRODUCTION

Paraguay, a small and landlocked country in the Latin-American context appears to be a top ten producer and exporter of agricultural goods in the world: second largest producer and exporter of Stevia, third producer and exporter of Yerba Mate, fourth largest producer of soybean, yucca and soybean oil and seventh exporter of, among others, meat. As it is a landlocked country over 70% of its external trade is shipped via large rivers, notably along the Paraguay Paraná Waterway. After USA and China Paraguay has the largest fleet of barges in the world (2.200 barges and 200 tugs).

A fast growing economy with high potential in sectors such as agriculture and logistics, Paraguay shows considerable development and opportunity. Perhaps for many still a white spot on the map, the country achieved financial stability in the past decade (contrary to most Latin American countries with highly volatile inflation and interest figures). The large-scale hydro plants (Itaipú and Yacyretá dams on the Parana river and Acaray dam on the Acaray river) provide a power generation surplus of 50%. Financial stability and power availability are considered two critical location factors for industrial investment.

During the last decade the country experienced a solid economic growth (based on the production and exports of raw materials), with the fourth-largest average growth of the region: 4,76%. The prices have been stable in the last decade, there is a floating exchange regime, free capital mobility and the return on investment is the second highest in the region (22%). Paraguay has historically maintained the lowest tax burden in the region, with a 10% corporate tax rate and a 10% Value-added Tax (VAT) on most goods and services. To promote investments there are several regimes that grant fiscal incentives and allow unlimited repatriation of capital and profits and free trade zones among others.

The agricultural sector is the engine of economic growth. There is a boom of agribusiness and increased investment in irrigation and technology. Paraguay can further improve its international market position, but all this must be accompanied by adequate infrastructure to facilitate its flow of goods. An interesting project in this respect is the Concepcion logistic hub. The idea is to convert the existing port in this department into a multimodal port, as the agro producers in the southern states of Brazil are interested in transporting their products through the waterway rather than through the Brazilian ports of Paranaguá and Santos (saving USD 500 million annually). This will triple the exports of grains. The reconversion of the port only is an investment of more than USD 50 million, but it also is likely to lead to investments in roads, railways, bridges, airports and of course the waterway as well to make it navigable during the whole year.

THE RIVER

The Paraguay and Parana rivers cross the country from north to south crossing borders with Brazil, Bolivia and Argentina. Given the central position of the river, the further improvement of navigability is a determinant factor for making use of trade opportunities. River transport supports economic opportunities both from exporting agricultural products from those countries and even Bolivian and Brazilian mining production.

The majority of domestic and international river transport is handled by a small number of private sector parties. A Paraguayan public river authority is in place, which also controls a number of river terminals. The terminals of the public authorities are outperformed by those of the private sector. In the meantime, both private and public are of the opinion that improvement of the rivers' navigability should lead to better performance (higher shipment volumes, larger international market share and employment). Public investment is pending an arrangement that enables private parties to contribute to this financially and in a profitable way. Financing may even depend on upfront assurance of these additional revenues. Because the right of use of the private terminals is not based on a concession but on a license for an indefinite period, the government has few means to enforce such a type of cost sharing. The private parties are equally of the opinion that the navigability of the river must be improved - they also recognize that they benefit from such and improvement - however perceive this as a public duty to be financed as 'public works'. The result is a deadlock where neither of the two moves.

OPPORTUNITIES

Recently a new Public–Private Association law was passed. It creates a framework for public-private partnership contracts, regulates private initiatives and the use of trusts for the purposes specified in the law. Contracts may include management of infrastructure and services, which include road projects, rail, port, airport, waterway dredging and maintenance of the rivers, social infrastructure, electrical equipment and urban development. This new law, combined with the National Logistics Plan, could create new opportunities for Dutch companies and Dutch expertise in different sectors.

The additional income for the private sector resulting from improved navigability of the Paraguayan rivers should create enough financial capacity and social economic value to persuade the government to invest. However, why would the government invest if only the private sector has the advantage? The additional economic activity has a positive spin off in more than one way.

The existence of the public terminals may become a bottleneck however, if their performance remains substandard. The challenge is to exchange securities (e.g. ship movements, port and land revenue versus safe river use and enough space for safe shipping) and combine multiple short-term business contracts to one or

more agreements with the authorities. With increased levels security, the Paraguayan government - with or without additional external financing - might invest in dredging, shoreline protection and marine infrastructure (sub structures such as quay walls) as well as the associated engineering and consulting works. A residual risk can generally never be ruled out entirely and should be distributed to capacity between the sectors that commit themselves to each other as good partners.

Improving the required cooperation between the public and private sector to provide a turn key model to step in to (for instance modelled after the Dutch or European transport sector) would take improvements on an institutional level that could consume decades. However, contractual arrangements on project level and based on the use of special purpose vehicles are more flexible and provide interesting models to explore. They may prove an interesting case for Paraguay to unlock a promising range of innovative projects and unlock public private cooperation within an acceptable timeframe.

Paraguay is a country with great potential, a potential that is being discovered by international investors. Also Dutch companies are beginning to position themselves in this new market. Conditions are there and opportunities exist, it is just a matter of seizing them.