

Paraguay

**Doing Business
in Paraguay**





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Introduction

Introduction





Introduction

Paraguay has experienced a steady economic growth (**4,4% average GDP growth per annum over the last 15 years**) and the macroeconomic and market conditions are attractive for investments. The financial sector's firm regulation has spurred extended credit, has allowed large commercial, real estate and industrial investments in Paraguay, in addition to the **traditional strengthening of agribusiness**. Paraguay is one

of the largest commodities (meat, soy, etc.) and **hydroelectric power** exporters in the world. Furthermore, Paraguay's private sector efforts to engage in commercial partnerships with foreign investors has enabled important developments of the inland waterway transport systems as well as port infrastructure.

Within the context of the pandemic, the growth of the Paraguayan economy had a projected contraction of 1.5% of its GDP in the last quarter of 2020. The economic growth recorded a drop of -0.1%. However, these rates are amongst the lowest in the region. In addition, a growth of around 4% is projected for 2021. Paraguay registered a 2,2% inflation rate in 2020.



Please find below representative information about the Paraguayan economy and its business-friendly environment:

- Since 1943, Paraguay has had the same currency (Guaraní)
- Paraguay has never been in default nor registered hyperinflation
- The country is characterized by a free market economy
- There are no capital control nor currency exchange restrictions
- Lowest tax burden in the region (flat 10% corporate income tax)

Vibrant economic growth



01 The foreign investor in Paraguay

02 Investment climate

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04 Key investment areas

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1. The foreign investor in Paraguay

Considering the sustained growth the Paraguayan economy has experienced over the past 15 years, there has been a trend for foreign investors to participate in key sectors of the economy, namely the financial, real estate, infrastructure and agricultural sectors. The Paraguayan economy has undergone significant changes in recent years; **given that the economy has grown at an average 4,4% rate, a superior rate than other countries in the region.** In 2020, real GDP decreased by 1,0%, mainly due to the restrictive measures imposed by the national government to try to contain the spread of COVID-19 that directly affected sectors such as manufacturing, services, and commerce. In the third quarter of 2020, there was a slight improvement since Government-imposed measures were relaxed. In the last quarter of 2020, the growth of economic activity registered a fall of -0.1%. However, this index is among the lowest of the region. In addition, a growth of around 4% is projected for 2021.

In 2019, real GDP fell by 0.4% due to factors such as nature (climate change) which particularly affected agriculture, as well as forestry, fishing, electricity, and water, among others. These contractions were compensated with the increase in domestic, corporate, telecommunications and hotel services, etc.

In macroeconomic terms, the national currency (the Guaraní) is the oldest currency in the region, which demonstrates the financial and macroeconomic stability of the country. Paraguay registered in the year 2020 a 2.2% inflation rate, which is within the range set by the Central Bank of Paraguay (between 2% and 6%).





2. Investment climate

Recently, there has been a healthy participation of foreign investors in the local economy. **The Paraguayan government has been implementing a comprehensive investment program over the last 5 years**, starting with the passing of the Public-Private Partnership law and the amendment of other regulations that seek to increase Public Works. These funds are intended to finance the construction and operation of airports, toll roads, trains, riverways, etc. and therefore feature an excellent opportunity for investment.

In addition, Paraguay is a country with ideal natural conditions having one of the largest sweet water reservoirs of the region: the Acuífero Guaraní. It also has two important hydro-electric dams: Itaipú and Yacyretá, as well as the Central Acaray dam which provide green and sustainable electric energy. Paraguay boasts one of the youngest demographics in Latin America, where 63,9% of the population is younger than 35 years old. Paraguay offers a young and trainable labor force in the region.

The spread of COVID-19 also meant the acceleration of technological developments by the Government. Public foreign trade policies were streamlined, particularly, with the Single Exporter Window (VUE) platform which completely enabled the processing and payment of export requests remotely.

Furthermore, the MIPYMES sector has reported sales for Gs. 277.830.166 in the year 2020, which has contributed to the gradual economic recovery.

2020 was also marked by the creation of the Registry of Service Providers (REPSE), which essentially facilitates access to the Certificate of National Origin, a certificate that grants a 20% Margin of Preference in national public tenders. The REPSE updated the Ministry of Industry and Commerce's database, which will ultimately contribute to the formalization of the service sector and the improvement of public policies in the service sector. This compulsory, free registration is valid for two years, which also applies to natural and legal persons. Public sector employees and persons that are not subject to VAT are exempt from this services registry.

3. Pillars of our economic growth

a. Excellent bank and financial system

All financial and banking institutions operating in the country and that hold deposits made by the public, are subject to strict regulatory oversight by the Central Bank of Paraguay (BCP). In December 2016, Congress amended the General Law on Banks, Finance Companies, and other Credit Institutions (Law No. 861/96), with the Law No. 5.787/19, and shifted the regulatory framework from a traditional financial regulation to a risk-based regulatory system by reference to international standards.

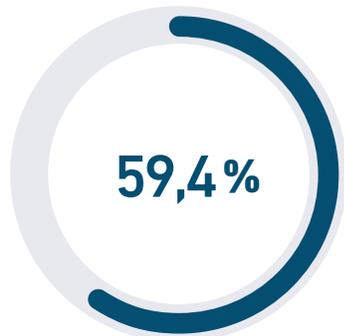
As of February 2021, there were 17 banks and 8 financial institutions authorized to operate in Paraguay. The main banking institutions are Citibank, Banco Itaú, Banco Continental, Banco Nacional de Fomento y Bancop. Most of the local transactions have clearly demonstrated the public's preference for deposits in Guaraníes (local currency), as

opposed to American Dollars (foreign currency). Said deposits are primarily demand deposits and, in second place, term deposits.

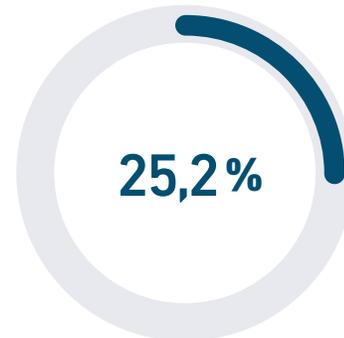
In 2020, the Central Bank of Paraguay had an active role in the financial administration of the economic crisis caused by COVID-19. Thus, the Central Bank of Paraguay issued a series of regulations that sought to support the most vulnerable and maintain macroeconomic stability. For example, one resolution established the terms and conditions to pause the determination of arrears in instalment operations, refinancing, debt restructuring and grace periods of up to 1 year. Another resolution established the conditions to benefit from the exemption of penalties for issuing bad checks.

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Soy is the largest agricultural product export



Total exports in the year 2020

b. Sophisticated private sector

Paraguay's economy is supported by a well-developed private sector, partly responsible for the overwhelming economic growth of recent years. The country's active private sector has developed commercial partnerships with foreign investors that have led to the construction of a cement plant and private ports in key areas of the country.

c. Industrialization lead by agribusiness

Agribusiness play an important role in the Paraguayan economy. Paraguay is the fifth largest producer of soybean in the world, according to CAPECO, and the volume of its exports are only behind of Argentina, U.S., Brazil, among others. Soy is the largest agricultural product export, representing 59.4% of total agricultural production and 25.2% of Paraguay's total exports in the year 2020. In the same

way, since soybeans are one of the main commodities in the country, exogenous factors such as the weather can alter the setting of prices and influence the country's ability to pay. Other important agricultural crops produced locally are cotton, sugarcane, tobacco, corn, and wheat.

Paraguay is now progressively advancing in optimizing its production by heavily investing in industrialization to offer an added value, essentially through logistics, infrastructure (ports, silos, roads, etc.) and industrial plants (crushing plants, food processing, shipyards, etc.). Paraguay is also the leader in river transport of the Paraguay, Paraná, and Río de la Plata rivers.

4. Key investment areas

a. Bank and finance

The financial sector is very sophisticated and firmly regulated. Bad loans (NPLs and late loans) are minimal. Pursuant to local law, financial institutions have a lending limit of 20% of the financial entity's net worth for clients that are residents of Paraguay. However, such lending limit can be increased to 30% of the financial entity's net worth, depending on the existence and type of collateral used to secure the loan, including:

- i.** Mortgage collateral that is worth up to 70% of the assessed value.
- ii.** Collateral securities that are worth up to 50% of the assessed value.
- iii.** Guarantees included in the ALADI's (Asociación Latinoamericana de Integración) Agreement of Reciprocal Payments and Credit.
- iv.** Warrants issued over different products according to their net asset values.
- v.** Standby letters of credit issued by first line financial entities.
- vi.** Subsidiary guarantees issued by first line financial entities.
- vii.** Pledged bank deposits issued in favor of the financial entity granting the loan.

On the other hand, financial institutions have a lending limit of 5% of the financial entity's net worth for clients that are not residents of Paraguay. Such limit can be increased up to 20% of the financial entity's net worth, depending on the existence and type of collateral used to secure the loan.

b. Infrastructure

Due to sustained growth in our economy of the past decade, **the government has been implementing several public infrastructure investments.** Some of these investments, already completed or in advanced stage of development, include (i) the Ampliation and Duplication of the PY02 route under the Public-Private Partnership regime, (ii) the Bioceanic Corridor Loma Plata - Carmelo Peralta tranche under the Law No. 5.074 regime, (iii) PY10 Route – San Cristobal – Naranjal tranche under the Law No. 5.074 regime, and (iv) the South Riverfront Avenue under the Law No. 5.074 regime.

There are currently six infrastructure projects under the Public-Private Partnership Law under consideration by the national government: (i) Rehabilitation, improvement and ampliation of routes 1 and 6 for a referential amount of USD 684 million, (ii) Design, construction, operation, and maintenance of the Medicines and Supplies Warehouses of

the Social Security Institute (IPS) for a referential amount of USD 25 million, (iii) Design and commissioning of a System Integrated Public Fluvial Passenger Transport for a referential amount of USD 84 million, (iv) Cancel Control Center for a referential amount of USD 150 million, (v) Proposal of Navigable Road by the Paraguayan River (North of Asunción Tranche) for a referential amount of USD 110 million, and (vi) Short Distance Train Asunción – Ypacaraí for a referential amount of USD 320 million.

Under the regime of the private initiative procedure established by the Public-Participation Partnership Law, **interested players may propose new projects to the government to effectuate investments recoverable through long term concessions.** Areas of interest in this respect are railroads, urban transportation systems (electric-powered trams and buses) and electric transmission lines.

c. Real estate

The economic boom of the past few years has led to an extraordinary growth in both residential and commercial real estate. The three main cities (Asunción, Encarnación and Ciudad del Este) have seen great growth in high rise apartments and office buildings, hotels, supermarkets, and shopping centers.

Our firm regularly advises local and foreign construction companies interested in developing residential and office buildings throughout the capital. There are currently over USD 1 billion invested in real estate in Asunción alone, including the World Trade Center's four towers which were recently completed in one of the main commercial areas of Asunción, in the center of Asunción's new corporate headquarters. Other real estate developments worth noting are Torres del Paseo, Shopping Paseo La Galeria, Esplendor, Dazzler, Holiday Inn, Palmaroga Hotels and the Palacio de los Patos and Jade Park Buildings.

d. Capital markets

Our Firm is recognized as a Paraguayan leader in advising on the issuance of international bonds under New York Law (Reg. S/Rule 144A). Since 2013, we have consistently advised book-runners in all Paraguayan sovereign bond issues (a total of 10 issuances) for the amount of USD 6,812,322,000.

Besides, our Firm has also advised four private companies on the issuance of bonds in the international markets. Bond offerings are considered as a sound financing alternative for local companies.

Further, in 2019 we have advised the lenders of the two most significant infrastructure projects undertaken in Paraguay: (i) the construction of the Bioceanic Corridor, and (ii) the ampliation and duplication of PY02 National Route. In both transactions, we advised the financiers on what are considered the largest private placements of international bonds in Paraguayan history.

e. National Securities Market

In 2020, the Asunción Stock Exchange (BVPASA) registered USD 1.985 million in closed negotiations. Despite the difficult situation in 2020, a historical record was reached, exceeding by 112% of the total traded amount in 2019. The Paraguayan stock market has become an efficient, safe, and well-regulated platform for local and foreign companies to obtain capital.

In 2017, Paraguay updated its legal framework by enacting Securities Market Law No. 5,810/17. This law regulates the public offering of securities and provides the regulatory framework for the functioning of the stock exchange, brokers, and issuers. Also, Law No. 5,810/17 establishes the powers of the National Securities Commission (CNV), as the authority in charge of controlling and supervising the stock market and its participants.

Pursuant to Resolution No. 1/19 issued in 2019, the CNV approved the General Regulations governing the stock market. This Regulation merged into a single document all the regulations that regulate the stock market and its participants which, prior to this new regulation were dispersed throughout several scattered regulations. Further, this new regulation modernized the mechanisms of interaction between the CNV, the stock exchange, brokers, and issuers.

The regulation's top provisions include the implementation of the legal framework for: private placements, over the counter (OTC) transactions, and public offerings (by local or foreign issuers). The Regulation distinguishes "public offerings" in the event a registered brokerage firm is involved (offering up to 35 persons) and in the event a registered brokerage firm is not involved (offering to more than one person).



Over the last few years, Paraguay's livestock exports have grown exponentially.

f. Maquila

The maquila business model provides an interesting alternative for manufacturing goods in Paraguay. Under this regime, **investors are granted significant tax exemptions** and are also provided with the opportunity to export to countries within the MERCOSUR free trade zone at a zero-tax rate, as explained below.

g. Livestock

Over the last few years, Paraguay's livestock exports have grown exponentially. In 2020, Paraguay was the ninth largest beef exporter worldwide (according to USD figures). The Paraguayan beef export market distributes goods to Chile, Russia, Taiwan, Brazil, Israel, Hong Kong, and Kuwait. This sector could further benefit from the new MERCOSUR-European Union Agreement, under which 99.000 tons of meat are eligible for export with preferential rates.

The livestock sector had a 5,1% growth in 2016 compared to 2015, a 2,9% growth in 2017 compared to 2016, a reduction of 3,2% in 2018 compared to 2017, and an increase of 1,2% in 2019 compared to 2018. In 2020 the livestock sector experienced a growth of 5% compared to 2019 which was mainly caused by an increase in the number of cattle in the country. The livestock sector represented a 2,3% of Paraguay's GDP in 2020.

h. Healthcare

There is great demand for quality healthcare services by a growing middle and upper class. This creates an opportunity for healthcare investments, in particular hospitals and other health care providers.

Investment incentives



01 Investment Law No. 117/91

02 Paraguay's Central Bank Organic Law 489/95

03 Law No. 60/90

04 Investment, Job Creation, and Social and Economic Development Promotion Law No. 5.542/15

05 Maquila Export Industry Law No. 1.064/97 and its amendments



Regarding public policies that encourage investments by the Paraguayan government, a National Development Plan 2030 was prepared. This Plan hinges on three pillars, one of which is the Insertion of Paraguay to the world. The Plan mentions the strategies for the promotion of investments, Foreign Trade, and Country Image which includes an action plan to “promote the foreign and national investment to favor the creation of more and better jobs.”

The Plan also aims to position Paraguay amongst the main exporters of food. As a mechanism to fulfill these objectives, international relations and agreements are in place to allow the promotion of border and international trade through different incentive plans to improve the administration of resources in exports and imports.

Some of the benefits a foreign investor can obtain in Paraguay are: a simple and low tax rate (compared to other countries in the MERCOSUR), exemptions for investments in capital goods and profits for large-scale investments (up to a period of 10 years), tax and customs benefits, etc.

1. Investment Law No. 117/91

The Investment Law (Law No. 117/91) passed in 1991 seeks to promote foreign investment in Paraguay. This law **grants foreign investors** legal certainty, a crucial component to any investment. The law is meant to promote and guarantee both foreign and national investment for the purpose of fostering the social and economic development of Paraguay. Among its various provisions, the Investment Law states the following:

- i.** The foreign investor or company, shall have the same guarantees, rights and obligations as any national investor;
- ii.** The right of property ownership is guaranteed for all national and foreign investments, limited only by the National Constitution and applicable laws;
- iii.** A national policy of free exchange is guaranteed. However, all exchange, remittance or transfer operations are subject to applicable domestic tax laws, and;
- iv.** A national free trade policy is guaranteed, including: (i) in

general, freedom of production and commercialization of goods and services, with the exception of goods and services expressly prohibited by law; and (ii) freedom of importation and exportation of goods and services, with the exception of goods and services expressly prohibited by law.

The Investment Law mainly aims to supply all foreign investors with the same rights and obligations as their national counterparts, therefore providing a legal foundation for any foreign business operation in Paraguay.

2. Paraguay's Central Bank Organic Law No. 489/95

Certain aspects that were originally foreseen in the Investment Law No. 117/92, were later explicitly regulated by the Central Bank's Organic Law No. 489/95, as detailed below:

- i. Article 47 of Law No. 489/95, guarantees a national policy of free exchange. However, entities authorized to engage in such transactions with third parties are subject to local regulations.
- ii. Obligations agreed upon to be payable in foreign currency shall be recognized as valid and enforceable under local law (Art. 51 of Law No. 489/95).

Paraguay's Central Bank Organic Law has been recently amended by Law No. 6.104/18. The amendments enacted by this new law overhaul several matters concerning the organization of Paraguay's Central Bank. One of the most relevant amendments introduced by this law is the recognition of the Superintendency of Bank's power to regulate entities, other than banks and financial institutions, that undertake financial activities.

Since July 2020, the Central Bank began supervising credit entities (which grant loans without acting receiving deposits). Such supervision is subject to proportionality, facilitation and supervision requirements that must be met by these credit entities. The Central Bank expects this will strengthen transparency of the information of these entities.

3. Law No. 60/90

This law **grants tax benefits for domestic and foreign investments**. In order to qualify for these benefits, the investor (whether a natural or legal person) domiciled in Paraguay, must make an eligible investment according to the national social and economic policy which must fulfill one of the following:

- i. Increase of the production of goods and services;
- ii. Create permanent jobs;
- iii. Promote exports and the substitution of imported goods or services;
- iv. Incorporate technology that increases the productive efficiency and enables the greater and better use of raw materials, labor and national energy resources; and
- v. Investment and reinvestment of earnings on capital.



Once the legal requirements have been met, the beneficiaries of this law may enjoy various tax exemptions. For example, subject to being qualified as an "investment"¹, the beneficiary may be exempt from **(i) payment of municipal taxes and (ii) taxes on remittances and payments of interests on loans²** from foreign lenders, as well as **(iii) exempt from taxes on dividends to foreign shareholders³**, during a certain period of time.

Please note that for this regime to apply, the applicant must submit an investment project and the applicable investment timeline. Once the request has been granted, the beneficiary may enjoy the benefits for a determined period of time, which may be renewed upon request.

¹ Required minimum investment of USD 5,000,000 in the relevant project. | ² Lender must be a first class lending institution, pursuant to local tax law. | ³ For payment of interests, the maximum exemption period is the duration of the loan, while for payment of dividends the maximum exemption period is 10 years.

4. Investment, Job Creation, and Social and Economic Development Promotion Law No. 5.542/15.

This law protects the investment of national or foreign capital related to the establishment of factories or other productive activities in Paraguay, provided that these establishments employ local employees and contribute to the social and economic development of Paraguay, especially through adding value to Paraguayan or imported raw materials. To qualify for benefits provided by this law, the national or foreign investor (whether a natural or legal person) must make an eligible investment and complete the following requirements:

- i. Settle in an underdeveloped area with insufficient work supply but large work demand, as determined by the National Economical Department;
- ii. Require and offer a large quantity of labor force and promote the formation of mid-level job sources;
- iii. Provide added value to raw materials through industrialization;
- iv. Prevent severe and irreversible environmental damages..

Once the legal requirements are met, the Paraguayan Government and the investor are required to enter into an agreement instrumented through a public deed. This agreement will determine the period of time upon which the investor must pay in the total amount of the project. This period can extend up to five years for investments of USD 5,000,000 or

more, and up to two years for investments lower than USD 5,000,000 investments. The beneficiaries of this law may also enjoy various other benefits such as tax exemptions, and invariability of tax rates on income tax for up to 10 years, among others. Most importantly this law grants beneficiaries the exemption to the application of additional income taxes on dividend distribution.

5. Maquila Export Industry Law No. 1.064/97, as amended.

The Maquila Export Industry Law (Law No. 1.064/97) regulates all maquila related activities in Paraguay. Currently there are 220 businesses that operate under this regime. In addition to the promotion and regulation of the maquila industry, this law provides significant tax exemptions. **The maquila contract and the activities related to its performance are subject to a standard tax rate of 1%.** In addition, it allows for an exemption on all national, state and municipal taxes. The process to obtain authorization to operate a maquila in Paraguay is described briefly below:

- i. Registration – The individual or legal entity must register before the Executive Office of the National Council of the Maquila Industry for Exportation, or CNIME.
- ii. Presentation of the Maquila Program – The application must file before the CNIME the Maquila Program, a document which details the characteristics of the industrial process or services, including a timeline of the imports, production, exportations and any other relevant information.
- iii. Approval issued by the CNIME – The CNIME shall evaluate the request and issue an opinion for consideration of the Ministries of Industry and Commerce and Treasury.
- iv. Issuance of the Resolution – Once approval by the CNIME has been obtained, the Ministry of the Treasury and of Industry and Commerce must jointly issue a resolution approving the maquila operation.
- v. Presentation of the Maquila Contract – Once the aforementioned resolution has been issued, the maquila company has a 120-day period to submit the Maquila Contract.
- vi. Start of Operations – Having fulfilled all the preceding requirements, the company may initiate the maquila operation, subject to supervision by the CNIME.

CURRENTLY
THERE ARE



220 
BUSINESSES 

An important benefit that comes along with the maquila regime is **the possibility of exporting manufactured goods to other countries within the MERCOSUR free trade zone at a zero-tax and import duties rate.** In order to be eligible for such a benefit, the goods manufactured in Paraguay must have a MERCOSUR certificate of origin (certificación de origen). As a general rule, the product must have at least 60% of national added value. However, the percentages may vary according to each type of product. Said determination or qualification is subject to approval by the Department of Foreign Trade of the Ministry of Industry and Commerce.

As of November 2020, 29 programs were approved under the maquila regime for a total amount of USD 20.6 million in private investments, a decrease of 61% compared to 2019. The main exported products under this regime are: autoparts, apparel, textiles, leather, aluminum and plastic containers. 90% of maquila exports are destined to MERCOSUR the area - mainly Brazil and Argentina - and the remaining 10% are distributed to the rest of the world, mainly the United States, Ecuador, Panamá, Chile and Bolivia. The accumulated exports under the maquila regime until November 2020 totalized USD 605.9 million, which represents a 11% reduction compared to 2019, which was mainly caused by the global health crisis due to COVID-19..

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The accumulated exports under the maquila regime until November 2020 totalized USD 605.9 million

Relevant business issues

01 Corporate vehicles

- a. Corporation (Sociedad Anónima)
- b. Limited Liability Company (Sociedad de Responsabilidad Limitada)
- c. Branch Office (Sucursal)
- d. Corporation with simplified shares (Empresas por Acciones Simplificadas)

02 Taxation

- a. Income Tax
- b. Personal Income Tax – IRP
- c. Dividends and profits Tax – IDU
- d. Income Tax for Non-Residents – INR
- e. Value Added Tax – VAT

03 Labor and Employment

04 Distributors, representatives, agents

05 Dispute Resolution

06 Recognition of the choice of applicable law to international contracts

1. Corporate vehicles

a. Corporation - Sociedad Anónima

The Corporation, or Sociedad Anónima (S.A.), is the preferred type of company for large commercial groups with unrelated shareholders. This is because the law determines a series of formalities for their administration, incorporation and inspection, which in turn sets a backbone of predictable and consistent rules. Further, the Civil Code regulates the relations between shareholders and the different remedies available to these.

To incorporate a corporation, or Sociedad Anónima, shareholders must draft and sign the corporation's bylaws, which must be instrumented through a public deed before a Notary Public. Next, the bylaws must be approved by the corporate regulatory authority (Abogacía del Tesoro). Once this authorization has been obtained, the bylaws must finally be registered before the Registry of Legal Persons and Associations and the Public Registry of Commerce.

There is **neither a minimum share capital nor a maximum number of shareholders** requirement. However, a **minimum of two shareholders is required** to incorporate a Sociedad Anónima. The share capital must be entirely subscribed (allocated between the existing shareholders) at the time of incorporation.

Since the enactment of Law No. 5.895/17, bearer shares are no longer admitted in Paraguay; all shares of a corporation must be nominative. Additionally, all sales of shares must be notified to the company and to the corporate regulatory authority (Abogacía del Tesoro) within a specific timeframe.

The incorporation process typically takes between, **45 to 60 days**, on average. The administrative and legal fees related to the incorporation vary depending on the capital share amount, **starting at around US\$300**.

The sale of shares is not levied with Value Added Tax.

b. Limited Liability Company - Sociedad de Responsabilidad Limitada

The Limited Liability Company, or Sociedad de Responsabilidad Limitada (S.R.L.), is a recommended form of association and one of the most widely used types of corporate vehicle. Its main advantages are dynamism and operational practicality. The capital is divided into contributions that are of restricted negotiation, may not be represented by titles. These companies have a limited number of partners who are liable to third parties up to the amount of their contributions.

The incorporation process of the Limited Liability Company is practically the same as the one described above for a corporation.

⁴ Paraguay has recently enacted Law No. 5.895/17 "Which Establishes Transparency Rules in the Stock Companies Regime".

A limited liability company can be formed by at least two but not more than twenty-five partners.

If there are more than five partners, transfer of contributions to third parties must be approved by partners that represent $\frac{3}{4}$ of the corporate capital. If there are less than five partners, approval for the transfer of contributions must be unanimous. This is a main characteristic of the limited liability company (S.R.L.), given that these companies are generally characterized and sustained by the personal relationships between partners.

Similar to corporations, limited liability companies **have no minimum corporate capital requirement.** However, the corporate capital must be adequate for the type of business the company will be engaged in. Upon the incorporation of this type of company, the corporate capital must be (i) fully subscribed (allocated between the existing partners) and (ii) a minimum of 50% of said corporate capital must be paid in cash and deposited at the Banco Nacional de Fomento (BNF). The partners have a two-year

limit to fully pay the subscribed capital. This is a condition required for the company's registration before the General Directorate of Public Registries.

Following the incorporation, the remaining share capital must be paid in with goods or assets, which must be transferred to the company.

The incorporation of a limited liability company typically takes around **45 to 60 days**, on average. The administrative and legal fees vary depending on the corporate capital, **starting at around US\$300.**

c. Branch Office (Sucursal)

Foreign companies may incorporate a local branch in Paraguay. Branch offices are subject to certain legal provisions that typically apply to domestic corporations, such as the publication of the corporate bylaws in a local newspaper and the registration of the bylaws before the Public Registry of Commerce and the Registry of Legal Entities and Associations. The estimated time for incorporation of a

branch, as well as the applicable administrative and legal fees are substantially similar to those of a corporation.

The following legal requirements must be met to incorporate a branch office: (i) the parent company must appoint a local representative (who must be domiciled in Paraguay), (ii) the parent company must be duly incorporated in accordance with the laws of its country of origin and evidence thereof must be attached to the request for incorporation of the branch, (iii) the parent company must authorize the incorporation of a local branch, including the allocation of a share capital and the designation of the branch's representative. All foreign documents must be certified by a notary public and must be duly apostilled or legalized by the appropriate Paraguayan consulate and the Ministry of Foreign Affairs.

d. Simplified shares corporation - Empresas de Acciones Simplificadas

The Simplified Shares Corporation, or Empresas de Acciones



Simplificadas (EAS), is a new legal entity created in 2019 especially designed for entrepreneurs. The Simplified Shares Corporation is a corporate vehicle entitled to perform all forms of commercial activities in an organized fashion. Its shareholders participate in the profits and take on the losses resulting from this economic unit. The Simplified Shares Corporation is a capital company of a commercial nature.

Unlike the case of corporations, Simplified Shares Corporations can be incorporated with a single shareholder (which can be a natural or legal person), but, as similar to a corporation, may have an unlimited number of shareholders. The members of the Simplified Shares Corporation must prepare and sign their articles of incorporation (as well as its amendments and termination) by means of a public or private instrument with certified signatures

before the Ministry of Finance. After their registration before the Ministry of Finance, its incorporation must be communicated to the General Directorate of Public Registries.

In case recordable assets (like vehicles or real estate, etc.) are contributed to the Simplified Shares Corporation as share capital, the Simplified Shares Corporation must be incorporated by way of a public deed certified by a Public Notary. The articles of incorporation must later be filed with the Unified System of Opening and Closing Businesses (SUACE).

Once the Simplified Shares Corporation is registered, its shareholders will respond only up to the amount of their shares. A one-member Simplified Shares Corporation cannot incorporate or be a shareholder of another one-member Simplified Shares Corporation.

The Simplified Shares Corporation's organizational structure can be freely determined by the Bylaws.

2. Taxation

In September 2019, Paraguay enacted Law No. 6.380/19 for the "Modernization and Simplification of the National Tax System" (the "**Tax Law**"). The Tax Law's main objective is to improve the previous tax system by making it simpler, more efficient, equitable and competitive. The Tax Law reflects certain principles that prevail in modern tax systems, aimed at reducing tax avoidance and tax evasion.

Transfer Price

The Tax Law also incorporated several mechanisms to (i) control transfer prices, (ii) determine business group's taxable profits and (iii) to determine Corporate Income Tax payment. These new regulations came into full effect starting January 1st, 2021.

The Transfer Price regulations are applicable between two or more natural or legal persons when (i) a person owns more than 50% of the capital stock with voting rights in a legal person; (ii) when a person influences the business decisions of another; or (iii) between the headquarters and its permanent establishments.



Under the Tax Law, now in full effect, the following taxes apply:

a. Income Taxes

Corporate Income Tax (Impuesto a la Renta Empresarial - IRE)

Taxable income	Taxable base	Rate	Taxpayer
<p>The IRE Tax levies all Paraguayan-source income resulting from all types of primary, secondary or tertiary economic activities, including agribusiness, commercial, industrial and services (other than personal services) activities. Income is deemed of Paraguayan source when such income results from (i) activities carried out within Paraguay, (ii) assets located in Paraguay, and (iii) rights economically used in Paraguay.</p> <p>As an example, interest payments and capital gains resulting from investments of local companies in foreign markets will be taxed under local law.</p>	<p>The taxable base for IRE is the Net Profit, which is formed by the Gross Profit minus the cost of production and all legally admitted deductions.</p>	<p>10%</p>	<p>IRE's taxpayers are natural and legal persons undertaking commercial activities (excluding natural persons that are IRP taxpayers) who are residents of Paraguay, such as corporate entities, associations, joint ventures, public enterprises, etc.</p>

Personal Income Tax (Impuesto a la Renta Personal - IRP)

Taxable income	Taxable base	Rate	Taxpayer
<p>The IRP Tax levies all Paraguayan-source income resulting from (a) capital gains, yields, and dividends (except for those taxed by IDU) and (b) rendering personal services. Income is deemed of Paraguayan source when such income results from (i) activities carried out within Paraguay, (ii) assets located in Paraguay, and (iii) rights economically used in Paraguay.</p> <p>As an example, income from services rendered outside of Paraguayan territory are taxable provided that both the provider and the receiver are local taxpayers.</p>	<p>The taxable base for IRP is the Net Profit, which is formed by the Gross Profit minus the cost of production and all legally admitted deductions.</p>	<p>8%</p>	<p>IRP's taxpayers are natural persons who are residents of Paraguay.</p>

Non-resident Income Tax (Impuesto a la Renta de No Residentes - INR)

Taxable income	Taxable base	Rate	Taxpayer
<p>The INR Tax levies all income that would be taxable by IRE or IRP obtained by non-resident natural or legal persons.</p>	<p>The taxable base for INR depends on the type of transaction. For example, for interest payments and fees, sale of real property, and other movable assets, the taxable base is 30% of the gross amount paid. For leasing of real property, the taxable base is 50% of the gross amount paid. For the sale of shares and other securities the taxable base is the lower of (i) 30% of the price or (ii) the difference between the price and the par value. On all other cases, the taxable base is 100% of the gross amount paid.</p>	<p>15%</p>	<p>INR's taxpayers are all natural and legal persons who are not residents of Paraguay. Note that in this case, the tax is paid through withholdings practiced by the paying entity.</p>

b. Profits and Dividends Tax - (Impuesto a los Dividendos y a las Utilidades - IDU).

Profits and Dividends Tax - (Impuesto a los Dividendos y a las Utilidades - IDU)

Taxable income	Taxable base	Rate	Taxpayer
<p>The Profits and Dividends Tax - (Impuesto a los Dividendos y a las Utilidades - IDU) levies all dividends, yields, or gains paid or made available to its shareholders or beneficiaries, by persons (provided such natural person is a taxpayer of IRE) or entities resident of Paraguay, such as corporations, joint ventures, funds, trust, consortiums for public works, etc.</p>	<p>100% of dividends or profits paid to the shareholder or beneficiary.</p>	<p>8% for resident taxpayers and 15% for non-resident taxpayers.</p>	<p>IDU's taxpayers are natural and legal persons who are shareholders or beneficiaries, partners, or otherwise receive profits and dividends from local natural persons (provided such natural person is a taxpayer of IRE) and legal entities residents of Paraguay. Note that in this case, the tax is paid through withholdings practiced by the paying entity.</p>

c. Other Taxes

Valued Added Tax (VAT)

Taxable income	Taxable base	Rate	Taxpayer	Exemptions
<p>The VAT tax levies all sales of goods and services rendered (except those rendered under employment contracts) within Paraguay, as well as the import of goods into Paraguay. Such sales or imports are taxed regardless of the place of execution of the contract, domicile of the parties, origin of the goods, and origin of the payment.</p>	<p>VAT is applied over 100% of the price in the case of sales of goods or services, and over all payments other than principal (interest, fees, commissions, etc.) in the case of financial services.</p>	<p>10%</p>	<p>All natural and legal persons, regardless of their place of residency (since the tax follows the place of the transaction) are VAT taxpayers. Note that in the case of non-residents, the tax is paid through withholding practiced by the paying entity.</p>	<p>Sale of shares, credits, and other types of public securities are exempt from VAT.</p>

3. Employment

All labor and employment relationships in Paraguay are governed by the Labor Code. The Labor Code stipulates the minimum provisions that all work contracts must incorporate. These provisions are mandatory and cannot be set aside by the parties; any covenant to the contrary is null and void.

Wages can be freely determined by the parties, provided that such wages are not lower than the minimum legal wage. Parties can agree to hourly wages (per hour, day, fortnight, monthly or part-time), per unit produced (piece work) and commission on sold goods or services. In all cases, the basis to determine the wages, shall be the minimum legal wage.

The minimum wage currently in effect is of PYG 2,289,839 (approximately US\$ 340) per month. Wages above this minimum can be freely agreed to by the parties.

The Social Security Institute, or Instituto de Previsión Social (IPS), administers the social security system in Paraguay. IPS covers risks and contingencies such as: disability, old age and death, common illness and/or accident, maternity, work illness or accident.

Both the employer and the employee must be registered before the Social Security Institute. Social Security contribution payments must be made by the employer, who is required to pay a monthly fee equivalent to 25.5% of each employee's monthly wage. In turn, the employer is entitled to withhold 9% of the employee's wages for said contribution. The remaining 16.5% must be fully and solely paid by the employer.

The Social Security Service represents only one in eight other retirement funds or pensions in Paraguay. While the Social Security Service is the main pension with the greatest amount registered employees, employees can also contribute to other pension funds and thus not to the Social Security Service. For example, the bank employees contribute to the Banking Pension Fund.

4. Distributors, representatives and agents

Relationships between foreign companies and Paraguayan representatives, agents, and distributors are governed by Law No. 194/93. This Law stipulates indemnification calculations for the event a distribution, representation or agency contract with a foreign entity is canceled, revoked or terminated without cause. In case there is just cause for termination of the contract, no indemnification shall be owed. However, just cause must be proved in court or through an arbitration ruling. The criteria to calculate the compensation amount is based on: **1) duration of the commercial relationship, and 2) average gross benefits resulting from the relationship on the last three years.**

5. Dispute Resolution

Law 1.879/02 of Arbitration and Mediation Law is a verbatim adoption of the 1985 UNCITRAL Model Law. This law standardizes domestic and international arbitration proceedings and adopts international guidelines for the recognition and enforcement of arbitral awards.

Paraguay is also a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the International Centre for Settlement of Investment Disputes Convention (ICSID).



In case there is just cause for termination of the contract, no indemnification shall be owed. However, just cause must be proved in court or through an arbitration ruling.

6. Recognition of choice of law in international contracts

Pursuant to Law No. 5.393/15, Paraguay recognizes the parties' choice of law to international contracts. This law adopts The Hague Principles on Choice of Law in International Commercial Contracts and recognizes parties' autonomy to select the substantial law applicable to their

contractual relations. Paraguay is the first country in the world to implement these Principles into a domestic body of law, which enhances the increasing trend of the legal system towards globalization



Section D

Public-Private Partnership





Paraguay has enacted Law No. 5.102/13 on “Investment and Promotion in Public Infrastructure, Expansion and Improvement of Goods and Services provided by the State” (modified by Law No. 5.567/16) and its Regulatory Decree No. 1.350/14 (modified by Decree No. 4.183/20). This regulatory framework enables the Paraguayan government to improve the country’s public infrastructure and services.

Pursuant to this law, bidders will be selected through public tenders or other competitive procedures.

Public-private partnership contracts can either be initiated by (i) the government’s Contracting Authority or (ii) by private initiatives arising from interested companies. In case a PPP contract is launched under the private initia-

tive regime, the private company that initiated the project can be awarded certain rights and preferences in the ensuing public tender.

The bidder awarded with a PPP project must incorporate a local company (a specific purpose corporation) of which it shall be the majority shareholder.

The first PPP project agreement has been in full effect and is being executed since 2017. This PPP project consists of the design, financing, construction, maintenance and operation of the 193 km National Route PY02. There are also other projects which are planned to be tendered under the PPP regime. For more information, refer to section 4, paragraph b.

Section E

Public Tenders

01 Public Procurement Law

02 Sistema Informático de
Proveedores del Estado

03 Public Tender with the Option to
Finance the Project (Turn Key
Contracts) – Law No. 5.074/13

1. Ley de Public-Private Partnership

Apart from the PPP projects, foreign investors can also participate in international public bids held in Paraguay. Paraguay's Public Procurement Law (Law No. 2.051/03, as amended), governs national (for individuals and legal entities domiciled in Paraguay) and international public bids (for individuals and legal entities domiciled outside of Paraguay). According to this law, international public bids can be undertaken in the following cases:

- i. If required by an International Treaty to which Paraguay is a party;
- ii. If required by an agreement entered into with a multilateral entity;
- iii. Whenever previous market research led to the conclusion that local suppliers or contractors may not supply the required quantity or quality of goods and services or if convenient from a cost perspective;
- iv. When a national public bid resulted with no bidders or with underqualified bidders.

2. Sistema de Información de Proveedores del Estado (Register of Providers of Public Services and Products)

In order to participate in public tenders in Paraguay, entities must register before the National Procurement Office, specifically in the "Sistema de Información de Proveedores del Estado" (SIPE), created by Decree No. 11.407/07, as amended.



3. Public Tender with the Option to Finance the Project – Law 5.074/13

Law No. 5.074/13, amended by Law No. 5.396/15, and regulated by Decree No. 1.434/14, offers a comprehensive legal framework for undertaking public works with enough guarantees and easier enforcement than the PPP Law. This law represents an interesting alternative way to contract with the Paraguayan state for the development of public works.

This Law is aimed **exclusively for bidders that have secured full funding for their infrastructure projects**. Accordingly, a list of the projects ranging from road construction to railways, airports, bridges and ports which can benefit from this scheme is detailed in the Law. The law also authorizes local and foreign persons or legal entities, domiciled or represented in the country to engage in a Joint Ventures with government agencies.

These public works and services may be carried out by companies and/or consortia of national and/or foreign companies where Paraguayan participation shall not be less than 25%.

The Paraguayan state assumes the obligation to pay for the contracted public works, once these are (i) totally completed, or (ii) defined milestones of said works is completed. The Paraguayan state offers the following three guarantees over such payments:

- i. Payment for the completed work is guaranteed by the National Treasury;
- ii. The financing funds are backed by the full faith and credit of the Paraguayan state;
- iii. On a case by case basis (with a prior evaluation by the Central Bank of Paraguay, and the Executive Branch), the government may authorize the use of Paraguay's credit line under the ALADI Reciprocal Credit and Payment Agreement. This additional guarantee is aimed to ensure fast and secure payment to the contractor.

Section F

International relations

01 MERCOSUR

02 Investment protection (MIGA)

03 Generalized Scheme of Preferences (GSP)

04 EU-Mercosur Association Agreement

1. MERCOSUR

The Mercosur free trade zone was founded on March 26th, 1991 pursuant to the Asunción Treaty signed in Asuncion, Paraguay. The four countries (Argentina, Brazil, Paraguay and Uruguay) who initially formed Mercosur share a community of values that find expression in their democratic and pluralistic societies, the defense of fundamental freedoms and human rights, the protection of the environment and the commitment to the consolidation of legal security in its permanent aim for economic development and social equity. **As a member of Mercosur, Paraguay is eligible for trade benefits and exemptions of customs duties within the free trade zone.** The following countries are current parties to the MERCOSUR free trade zone: Argentina, Brazil, Paraguay, Uruguay and Venezuela (since 2006). Also, the following countries have joined as Associate States: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname. Currently, Bolivia is in the final phase of adhering to the treaty as a full member and Venezuela has been suspended.

2. Investment protection (MIGA)

Paraguay is also a member country of the Multilateral Investment Guarantee Agency (MIGA). As part of the World Bank Group, **MIGA guarantees any investments made by investors in member countries into a developing member country**, such as Paraguay.



The following countries are current parties to the MERCOSUR free trade zone: Argentina, Brazil, Paraguay, Uruguay and Venezuela. Also, the following countries have joined as Associate States: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname.



Paraguay is also eligible to be benefited with the GSP with the United States of America

3. Generalized Scheme of Preferences (GSP)

Paraguay is part of the GSP+ beneficiary countries of the European Union, offering our country additional trade incentives on exports to the EU. Paraguay is also eligible to be benefited with the GSP with the United States of America, which grants the elimination or reduction of customs duties.

4. EU-Mercosur Association Agreement

As a member of MERCOSUR, Paraguay is part of the association agreement signed between Mercosur and the European Union in 2019. Under this agreement, the European Union undertook to gradually liberalize 92% of imports from MERCOSUR, while the South American block committed to gradually release 91% of European imports. The agreement also opens opportunities to improve access to the tight European market for agricultural goods, and could contribute to strengthening value chains and increasing the competitiveness of the Paraguayan economy.

Doing Business in Paraguay

