

Paraguay

RISK & COMPLIANCE REPORT

DATE: March 2018

Executive Summary - Paraguay	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Compliance with FATF 40 + 9 recommendations US Dept of State Money Laundering assessment Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score)
Medium Risk Areas:	Failed States Index (Political Issues)(Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products: cotton, sugarcane, soybeans, corn, wheat, tobacco, cassava (tapioca), fruits, vegetables; beef, pork, eggs, milk; timber</p> <p>Industries: sugar, cement, textiles, beverages, wood products, steel, metallurgic, electric power</p> <p>Exports - commodities: soybeans, feed, cotton, meat, edible oils, wood, leather</p> <p>Exports - partners: Uruguay 18.3%, Argentina 16.3%, Brazil 16.2%, Russia 11.8% (2012)</p> <p>Imports - commodities: road vehicles, consumer goods, tobacco, petroleum products, electrical machinery, tractors, chemicals, vehicle parts</p> <p>Imports - partners: Brazil 24.1%, China 19.4%, Argentina 19.2%, US 11.4% (2012)</p>	

Investment Restrictions:

The Government of Paraguay (GOP) encourages foreign investment and most sectors are open for private investment.

Foreign and domestic private entities may establish and own business enterprises. Foreign businesses are not legally required to be associated with Paraguayan nationals for investment purposes.

There is no restriction on repatriation of capital and profits. Private entities may freely establish, acquire, and dispose of business interests.

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Section 1 - Background

Paraguay achieved its independence from Spain in 1811. In the disastrous War of the Triple Alliance (1865-70) - between Paraguay and Argentina, Brazil, and Uruguay - Paraguay lost two-thirds of its adult males and much of its territory. The country stagnated economically for the next half century. Following the Chaco War of 1932-35 with Bolivia, Paraguay gained a large part of the Chaco lowland region. The 35-year military dictatorship of Alfredo STROESSNER ended in 1989, and, despite a marked increase in political infighting in recent years, Paraguay has held relatively free and regular presidential elections since the country's return to democracy.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Paraguay is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 21 June 2013

The FATF welcomes Paraguay's significant progress in improving its AML/CFT regime and notes that Paraguay has largely met its commitments in its Action Plan regarding the strategic deficiencies that the FATF had identified in February 2010. Paraguay is therefore no longer subject to FATF's monitoring process under its on-going global AML/CFT compliance process. Paraguay will work with GAFISUD as it continues to address the full range of AML/CFT issues identified in its Mutual Evaluation Report, particularly regarding further implementation of Special Recommendation VI and Special Recommendation IX.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Paraguay was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Paraguay was deemed Compliant for 2 and Largely Compliant for 2 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

US Department of State Money Laundering assessment (INCSR)

Paraguay is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Paraguay continues a strong trajectory of economic growth, expected to again surpass 4 percent in 2017 – outpacing neighbors in the region. Transnational criminal organizations use Paraguay for the large-scale cultivation and processing of marijuana and the processing and transit of Andean cocaine. The Tri-Border Area (TBA), comprising the shared border area of Paraguay, Argentina, and Brazil, is home to a multi-billion dollar contraband trade that facilitates significant money laundering in Paraguay. The government of Paraguay has worked to reduce the criminal use of Paraguay's financial system to launder illicit proceeds

by taking steps to address corruption, eliminate bureaucratic inefficiencies, and enhance interagency coordination; however, these efforts have not yet produced substantial results.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering occurs in both financial institutions and the non-bank financial sector; vulnerabilities include a large number of unregistered exchange houses, a primarily cash-based economy, lax regulation of import-export businesses and casinos, weak border controls, and insufficient oversight of a high volume of money transfers to Lebanon and China. While some launderers leverage inconsistent enforcement to electronically move money, others take advantage of ineffective border controls to physically transport cash across TBA borders.

Trade in Ciudad del Este and other towns along Paraguay's borders with Brazil and Argentina is characterized by a high degree of informality, and TBML occurs in the region. The area is known for narcotics trafficking, document forging, smuggling, counterfeiting, and violations of intellectual property rights, with the high volume of licit and illicit trade fueling TBML. Smugglers move a broad variety of products either produced in Paraguay or imported into Paraguay, to Brazil and Argentina. Criminal organizations launder proceeds from smuggling and often co-opt government officials through bribery to maintain their ability to continue.

Paraguay does not have an offshore sector. Paraguay's port authority manages free trade ports and warehouses in Argentina, Brazil, Chile, and Uruguay.

KEY AML LAWS AND REGULATIONS

In 2017, Paraguay enacted important legislation outlawing bearer bonds and authorizing the creation of an agency to administer seized and forfeited assets. As of December 2017, Paraguay is drafting implementing regulations and must fund the new agency.

Paraguay has KYC and STR regulations applying to a wide range of entities, and authorities are developing a project to unify and update money laundering prevention regulations. Paraguayan legislation covers legal persons and requires enhanced due diligence for PEPs.

There is no bilateral MLAT between Paraguay and the United States; however, both are party to multilateral conventions providing for cooperation in criminal matters.

Paraguay is a member of GAFILAT, a FATF-style regional body.

AML DEFICIENCIES

Paraguay is not subject to any international sanctions. Paraguay struggles to investigate and prosecute complex money laundering cases, in part because of a disjointed AML regime and lack of interagency cooperation. The Taxation Secretariat (SET) focuses on tax evasion cases, but lacks access to the Anti-Money Laundering Secretariat (SEPRELAD) and banking information. SEPRELAD lacks resources, though it does refer STRs to SET and Customs when appropriate. Prosecutors often treat SEPRELAD analytic reports as evidence, and therefore publicly releasable, rather than protect them as intelligence. Though the Central Bank of Paraguay (BCP) has authority to supervise banks for money laundering compliance (independent of SEPRELAD), the sanctioning regime is not effective. To address these deficiencies, the government's interagency financial crimes working group is seeking to enhance coordination on AML issues among these actors. The Paraguayan government,

through long-term engagement with international donors, is also working to improve its AML regime and implement its strategic plan.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Paraguay continues to take steps to implement the 1988 UN Drug Convention and international AML standards. During the first nine months of 2017, Paraguay convicted four persons (compared to five in all of 2016) and presented three cases for prosecution (equal to all of 2016). Meanwhile, large-scale money laundering cases, including the Forex and Megalavado cases worth a combined estimated U.S. \$1.8 billion, are not advancing in the judicial system, in part due to defense-initiated, though legal, recusals and procedural delays. Criminal cases against eight Forex bank officials are likely to be dismissed in early 2018 after the statute of limitation expires – after six years without preliminary hearings.

Current regulations lack effective implementation. For example, SEPRELAD and the BCP have different interpretations of Paraguayan law regarding when STRs should be submitted. Many STRs are poorly written and do not contain actionable information. Approximately 80 percent of the 8,000 STRs submitted to SEPRELAD during the first nine months of 2017 lacked information of value from a financial intelligence perspective. SEPRELAD conducts outreach to reporting entities to improve STR quality and could enhance its analysis of financial intelligence by gaining access to Customs, SET, and BCP information.

Current Weaknesses in Government Legislation (INCRS Comparative Tables):

According to the US State Department, Paraguay does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

EU White list of Equivalent Jurisdictions

Paraguay is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Paraguay is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2017:

Paraguay faces various challenges in its efforts to reduce narcotics trafficking and production. Paraguay is the second largest marijuana producer in the Western Hemisphere, with the majority grown along the Paraguay-Brazil border and exported to Brazil and Argentina. It is also a transit country for Andean cocaine, primarily destined for Paraguay's neighbors or onward shipment to Europe and other overseas markets. Drug traffickers exploit the landlocked country's porous borders, clandestine airstrips, extensive internal waterways, and under-resourced, often corrupt law enforcement and judicial institutions. International criminal organizations operating along the Paraguay-Brazil border also continue to engage in arms trafficking, money laundering, counterfeiting, and other illegal activities linked to narcotics trafficking. In December 2016, Paraguayan authorities arrested six alleged-affiliates of the Mexico-based Sinaloa Cartel in Asuncion. According to media reports, the arrested individuals were allegedly seeking to establish a cocaine trafficking route from Colombia to Europe via Paraguay.

The volume of illegal drugs seized by the National Anti-Drug Secretariat (SENAD) and the Paraguayan National Police (PNP) declined in 2016 from the previous year. In 2016, SENAD seized and destroyed 276 metric tons (MT) of processed marijuana (compared to 362 MT in 2015) and 1.57 MT of cocaine (compared to 2.23 MT in 2015). The PNP seized and destroyed 137.6 MT of processed marijuana (compared to 148.3 MT in 2015), and seized 19 kilograms of cocaine (compared to 919 kg in 2015). Cannabis eradication also declined in 2016. SENAD eradicated 1,298 hectares (ha) of marijuana (compared to 1,995 in 2015), while the PNP eradicated 413 ha of marijuana (compared to 795 in 2015).

The United States and Paraguay are parties to an extradition treaty that entered into force in 2001. There is no mutual legal assistance treaty in force between Paraguay and the United States, though both are parties to various multilateral conventions which provide for cooperation in criminal matters.

The United States works closely with Paraguayan enforcement officials and provides technical support to Paraguay's efforts to disrupt drug trafficking organizations and strengthen legal and regulatory frameworks in a joint effort to combat drug trafficking and associated crimes, including money laundering, terrorist financing, and arms trafficking. The United States hosted multiple training events throughout 2016 and assisted with weapons tracing and exploiting seized cell phones. U.S. operational support facilitated drug seizures, arrests, and the presentation of cases for prosecution. Further efforts to enhance Paraguayan interagency coordination, improve the judicial system's ability to prosecute cases quickly and effectively, confront corruption, and strengthen law enforcement efforts would help to further deter narcotics production and trafficking.

US State Dept Trafficking in Persons Report 2016 (introduction):

Paraguay is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Paraguay is a source, destination, and transit country for men, women, and children subjected to sex trafficking and forced labor. Paraguayan women and girls are subjected to sex trafficking within the country, and transgender Paraguayans are vulnerable to sex trafficking. Thousands of Paraguayan children work as domestic servants in exchange for food, board, and occasionally education or a small stipend in a system called *criadazgo*; many of these children are subjected to domestic servitude and are highly vulnerable to sex trafficking. Indigenous persons are particularly at risk for forced labor and sex trafficking. Children engaged in street vending and begging and working in agriculture, mining, brick making, and ranching are vulnerable to human trafficking. In 2015, authorities reported at least 24 Paraguayan women were recruited for work in Turkey and later exploited in forced prostitution in brothels throughout Turkey, Spain, and the northern area of Cyprus administered by Turkish Cypriots. The reliance of international trafficking rings on local recruiters remains a problem. Traffickers offer victims their freedom or pardon of debts if they recruit other victims and often rely on social media outlets as recruiting tools. Foreign victims of sex and labor trafficking in Paraguay are mostly from other South American countries. Paraguayan victims of sex trafficking and forced labor are found in Argentina, Spain, Brazil, Chile, Mexico, China, Colombia, and other countries. Paraguayan women are recruited as couriers of illicit narcotics to Europe and Africa, where they are subjected to forced prostitution. Paraguayan children, as well as men and boys from Brazil, are reportedly subjected to forced labor in the cultivation and sale of illicit drugs within Brazil. Two Paraguayan women were arrested in China as "drug mules" in 2012 and 2013, and were sentenced to death. Following their identification by the Government of Paraguay as trafficking victims, the Chinese government commuted the two victims' sentences to life in prison in 2015. NGOs and authorities reported government officials—including police, border guards, judges, and public registry employees—facilitated human trafficking, including by taking bribes from brothel owners in exchange for protection, extorting suspected traffickers in order to prevent arrest, and producing fraudulent identity documents. Reports indicated isolated instances of the Paraguayan People's Army (EPP) and the Armed Peasant Association (ACA) forcibly recruiting children and adolescents from San Pedro, Concepcion, and Amambay to participate in military operations and serve in logistical and communication support roles. There were also reports of isolated instances in which female child soldiers entered into informal marriages with other older EPP and ACA members.

The Government of Paraguay does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government continued anti-trafficking law enforcement and training efforts and cooperated with foreign governments in several operations during the reporting period. However, efforts to prosecute, convict, and sentence traffickers under the 2012 anti-trafficking act or combat labor trafficking were inadequate to address the problem. The government continued to provide limited protective services to female and child trafficking victims. However, the government did not create and fund an anti-trafficking secretariat or victim compensation fund, as required by law, and the draft national action plan remained awaiting approval for the second consecutive year.

US State Dept Terrorism Report 2016

Overview: In 2016, the Government of Paraguay continued its counterterrorism cooperation with the United States. Paraguay continued to face challenges on ineffective immigration, customs, and law enforcement controls along its porous borders, particularly the Tri-Border Area (TBA) with Argentina and Brazil, and its dry border with Brazil from the TBA to Pedro Juan Caballero.

Since 2008, persons claiming to be part of the Paraguayan People's Army (EPP) – a domestic criminal group initially dedicated to a socialist revolution in Paraguay – have been active in the northern departments of Concepcion and San Pedro. The group has been involved in violence designed to intimidate the population and government. The Government of Paraguay believes the EPP to be a small, decentralized group of approximately 20 members. EPP and offshoot groups' activities consisted largely of isolated attacks on remote police and army posts, or against ranchers and peasants accused of collaborating with Paraguayan security services. The Armed Peasants Association, an EPP offshoot, continued to operate at a reduced capacity, following a late 2015 Paraguayan government operation that killed most of the group's leadership. Ranchers and ranch workers in northeastern Paraguay, including members of the Mennonite community, claimed the EPP frequently threatened both their livelihoods and personal security. At the end of 2016, the EPP allegedly held four high-profile hostages, including Mennonite Franz Weibe, kidnapped in 2016; rancher Felix Urbieta, kidnapped in 2016; Abraham Fehr Banman, kidnapped in 2015; and former Paraguayan National Police official Edelio Morinigo Florenciano, kidnapped in 2014.

Legislation, Law Enforcement, and Border Security: Paraguay pursued individuals suspected of terrorist crimes under laws passed in 2010 and 2011. The Paraguayan government continued to make use of a 2013 counterterrorism law that allows for the domestic deployment of the Paraguayan military to counter internal or external threats. Counterterrorism functions are handled by the Paraguayan National Police Secretariat for the Prevention and Investigation of Terrorism. Military forces and police officials continued to operate jointly in the San Pedro, Concepcion, and Amambay departments against the EPP, with limited success.

The Tri-Border Area continued to be attractive to individuals seeking to engage in terrorist financing, as the minimal police and military presence along these borders allowed for a largely unregulated flow of people, licit and illicit goods, and money. Paraguay's efforts to provide more effective law enforcement and border security were hampered by a lack of interagency cooperation and information sharing, as well as pervasive corruption within security, border control, and judicial institutions.

Paraguay continued to participate in the State Department's Antiterrorism Assistance program, as part of a tri-border regional program; other U.S. government agencies also contributed to building Paraguay's counterterrorism law enforcement capacity

Countering the Financing of Terrorism: Paraguay is a member of the Financial Action Task Force of Latin America, a Financial Action Task Force-style regional body, and Paraguay's Financial Intelligence Unit is a member of the Egmont Group of Financial Intelligence Units. Paraguay has counterterrorist financing legislation and the ability to freeze without delay and confiscate terrorist assets, although there were no terrorist financing convictions or actions to freeze in 2016.

Concerted law enforcement efforts to implement anti-money laundering laws and laws countering the financing of terrorism were lacking. Significant quantities of money are laundered through businesses and financial institutions or moved in cash. The Paraguayan government registers and has reporting requirements for non-governmental organizations (NGOs) – including non-profit organizations – and requires NGOs to set up internal monitoring and training regimes to guard against criminal or terrorist financing. Paraguay requires the collection of data for wire transfers.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	29
World Governance Indicator – Control of Corruption	25

Corruption represents one of the major obstacles to businesses investing in Paraguay. In most sectors corruption hinders competitiveness, and practices of favouritism are particularly widespread in public procurement, public services and the natural resources sector. The anti-corruption legal framework of Paraguay criminalises passive and active corruption, money laundering, embezzlement and other offences but does not cover abuse of office or the bribery of foreign officials. Furthermore, implementation of the existing legislation is weak, and many government officials engage in corruption with impunity. Bribery is a widespread practice in Paraguay. **Information provided by GAN Integrity.**

Corruption and Government Transparency - Report by US State Dept.

Paraguayan law provides criminal penalties for official corruption; however, impunity impedes effective implementation. Historically, officials in all branches and at all levels of government have engaged in corrupt practices, and cases can spend years in the courts without any satisfactory resolution. Under the Cartes Administration, the GOP has taken several steps to combat corruption, including the creation of a transparent, internet-based government procurement system; the appointment of respected apolitical officials to key posts; and increased civil society input and oversight. In October 2013, the National Procurement Agency, the Civil Service Secretariat, the Auditor General, the Anticorruption Secretariat, and the Solicitor General signed an MOU to strengthen coordination among key players in the fight against corruption. Under the MOU, these Executive Branch institutions are working collaboratively on a National Anticorruption Plan.

The constitution requires all public employees, including elected officials and employees of independent government entities, to disclose their income and assets at least 15 days after taking office or being appointed and again within 15 days after finishing their term or assignment. A new law that went into effect in January 2014 requires that the employee include information on the assets and income of spouses and dependent children. The new law does not require officials to file periodically when changes occur in their holdings. Following the inauguration of the new government, the president, vice president, the 10 ministers of the executive branch and 22 other minister-rank and high-ranking employees of the Cartes administration filed their financial disclosure forms in compliance with the constitution.

Judicial insecurity and corruption in the judicial system hinders Paraguay's investment climate. Many investors find it difficult to enforce adequately contracts and are frustrated by lengthy bureaucratic procedures, limited transparency and accountability, and impunity.

Paraguay signed and ratified the United Nations Anticorruption Convention in 2005.

Section 3 - Economy

Landlocked Paraguay has a market economy distinguished by a large informal sector, featuring re-export of imported consumer goods to neighbouring countries, as well as the activities of thousands of microenterprises and urban street vendors. A large percentage of the population, especially in rural areas, derives its living from agricultural activity, often on a subsistence basis. Because of the importance of the informal sector, accurate economic measures are difficult to obtain.

On a per capita basis, real income has stagnated at 1980 levels. The economy grew rapidly between 2003 and 2008 as growing world demand for commodities combined with high prices and favourable weather to support Paraguay's commodity-based export expansion. Paraguay is the sixth largest soy producer in the world. Drought hit in 2008, reducing agricultural exports and slowing the economy even before the onset of the global recession. The economy fell 3.8% in 2009, as lower world demand and commodity prices caused exports to contract. The government reacted by introducing fiscal and monetary stimulus packages. Growth resumed in 2010, and has been erratic, although positive, ever since. Severe drought and outbreaks of foot-and-mouth disease led to a drop in beef and other agricultural exports.

In addition to the agricultural challenges, political uncertainty, corruption, limited progress on structural reform, and deficient infrastructure are the main obstacles to long-term growth.

Agriculture - products:

cotton, sugarcane, soybeans, corn, wheat, tobacco, cassava (manioc, tapioca), fruits, vegetables; beef, pork, eggs, milk; timber

Industries:

sugar, cement, textiles, beverages, wood products, steel, base metals, electric power

Exports - commodities:

soybeans, livestock feed, cotton, meat, edible oils, wood, leather

Exports - partners:

Brazil 31.7%, Russia 9.1%, Chile 7.1%, Argentina 7% (2015)

Imports - commodities:

road vehicles, consumer goods, tobacco, petroleum products, electrical machinery, tractors, chemicals, vehicle parts

Imports - partners:

Brazil 25.4%, China 23.7%, Argentina 14.8%, US 7.9% (2015)

Banking

While there have been several closings of local banks by the Superintendent of Banks over the past few years, Paraguayan operations of international banks or large regional banks are sound. The Paraguayan banking system is stronger and more profitable and stable than in past years. The Central Bank continues to improve prudential regulation with assistance from the International Monetary Fund. As of January 2010, there were 14 private banks operating in the market, and one state-owned bank. Macro-economic stability during the past years has led to a significant increase in private-sector deposits and loans. The top three private banks had 63.2 percent of the USD 178 million total utilities of the local private banking system in 2009. The system-wide level of non-performing loans in 2009 was 1.6 percent of total loans.

The financial sector regulated by the Central Bank also includes 11 finance companies dedicated to smaller consumer operations not served by banks. The banking system operates mostly on short to medium term credit (12 months is the usual maximum for commercial transactions, although private finance of vehicles and homes is available on longer terms) in both local and foreign currency. There is also a large cooperative sector in Paraguay which is self-regulated and does not fall under the purview of the Central Bank. Cooperatives may have as much as a third of total financial system assets, but cooperative assets are not included in Central Bank data.

Banks and finance companies are regulated by the Banking Superintendent, which is housed within, and is under the direction of, the Central Bank of Paraguay. Deposits are guaranteed up to 30 million Guaranies, approximately USD 6,031.36 at the yearly average exchange rate for 2009 (Guaranies 4,974 to the U.S. dollar). The Central Bank operates based on a modern law, 489/96, although it is not truly independent.

Stock Exchange

Paraguay has a relatively small Asuncion capital market that began operating in 1993. As of 2009, the Asuncion Stock Exchange handled USD 99.2 million in transactions, compared to a volume of USD 79.6 million transactions in 2008. The number of companies traded is 87. The high cost of capital makes the market an attractive alternative, but the fear by family enterprises of losing control has tempered enthusiasm for public offerings. Most of the exchange's volume occurs in fixed income securities.

Section 4 - Investment Climate

Summary

Paraguay has a small but rapidly growing open economy with a strong macroeconomic position and the potential for continued growth over the next decade. Major drivers of economic growth in Paraguay are the agriculture, retail, and construction sectors. The Government of Paraguay (GOP) encourages private foreign investment. Paraguayan law grants investors tax breaks, permits full repatriation of capital and profits, supports maquila operations, and guarantees national treatment for foreign investors. Standard & Poor's, Fitch, and Moody's all upgraded Paraguay's credit ratings over the past three years.

Paraguay scores at the mid-range or lower in most competitiveness indicators, judicial insecurity hinders the investment climate, and trademark infringement and counterfeiting are a major concern. The Government of Paraguay has taken measures in recent years to improve the investment climate, including the passage of laws addressing competition, public sector payroll disclosures, and access to information. The Cartes Administration also has escalated intellectual property enforcement.

Paraguay's export and investment promotion bureau, REDIEX, prepares comprehensive information about business opportunities in Paraguay.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	130 of 168	http://www.transparency.org/cpi2015#results-table
World Bank's Doing Business Report "Ease of Doing Business"	2016	100 of 189	http://www.doingbusiness.org/data/exploreeconomies/paraguay/
Global Innovation Index	2015	88 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2014	144	www.bea.gov
World Bank GNI per capita	2014	USD 4400	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The GOP encourages private foreign investment. Paraguay guarantees equal treatment of foreign investors and permits full repatriation of capital and profits. 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.

Paraguay's export and investment promotion bureau, REDIEX, provides useful information for foreign investors, including business opportunities in Paraguay, registration requirements, and laws, rules, and procedures.

Other Investment Policy Reviews

Not applicable.

Laws/Regulations on Foreign Direct Investment

The Investment Incentive Law (60/90) passed in 1990 permits full repatriation of capital and profits. No restrictions exist in Paraguay on the conversion or transfer of foreign currency, apart from bank reporting requirements for transactions in excess of USD 10,000. This law also grants investors a number of tax breaks, including exemptions from corporate income tax and value-added tax.

The 1991 Investment Law (117/91) guarantees equal treatment of foreign investors and the right to real property. It also regulates joint ventures, recognizing JVs established through formal legal contracts between interested parties. This law allows international arbitration for the resolution of disputes between foreign investors and the Government of Paraguay.

In December 2015, President Cartes signed a new Investment Guarantee Law (5542/15) to promote investment in capital-intensive industries. Implementing regulations will be published in 2016. The law protects the remittance of capital and profits, provides assurances against administrative and judicial practices that might be considered discriminatory, and permits tax incentives for up to 20 years. There is no minimum investment amount, but projects must be authorized by a joint resolution by the Ministry of Finance and Ministry of Industry and Commerce.

Business Registration

The business registration process was modified in 2006 with U.S. assistance. The GOP instituted a coordinated system among all the offices involved known as the SVAE (www.svae.gov.py) or Unified System for Opening of Companies, reducing the number of steps and the time to open a business to 7 procedures, 35 days and lowering the cost to 39.9% of income per capita, according to the World Bank. This is an improvement; however, some aspects of opening a business are still lengthy and costly, such as building health inspections and environmental licenses.

Industrial Promotion

In 2013 the Paraguayan Congress passed a law to promote Public-Private Partnerships (PPP) in public infrastructure and allow for private sector entities to participate in the provision of basic services such as water and sanitation. The government signed implementing regulations for the PPP law in 2014. As a result, the Executive Branch can now enter into agreements directly with the private sector without the need for Congressional approval. In 2015, the Government of Paraguay implemented its first contracts under the new law, with more expected in 2016. Large infrastructure projects are usually open to foreign investors.

The Government of Paraguay seeks increased investment in the assembly/distribution (maquila) sector and Paraguayan law grants investors a number of incentives. In addition to tax exemptions, inputs are allowed to enter Paraguay tax free, and up to 10% of production is allowed for local consumption after paying import taxes and duties. There are few restrictions on the type of product that can be produced under the maquila system and operations are not restricted geographically.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign and domestic private entities may establish and own business enterprises. Foreign businesses are not legally required to be associated with Paraguayan nationals for investment purposes.

There is no restriction on repatriation of capital and profits. Private entities may freely establish, acquire, and dispose of business interests.

Privatization Program

Not applicable.

Screening of FDI

Not applicable.

Competition Law

Paraguay passed a Competition Law in 2013, which entered into force in April 2014. Law 4956/13 explicitly prohibits anti-competitive acts and created the National Competition Commission (CONACOM) as the government's enforcement arm.

2. Conversion and Transfer Policies

Foreign Exchange

No restrictions exist in Paraguay on the conversion or transfer of foreign currency. Law 60/90 permits the repatriation of capital and profits. There are no controls on foreign exchange transactions, apart from bank reporting requirements for transactions in excess of USD 10,000.

Remittance Policies

Paraguay is a member of the Financial Action Task Force against Money Laundering in South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body.

3. Expropriation and Compensation

Private property has historically been respected in Paraguay as a fundamental right. Expropriations must be sanctioned by a law authorizing the specific expropriation. There have been some cases in recent years of expropriations of land without prompt and fair compensation. In recent years groups of "landless" citizens have occupied several farms in order to press for agrarian land reform.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Paraguay has a Civil Law legal system based on the Napoleonic Code. A new Criminal Code went into effect in 1998, with a corresponding Code of Criminal Procedure following in 2000. A defendant has the right to a public and oral trial. A three judge panel acts as a jury. Judges render decisions on the basis of (in order of precedence) the Constitution, international agreements, the codes, decree law, analogies with existing law, and general principles of the law.

Bankruptcy

Paraguay has a bankruptcy law (154/63) under which a debtor may suspend payments to creditors during the evaluation period of the debtors' restructuring proposal. If no agreement is reached, a trustee may liquidate the company's assets. According to the World Bank's 2016 Doing Business Report, Paraguay stands at 102 in the ranking of 189 economies on the ease of resolving insolvency. The report states resolving insolvency takes 3.9 years on average and costs 9.0% of the debtor's estate, with the most likely outcome being that the company will be sold as piecemeal sale. The average recovery rate is 19.5 cents on the dollar.

Investment Disputes

Under Paraguayan Law 194/93, foreign companies must demonstrate just cause to terminate, modify, or decide not to renew contracts with Paraguayan distributors. Severe penalties and high fines may result if a court determines that a foreign company ended the relationship with its distributor without first establishing that just cause exists, which sometimes compels Paraguayan distributors to seek expensive out-of-court settlements first. Nevertheless, cases are infrequent and courts have upheld the rights of foreign companies to terminate representation agreements after finding the requisite showing of just cause.

Under two laws, Article 195 of the Civil Procedural Code and Law 1376/1988, a plaintiff pursuing a lawsuit may seek reimbursement for legal costs from the defendant calculated as a percentage (not to exceed 10 percent) of claimed damages. In larger suits, the amount of reimbursed legal costs often far exceeds the actual legal costs incurred.

International Arbitration

Law 117/91 guarantees national treatment for foreign investors. This law allows international arbitration for the resolution of disputes between foreign investors and the Government of Paraguay. Foreign decisions and awards are enforceable in Paraguay.

ICSID Convention and New York Convention

Paraguay is a member of the International Center for the Settlement of Investment Disputes (ICSID). Paraguay is a contracting state to the New York Convention.

Duration of Dispute Resolution – Local Courts

Paraguay ranks 75 out of 189 for "Ease of Enforcing Contracts" in the World Bank's 2016 Doing Business Report. World Bank data states the process averages 591 days and costs 30% of the claimed value.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Paraguay's Public Contracting Law (4558/11) gives preference in government bids to locally produced goods in public procurements open to foreign suppliers, even if the domestic good is up to 20% more expensive than the imported good. Foreign firms can bid on tenders deemed "international" and on "national" tenders through the foreign firm's local agents or representative. The government is making efforts to enhance transparency and accountability, including through the creation of an internet-based government procurement system. Paraguay is not a signatory to the WTO Agreement on Government Procurement.

Investment Incentives

Paraguay grants investors a number of tax breaks under Law 60/90, including exemptions from corporate income tax and value-added tax. Paraguay also has a temporary entry system, which allows duty free admission of capital goods such as machinery, tools, equipment, and vehicles to carry out public and private construction work. The government also allows temporary entry of equipment for scientific research, exhibitions, training or testing, competitive sports, and traveler or tourist items.

Research and Development

Not applicable.

Performance Requirements

Paraguay does not mandate local employment or have excessively onerous visa, residence, work permit or similar requirements inhibiting mobility of foreign investors and their employees. However, the bureaucratic process to comply with these requirements can be lengthy. Voting board members of any company incorporated in Paraguay must have legal residence, which takes a minimum of 90 days to establish, posing a potential obstacle to foreign investors.

Data Storage

Paraguay does not have a "forced localization" policy requiring foreign investors to use domestic content in goods or technology. There are no requirements for maintaining a certain amount of data storage within Paraguay or for foreign IT providers to turn over source code and/or provide access to surveillance. Paraguayan law requires internet service providers to retain IP address for six months for certain commercial transactions.

6. Protection of Property Rights

Real Property

The 1992 constitution guarantees the right of private property ownership. While it is common to use real property as security for loans, the lack of consistent property surveys and registries often makes it impossible to foreclose. In some cases, acquiring title documents for land can take two years or more. The World Bank's 2016 Business Report ranks Paraguay 78 of 189 for ease of "registering property," noting the process requires 6 procedures, averages 46 days, and costs 1.9% of the property value.

Intellectual Property Rights

Paraguay was removed from the U.S. Trade Representative's (USTR) 2015 Special 301 Report Watch List pursuant to an Out-of-Cycle Review. The United States and Paraguay signed a Memorandum of Understanding on IPR in June 2015, under which Paraguay committed to take specific steps to improve its IPR protection and enforcement environment. Additionally, the MOU solidifies bilateral cooperation by which the United States supports Paraguay's efforts to strengthen the legal protection and enforcement of IPR. Since coming into office in 2013, the Cartes Administration, primarily through National Directorate of Intellectual Property (DINAPI) and partner law enforcement agencies, has escalated enforcement efforts in Paraguay.

Ciudad del Este has been named in either the USTR Notorious Market List or the Special 301 Report for over 15 years. The border crossing at Ciudad del Este and the city itself reportedly serve as a hub for the distribution of counterfeit and pirated products in the Brazil-Argentina-Paraguay tri-border region and beyond. The Cartes Administration seeks to transform Ciudad del Este into a legitimate marketplace and is executing its commitments under the IPR MOU to address this issue.

Concerns remain about inadequate protection against unfair commercial use of proprietary test or other data generated to obtain marketing approval for agrochemical or pharmaceutical products and the shortcomings in Paraguay's patent regime. Law 3283 from 2007 and Law 3519 from 2008, (1) require pharmaceutical products and agrochemical products to be registered first in Paraguay to be eligible for data protection; (2) allow regulatory agencies to use test data in support of similar agricultural chemical product applications filed by third parties; and (3) limit data protection to five years. Additionally, Law 2593/05 that modifies Paraguay's patent law has no regulatory enforcement. Because of this, foreign pharmaceutical companies have seen their patented products openly replicated and marketed under other names by Paraguayan pharmaceutical companies.

Paraguay has ratified all of the Uruguay Round accords, including the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), and has ratified two World Intellectual Property Organization (WIPO) copyright treaties. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

Regional IP Attaché
U.S. Consulate General - Rio de Janeiro
+ 55 (21) 3823-2499

Deputy Political and Economic Counselor
U.S. Embassy Asuncion
+ 595 (21) 213-715
CommercialAsuncion@state.gov

National Intellectual Property Directorate: <http://www.dinapi.gov.py/>

Paraguayan-American Chamber of Commerce: <http://www.pamcham.com.py>

Local Lawyers:
http://photos.state.gov/libraries/paraguay/5/Consular/Attorneys%20at%20Law_001.pdf

7. Transparency of the Regulatory System

Proposed Paraguayan laws and regulations, including those pertaining to investment, are usually available in draft form for public comment after introduction into Senate and Chamber of Deputies committees. In most instances, there are public hearings where members of the general public or interested parties can provide comments.

Historically, regulatory agencies supervisory functions over telecommunications, energy, potable water, and the environment are inefficient and opaque. Politically motivated changes in the leadership of regulating agencies negatively impact firms and investors. Corruption has historically been common in these institutions as time consuming processes provide opportunities for front-line civil servants to seek bribes to accelerate the paperwork. The Cartes Administration, which entered into office in 2013, voiced its commitment to combating corruption and has taken positive steps to promote transparency.

8. Efficient Capital Markets and Portfolio Investment

Credit is available but expensive. High collateral requirements are generally imposed. The high cost of capital makes the stock market an attractive, although underdeveloped option. Paraguay has a relatively small capital market that began less than 20 years ago. As of December 2015, the Asuncion Stock exchange consisted of 97 companies, totaling USD 465 million in transactions. Many family-owned enterprises fear losing control, dampening enthusiasm for public offerings. Paraguayan law requires owners of stocks to be registered, effectively prohibiting bearer shares.

The Government of Paraguay issued Paraguay's first sovereign bonds in 2013 for USD 500 million to accelerate development in the country. In 2014, Paraguay issued USD 1 billion worth of 30-year bonds. Proceeds are to finance key infrastructure development programs designed to promote economic and social development and job creation. Standard & Poor's, Fitch, and Moody's all upgraded Paraguay's credit ratings in the last two years. Commercial banks also issue debt to fund long-term investment projects.

Money and Banking System, Hostile Takeovers

Paraguay's banking system includes 17 banks with a total USD 19 billion in assets and USD 16 billion in deposits. Non-performing loans in the banking sector totaled just 2.5% of total loans in 2015. The banking system is generally sound but remains overly liquid. Long term financing for capital investment projects is scarce. Most lending facilities are short term. Banks and finance companies are regulated by the Banking Superintendent, which is housed within, and is under the direction of, the Central Bank of Paraguay.

The Paraguayan capital markets are essentially focused on debt issuances. As the listing of stock is limited, with the exception of preferred shares, Paraguay does not have clear rules regarding hostile takeovers and shareholder activism.

9. Competition from State-Owned Enterprises

Paraguay's State Owned Enterprises (SOEs) are active in the petroleum distribution, cement, electricity (distribution and generation), water, and land-line and cellular telecommunication sectors. In general, SOEs are monopolies with no private sector participation. Most operate independently but maintain an administrative link with line ministries, namely the Ministry of

Public Works & Communications. SOEs have audited accounts and the results are published online.

SOEs' corporate governances are weak. Only the Itaipú and Yacyretá bi-national hydroelectric dams have a board of directors. Other SOEs operate with politically appointed advisors and executives. Only the two bi-national dams are required to have an independent audit. The SOEs are often overstaffed and are an outlet for patronage, resulting in poor administration and services. Some SOEs burden the country's fiscal position, running deficits most years.

OECD Guidelines on Corporate Governance of SOEs

Not applicable.

Sovereign Wealth Funds

Paraguay does not have a sovereign wealth fund.

10. Responsible Business Conduct

Responsible Business Conduct (RBC) is growing with the support of Paraguay's largest firms. Additionally the private sector is taking measures to institutionalize ethical business conduct under initiatives such as the *Pacto Etico Comercial* (Business Ethics Pact). An initiative sponsored by the U.S. Department of Commerce, the *Pacto Etico Comercial* includes over 100 local, U.S., and international companies that committed to creating a code of ethics and undergoing a rigorous auditing process to reach certification. The Government of Paraguay does not have any formal programs or policies to encourage RBC.

11. Political Violence

Paraguay has not traditionally been affected by political violence. While Paraguay has been spared the large number of kidnappings that occur in neighboring Latin American countries, a few high profile cases have occurred in recent years, most of them attributed to purported members of the leftist Paraguayan People's Army (EPP). The GOP has responded to the EPP threat with combined military and police operations. Land invasions, marches, and organized protests occur, mostly by rural and indigenous communities making demands on the government, but these events rarely turn violent.

12. Corruption

Paraguayan law provides criminal penalties for official corruption; however, impunity impedes effective implementation. Historically, officials in all branches and at all levels of government have engaged in corrupt practices. Judicial insecurity and corruption in the judicial system mar Paraguay's investment climate. Many investors find it difficult to enforce adequately contracts and are frustrated by lengthy bureaucratic procedures, limited transparency and accountability, and impunity.

The Government of Paraguay has taken several steps in recent years to increase transparency and accountability, including the passage of an Access to Information Law, the creation of a transparent, internet-based government procurement system, the disclosure of government payroll information, the appointment of respected apolitical officials to key posts; and increased civil society input and oversight. In 2013, the National Procurement Agency, the Civil Service Secretariat, the Auditor General, the Anticorruption

Secretariat, and the Solicitor General signed an MOU to strengthen coordination among key players in the fight against corruption and collaborate on a National Anticorruption Plan. Notwithstanding, corruption and impunity continue to affect the investment climate.

The constitution requires all public employees, including elected officials and employees of independent government entities, to disclose their income and assets at least 15 days after taking office or being appointed and again within 15 days after finishing their term or assignment. Starting in 2014, employees are required to include information on the assets and income of spouses and dependent children. Officials are not required to file periodically when changes occur in their holdings.

Paraguay signed and ratified the United Nations Anticorruption Convention in 2005.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Paraguay signed and ratified the United Nations Anticorruption Convention in 2005.

Resources to Report Corruption

General Auditors Office
Bruselas 1880, Asuncion, Paraguay
+ 595 21 620 0260
atencion@contraloria.gov.py

Public Ministry
Nuestra Señora de la Asunción c/ Haedo, Asuncion, Paraguay
+ 595 21 454 611
<http://www.ministeriopublico.gov.py/contenidos/menu/institucion/denunciar/index.php>

Anti-Corruption Secretariat
El Paraguayo Independiente esquina Río Ypané, Asunción, Paraguay
+ 595 21 450-001/2
<http://www.senac.gov.py/>

Seeds for Democracy
Roma 1055 casi Colón, Asuncion, Paraguay
+ 595 21 420 323
semillas@semillas.org.py

13. Bilateral Investment Agreements

Paraguay has bilateral investment agreements or treaties with the following countries: Austria; Belgium; Chile; Costa Rica; Cuba, Czech Republic, El Salvador; France; Germany; Hungary; Italy, Korea; Luxembourg; the Netherlands; Peru; Portugal, Romania; South Africa; Spain; Switzerland; Taiwan; the United Kingdom; and Venezuela.

Paraguay is a founding member of the MERCOSUR common market, formed in 1991. MERCOSUR has investment protocols for internal and external investment. MERCOSUR's full members are Argentina, Brazil, Paraguay, Uruguay, and Venezuela. Bolivia is an associate member, having signed an accession agreement in 2012 that has been ratified by all members except Brazil. MERCOSUR has investment agreements with Canada, Egypt, India, Israel, Mexico, Palestine, Peru, and the Southern African Customs Union (SACU).

Bilateral Taxation Treaties

The United States and Paraguay do not have a Bilateral Investment Treaty, a Free Trade Agreement, or a Bilateral Taxation Treaty.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Paraguayan Law 523/95 (which entered into force in 2002) permits the establishment of Free Trade Zones. Paraguay has two Free Trade Zones in Ciudad del Este. Paraguay is a landlocked country with no seaports but has numerous private and public inland river ports. About three-fourths of commercial goods are transported by barge on the Paraguay-Parana river system that connects Paraguay with Buenos Aires, Argentina and Montevideo, Uruguay. Paraguay has agreements with Uruguay, Argentina, Brazil, and Chile on free-trade ports and warehouses for the reception, storage, handling, and trans-shipment of merchandise.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2014	30,062	2014	30,880	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2013	2,095	2014	144	
Host country's FDI in the United States (\$M USD, stock positions)	n/a	n/a	n/a	n/a	Information not available.
Total inbound stock of FDI as % host GDP	2014	n/a	2014	4.7%	Information not available.

* Host country statistical data source: www.bcp.gov.py

Table 3: Sources and Destination of FDI

IMF Coordinated Direct Investment Survey (CDIS) statistics are for 2014. Outward Direct Investment data is not available.

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	5542	100%	Total Outward	n/a	100%
United States	2021	36%	n/a	n/a	n/a
Brazil	856	15%	n/a	n/a	n/a
Argentina	585	11%	n/a	n/a	n/a
Spain	320	6%	n/a	n/a	n/a
Netherlands	284	5%	n/a	n/a	n/a

"0" reflects amounts rounded to +/- USD 500,000.

Table 4: Sources of Portfolio Investment

IMF's Coordinated Portfolio Investment Survey (CPI) data is not available for Paraguay.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Civil law system with influences from Argentine, Spanish, Roman, and French civil law models; judicial review of legislative acts in Supreme Court of Justice

International organization participation:

CAN (associate), CD, CELAC, FAO, G-11, G-77, IADB, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, ITUC (NGOs), LAES, LAIA, Mercosur (suspended), MIGA, MINURSO, MINUSTAH, MONUSCO, NAM (observer), OAS, OPANAL, OPCW, PCA, UN, UNASUR, UNCTAD, UNESCO, UNFICYP, UNIDO, Union Latina, UNISFA, UNMIL, UNMISS, UNOCI, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

There are no controls on foreign exchange transactions, apart from bank reporting requirements for transactions in excess of USD 10,000.

Treaty and non-treaty withholding tax rates

Paraguay has signed agreements for the avoidance of double taxation of income from international shipping and/or air transport with Uruguay, Chile, Belgium, Germany and Argentina.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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Gary Youinou

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