

## 2.1.4 Current industrial policy

### (1) Investment promotion

The most important policy of industrial development is to promote private investment. Law No. 60/90, which grants tax incentives for the investment of domestic and foreign capital, is the main pillar of investment promotion. The benefits of the Law are explained in the section 1.2.3 of Volume 2.

The total value of approved projects was US\$194.8 million (Gs 531.3 billion) in 1998, this was preceded by US\$180.0 million (Gs 392 billion) in 1997, US\$232.2 million (Gs 477.5 billion) in 1996 and US\$235.4 million (Gs 462.0 billion) in 1995. The value of realized projects were not obtained. The main sectors of approved investment in 1998 were food, beverage & tobacco with 56.3%, the steel industry with 19.5%, and wood products with 8.0%. The percentage share of food, beverage & tobacco in recent years was around 40-50%, while plastics and chemical laboratories registered 25.6% and 22.3% in 1997 and 1996 respectively, and 11.3% in the previous year. Metalworking also appeared almost every year, with about 10-15% of the yearly total approved investment.

**Table 73 Distribution of Law 60/90 Approved Projects in Value by Sub-sector (Unit:%)**

CIU	1996	1997	1998
31 Food, Beverage & Tobacco	47.4	37.3	56.3
32 Textile, Leather & Shoes	4.2	5.7	1.5
33 Wood & Furniture	5.1	6.1	8.0
34 Paper & Printing	2.8	6.6	2.5
35 Chemical & Petrochemical	22.3	25.6	5.1
36 Non-metallic Minerals	4.7	5.7	2.1
37 Basic Metal	1.2	0.0	19.5
38 Metal Products & Machinery	12.1	13.3	5.0
39 Other Manufacturing	0.2	0.0	0.0
Total	100.0	100.0	100.0

Source: Information from the Office of the Vice-Minister of Industry, MIC

To promote export industries, the Law of Maquiladora Industry was set forth in 1997, and the related regulations were prepared in July 2000. The effectiveness of these special incentives for new investment of export industries will be discussed in Volume 2.

### (2) Industrial parks

Industrial parks in Paraguay have been established by private initiatives derived from business opportunities. Nevertheless there are some initiatives still to be implemented by departmental or

municipal authorities, that aim to improve the economic and social conditions of the population and sustain rational land use to prevent negative externalities. In addition to these initiatives, Industrial Area Direction of MIC, which was created in 1996, is supporting the development of industrial parks and the installation of each industry, especially in the process of the Law 60/90, industrial registration, migration, etc. The following are the existing industrial parks.

**Table 74 Industrial Parks in Paraguay**

	Started in	Number of Lots	Installed Firms
1. Avay Ind. Park	1986	140	8
2. Oriente Ind. Park	1994	72	5
3. Bella Vista Ind. Park	1996	50	2

Source: EDEP's survey

The Avay industrial park was the first industrial park in Paraguay and was constructed by a private company. The Oriente industrial park had financial support from the Taiwan government, and installed firms are typically small and medium enterprises. The Bella Vista industrial park was made to supply the Brazilian market. The recent Brazil Real devaluation has hurt industrial firms in the park, because they became less competitive than Brazilian producers did.

As shown in the Table 74 the numbers of installed firms are very small compared to the numbers of lots. In addition to these parks, there are several more projects that have been planned but have not proceeded to construction. Without any special incentives, it is difficult to attract foreign investment even in industrial parks.

### **(3) Institutional finance**

The Fondo de Desarrollo Industrial (FDI: Industrial Development Fund) is a second floor banking institution that channels funds to the industrial sector through private and public first floor banking institutions. The principal objective is to promote new investment of the industrial and services sector by implementing a medium and long-term investment loan program. The source of resources were international organizations, such as the Inter-American Development Bank (IDB) and the World Bank, third country government institutions, such as the International Cooperation Development Fund (ICDF) of Taiwan and JBIC (Japan Bank for International Cooperation: former Japan EX-IM Bank), and national resources.

The FDI started operating in 1994, granting 327 credits which total US\$103.2 million by January of 1999. The average loan is US\$315,600. The sectors most benefited by the FDI were food, plastics, wood processing and paper & printing. These projects created 10,373 jobs.

The regional distribution of granted loans was concentrated in the Central Department and

Asunción with 43.0% and 16.4%, followed by Alto Paraná and Itapúa with 14.3% and 6.4% respectively. The Central Department and Asunción accounted for about 60% of the total, and the mentioned four regions together represented more than 80% of FDI funded projects. The concentration of granted loans corresponds to the distribution of the industry discussed in 2.1.1 (3).

The interest rate from the FDI to lending institutions was 7.16% in dollar and 12.46% in guarani. Because the spread of commercial banks is added to these interest rates, applied rates of interest to the borrowers were estimated as 11 to 14% in US dollars and 21 to 24% in guarani. The amount of granted loans and the size of the average loan were both modest compared to the needs of the sector.

The Guarantee Fund was also created by Law 606/95 to facilitate access to loans for micro, small and medium-sized enterprises. However, the system does not function yet.

Though FDI is the most important institution of industrial finance, there are other finance sources for micro and small enterprises such as Banco Nacional de Fomento (BNF) and Fundación Industrial of UIP.

#### **(4) Technical assistance**

There are two institutions of technical assistance for industrial enterprises, one is public and the other is private. The public institution is the Centro de Apoyo a las Empresas (CEPAE), under the Ministry of Industry and Commerce. The private one is the Cooperación Empresarial & Desarrollo Industrial (CEDIAL), inside the Unión Industrial Paraguaya (UIP).

CEPAE is an institution reorganized from the Servicio de Extensión Empresarial in 1995. Its major activities are: a) Training Voucher program; b) events; c) commercial extension service; d) information service for enterprises; e) and formulation and implementation of projects. In addition, the CEPAE realizes sector activities such as seminars and workshops that cover the areas of agro-industry, textile & garment, leather & shoes, and wood products & furniture.

One of the major activities of CEPAE is to promote the program of training vouchers, “Bono de Capacitación”, sponsored by IDB. A training voucher is US\$16 (Gs 40,000), and granted for a micro entrepreneur who wants to take a training program of the national institution (SNPP: Servicio Nacional de Promoción Profesional) or a private training course. This is a direct subsidy of 50% to the beneficiary. The micro enterprise, the object of the program, is defined as an enterprise that hires up to 5 workers and its annual sale is less than US\$100, 000. In 1997, the first

phase of the program, 15,000 vouchers were granted. Of these vouchers, 80% of them were in Asunción and the Central Department. In the second phase, which started in late 1998, it planned to grant 7,000 vouchers.

Another service of the CEPAE is the advisory service for the loan application to the Fondo de Desarrollo Industrial (FDI). If the amount of loan project is less than US\$100,000, the CEPAE advises on preparation free of charge. When the project scale exceeds US\$100,000, CEPAE provides information on registered consultants for the loan application.

Another institution, CEDIAL, provides technical services by charging the cost to the beneficiary. The types of services are: a) advisory services to enterprises; b) formulation of investment projects; c) technical and financial feasibility studies; d) production improvement projects; e) market studies; f) fiscal benefit management for the law 60/90; g) international trade advice; h) preparation of loan projects for FDI; 9) training, etc.