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USAID CATALYZE

Non-State Education Market Assessment: Paraguay

DECEMBER 2020

This publication was produced for review by the U.S. Agency for International Development (USAID). It was produced by Palladium International Ltd.

USAID CATALYZE

Non-State Education Market Assessment: Paraguay

Submission Date:

December 2020

Contract No:

7200AA19C00080

Submitted by: Dalberg Advisors

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GLOSSARY

Ancillary Services: are the services necessary to support the provision of formal education and services that complement it. Examples include school transportation, food catering, extracurricular activities (e.g., sports, arts), bookstores, publishers, language academies, distance learning providers, test preparation companies, ed-tech companies, hardware providers, academic and administrative software.

Blended Finance: is the strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environmental results, such as improving infrastructure, education, agriculture, healthcare, and more.

Ed-tech: is the collection of technologies that support the education sector, including services such as video learning platforms, e-readers, online file sharing platforms, and others.

Fund: a pool of money allocated for a specific purpose, such as retirement funds and mutual funds. Governments also create funds that are allocated to various goals. For example, capital project funds are used to finance the capital projects of a country, such as purchasing, building, or renovating equipment, structures, and other assets.

Gross Domestic Product (GDP): is the standard measure of the value-added created through the production of goods and services in a country during a certain period.

Guarantee: a legal promise made by a third party (guarantor) to cover a borrower's debt or other types of liability in case the borrower defaults. The guarantee can be limited or unlimited.

Non-state Education: is characterized by a diversity of providers, including religious schools, non-profit schools run by NGOs or foundations, publicly funded schools operated by private boards, community owned schools, and for-profit schools that operate as enterprises.

Private School: are schools that do not receive funding from the government or any other institution and depend only on their own income to operate.

Private-Subsidized School: are schools that receive funding from the government or other institutions to operate (e.g., government pays for part of the payroll, church provides funding for the school to operate), but can charge fees to parents.

Return on equity (ROE): is a key financial metric that measures a corporation's profitability relative to stockholders' equity. It is calculated by dividing a company's net income by shareholders' equity"

I. OVERVIEW

I.1. OBJECTIVE

This market assessment seeks to understand the non-state basic education sector, the state of blended finance in Paraguay and identify potential opportunities for blended finance in the non-state education sector - that is, ranging from pre-school through secondary school, including ancillary educational services, with a focus on financing availability and access.

I.2. SCOPE AND METHODOLOGY

This assessment was conducted over six weeks in October and November 2020 through primary and secondary research. Primary research included interviews with stakeholders from the education and financial sectors, focusing on non-state education and the education finance market serving it. Specific attention was paid to the current state of the non-state school, ancillary services, and financial institutions, identifying challenges and opportunities, and assessing interest across different players in expanding the supply of financing to the non-state education sector and end customers. Interviews included the following type of actors:^{1,2}

- Public sector: 2
- Association of banks/MFIs: 2
- Bank/MFI: 8
- Association of private schools: 2
- Non-state schools: 6
- Ancillary services and other education-related enterprises: 2
- Funders: 4
- Other education experts: 4

The methodology for the secondary research used systematic searches to identify relevant reports, studies, and statistics. The keywords were used both in English and Spanish, and date ranges were set from 2010 to 2020 for academic databases and international organization searches. The data sources consulted include:³

- Internet (Google)
- Academic databases (e.g., Scopus, Proquest, Jstor, Google Scholar)
- International organizations (e.g., USAID, UNESCO, IADB, World Bank, Convergence)
- Statistical databases (e.g., World Bank Open Data, UNESCO, Paraguay Ministry of Education and Science, *Datos Abiertos Paraguay*)

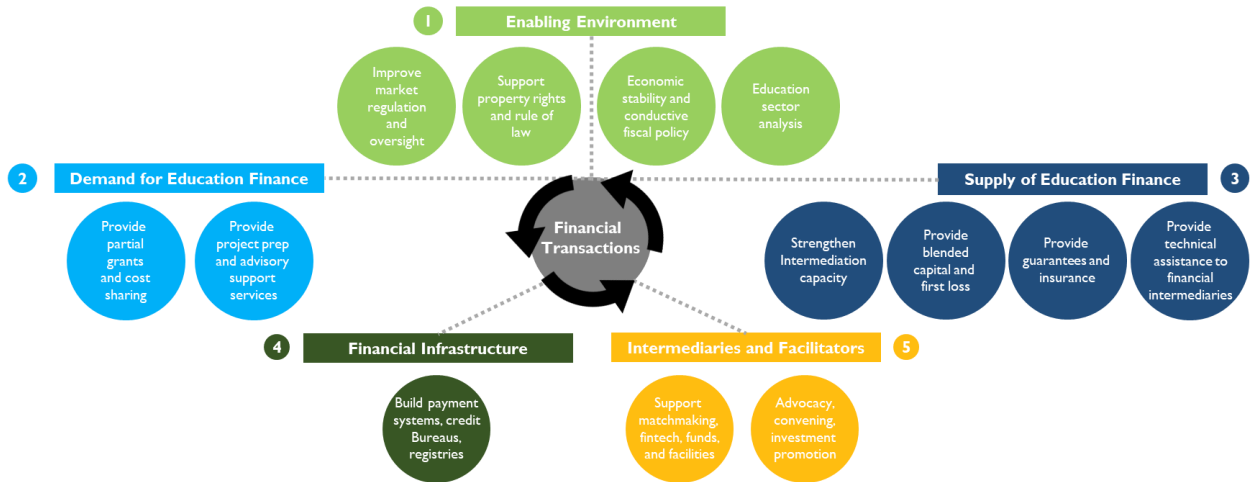
The research is divided into five categories that have been informed by USAID's Five Point Blended Finance Framework. The five categories are: Enabling Conditions, Demand for Education Financing, Supply of Education Financing, Financial Infrastructure, and Financial Intermediaries.

¹ Refer to Annex for full stakeholder list

² Some stakeholders are represented in multiple categories

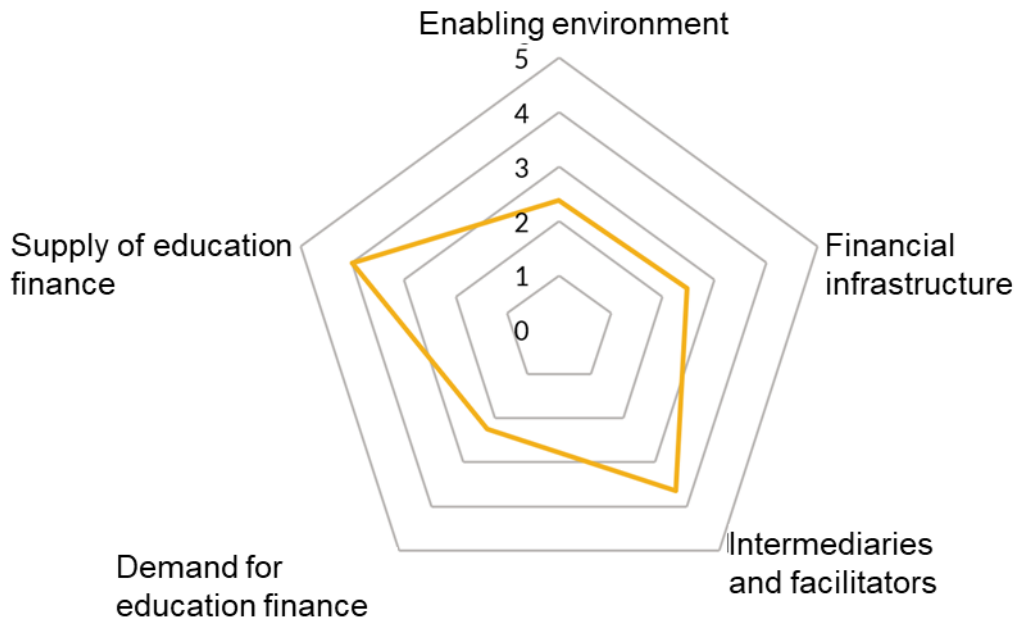
³ Refer to Annex for full list of data sources and key terms.

Figure 1: Five-point framework



The report builds into the results from the five-point framework diagnostic tool which indicates that Paraguay has strong supply of finance and facilitators and disrupters alongside a relatively weak enabling environment, financial infrastructure, and demand for financing.

Figure 2: Five-point framework spiderweb



Note: Closer to the perimeter indicates relative strength; closer to center indicates possible obstacle to private sector growth

I.3. KEY FINDINGS

- **Paraguay’s educational system is underperforming in terms of access and quality.** Paraguay is falling short of their goal to provide access to education, especially in early childhood and secondary education. Also, academic outcomes remain low, lagging behind peers in the region. Non-state schools are outperforming public schools in academic results measured by the National System of Evaluation for the Educational Process
- **Paraguay’s regulatory framework neither seriously encumbers nor supports non-state education in the country.** There are few legal barriers to establishing a non-state school, the institutions can operate with low amounts of oversight, and the state can subsidize schools with unstable cash flows serving low income populations. However, in times of crisis, the state has not proven to be a reliable lifeline for non-state schools
- **Poor use of educational data has constrained efforts to reform education in Paraguay.** The country lacks a publicly-accessible school-by-school assessment system, meaning that funders and parents make decisions based on proxies such as school reputation, price, and location
- **Demand for education financing in Paraguay is large.** There is an estimated current demand for educational loans USD of 41-60m, USD 9-13m for school improvement loans and USD 32-47m for school fee loan. In addition, demand for finance from ancillary services and other education-related enterprises is estimated around USD 5-7 million
- **COVID-19 has simultaneously demonstrated both the value and fragility of private schools.** Non-state schools have been able to rapidly adapt to the situation by deploying distanced learning solutions more quickly than their public-school counterparts. But they are undergoing extreme financial stress – with many shuttering entirely – due to non-payment and student transfers
- **The financial system in Paraguay doesn’t prioritize or thoroughly understand the non-state education.** Financial institutions offer no tailored financial products to non-state schools nor to families whose children attend them; instead these stakeholders are offered generic SME and personal consumption loans, respectively
- **Paraguay’s conservative financial system has little experience engaging with innovative financial products like blended finance instruments.** However, some blended finance facilities – such as a guarantee fund for SMEs developed in collaboration with Paraguay’s Agency for Financial Development – have emerged as promising tools to strengthen the sector
- **Paraguay’s financial infrastructure is underdeveloped compared to LAC. Nevertheless, widespread adoption of mobile money platforms could facilitate education financing.** Collaboration between financial institutions and major financial intermediaries like Tigo Money can serve as a strong avenue towards the creation of blended finance structures in support of the non-state education sector
- **There are three main opportunities for blended finance to play a role in catalyzing funds in the non-state education sector**
 - **A guarantee fund** created in collaboration with an organization like Paraguay’s Agency for Financial Development. The guarantee fund could be available to financial institutions who wish to offer loans to non-state schools, providing a partial reimbursement guarantee if the borrower were to default, thus lowering interest rates and increasing non-state educational institutions’ access to capital
 - **Technical assistance to financial institutions** that are interested in the education sector but lack significant experience working with it, such as *Banco Basa*, to support their development

of financial products that are tailored to the needs of the education sector and can capitalize on its nuances, like loans non-state institutions to cover summer months of limited cash flow due to the cessation of school fee payments

- **On-lending schemes** which provide access to capital to education-focused financial institutions, such as *Fundación Paraguaya*, at a lower cost than what financial institutions currently have access to, thus reducing these institutions' overall cost of lending and enabling them to offer financial products to parents and schools at lower interest rates, thus increasing the sector's access to capital and facilitating its growth

2. ENABLING CONDITIONS

2.1. NATIONAL CONTEXT



Year of independence: 1811

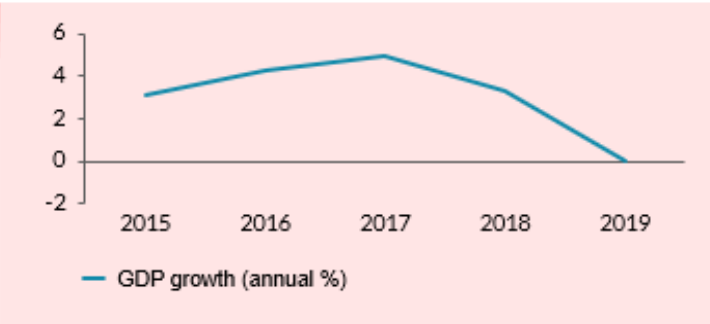
Population: 6.956M



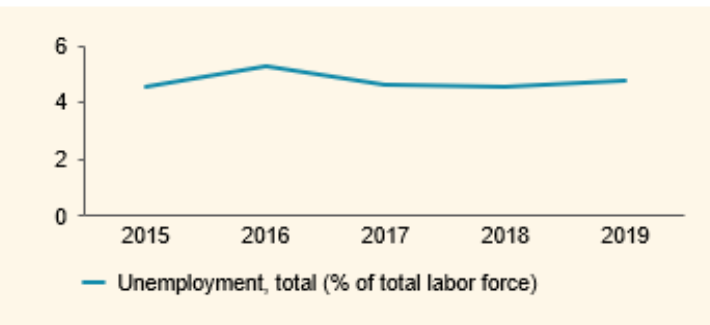
GDP size: 40.5 B USD

Capital: Asunción

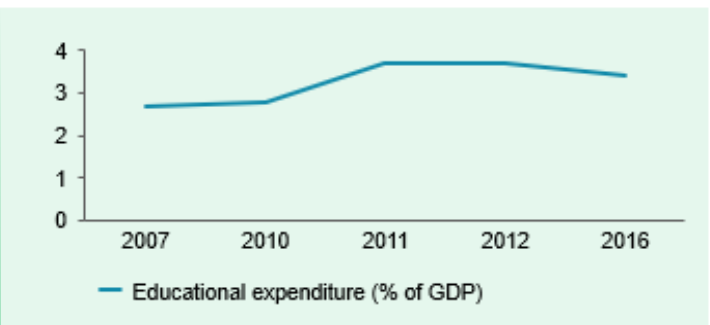
| Macroeconomics | |
|-------------------------------|-----------|
| 2015-2019 Economic growth | 3% (WBG) |
| COVID-19 impact on GDP (2020) | -5% (IMF) |
| 2021 predicted growth | 4% (WBG) |



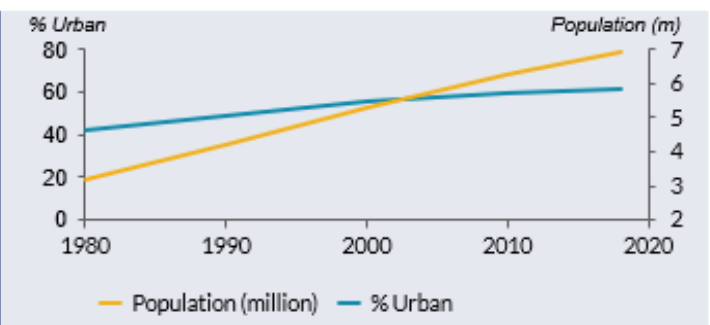
| Market Conditions | |
|------------------------------|---------------------------------|
| Unemployment rate (2019) | 4.8% (ILO) |
| Inflation rate (2019) | 2.8% (WB WDI data) |
| Ease of doing business score | Score: 59.1 Ranking: 125/190 |



| Social Conditions | |
|--|----------------------|
| Poverty ratio at \$3.20 per day (2018) | 5.8% (WBG) |
| Literacy rate (2018) | 94.02% (WB WDI data) |
| Edu. expenditure (as % of 2016 GDP) | 3% (WB WDI data) |



| Demographics | |
|--------------------------|--|
| Language (2012) | Bilingual: 46%; Guarani: 34%; Spanish: 15% |
| Urban population (2019) | 61.9% (WBG) |
| Female population (2020) | 49.17% (WBG) |



Paraguay is a small landlocked country in central South America, bordered by Argentina, Brazil, and Bolivia. Paraguay has 7 million people, primarily mestizo descendants from Spanish colonists and indigenous people who commonly speak Spanish, Guaraní, and other indigenous languages. It is the 15th largest economy in Latin America and the Caribbean (LAC), behind smaller countries like Uruguay and Costa Rica.⁴ Most of its economic wealth is consolidated among a small number of elites in urban centers, inaccessible to the country's rural population.^{5,6,7}

The country is undergoing rapid demographic change: increased urbanization, population aging, and increased equality. In 1960, nearly two-thirds of Paraguayans lived in rural areas. Today, that figure has been cut almost in half, given that 62% live in urban areas as of 2018. This transition has happened quickly and is still ongoing. In 2020, Paraguay registered an urbanization rate of 1.7%, the second-highest rate in continental South America, only behind Bolivia.⁸ In the mid-20th century, Paraguay's population boomed: the population under the age of 20 made up nearly 60% of the country in 1960, then the country's population more than doubled from 1960 to 1990. In the 21st century, that trend has begun to slow, as Paraguay's number of children per family decreases and the population ages. Finally, the country's Gini coefficient – an index that measures economic inequality in a country – fell from 58.2 in 1995 to 46.2 in 2018, meaning that inequality has been substantially reduced.⁹

These shifts occurred in the shadow of Paraguay's history under the dictatorship of Alfredo Stroessner. From 1954 to 1989, the longest period of dictatorship in the history of Latin America and the Caribbean (LAC), Stroessner circumscribed Paraguayan civil liberties, limited freedom of the press, and shrank educational investment in the country. The period was also characterized by steady economic growth. The fall of the dictatorship triggered widespread changes in the country.

Paraguay's transition to democracy in 1992 ushered in a period of political reform and economic instability. After the fall of Stroessner's dictatorship, Paraguay ratified a new constitution and implemented major reforms, such as formally separating its government branches. These were aimed at liberalizing the country and its economy. The transition resulted in approximately ten years of economic instability. But, in 2002, Paraguay's economy restabilized and began growing at a faster rate, approaching 4% growth in several years.

For the past several years, Paraguay's economic growth has been robust. Paraguay's GDP grew at around 3% from 2015 to 2019. As mentioned above, this growth has coincided with a fall in economic inequality in the country. Equitable growth has enabled the country to significantly reduce poverty: from 2002 to 2019, Paraguay's poverty fell from 58% to 26%. Although poverty declined across the country, it is still more prevalent in rural areas.^{10,11} Paraguay's economic success has been centered on the agricultural sector, which employs around one-quarter of the country's workforce and generates about one-fifth of its GDP. In addition, Paraguay has succeeded in energy production. The construction of major hydroelectric projects, such as the Itaipú Dam, have made Paraguay a major electricity exporter. The service sector constitutes around two-fifths of Paraguay's GDP.¹²

Despite the country's strong growth in the 21st century, Paraguay's economy has undergone turbulence since 2019. Economic slowdown in key regional trading partners, like

⁴ [International Monetary Fund, 2020](#)

⁵ [Nikolau, 2017](#)

⁶ [Moya, n.d.](#)

⁷ [The World Bank, 2020](#)

⁸ [Central Intelligence Agency, 2020](#)

⁹ [The World Bank, 2020](#)

¹⁰ [Hall, 2017](#)

¹¹ [The World Bank, 2020](#)

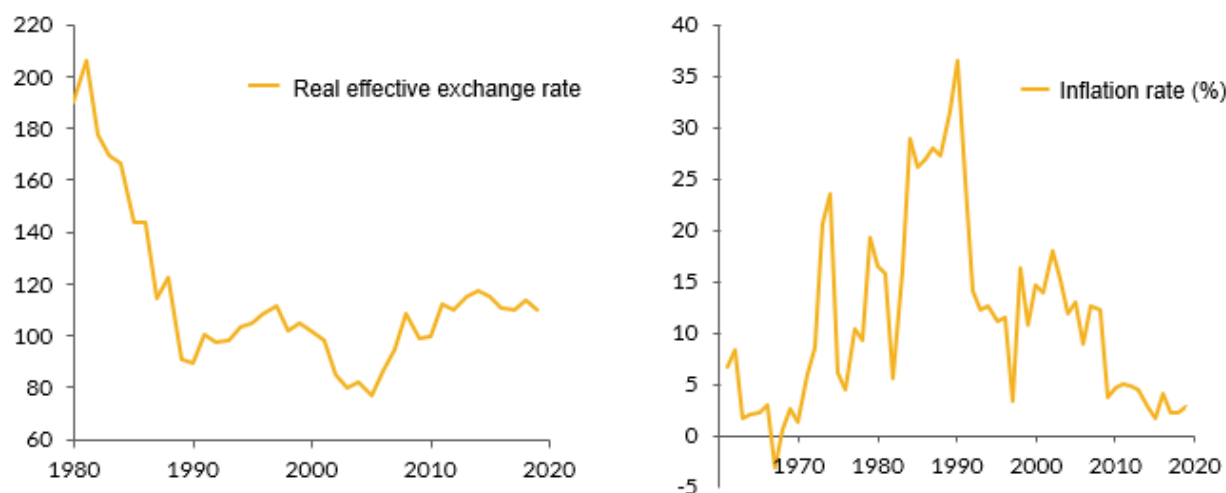
¹² [Britannica: Economy, Paraguay, n.d.](#)

Argentina,¹³ as well as poor climate conditions, including drought and subsequent flooding, have undermined the Paraguayan economy. As a result, growth was stagnant for most of 2019,¹⁴ as the economy contracted by 1% in the second quarter of the year.¹⁵ Furthermore, the COVID-19 crisis of 2020 precipitated further economic damage in Paraguay. The IMF estimates that a 5% GDP contraction is expected for the year,¹⁶ as workers around the country have struggled to generate any income.

Nevertheless, the outlook for Paraguay's economy is positive. The World Bank predicts that Paraguay's economy will rebound strongly in 2021, growing by as much as 4%.¹⁷ Fitch Ratings concurs, and estimates the country will grow around 3.5% in 2021.¹⁸ Also, the IMF points to Paraguay's strong macroeconomic fundamentals as key drivers of this economic recovery and instrumental to the country's long-term growth strategy, claiming that "vulnerabilities have declined" and that Paraguay has implemented "prudent macro policies."¹⁹

Paraguay's strong economic position is buoyed by effective fiscal policy. Paraguay's Fiscal Responsibility Law mandates that the country's deficit does not surpass 1.5% of GDP, a policy that has strengthened its ability to manage its finances prudently.²⁰ The IMF has celebrated the Paraguayan Central Bank's effective inflation-targeting strategy, which held inflation down to 2.8% in 2019. The bank has also been able to greatly reduce exchange rate volatility. Paraguay has also made progress towards resolving a longstanding deficiency by strengthening its tax base. It has grown from around 8% of GDP in 2005 to nearly 10% in 2018, although Paraguay still lags behind the LAC average of ~13% in 2018.²¹ Finally, Paraguay has managed public spending and controlled public debt, which sits at just over 20% of GDP as of 2019, far below the LAC average of nearly 50%.²²

Figure 3: Paraguay Real Exchange Rate and Inflation Rate²³



In addition to strong fiscal policy, Paraguay has created attractive market conditions to unlock stable growth. Paraguay's domestic demand increased from 2.3% to 5.8% in 2015 and 2018

¹³ [The World Bank, 2020](#)

¹⁴ [International Monetary Fund, 2020](#)

¹⁵ [Trading Economics, 2020](#)

¹⁶ [Bakker & Roy, 2020](#)

¹⁷ [The World Bank, 2020](#)

¹⁸ [Francis & Brown, 2020](#)

¹⁹ [International Monetary Fund, 2019](#)

²⁰ [Bakker & Roy, 2020](#)

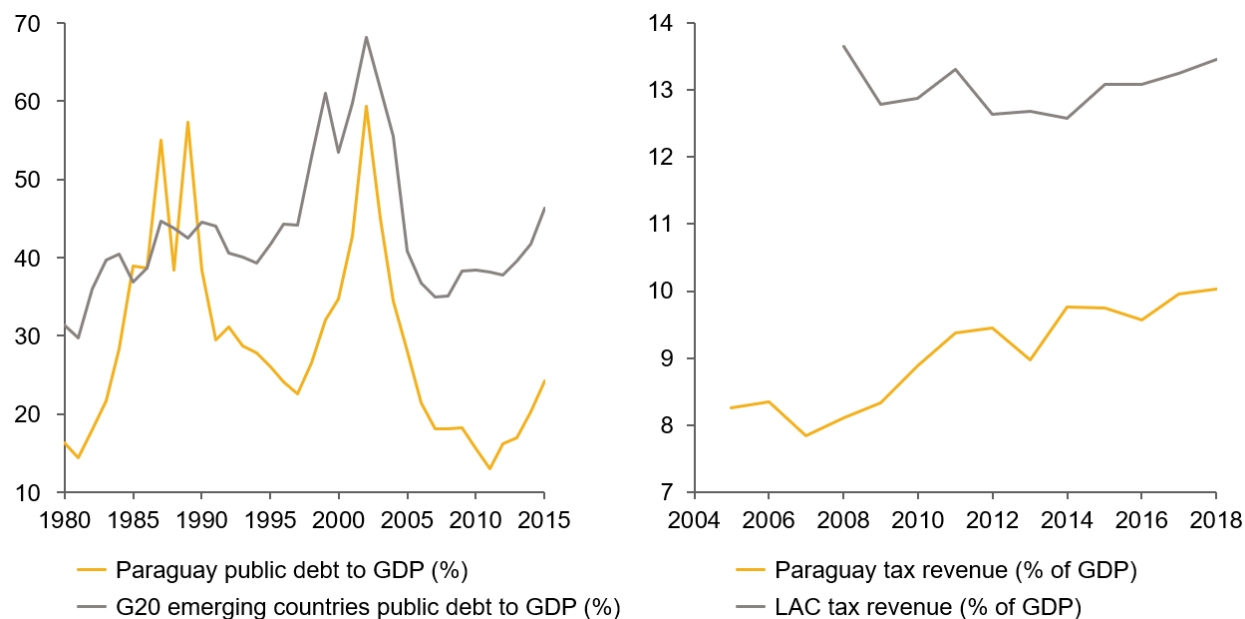
²¹ [The World Bank, 2020](#)

²² [Anspach, 2019](#)

²³ [The World Bank, 2020](#)

respectively, falling to 0.7% in 2019 due to the country's economic challenges. The country has managed to keep unemployment low, especially in urban centers, where it is typically below 5%. From 2015 to 2019, Paraguay enjoyed an increase in both imports and exports.²⁴

Figure 4: Public Debt to GDP and Tax Revenue to GDP Ratios²⁵



Paraguay has developed a policy ecosystem that is friendly to outside investors. The Paraguayan's 1990 Investment Incentive Law "grants investors tax breaks, permits full repatriation of capital and profits, supports *maquila* operations... and guarantees national treatment for foreign investors" according to the IMF. What's more, Paraguay has some of the lowest taxes in LAC, with corporate and VAT tax rates of 10% and does not impose any restrictions on the conversion of foreign currency.²⁶

However, bureaucratic and legal hurdles make it difficult to conduct business in the country. The Paraguayan government has in the past reneged on repayment of debt incurred during previous administrations. Further, despite legal sanctions on corruption in the country, Paraguay has struggled to eliminate it completely, resulting in a ranking of 137 out of 180 countries on the Transparency International Corruption Perceptions Index.²⁷ According to the United States Department of State, some international businesses "insist on arbitration for dispute resolution and bypass the judicial system entirely," due to perceived corruption.²⁸ Paraguay received an International Property Rights Index score of 4.569, ranking it 104th globally.²⁹ The World Bank Doing Business report awarded Paraguay with an "Ease of Doing Business" score of 59.1 out of 100, ranking it 18 out of 32 countries in the LAC region, and 125 out of 190 countries globally. More detailed information on Paraguay's Doing Business rankings can be found below.³⁰

²⁴ [Focus Economics, 2020](#)

²⁵ [The World Bank, 2020](#)

²⁶ [United States Department of State, 2020](#)

²⁷ [United States Department of State, 2020](#)

²⁸ [United States Department of State, 2020](#)

²⁹ [International Property Rights Index, 2019](#)

³⁰ [Doing Business, 2020](#)

Table 1: Doing Business Ranking Paraguay 2020³¹

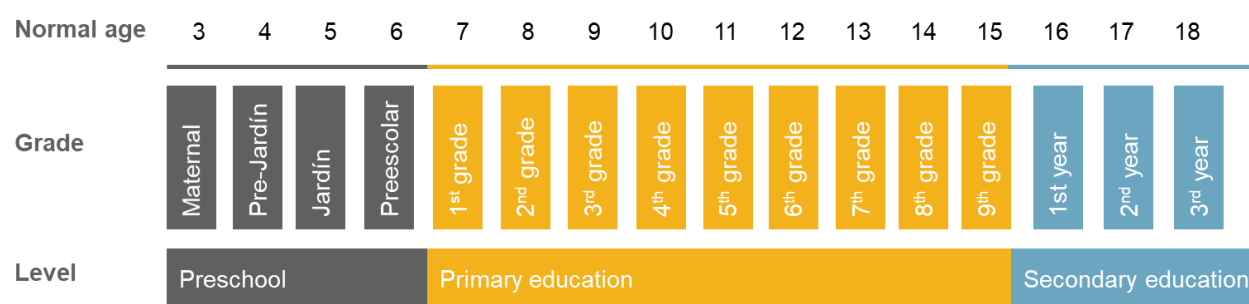
| Doing Business metric | LAC ranking (out of 32) | Global ranking (out of 190) |
|-----------------------------------|-------------------------|-----------------------------|
| Ease of starting a business | 25 | 160 |
| Dealing with construction permits | 6 | 75 |
| Getting electricity | 21 | 109 |
| Registering property | 7 | 80 |
| Getting credit | 19 | 132 |
| Protecting minority investors | 24 | 143 |
| Paying taxes | 17 | 126 |
| Trading across borders | 22 | 128 |
| Enforcing contracts | 7 | 72 |
| Resolving insolvency | 14 | 105 |

2.2. OVERVIEW OF THE EDUCATION SECTOR

2.2.1. STRUCTURE OF THE EDUCATION SECTOR AND COORDINATION BODIES

The education sector is divided into initial, primary, and secondary education. Initial education includes 4 grades and services students ages 3 to 6. Primary education – referred to as basic education – totals 9 grade levels, split into 3 cycles, all three years each. They are broadly referred to as first, second, and third cycles of primary education, but each year is still associated with a grade level (e.g., second grade implies the second year of the first cycle). Secondary education – referred to as middle education – is 3 years long. Secondary schools have the option of offering students “technical degrees” in one of 26 technical focus areas. Instead of receiving a “*bachillerato*” degree, like a traditional secondary school graduate, students receive a “*bachillerato técnico*”.³²

Figure 5: Structure of the Education System



Education in Paraguay is primarily governed by the Ministry of Education and Sciences (MEC, its Spanish acronym). According to Paraguay’s Law #5749, the MEC controls teacher payrolls, grants school licenses, collects data, provides administrative and technical support, and

³¹ [Doing Business, 2020](#)

³² [Ministerio de Educación y Ciencias, 2020](#)

oversees the work of the country's teachers, among other responsibilities.³³ In addition to the role of the MEC, Paraguay's Ministry of Finance is a key actor, responsible for planning the education budget and monitoring its deployment.³⁴ The system is complex: the MEC has over 200 departments and must liaise with the Ministry of Finance to agree on funding.³⁵

Strengthening the MEC is a Development Objective identified by USAID's Paraguay Country Development Cooperation Strategy report. According to the report, "The Mission will emphasize systems strengthening among institutions... such as the Ministries of Health [and] Education."³⁶ To be sure, researchers have derided the MEC's organization of publicly available data³⁷ and argued that the Ministry is overstuffed, byzantine, and politicized.³⁸

2.2.2. REGULATORY BACKGROUND

Paraguay's 1992 constitution and 1998 General Law of Education form the basis of the education strategy and policy. After the dictatorship of Alfredo Stroessner neglected education for decades, the country's 1992 constitution, ratified in the dictatorship's wake, sought to reemphasize education as a priority. Article 73 of the constitution guarantees all Paraguayans' right to an education, and article 76 decrees that basic education is obligatory for all children. The 1998 General Law of Education, in article 1, reiterates that all children in Paraguay have a right to an education, and article 61 stipulates that education can be delivered by either public or private institutions.

2.2.3. TARGETS OF THE EDUCATION SECTOR

Paraguay has set ambitious objectives for improving its education system. In 2015, Paraguay launched the National Development Plan 2030 (NDP). It outlined 8 concrete objectives that range from access to education to expanding literacy.³⁹ Moreover, the 1992 constitution highlights additional goals for its education system – such as maintaining a minimum of 20% of the budget directed towards education.

Paraguay has made progress towards these objectives across the board but has struggled to achieve key priorities. In initial education, there have been mixed results in achieving the government's goal of a 70% enrollment rate: current achievement is 9% for 3-year-old children, 41% for 4-year-old children, and 75% for 5-6-year-old children. In primary and secondary education, the goals outlined in the NDP are expanding access to 100% and 92% of corresponding children, respectively; primary education coverage in Paraguay is less than 80%, and secondary education coverage is approximately 46%. While the country has fallen short of one of its key educational goals – 20% of the country's budget be allocated to education – it has gotten closer to its achievement: in 1998, educational expenditure was ~17% compared to 18.2% in 2019. In addition, Paraguay reports to having achieved this goal in 2011 when educational expenses were approximately 23%.^{40,41}

³³ [La Biblioteca y Archivo Central del Congreso Nacional, 2017](#)

³⁴ [The World Bank, 2012](#)

³⁵ [World Politics Review, 2018](#)

³⁶ [USAID, 2014](#)

³⁷ [Galeano, 2016](#)

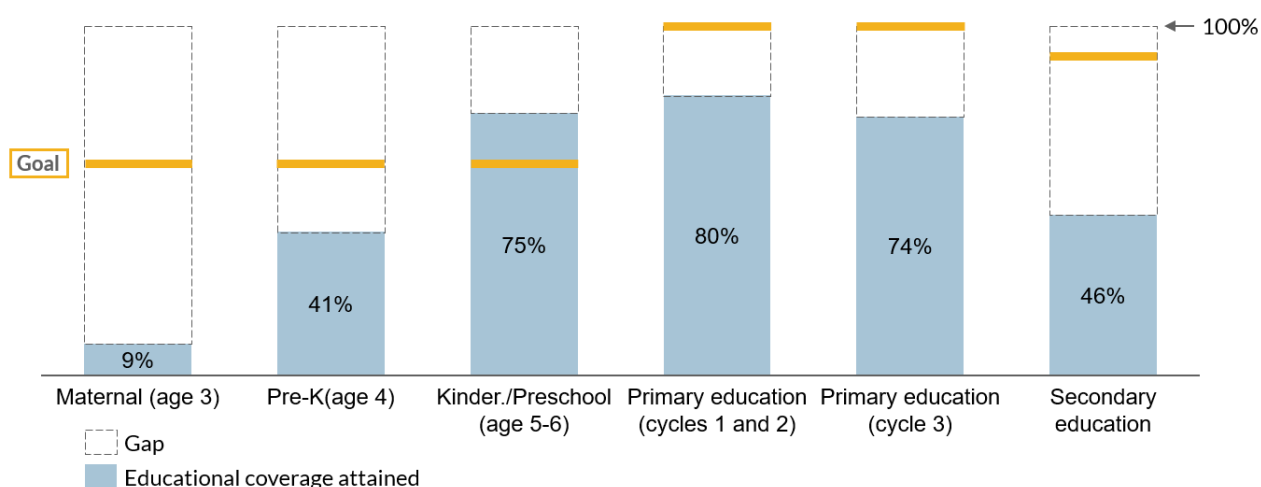
³⁸ [World Politics Review, 2018](#)

³⁹ [Ministry of Education and Sciences, 2014](#)

⁴⁰ [Opportunity EduFinance, 2020](#)

⁴¹ [Galeano, 2016](#)

Figure 6: Paraguay's Net Educational Coverage Compared to its NDP Goals, 2019⁴²



2.2.4. DISTRIBUTION BY LEVEL AND TYPE OF INSTITUTION

Public institutions dominate the education landscape in Paraguay. Nearly 80% of Paraguayan students are educated in a public institution in about the same proportion of schools. This predominance of public sector schools extends across all educational levels – at the pre-primary level, where private education has the largest relative market share, over 68% of children are educated in public institutions as of 2018. The table below presents a further breakdown by type of institution, level, and gender.

Table 2: Number of Students by Type of School, Level, and Gender 2018⁴³

| Type of school | Gender | Initial education | Primary education (cycle 1 & 2) | Primary education (cycle 3) | Secondary education | Total |
|--------------------|-----------------|----------------------|---------------------------------|-----------------------------|----------------------|------------------------|
| Public | Male | 62,408 | 245,259 | 120,796 | 95,248 | 523,711 (48.9%) |
| | Female | 65,597 | 266,612 | 122,922 | 92,835 | 547,966 (51.1%) |
| | Subtotal | 128,005 | 511,871 | 243,718 | 188,083 | 1,071,677 (77%) |
| Private subsidized | Male | 13,824 | 28,120 | 11,755 | 17,209 | 70,908 (49.8%) |
| | Female | 14,390 | 29,635 | 11,830 | 15,646 | 71,501 (50.2%) |
| | Subtotal | 28,214 | 57,755 | 23,585 | 32,855 | 142,409 (10%) |
| Private | Male | 15,644 | 42,959 | 19,375 | 10,675 | 88,653 (50.4%) |
| | Female | 15,755 | 43,962 | 18,044 | 9,155 | 86,916 (49.6%) |
| | Subtotal | 31,399 | 86,921 | 37,419 | 19,830 | 175,569 (13%) |
| Total | | 187,618 (14%) | 656,547 (47%) | 304,722 (22%) | 240,768 (17%) | 1,389,655 |

⁴² Observatorio Educativo Ciudadano, n.d.

⁴³ Ministerio de Educación y Ciencias, 2020

2.2.5. QUALITY OF EDUCATION

Despite improvements in recent decades, education in Paraguay remains low quality, lagging behind peers in the region. The World Economic Forum rated the quality of Paraguay's primary education as 136th out of 137 surveyed countries. Results from the Programme for International Student Assessment for Developing Countries (PISA-D)⁴⁴ exam corroborate this. Most Paraguayan students fail to achieve basic competency on the exam across the board, in reading, mathematics, and science. Compared to the other Latin American countries that participate in the PISA-D – Ecuador, Guatemala, and Honduras – Paraguay performs the most poorly.⁴⁵ Moreover, the country has struggled to achieve critical objectives, such as universal literacy. As of 2018, it is believed that around 5% of Paraguay remains illiterate.^{46,47}

The Paraguayan education system also fails to address the unique and complex needs of its constituents. Article 140 of Paraguay's constitution states: "Paraguay is a bilingual country with a pluralistic culture... Its official languages are Spanish and Guaraní."⁴⁸ Nevertheless, Guaraní, the most commonly spoken language in Paraguay, especially in rural areas, has been undermined by the country's education system. Efforts to keep Guaraní integrated into the country's educational system have been routinely underfunded. The New York Times has found that this has resulted in a situation where "Guaraní speakers are still schooled in Spanish, leading many to drop out."⁴⁹

Paraguay's education sector is undermined by its lack of transparency around how students perform and progress. Paraguay's results on the National System of Evaluation for the Educational Process (SNEPE, its Spanish acronym)⁵⁰ exams are not publicized on a by-institution basis and not conducted annually, undermining the ability of parents and outside organizations to make informed decisions regarding the education sector.^{51,52} Moreover, Paraguayan teachers provide student evaluations that are overly generous and not accurate representations of student competency. UNESCO found that 20% of 3rd-grade students who did not score better than the random guessing threshold on an exam were nonetheless assumed to be "proficient."⁵³

2.2.6. REQUIREMENTS FOR SCHOOLS

The MEC regulates the minimum requirements for setting up schools for both public and private institutions across different education levels. It has established building and furniture requirements, maximum ratios of children per educator allowed, maximum size of classes and even opening hours.⁵⁴ Also, the MEC must give the school a license to operate, which according to schools directors in the country is "a process that looks more complicated given the amount of paperwork, but in reality, is not too complex, and does not represent an entry barrier."⁵⁵

The MEC takes a hands-on role in establishing the curriculum for all schools in Paraguay. According to article 39 of the General Law of Education, the MEC is responsible for designing a curriculum that balances distinct subject areas and emphasizes a common learning set at each grade

⁴⁴ The PISA-D exam is offered every three years to 15-year-old students who are at least in the 7th grade in Paraguay, Ecuador, Guatemala, Honduras, Cambodia, Zambia, Senegal, and Bhutan

⁴⁵ [The Dialogue, 2019](#)

⁴⁶ [Ultima Hora, 2018](#)

⁴⁷ [The World Bank, 2020](#)

⁴⁸ [ICL Project, n.d.](#)

⁴⁹ [McCormick, 2018](#)

⁵⁰ The SNEPE is deployed once every three years to assess students' competencies at four grade levels across 3 subjects

⁵¹ [Ministerio de Educación y Ciencias, 2018](#)

⁵² [Ministerio de Educación y Ciencias, 2018](#)

⁵³ [UNESCO, 2020](#)

⁵⁴ [Balbuena, Regalado, Ponsford, Suárez, & Thaine, 2018](#)

⁵⁵ Interview with a school director in Paraguay

level. More specifically, this curriculum must be oriented towards preparing students to either begin their careers or undertake higher education. In addition, article 117 of the General Law of Education establishes that the MEC will determine the minimum curriculum requirements at the national educational level.

The government regulates state school operations but allows private schools to run their own operations with limited supervision. For public schools, the government is involved in all processes, both administrative and academic. For non-state schools, the MEC supervises, but allows operational independence in all its aspects. This supervision calls for information reports on tuition and fees as well as ensuring the curriculum complies with government requirements.

2.3. NON-STATE EDUCATION IN PARAGUAY

Non-state educational institutions in Paraguay can be either private or private-subsidized. Private-subsidized receive at least some financing from the MEC. In interviews, school directors revealed that, in many cases, private-subsidized schools in fact were founded as fully-private institutions – that is, receiving no financial support from the Paraguayan government – and became private-subsidized over time. Typically, for a school to begin receiving subsidy from the government, it must be servicing a vulnerable or remote population and suffer from financial stress, however school directors have suggested that there are exceptions to these requirements. Private schools are characterized by an absence of financial support from the MEC. However, private schools can be financed through a variety of distinct channels, ranging from subsidies from foundations to the development and use of productive business units, along with fees charged to students.

CASE STUDY: COLEGIO EXPERIMENTAL PARAGUAY-BRASIL

An Innovative Way to Leverage Subsidies

Colegio Experimental Paraguay-Brasil (CEPB), founded in 1964, is a unique, private-subsidized school connected to the National University of Asunción. Public funding earmarked for the National University of Asunción also finances the operations of CEPB. CEPB itself has a yearly budget of around 2M USD, of which approximately 80% comes from public sources. The remaining 20% is financed by student fees. The school's fees are low: CEPB charges a monthly fee of \$35 per students.

The school's strong academics and low-cost drive high demand for a seat. CEPB offers courses from Kindergarten up to the final year of secondary school, with around 40 students per grade level. To keep the number of students at that number, the school is selective in its admissions processes: all applicants must pass an admissions exam, and even applicants to kindergarten must undergo a psychological evaluation. Students at CEPB are offered courses in subjects such as information technology along with a diverse range of language offerings, including Portuguese and French. CEPB is widely considered to be one of the top private-subsidized schools in the country.

CEPB's director sees the private-subsidized model as a viable way to improve education in Paraguay. The high academic output and low cost of the school raises questions about the replicability of CEPB's model. According to the school's director, Emiliano Ramírez, an academics-focused program that relies on an affiliation with a university may support the development of low-cost schools which, by virtue of their relationship with a university, may encourage students to pursue higher education.

Private and private-subsidized educational institutions share many similarities, but private-subsidized are cheaper and more common in rural areas. According to private school directors in Paraguay, around 10% of schools are affiliated with religious entities, and such institutions are divided proportionally across both private and private-subsidized school categories. Moreover, like private schools, private-subsidized schools outperform public schools in academic performance (see figure 5). Given the nature of private-subsidized schools' relationships with the MEC, they typically have closer relationships with the ministry, but it is unclear the form that this relationship takes and to what extent that form is consistent across private-subsidized schools. In many cases, the subsidy from the MEC is earmarked for a certain cost, such as teacher salary. Discounting Paraguay's most expensive schools, nearly all of which are fully-private, interviewees indicated that, on average, private-subsidized schools were cheaper than private schools. Finally, private-subsidized schools tend to be more common in rural areas: approximately 25% of Paraguay's private-subsidized schools are in rural areas, compared to around 10% of Paraguay's private schools.

2.3.1. REGULATORY BACKGROUND FOR NON-STATE EDUCATION

Paraguay's regulatory approach towards private schools neither seriously encumbers nor supports them. Article 76 of the country's 1992 constitution asserts that the educational system encompasses private actors as well as public ones, and article 61 of Paraguay's General Law of Education stipulates that educational institutions can be administered by public or private entities, and can include institutions that are privately managed but funded by the state.

Nevertheless, the MEC does place certain constraints on the country's non-state education sector. Law #5,738 prevents private schools from inducing students' parents to pay through actions such as withholding grades, limiting private schools' ability to secure their finances.⁵⁶ Furthermore, non-state educational institutions are typically included in generalized policy restrictions on the education sector. For example, Law #5136/13 prevents any school - be they public, private, or private-subsidized - from denying admission to or otherwise discriminating against disabled students.⁵⁷

2.3.2. ASSOCIATIONS OF NON-STATE INSTITUTIONS

Coalitions of non-state educational institutions speak with one voice through several influential private school associations. The Association of Private Educational Institutions in Paraguay (AIEPP, its Spanish acronym), the Association of Catholic Institutions (ASIEC, its Spanish acronym), and the Association of Christian Educational Institutions (ACSI, its Spanish acronym) serve as a lobbying body and communication tool to engage the government and public. Luis Cáceres Brun, the president of the AIEPP, offered an example of the association's value: "*When the government makes directives, they are always formulated for the public sector and not the private sector. So, whenever there is a major decision, we [AIEPP] have to ask for exceptions [from MEC].*"⁵⁸

2.3.3. QUALITY OF NON-STATE EDUCATION

The quality of non-state education may not be significantly superior to that of public schools. Private and private-subsidized schools do indeed outperform their public-school counterparts at all levels on the mathematics and Spanish communication sections of the SNEPE exam, underperforming only on the Guaraní communication section.⁵⁹ However, a former Minister of Education and Culture asserted that "*when you control for socioeconomic status, private schools do not*

⁵⁶ [La Biblioteca y Archivo Central del Congreso Nacional, 2017](#)

⁵⁷ [ABC Color, 2016](#)

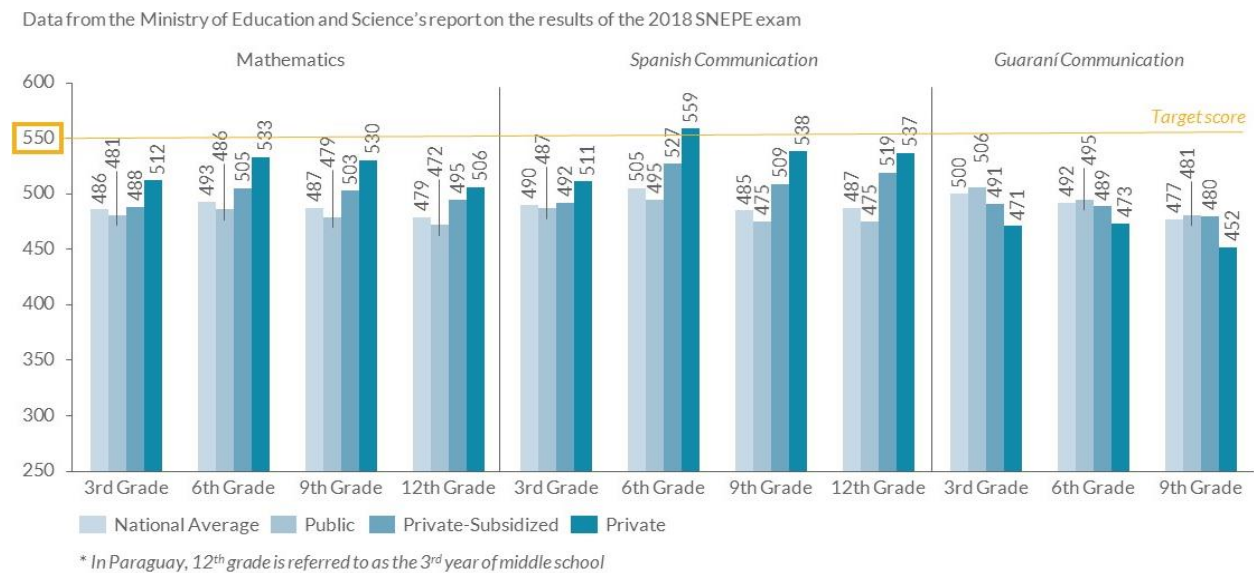
⁵⁸ Interview with President of the AIEPP

⁵⁹ [Ministerio de Educación y Ciencias, 2020](#)

perform better than public schools.”⁶⁰ Indeed, many directors of private schools across Paraguay pointed to non-academic factors, such as safety and the ability to learn English, as key elements of the value proposition in the eyes of parents.

Even in Paraguay’s non-state schools, the quality of education is low. On the 2018 SNEPE exam, the education system broadly failed to achieve its target score of 550. While some variance was recorded across subject areas, grade levels, and school types, the most stark conclusion is the system’s widespread deficiency. Across the three subjects evaluated by the SNEPE exam, and across 3-4 grade levels that participated in the exam, only one subgroup surpassed Paraguay’s target score.⁶¹

Figure 7: Average Score in 2018 SNEPE Exam by School Type⁶²



2.3.4. DEMAND FOR NON-STATE EDUCATION

Demand for non-state education has been growing for most of the 21st century, but it is now showing signs of a slowdown. Enrollment in non-state primary schools increased from 16.6% to 21.3% and enrollment in non-state secondary schools rose from 21.1% to 22% from 2005 to 2018, indicating a growing demand for the sector. However, more recently, demand for the non-state education sector has stagnated. As of 2018, around 320,000 students were enrolled in private or private-subsidized institutions. This amounts to approximately 23% of the total student population compared to around 21.5% in 2012. However, the total number of students enrolled in private or private-subsidized institutions decreased from 328,000 in 2012 to 320,000.⁶³

⁶⁰ Interview with the former Minister of Education and Culture of Paraguay

⁶¹ [Ministerio de Educación y Ciencias, 2020](#)

⁶² [Ministerio de Educación y Ciencias, 2020](#)

⁶³ [Ministerio de Educación y Ciencias, 2020](#)

Table 3: Enrollment 2012 and 2018 by School Type and Level

| | School type | 2012 | 2018 |
|---|--------------------|------------------------|------------------------|
| Initial education | Official | 103,488 (7%) | 127,715 (9%) |
| | Private | 26,306 (2%) | 28,214 (2%) |
| | Private-subsidized | 25,415 (2%) | 31,399 (2%) |
| Basic education | Official | 904,588 (59%) | 755,589 (54%) |
| | Private | (87,087 (6%) | 81,340 (6%) |
| | Private-subsidized | 131,000 (9%) | 124,340 (9%) |
| Middle education | Official | 194,054 (13%) | 188,083 (14%) |
| | Private | 39,199 (3%) | 32,855 (2%) |
| | Private-subsidized | 19,374 (1%) | 19,830 (1%) |
| Total private and private-subsidized | | 328,381 (21.5%) | 317,978 (22.9%) |
| Total | | 1,530,511 | 1,389,365 |

Population growth has been a driver of rising enrollment across sectors, but that growth is beginning to decelerate. Paraguay's birth rate fell from 37 per 1,000 people in 1971 to less than 21 per 1,000 people in 2018. This has direct implications for the education sector. While Paraguay's school-aged population (here, taken to be ages 0-19) was nearly 60% of the country's population in 1960. It has fallen precipitously, to less than 40% in 2020. The absolute number of school-aged children is expected to peak around 2030, and the relative size of the group is set to continue shrinking, ultimately falling to 20% by 2100. This suggests that while there is an opportunity for non-state schools to increase the relative share of the student population that they educate, the overall market is poised to shrink.

However, the capacity to pay for non-state education in Paraguay is growing. From 1995 to 2018, Paraguay's GDP per capita more than doubled, rising at one of the fastest rates in continental South America, only behind Bolivia and Guyana. Moreover, this growth has been distributed equitably. Over the same period, the country's Gini coefficient, a metric which reveals the severity of income inequality in a country, fell from 58.2 to 46.2, meaning it is likely that lower- and middle-income Paraguayans have a higher amount of disposable income. Together, these factors contribute to an increased ability to pay for education. A stronger understanding of Paraguayans' *willingness* to pay for higher education can contextualize the extent to which these factors may translate into a greater interest in paying for education. During interviews with school directors in the country, they mentioned that the main factors driving willingness to pay are: i) higher academic quality and trilingual education (Spanish, Guaraní, and English), ii) the opportunity to enter different social circles, iii) safer environment compared to public schools and iv) more flexible academic models (e.g., that adapt to each student).⁶⁴

2.3.5. TEACHERS FOR NON-STATE EDUCATION

Teachers at private- and private-subsidized schools are not better educated than their public-school counterparts. In Paraguayan public schools, just over 50% of teachers have *profesorado* degrees, which are 3-year technical, programs where students learn how to become teachers.⁶⁵ These

⁶⁴ Interviews with school directors in Paraguay.

⁶⁵ [Observatorio Educativo Ciudadano, 2019](#)

degrees are granted by Institutes of Teacher Training, administered by the MEC.⁶⁶ In non-state schools, a plurality of teachers are "profesorado" and less than 1% of teachers report having only a high school diploma. Non-state schools also have a significantly higher share of teachers whose level of education is not disclosed, meaning these figures may not be completely accurate.

CENTRO EDUCATIVO MBARACAYU:

A Remote School Succeeds in Securing Strong Teachers

Centro Educativo Mbaracayu is a foundation-financed private school on a natural reserve in northeastern Paraguay. The school was founded in 2009 by the Moisés Bertoni Foundation, and sits on the Mbaracayu natural reserve, the largest such territory in the country.

The school has a unique value proposition. *Centro Educativo Mbaracayu* is a boarding secondary school that targets vulnerable youth in the local area. 50 girls join the program at each grade level, for a total of 150 students, and can obtain a practical education in environmental science with a focus on agriculture and tourism. To reach disadvantaged groups, school fees are heavily subsidized by the foundation, so families only pay around \$10 per month.

Faced with difficulties in obtaining quality teachers, Centro Educativo Mbaracayu has designed an innovative solution. The school is in a remote area around 350km from Asunción, which makes it difficult to find and retain highly-qualified teachers. Although the school has succeeded in procuring some teachers from the nearest town, approximately 25km away, the number of qualified teachers they had access to from this source was limited. In light of this, *Centro Educativo Mbaracayu* recruited 11 scientists through the foundation to conduct research on the Mbaracayu natural reserve, and, as part of their agreement with the foundation, spend time teaching students at the school and collaborating with them on research projects.

Non-state schoolteachers work fewer hours than public school teachers on average, and many are paid less per-hour. Although recent research on this topic has not been conducted, the report *Salarios y perfil profesional del docente en el Paraguay* indicates that, in 2003, primary school public teachers worked about 50% more than their private school counterparts, and that private school teachers also saw a greater variance of work hours per-person. The same phenomenon exists at the secondary school level, where public school teachers work slightly more hours and private school teachers have greater variance across teachers. Furthermore, according to the report, public school teachers at the primary level out-earned their private school counterparts by approximately 20%, even adjusting for number of hours worked adjusted. The situation is slightly different at the secondary school level, in which private school teachers are paid more per-hour than public school teachers, but work fewer hours than them, and so public and private secondary teachers actually take home nearly equivalent salaries.⁶⁷ While this data is not current, recent news reports have also highlighted poor treatment of private school teachers, with some schools even failing to pay them the minimum wage.⁶⁸

2.3.6. COVID-19 IMPACT ON NON-STATE EDUCATION

Currently, non-state schools in Paraguay are under stress due to the COVID-19 pandemic. Due to the economic damage wrought by the crisis, between 20%-50% of parents with children enrolled

⁶⁶ [ABC Color, 2004](#)

⁶⁷ [Barrios & C., 2003](#)

⁶⁸ [ABC Color, 2017](#)

in Paraguayan non-state schools are missing fee payments, which cumulatively has significantly disrupted these schools' cash flow.⁶⁹ Some school administrators blame this phenomenon on the Law of Children and Adolescents,⁷⁰ which bars schools from expelling non-paying students until the end of the academic year. In times of economic austerity, such as the era that has accompanied COVID-19, this practice has become more common. Families that find themselves unable to pay the outstanding sum at the end of the academic year can transition their child to another school at no cost.

The MEC has sought to restrict private schools from charging fines or interest to parents who miss payments or delay them. The MEC has also urged the non-state education sector to forgive up to 50% of outstanding student fees for the months during most severe economic damage from the pandemic. Finally, because of the worsening financial situation, as many as 30,000 students (approximately 10% of the 2018 student population in the non-state education sector) are leaving the private and private-subsidized school sectors entirely in favor of the public sector.⁷¹

COLEGIO IBEROAMERICANO:

Navigating Crises Through Effective Management

The *Colegio Iberoamericano* is a 49-year old private school in Asunción, Paraguay that aims to provide a high-quality education at a reasonable price. The school serves 600 students from the Pre-K level to the end of secondary school and charges around \$113 per month. The school trains teachers internally and was financed in part via credit financial institutions. *Colegio Iberoamericano* places an emphasis on providing a strong education to children with special needs.

According to the school director, *Colegio Iberoamericano*'s value proposition to parents is rooted in intangible factors. Parents are drawn to the school's ability to provide students to personalized educations, its safety, and the school's focus on foreign languages. In addition, parents of children with disabilities value the care the school puts on accommodating for the needs of their children.

During the COVID-19 crisis, the *Colegio Iberoamericano* took strategic steps to minimize the damage wrought by the pandemic. The economic damage that was caused by the COVID-19 pandemic resulted in many parents losing their ability to pay for private education. To counter this trend, *Colegio Iberoamericano* lowered its fees and sought to correspondingly lower its operating costs. Although some students nevertheless were forced to drop out of the program, the *Colegio Iberoamericano*'s actions were able to support the financial positions of many of its students' families.

⁶⁹ [ABC Color, 2020](#)

⁷⁰ [UNICEF, 2005](#)

⁷¹ [ADN Digital, 2020](#)

2.4. SUMMARY

National Context:

- Paraguay is undergoing rapid demographic change: increased urbanization, population aging, and increased equality
- For the past several years, Paraguay's economic growth has been robust, but has undergone turbulence since 2019. Nevertheless, the outlook for Paraguay's economy is positive
- Paraguay has developed a policy ecosystem that is friendly to outside investors. However, bureaucratic and legal hurdles along with corruption make it difficult to conduct business in the country

Overview of the Education Sector:

- The education sector is divided into initial, primary, and secondary education, and is primarily governed by the Ministry of Education and Sciences (*MEC*)
- The *MEC* regulates the minimum requirements for setting up schools, but it does not represent an entry barrier. In terms of operations, it allows private schools to run their operations with limited supervision
- The *MEC* is a complex and massive organization, leading to challenges in organization and prompting USAID to identify its strengthening as a Country Development Objective by USAID
- The education system is running short on achieving education coverage goals, in early childhood the goal is 75% and reaching ~50%, in primary education the goal is universal coverage and reaching 78%, and in secondary education the goal is 92% and only reaching 46%
- Public institutions dominate the education landscape in Paraguay with nearly 80% of Paraguayan students educated in a public institution in about the same proportion of schools

Non-state Education in Paraguay

- In Paraguay, non-state schools can be either private or private-subsidized, distinct categories of institutions with some shared characteristics
- Paraguay's regulatory approach towards private schools neither seriously encumbers nor supports them
- Nevertheless, the *MEC* does place certain constraints on the country's non-state education sector, such as Law #5738 which prevents private schools from inducing students' parents to pay through actions such as withholding grades, limiting private schools' ability to secure their finances
- The quality of non-state education, measured with the *SNEPE* exam, falls short of the target score in almost every dimension. Nevertheless, they outscored their public-school counterparts on all sections of the *SNEPE* exam, except for Guarani Communication
- While demand for non-state education has risen in the 21st century – a consequence of Paraguay's expanding population and increasing ability to pay for education – that growth in demand is beginning to show signs of a slowdown
- The main drivers of willingness to pay are: i) higher academic quality and trilingual education (Spanish, Guarani, and English), ii) better networking, iii) safer environment compared to public schools and iv) more flexible academic models (e.g., that adapt to each student)
- Teachers at private and private-subsidized schools are not better educated than their public-school counterparts

- Currently, non-state schools in Paraguay are under stress due to the COVID-19 pandemic. Between 20%-50% of parents with children enrolled in Paraguayan non-state schools are missing fee payments and as many as 30,000 students (approximately 10% of the 2018 student population in the non-state education sector) are leaving the private and private-subsidized school sectors entirely in favor of the public sector.

3. DEMAND FOR EDUCATION FINANCING

3.1. EDUCATIONAL INSTITUTIONS

3.1.1. LANDSCAPE AND SEGMENTATION OF NON-STATE EDUCATIONAL INSTITUTIONS

The non-state educational landscape is diverse, composed of a network of institutions with unique value propositions and operational models. The Brookings Institution analyzes educational institutions through two lenses: the type of education provider it is and the type of financing it receives. The type of education provider can fall into one of three categories: state, non-state not-for-profit, and non-state for-profit. The type of financing can either be public, private, or hybrid. In addition, schools can be further segmented by both the quality of the education they provide as well as their overall cost of attendance, which can range from low-cost or subsidized to high-cost or market-rate.⁷²

Figure 8: Framework to Categorize Non-state Schools Types⁷³

| | Private subsidized schools | | | Private schools |
|-------------|-----------------------------------|----------------------------|---------------------------------|--|
| Financed by | State + fees | Non-state giving + fees | State + non-state giving + fees | Fees |
| Fees | No fees / low fees | | | Market return fees |
| Quality | Variable | | | Variable |
| Examples | Col. Experimental Paraguay Brasil | Centro Educativo Mbaracayu | Fe y Alegria Paraguay | Colegio Iberoamericano Centro del Desarrollo de la Inteligencia |

There are many modalities of non-state institutions, but two key archetypes are used by the MEC. As indicated in figure 8, financing for non-state institutions can come from a variety of sources. In addition to generating revenue through school fees, non-state schools may be subsidized by the MEC, financed by private organization like a foundation, or may have a hybrid financing arrangement through which it is financed by public and private subsidies as well as school fees. However, the MEC’s taxonomy of non-state education is limited to only two categories: “private,” and “private-subsidized.” According to the MEC, private schools are any fee-charging school that does not receive any government subsidy, meaning that school financed by private organizations are considered “private schools.” “Private-subsidized” schools are any fee-charging institution that does receive public sector financing.

In 2018, there were around 1,700 non-state schools in Paraguay. Of the Schools 61% of the school are private school, either financed by non-state funding or by fees, while 39% received funding from the government to operate. In terms of geographic presence, most schools are located in urban areas (83%), and the other 17% in rural areas – in contrast, during the same year, 38% of the population lived in rural areas, limiting the ability of rural populations to access non-state education. By level, 71% of non-state schools offer more than 1 education level, and the other 29% offer only 1 level. Most

⁷² Steer, Gillard, Gustafsson-Wright, & Latham, 2015

⁷³ Steer, Gillard, Gustafsson-Wright, & Latham, 2015

offering only 1 level focus on early childhood or basic education. The table below provides a breakdown of institutions by type.

Table 4: Number of Education Institutions by Type and Geographic Area⁷⁴

| Type of schools | Rural | Urban | Total |
|--------------------|--------------|------------|--------------|
| Private subsidized | 913 | 126 | 1,039 |
| Private | 500 | 167 | 667 |
| Total | 1,413 | 293 | 1,706 |

There is no formal segmentation or breakdown by price of the institutions in the country. Data on non-state schools pricing is not centralized or publicly available (similar to the data on school performance). Through interviews with the MEC, non-state school associations, and school directors we classified institutions in four types based on the monthly fees charged to the parents – ranging from USD 0-1,500. In contrast, the average disposable income per household in Paraguay in 2019, was USD 735/month⁷⁵ which limits access to the middle/high cost tiers of non-state education.

Table 5: Non-state Segmentation by School Fees⁷⁶

| School segment | Monthly fee | Fees relative to income per household ⁷⁷ | Description |
|-------------------------|-----------------|---|---|
| Low cost | USD 0-100 | 0-14% | Private subsidized schools or local small schools (neighborhood school) |
| Middle cost | USD 100-500 | 14%-70% | Local medium schools, not usually bilingual |
| High cost national | USD 500-1,000 | 70%-140% | High quality local school |
| High cost international | USD 1,000-1,500 | 150%-210% | International schools, bilingual or multilingual |

3.1.2. FINANCIAL NEEDS OF NON-STATE EDUCATIONAL INSTITUTIONS

All types of non-state schools in Paraguay face several structural challenges with respect to revenue generation. First, Law #5738 establishes a system whereby non-state schools cannot pressure or induce parents to pay their outstanding debt by taking actions such as withholding exams or grades. This produces situations where non-state schools continue educating students whose parents withhold payment.⁷⁸ Moreover, some claim that, during times of economic difficulty, families are inclined to cease school fee payments first, likely because they know the school is unable to seek retribution.

⁷⁴ [Ministerio de Educación y Ciencias, 2020](#)

⁷⁵ [Dirección General de Estadística, Encuestas, y Censos, 2020](#)

⁷⁶ Interviews with MEC, non-state school associations and school directors

⁷⁷ [Dirección General de Estadística, Encuestas, y Censos, 2016](#)

⁷⁸ [La Biblioteca y Archivo Central del Congreso Nacional](#)

These circumstances have led to some schools offering discounts on their tuition to encourage debt repayment and attract new students.⁷⁹

The inability to reliably procure fee payments is problematic, as it is the principal source of revenue for most non-state schools. Even expensive schools with affiliations to foreign governments, such as the American School of Asunción, report that their income comes virtually exclusively from monthly fee payments.⁸⁰ Indeed, the sudden reduction of fee payments instigated by the COVID-19 crisis resulted in hundreds of non-state schools closing their doors permanently.⁸¹ Nevertheless, some non-state schools have been able to circumvent the need for additional financing by incorporating other revenue-generating activities into their business models. For instance, some agricultural schools - common in Paraguay - open small businesses attached to their campuses, which help fund the school while concurrently offering students hands-on work experience.⁸²

CENTRO PARA EL DESARROLLO DE LA INTELIGENCIA (CDI):

A Path to Expansion via Bank Financing

CDI is an innovative private school that offers its students a specialized and unique education. The school provides a “sandbox”-style environment to shape their educations in the way that they see fit. As such, extracurricular elements of the education are critical: students are encouraged to undertake meditation as well as personal projects that may not directly related to academic coursework. The school has around seven teachers per grade level, compared to one per grade level as is the norm in Paraguay. Teachers are typically not trained as teachers, but rather as educational psychologists. *CDI* charges around \$200 per month per student.

Bank financing has been a key to the school’s success, but obtaining credit was not easy. According to *CDI*’s school director, *CDI* was rejected by the first 5 financial institutions from which it sought financing. They revealed that they had to learn how to present their information to banks, as at first, they were focusing more on the academic model and got turn down, because what banks wanted to see was the financial side of the school and how they were planning to repay the loan. After learning and adjusting how they presented themselves to the banks, *CDI* was ultimately able to obtain a 10-year loan supported by AFD at an interest rate of 11% with a two-year grace period in order to finance an infrastructure expansion.

Financing from banks will likely continue to play a role in *CDI*’s development. *CDI* has had success in building out its physical infrastructure through credit from the financial sector. However, tech infrastructure is also critical to *CDI*’s educational model. Even before the start of the COVID-19 pandemic, *CDI* had begun incorporating ed-tech in its academic offering, enabling students to learn a variety of subject through a suite of online tools. As *CDI* continues growing, financing for the procurement of ed-tech tools will likely be a priority for the school.

Non-state schools have financial needs both in terms of operating expenses (OPEX) and capital expenditures (CAPEX). School directors across different institutions mentioned financing needs for their day to day operations due to lack of payment from some of their students on a month to

⁷⁹ [Ultima Hora, 2019](#)

⁸⁰ [U.S. Department of State, 2020](#)

⁸¹ [Advierten sobre cierre y quiebra de escuelas y colegios privados por la crisis, 2020](#)

⁸² [Fundación Paraguaya, n.d.](#)

month basis. In terms of CAPEX, the most common needs were infrastructure (e.g., expand campus, laboratories) and technology, and innovation.

Demand for education finance in Paraguay for school improvements loans is estimated at around USD 9-13 million and USD 32-47 million for school fee loans. Below we present two estimates for the demand for education financing, the first one from the Edufinance Report: The State of the Affordable Non-State School Sector⁸³, which estimates that the current markets for school improvement loans in Paraguay is USD 13 million and for school fee loans it is USD 47 million.⁸⁴ A second estimation on the right hand side of the table estimates the demand for school improvements loans is approximately USD 9 million and for school fee loans around USD 32 million. This estimate is a more conservative approach that uses the same methodology as the first one, but updates data points to use official figures from governments and estimates the take-up % - percentage of schools or parents that would take a loan – by considering the maturity level of the non-state education sector of the country, according to the average score of the Five-Point Framework Level I Diagnostic Tool from USAID. The table below presents the assumptions to estimate the demand figures.

Table 6: Demand for School Loans and School Fees Loans

| | Edufinance report | Dalberg estimate |
|--|--------------------------|-------------------------|
| School improvement loans | | |
| # of non-state schools | 1,745 ⁸⁵ | 1,706 ⁸⁶ |
| Value of loan (USD) | 12,000 ⁸⁷ | 12,000 |
| Take-up % | 60% ⁸⁸ | 45% ⁸⁹ |
| Demand for school loans | 12,564,000 | 9,212,400 |
| School fees loans | | |
| Total enrolment Non-State Schools | 376,697 ⁹⁰ | 317,978 ⁹¹ |
| # school aged children per household | 1.75 | 1.75 |
| Total enrollment / # of school-aged children per household | 214.730 | 181,259 |

⁸³ The EduFinance Report sought to estimate these figures on a country-specific basis for all markets, which resulted in its use of estimates of school numbers rather than information from corresponding ministries of education

⁸⁴ The Edufinance report's figures are calculated as follows: School Improvement Loan data is the product of Number of Schools, Average Loan Value, and Loan Uptake Rate – Average Loan Value and Loan Uptake Rate are calculated by identifying proxies through consultations with financial institutions in developing countries and Edufinance survey data on interest in loan procurement, respectively; School Fee Loan data is calculated by dividing the country's total non-state enrollment by the number of school aged children per household, and then multiplying the Average Loan Value and Loan Uptake Rate

⁸⁵ Estimate based on enrollment from UNESCO 2019 and average number of children per school.

⁸⁶ [Ministerio de Educación y Ciencias, 2020](#)

⁸⁷ Based on Edufinance's partner's long-term average in the region.

⁸⁸ Based on Edufinance research in Ecuador and assumed to be the same for Paraguay.

⁸⁹ The Take-up % has 3 tiers, i) High: 60% (from Edufinance), ii) Medium: 45% (average between high and low) and iii) low: 30% (% of SMEs that have accessed credit according to the Paraguay 2014-2018 national financial inclusion strategy). To determine which tier to use in this estimation, we used the scoring from the USAID Five-Point Framework Level I Diagnostic Tool from USAID, which ranges from 0 to 5, as a proxy. The tool awards countries scoring below 1.67 the score of "low," "medium" if between 1.67 and 3.33 and "high" if above 3.33. For the case of Paraguay, the average score of the Five-Point Framework Level I Diagnostic Tool is 3.0, so we used the medium tier to perform this estimate.

⁹⁰ Based on enrollment from UNESCO 2019.

⁹¹ [Ministerio de Educación y Ciencias, 2020](#)

| | | |
|-------------------------------------|-------------------|-------------------|
| Value of loan (USD) | 500 ⁹² | 459 ⁹³ |
| Take-up % | 44% ⁹⁴ | 39% ⁹⁵ |
| Demand for school fees loans | 47,240,679 | 32,431,618 |

Accessing financing is challenging for non-state schools. In the interviews, there was a common theme around the difficulties in accessing financing and limited options available in the market. One school director mentioned *“I went to seven financial institutions to try to get a loan and got turned down in the first five of them. After that I had to hire someone with expertise from the financial sector to understand what they wanted to see in the paperwork, which was all about how the schools is going to repay and not much about our academic model.”*⁹⁶ During another interview, a school director mentioned that for family schools, it’s easier to get a credit through the school owner than through the institution itself *“It’s much easier to get a credit for me, and put my house as collateral than to try to get a credit for the school building, as many don’t consider the collateral of my school as something they can accept”*.⁹⁷

3.2. ANCILLARY SERVICES AND OTHER EDUCATION-RELATED ENTERPRISES

Education in Paraguay is facilitated by a network of companies that offer services and products to support and enrich education. These "ancillary services" and education-related enterprises can include school transportation, food catering, extracurricular activities (e.g., sports, arts), bookstores, publishers, language academies, distance learning providers, test preparation companies, ed-tech companies, hardware providers, academic and administrative software. Examples of the status of education-related enterprises in Paraguay are presented below.

3.2.1. VOCATIONAL AND TECHNICAL TRAINING

Many educational institutions in Paraguay are dedicated to vocational or technical training or offer such training as a supplemental resource to their menu of traditional educational services. While some of this is targeted towards young adults - that is, individuals beyond school age - much of it goes through formal educational institutions.⁹⁸ With respect to this sector's viability as an investment target, the U.S. International Trade Administration has identified it as a "best product industry sector for [Paraguay]."⁹⁹ As of 2014, there were over 700 vocational and technical training schools around the country offering schooling in 26 distinct specializations.¹⁰⁰ As mentioned above, these institutions can generate revenue through two parallel streams: tuition and sales. One agricultural school reported generating over USD 700,000 in 2019.¹⁰¹ This sector has been affected significantly by the COVID-19 crisis. The need for in-person instruction is greater for students pursuing technical education. This prompted the Minister of Education to propose a plan to commence in-person learning

⁹² Based on Edufinance partner in Ecuador and assumed to be the same amount for Paraguay.

⁹³ Value of loan from Ecuador adjusted by GDP per capita of the countries.

⁹⁴ Based on Edufinance research in Ecuador and assumed to be the same for Paraguay.

⁹⁵ The Take-up % has 3 tiers, i) High: 44% (from Edufinance), ii) Medium: 39% (average between high and low) and iii) low: 34% (% of people who have accessed credit according to the Paraguay 2014-2018 national financial inclusion strategy). To determine which tier to use in this estimation, we used the scoring from the USAID Five-Point Framework Level I Diagnostic Tool from USAID, which ranges from 0 to 5, as a proxy. The tool awards countries scoring below 1.67 the score of “low,” “medium” if between 1.67 and 3.33 and “high” if above 3.33. For the case of Paraguay, the average score of the Five-Point Framework Level I Diagnostic Tool is 3.0, so we used the medium tier to perform this estimate.

⁹⁶ Interview with a school director in Paraguay.

⁹⁷ Interview with a school director in Paraguay.

⁹⁸ [Ministerio de Educación y Ciencias, n.d.](#)

⁹⁹ [U.S. International Trade Administration, 2020](#)

¹⁰⁰ [ABC Color, 2014](#)

¹⁰¹ [Escuela Agrícola Cerrito generó ingresos por más de USD 700.000 durante el 2019, 2020](#)

for exclusively technical schools in Paraguay.¹⁰² Some vocational and technical schools were launched with funding from MFIs in the country, like *Fundación Paraguaya*.¹⁰³

ESCUELA AGRÍCOLA CERRITO

A Dual-Degree Program Aiming for Sustainability

Escuela Agrícola Cerrito is a private school in Cerrito, Paraguay that offers students a hands-on education. In addition to formal schooling, students at *Escuela Agrícola Cerrito* can engage in any of the school's 13 productive units, ranging from a cheesemaking unit to a hotel. Many of these units were founded by students or faculty and serve the local community while complementing the formal education offered by the school. The vision for *Escuela Agrícola Cerrito* is complete sustainability, meaning that the school can support itself simply through revenue generated by its productive units; in 2019 the school generated more than \$700,000 USD. The school is also the first institution in Paraguay to offer its students a dual-degree in Agriculture and Livestock as well as Hotels and Tourism.

The school subsidizes student fees through its productive units and the foundation it is housed within. The school charges a low fee of \$23 USD per student per month, which makes the school financially accessible to low-income groups in Cerrito. Significant financial support comes from the *Fundación Paraguaya*, which launched the school and provides it with a subsidy. However, over the long-term, *Escuela Agrícola Cerrito* aims to be able to financially support itself without subsidy from the foundation.

3.2.2. SCHOOL TRANSPORTATION

In Paraguay, the school transportation sector - that is, the network of buses that take students to and from school - is fragmented and poorly regulated. Because of the sector's low start-up costs, to supplement their incomes many people begin offering school transportation services without proper licensure, leading to many small, informal school transportation companies. These companies, such as *Transporte Escolar Luba* and *JC Transporte Escolar*, seldom heed regulations placed on the sector, such as the City of Asunción's Ordinance 67/02, resulting in widespread infractions and, in some cases, danger to students.¹⁰⁴ Moreover, due to the COVID-19 pandemic and the subsequent closure of most educational institutions in Paraguay, school transportation has sustained significant economic damage. Some members report no income during the crisis.¹⁰⁵ In light of this, we must note there is no evidence that companies in this sector have yet received credit from financial institutions.

3.2.3. ENGLISH LANGUAGE ACADEMIES

In 2013, Paraguay promulgated Law #5031, which allowed for the incorporation of English language studies in Paraguayan public schools.¹⁰⁶ Nevertheless, Paraguay's progress on English acquisition has been poor. The country's performance on the TOEFL, the Test of English as a Foreign Language, ranks in the bottom half of South American countries.¹⁰⁷ This has led to the emergence of several English language-focused organizations that seek to supplement traditional classroom English

¹⁰² [Clases en colegios técnicos podrían volver, 2020](#)

¹⁰³ [Fundación Paraguay, 2018](#)

¹⁰⁴ [ABC Color, 2013](#)

¹⁰⁵ [Transportes Escolares, 2020](#)

¹⁰⁶ [Ministerio de Educación y Ciencias, 2020](#)

¹⁰⁷ [Cronquist, 2017](#)

teaching.¹⁰⁸ While many language academies are nonprofits, some for-profit ones have been able to circumvent COVID-19's impact on in-person education by offering virtual educational alternatives.¹⁰⁹ The extent to which the sector can access finance is currently unclear.

3.2.4. EDUCATIONAL PUBLISHERS

Educational publishing is a large and lucrative sector. It has at least 10 major players in Paraguay, which together produce most of the educational literature for the country's schools. For public schools, the government procures a set of textbooks aligned with the national curriculum, which it then provides to its students free of charge. At private schools, students must often pay for their own textbooks, which range in price from as little as USD 4 to as much as USD 20 each. In some cases, families may pay up to USD 70 for a full set of schoolbooks.¹¹⁰

The sector is undergoing disruption due to growing internet access, which brings new opportunities for innovation. Grupo Editorial Atlas, an online educational publisher in Paraguay, has begun offering a full suite of schoolbooks for free online during the COVID-19 pandemic.¹¹¹ To be sure, María del Carmen Giménez, ex-Vice Minister of Education and Science and a current director of the country's educational transformation, confirmed that digitizing schoolbooks is a priority for the MEC.¹¹² As such, the demand for financing from educational publishers to help them migrate to digital books seems pressing. For example, in our interview with Editorial Alianza they mentioned *"We are in the process of turning our physical books into interactive digital books, including analytics and learning metrics. This process requires investment, but it will open the door to new business models such as a subscription platform."*¹¹³

3.2.5. ED-TECH AND SOFTWARE/DISTANCE LEARNING PLATFORMS

Ed-tech has emerged as a critical ancillary sector, especially in times of crisis. During the COVID-19 crisis, Paraguay's MEC committed to an agreement with Microsoft to leverage their educational technology platform to facilitate distanced learning for over 1 million students.¹¹⁴ Some non-profit organizations, like *Paraguay Educa*, are also promoting the growth of ed-tech in Paraguay. In collaboration with the Dubai Cares Foundation, *Paraguay Educa* launched the META (its Spanish acronym) program to fuse technology with education.¹¹⁵ The sector is gaining traction across Paraguay - *Fundación Paraguaya*, a major nonprofit organization in the country, recently organized a forum dedicated to the subject.¹¹⁶ LAC ed-tech leaders have insisted that ed-tech has evolved from a "nice-to-have to a must-have." While the sector shows tremendous promise, a key opportunity stems from the sector's flexibility: ed-tech comes in many forms such as administrative programs, collaborative platforms, and online classrooms.¹¹⁷

Demand for finance from ancillary services and other education-related enterprises is estimated at around USD 5-7 million. This figure is an estimate based on the market size from ancillary services and other education-related enterprises as percentage of the private school industry market size. To perform this estimation, we established USA as country of reference, and estimated that

¹⁰⁸ [Anglo, s.f.](#)

¹⁰⁹ [Berlitz, s.f.](#)

¹¹⁰ [ABC Color, 2011](#)

¹¹¹ [Revista Plus, 2020](#)

¹¹² Interview with María del Carmen Giménez

¹¹³ Interview with Editorial Alianza

¹¹⁴ [Montgomery, 2020](#)

¹¹⁵ [Paraguay Educa, 2020](#)

¹¹⁶ [Fundación Paraguaya, 2020](#)

¹¹⁷ [Arce, n.d.](#)

the following services – school transport, ed-tech, and textbook publishers – together represent 70%¹¹⁸ of the market size of the private school industry. Then we applied this percentage to the demand for school loans and adjust based on the maturity level of the non-state education sector of the country, according to the average score of the Five-Point Framework Level I Diagnostic Tool from USAID. The table below presents the assumptions to estimate the demand figures.

Table 7: Demand for Loans from Ancillary Services and Other Ed. Related Enterprises

| | Dalberg estimate | |
|---|---------------------------------------|-------------------------------------|
| Ancillary services and other education-related enterprises loans¹¹⁹ | | |
| Demand for school loans (USD) | 12,564,000 (Edufinance report figure) | 9,212,400 (Dalberg estimate figure) |
| % of market size of ancillary services and other education-related enterprises of private schools | 70% | 70% |
| Adjustment factor by maturity level | 75% ¹²⁰ | 75% |
| Demand for loans | 6,556,655 | 4,807,587 |

3.3. SUMMARY

Educational Institutions:

- The non-state educational landscape is diverse, composed of a network of institutions with unique value propositions and operational models
- In 2018, there were around 1,700 non-state schools in Paraguay. Of schools 61% are private-subsidized and receive at least some funding from the government to operate, while 39% are full private and are financed either by non-state donations or by fees.
- Through interviews with the MEC, non-state school associations, and school directors we classified institutions into four types based on the monthly fees charged to the parents – ranging from 0-1,500 USD
 - Low cost USD 0-100
 - Middle cost: USD 0-500
 - High cost national: USD 500-1,000
 - High cost international: USD 1,000-1,500

¹¹⁸ The market size of ancillary services and other education-related enterprises for school transport, edtech, and textbook publishers is USD 60 bn and the private school industry is USD 86 bn, which represents 70%.

¹¹⁹ In an ideal scenario we would develop a bottom-up approach, but there is limited information of the number of organizations in each ancillary services and other education-related enterprises to be able to perform this analysis.

¹²⁰ The Adjustment factor has 3 tiers, i) High: 100% (as mature as USA), ii) Medium: 75% (average between high and low) and iii) low: 50% (estimated according to the difference between the take-up % from the Edufinance report and the lower tiers estimated in this report for school improvement loans). To determine which tier to use in this estimation, we used the scoring from the USAID Five-Point Framework Level I Diagnostic Tool from USAID, which ranges from 0 to 5, as a proxy. The tool awards countries scoring below 1.67 the score of “low,” “medium” if between 1.67 and 3.33 and “high” if above 3.33. For the case of Paraguay, the average score of the Five-Point Framework Level I Diagnostic Tool is 3.0, so we used the medium tier to perform this estimate.

- Non-state schools have financial needs both in terms of operating expenses (OPEX) – having to finance their day to day operations due to lack of payments from some of their students on a month to month basis– and capital expenditures (CAPEX) – the most common needs were infrastructure (e.g., expanding campus, laboratories) and technology, and innovation
- There is an estimated current demand for educational loans USD of 41-60m; USD 9-13m for school improvement loans and USD 32-47m for school fee loans
- Accessing financing is challenging for non-state schools due to i) lack of technical capabilities to request a loan, ii) schools' buildings not being broadly accepted as a desirable guarantee, and iii) limited options available in the market

Ancillary Services and Other Education-Related Enterprises

- Ancillary services companies that support education in Paraguay are highly fragmented and localized, composed of small companies that serve their communities, except for publishers and ed-tech
- Demand for finance from ancillary services and other education-related enterprises is estimated around USD 5-7 million. There is demand for financing across different ancillary services for different needs, ranging from digitalization of their operation (e.g., publishers, language academies), expansion/scale-up of their operations (e.g., ed-tech companies) and OPEX (e.g., school transportation and vocational training institutes)

4. SUPPLY OF EDUCATION FINANCING

4.1. OVERVIEW OF THE FINANCIAL SECTOR

4.1.1. STRUCTURE OF THE FINANCIAL SECTOR

Paraguay's financial system is constituted by 17 major banks, of which 9 are domestically owned, 4 are foreign-owned, 3 are branches of foreign banks, and 1 is a state-owned enterprise.¹²¹ Paraguay's largest commercial banks hold approximately 70% of the financial system's assets and are often structured as joint ventures with partial foreign ownership.^{122,123} The system is governed by the Central Bank of Paraguay (*BCP*, its Spanish acronym), which controls the Banking Superintendent, the main financial regulatory body in the country.¹²⁴ In addition to a network of banks, Paraguay is home to smaller financial companies, microfinance institutions, electronic payments companies, and financial cooperatives.¹²⁵

Paraguay has two major banking and microfinance associations which help further the interests of its members. There is the Association of Banks of Paraguay (*Asoban*, its Spanish acronym) and the Network of Microfinance Institutions in Paraguay, with the former being significantly more prominent. *Asoban* aims to facilitate collective action on behalf of its members. Moreover, the organization seeks to build relationships with financial institutions in other countries to facilitate information-sharing. The association is composed of 14 financial institutions, of which 3 are based outside of the country and another 4 are majority-owned by foreign corporations.¹²⁶ The Network of Microfinance Institutions in Paraguay likewise seeks to promote coordination amongst actors in the microfinance sector. It is composed of 9 institutions which range from NGOs to credit cooperatives. In addition, the cooperatives are aggregated under the National Institute of Cooperatives (*INCOOP*, its Spanish acronym).

4.1.2. REGULATORY AND POLICY FRAMEWORK RELEVANT TO THE FINANCIAL SECTOR

Excesses by the BCP from the 1960s through the late 1980s motivated the creation of a cautious financial policy framework in the 1990s. From the 1960s through the 1980s, Paraguay adopted imprudent economic strategies, such as using external debt to finance the deficits of the central government and public enterprises. As a result, Paraguay experienced a sharp rise in external debt, a shrinking of the monetary base, and a spike in inflation through the 1980s. In response, the 1990s saw major reforms to the financial sector. The country's 1992 constitution certified that "The central bank must refrain from agreeing to provide credits (directly or indirectly) to finance the public sector's budget, except for short-term loans and in case of national emergency." The constitution also stipulated in article 285 that the *BCP* must coordinate with other public-sector economic institutions, and that it is responsible for monetary stability. The country went further in 1995 with the passing of Law 489, Organic Law of the Central Bank of Paraguay. The law restricted *BCP* lending to short term loans at a maximum size of 10% of the country's tax income, it mandated foreign reserves be used exclusively to ensure the ability of the foreign exchange market, and decreed that the *BCP* board would "determine

¹²¹ Bakker, Che, & Ho, *Paraguay: Selected Issues*, 2019

¹²² International Monetary Fund, 2011

¹²³ Faruqee, Keim, & Kim, 2018

¹²⁴ Corporate Finance Institute, n.d.

¹²⁵ Faruqee, Keim, & Kim, 2018

¹²⁶ *Asociacion de Bancos del Paraguay*, n.d.

the interest rate, maturity, and other required conditions to provide financing to the government.” The law also enshrined exchange rate stability as a key *BCP* objective.¹²⁷

More recently, Paraguay has succeeded in further formalizing and fortifying its financial system. In 2013, the government passed a fiscal responsibility law, which restricted the country’s fiscal limit to 1.5% of GDP, limited its average fiscal deficit and its ability to increase public expenditures, and prevented increasing public wages without an accompanying minimum wage hike.¹²⁸ The same year, the government passed a tax reform law that increased the formalization of the economy to contribute towards a fiscal surplus. In 2004, the *BCP* adopted an inflation-targeting strategy. In 2016, Paraguay passed Law 5757 of Modernization and Strengthening of the Norms that Regulate the Functioning of the Paraguayan Financial System. It allowed the *BCP* to adapt to international standards and implement risk-supervision strategies.¹²⁹ As a result of these and prior modifications to Paraguayan fiscal policy, the country has enjoyed steady growth for most of the 21st century.¹³⁰

The *BCP* regulates the maximum interest rate the formal financial system can charge to its customers. The cap for annual interest rate in the regulated system has consistently decreased since 2014, from almost 60% to reaching 37.5% in 2019. This drop is also explained by the ceiling imposed on credit cards in 2015 to limit the interest rate they could charge.¹³¹ The average interest rate for lending in Paraguay has decreased over the same time period (2014-2019) from 21% to 18%¹³² allowing access to capital at more affordable rate, including for the education sector companies that have managed to secure loans.

4.1.3. CREDIT SUPPLY AND CREDIT QUALITY

Credit has grown dramatically in Paraguay over the last decade, as the country experienced two major credit booms. From 2010 to 2011 and from 2014 to 2016, Paraguay saw a sharp expansion of credit. The country’s credit-to-GDP ratio rose from 9% of GDP to 32% from 2006 to 2017, one of the largest movements in the region over the period. This expansion was fueled by a rapid growth in credit provision by domestic banks, where credit grew by over 60% during the country’s first credit boom, and by over 25% during its second boom, compared to around 20% during non-boom years. These booms were followed by economic trends, commonly associated with credit booms, including a rise in non-performing loans, falling profits, and increasing provisioning costs.¹³³ The credit increase is suspected to be a response to rising external demand and internal production.¹³⁴

¹²⁷ [Charotti, Valdovinos, & Soley, 2019](#)

¹²⁸ [Charotti, Valdovinos, & Soley, 2019](#)

¹²⁹ [Banco Central de Paraguay, 2018](#)

¹³⁰ [Charotti, Valdovinos, & Soley, 2019](#)

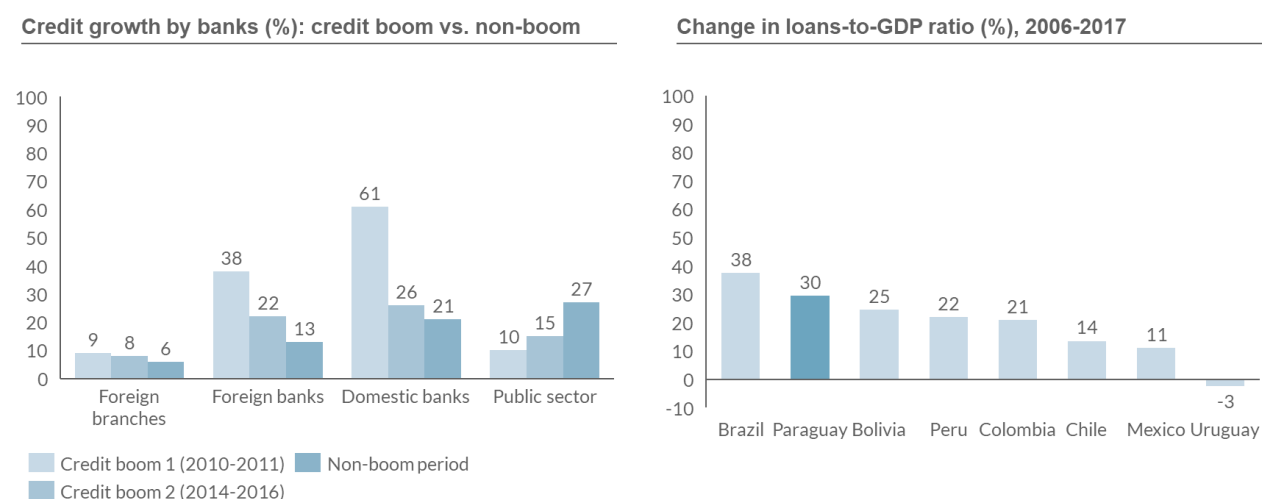
¹³¹ [ABC Color, 2020](#)

¹³² [The World Bank, 2020](#)

¹³³ [Bakker, Che, & Ho, Paraguay: Selected Issues, 2019](#)

¹³⁴ [Faruqee, Keim, & Kim, 2018](#)

Figure 9: Growth of Credit in Paraguay over the Credit Boom Period¹³⁵



After the rapid growth lasting until 2016, credit expansion has slowed in recent years. In 2017, credit lagged behind production in key industries and Paraguay’s credit gap – that is, the difference between the country’s credit-to-GDP ratio and previous trends of that ratio – is expected to either decelerate or even shrink.¹³⁶ Indeed, Paraguay’s proportion of provision of loans to total loan quantity fell from 3.5 in 2017 to 3.2 in 2019. In 2019, Paraguay’s overall domestic credit to the private sector was 41.6%, which represents a fall of around 10% since 2017.¹³⁷

However, credit still constitutes a major component of bank business, fueled by the private sector. In 2018, credit was over 50% of banks’ total assets, although this does represent a modest fall from over 60% of total assets during the second credit boom. This has occurred alongside a transition to a greater focus on the private sector, in which credit rose in banks from around 5% of GDP in 1961 to around 40% in 2016.¹³⁸ Although it has been decreasing as a proportion of GDP, domestic credit to the private sector nevertheless earned Paraguay a ranking of 66th worldwide by the World Economic Forum, fourth among major LAC countries, behind only Honduras (63rd), Bolivia (58th), and Chile (25th).¹³⁹

Financing for SMEs in Paraguay is developing. The World Economic Forum awarded Paraguay a score of 3.9 out of 7 on SME financing, ranking it 67th globally¹⁴⁰ and amounting to a 0.2 increase over its 2018 score, for which it was ranked 73rd.¹⁴¹ Furthermore, the IFC reported that Paraguay, as of 2017, had an SME financing gap of USD 4 billion, which amounted to approximately 14% of the country’s GDP that year. This gap is large by LAC standards: peers such as Bolivia, Chile, Peru, and Uruguay had SME financing gap-to-GDP ratios of 5%, 4%, 5%, and 11%, respectively.¹⁴²

¹³⁵ [Bakker, Che, & Ho, Paraguay: Selected Issues, 2019](#)

¹³⁶ [Faruqee, Keim, & Kim, 2018](#)

¹³⁷ [World Economic Forum, 2018](#)

¹³⁸ [Faruqee, Keim, & Kim, 2018](#)

¹³⁹ [World Economic Forum, 2018](#)

¹⁴⁰ [Schwab, 2019](#)

¹⁴¹ [World Economic Forum, 2018](#)

¹⁴² [International Finance Corporation, 2017](#)

4.2. TRADITIONAL FINANCING FOR NON-STATE EDUCATION

Education financing can be supplied through two overarching instruments: debt and equity.¹⁴³ Debt financing includes a) individual school fee loans for parents, b) working capital / construction loans for schools, and c) continuing education financing. Conversely, equity financing refers to funds or corporates that invest in promising areas of education services innovation (e.g., ed-tech, Saas textbooks, education management platforms). There is currently limited traditional financing for non-state education in Paraguay, most of which is in the form of debt. There is little evidence that domestic or international funds or financial intermediaries make equity investments in non-state schools and institutions.¹⁴⁴ As such, the following section will focus on debt financing.

4.2.1. DEBT: LENDING TO PARENTS TO PAY SCHOOL FEES

No specific education-focused financing products exist in banks and MFIs for parents.

Rather, most banks and MFIs provide financing for education through consumer loans. Representatives from major financial institutions in Paraguay, such as *Banco Regional* and *Financiera el Comercio* confirmed this, revealing that in some cases they understand the loans they offer will be used for education, but that the loans are simply generic consumption loans rather than tailored products.¹⁴⁵ Interviews with directors from Banks and MFIs in the country mentioned the market for lending to parents for school fee payments is not big enough to have a differentiated product and in addition, it's a sector they have not fully explored.¹⁴⁶ This study did not identify banks or MFIs offering products tailored to parents for pre-tertiary education. However, there are banks offering credits for higher education studies, such as *Vision Banco* or the *PROEDUC* (the Spanish acronym) product from the Development Financial Agency of Paraguay (*AFD*, its Spanish acronym).¹⁴⁷

4.2.2. DEBT: LENDING TO SCHOOLS FOR CONSTRUCTION AND WORKING CAPITAL NEEDS

Schools and education-related enterprises in Paraguay are treated as SMEs or commercial entities by most banks and MFIs. No specific products targeting educational institutions have been identified. However, a few financial institutions report lending to non-state schools, with the sector constituting less than 2-3% of their total portfolios.¹⁴⁸ Moreover, representatives from these institutions have mentioned how the financing needs of non-state schools typically revolve around infrastructure, that is, new buildings, or expanding the school's campus. The financial institutions that lend to both urban and rural non-state schools claim that this need for infrastructure financing is consistent across regions.

FUNDACIÓN PARAGUAYA:

Financing Education Through Microloans

Fundación Paraguaya is a nonprofit organization that seeks to combat poverty in Paraguay.

As a primary lever towards achieving that change, the organization finances education through a variety of channels. First, *Fundación Paraguaya* incubates educational institutions, such as *Escuela Agrícola*

¹⁴³ Mezzanine instruments are still nascent and not considered for purpose of this study

¹⁴⁴ Based on interviews and research with relevant stakeholders in the country

¹⁴⁵ Interviews with Banco Regional and Financiera el Comercio

¹⁴⁶ Interviews with directors from Banks and MFIs in Paraguay

¹⁴⁷ Desk research and interviews with financial institutions in Paraguay

¹⁴⁸ Estimates provided by financial institution in interviews. They mentioned there were no specific data points to estimate loans to non-state education, but at the most it could be 2-3% of their lending portfolio.

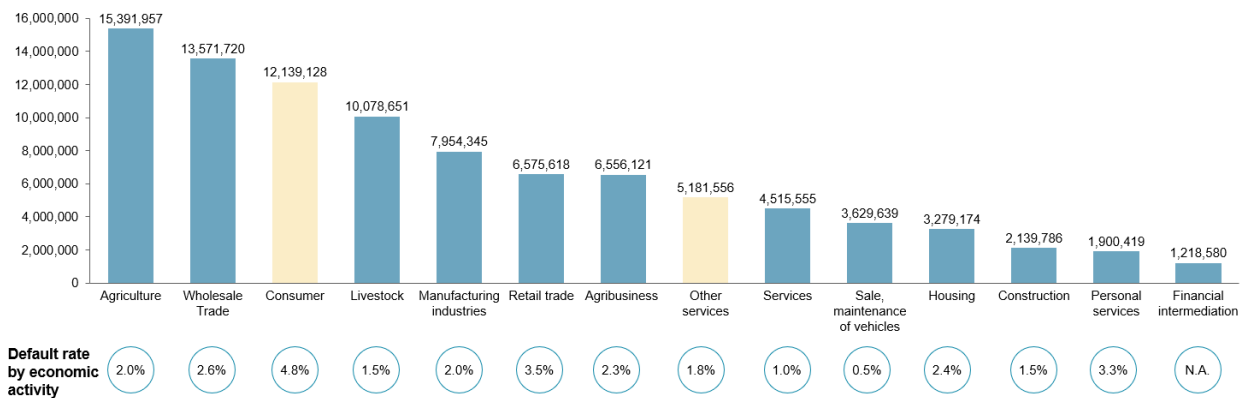
Cerrito, and finances them until they reach sustainability. In addition, *Fundación Paraguaya* is a microfinance institution (MFI) which provides educational loans to recipients ranging from schools to parents of students in private schools.

Fundación Paraguaya’s MFI arm largely provides loans to parents to finance their children’s school fees. According to the organization’s leadership, approximately 90% of the foundation’s 1,239 educational loans go towards parents of students, with only 10% directed towards the schools themselves. The average size of a loan for school fees is \$500 USD, with an annual interest rate of 20% and a timeline of up to three years. Overall, the rate of nonperforming educational loans is around 5%. Typically, these loans are used for paying school fees outright, in addition to the purchase of school equipment, like a computer, or registration fees. The 10% of loans that *Fundación Paraguaya* makes to educational institutions includes higher education.

Non-state schools may be inherently unattractive debtors. Many financial institutions – including some that did and some that did not have existing financial relationships with non-state schools – pointed to a key challenge towards lending to non-state schools. That is, in cases of non-repayment of loans, financial institutions are loath to deploy their most effective weapon – repossession – against schools. A director at a financial institution in Paraguay said, “*the problem with school loans is that it is difficult to enforce them... who wants to take the land away from a school?*”¹⁴⁹ This consideration around the potential reputational damage stemming from such an activity was widely shared among financial institutions in Paraguay.

Paraguay does not have disaggregated data of the loan portfolio for the education sector or SME sector. The figure below illustrates the data reported by the BCP including two categories relevant for the report, i) consumer credit which includes loans for parents and ii) other services not included in the list among which the non-state education sector is counted. Despite the limited data, some financial institutions have offered a glimpse into their relationships with the education sector.

Figure 10: Credit Portfolio by Economic Activity, 2019 (M Guaraní)¹⁵⁰



Each of Paraguay’s banks brings a distinct value proposition to the table and showcases different levels of attractiveness for partnership. In Paraguay, most banks offer financial products that are relevant to the financial sector: loans that fall within the categories of “other industries” – that includes, financing for schools – and loans for consumption that may be used for education. Moreover,

¹⁴⁹ Interview with the president of a major bank in Paraguay

¹⁵⁰ [Banco Central de Paraguay, 2020](#)

some financial institutions already have some financial products, like SME loans and higher education loans, that may indicate their interest in engaging further with the education sector. In the table below, we have compiled findings from interviews with bank directors, data from the Central Bank of Paraguay, and information from banks' websites, to create a ranking system of the suitability for partnership of Paraguay's banks.

The largest banks in Paraguay have emerged as the most attractive potential partners. The largest financial institutions in the country have robust credit portfolios and many are already offering SME loans and higher education loans. The size of these companies may make them more willing to take on risk, and may be indicative of a greater level of financial sophistication, which may facilitate collaboration with those institutions on the development of blended finance products. Of the top five financial institutions, *Banco Regional* and *BNF* showed interest in increasing their level of engagement with the education sector.

In addition, MFIs may serve as potentially complementary partners to banks. Some microfinance institutions in Paraguay, including *Financiera el Comercio* and *Fundación Paraguaya*, have a stated interest in the education sector. *Fundación Paraguaya* in particular has made education a focus of the organization: they have 1,239 active educational loans, of which 90% are directed to parents to support their payment of school fees. Collaboration with MFIs in addition to banks can bring a diversity of perspectives and experience to the table.

Table 8: Paraguayan Financial Institutions' Engagement with the Education Sector¹⁵¹

| Bank | Assets (\$ USD) | Loan portfolio (\$ USD) | Value of loans to "other" sectors, incl. edu (\$ USD) | Value of consumption loans (\$ USD) | ROE | Provision of SME loans | Provision of personal education loans | Ranking |
|--|-----------------------|-------------------------|---|-------------------------------------|------------------|------------------------|---------------------------------------|---------|
| Banco Itaú Paraguay S.A. | #2 (2,854,055,120) | #3 (1,569,951,320) | #4 (60,740,260) | #2 (407,515,500) | #2 (44.19%) | No | Yes | #1 |
| Banco Continental S.A.E.C.A. | #1 (2,982,021,140) | #1 (1,956,089,940) | #1 (208,083,540) | #9 (52,621,240) | #10 (19.74%) | No | No | #3= |
| BNF | #5 (1,574,826,120) | #6 (856,117,360) | #6 (44,717,680) | #1 (467,404,980) | #5 (25.25%) | No | Yes | #3= |
| Banco Regional S.A.E.C.A. | #3 (2,426,855,200) | #2 (1,953,737,940) | #5 (55,594,280) | #7 (74,600,820) | #12 (10.99%) | Yes | Yes | #4 |
| Banco Bilbao Vizcaya Argentaria Paraguay S.A. | #4 (1,743,399,840) | #4 (1,260,569,520) | #12 (4,508,420) | #5 (116,436,040) | #6 (22.95%) | No | No | #5 |
| Sudameris Bank S.A.E.C.A. | #6 (1,383,220,300) | #5 (1,102,440,080) | #3 (70,907,480) | #11 (26,598,040) | #9 (19.77%) | No | Yes | #6 |
| Banco Basa S.A. | #9 (972,597,780) | #9 (665,749,000) | #2 (132,220,480) | #13 (18,135,740) | #4 (34.99%) | Yes | Yes | #7 |
| Banco Atlas S.A. | #10 (887,120,360) | #10 (640,745,560) | #9 (29,962,240) | #6 (86,889,600) | #3 (39.32%) | No | Yes | #8 |
| Banco GNB Paraguay S.A. | #7 (1,215,371,920) | #7 (836,039,680) | #8 (33,652,360) | #12 (18,353,580) | #8 (21.05%) | No | No | #9 |
| Banco Familiar S.A.E.C.A. | #11 (736,325,380) | #11 (550,421,200) | #14 (1,855,280) | #3 (173,783,260) | #7 (22.50%) | Yes | No | #10 |
| Visión Banco S.A.E.C.A. | #8 (1,043,040,600) | #8 (776,366,780) | #16 (680,260) | #4 (166,195,820) | #14 (7.53%) | Yes | Yes | #11 |
| Banco Río S.A.E.C.A. | #12 (413,444,640) | #13 (277,468,660) | #10 (28,551,880) | #8 (59,409,980) | #13 (8.54%) | No | No | #12 |
| Grupo Internacional de Finanzas S.A.E.C.A. - INTERFISA BANCO | #14 (331,092,440) | #14 (227,426,220) | #7 (36,864,800) | #10 (26,962,880) | #17 (-10.41%) | Yes | No | #14 |
| Banco para la Comercialización y Producción S.A. - Bancop S.A. | #13 (401,060,520) | #12 (292,491,920) | #11 (11,159,820) | #14 (4,233,740) | #11 (14.76%) | No | No | #14 |
| Citibank N.A. | #15 (234,221,120) | #16 (64,723,680) | #15 (1,660,820) | #16= (0) | #1 (56.83%) | No | No | #15 |
| Banco de la Nación Argentina | #17 (77,362,180) | #17 (61,835,060) | #13 (4,258,380) | #15 (336,700) | #16 (2.95%) | No | No | #16 |
| Banco Do Brasil S.A. | #16 (137,174,800) | #15 (86,341,500) | #17 (0) | #16= (0) | #15 (3.22%) | No | No | #17 |

4.3. BLENDED FINANCE FOR NON-STATE EDUCATION

4.3.1. OVERVIEW OF BLENDED FINANCE IN PARAGUAY

According to USAID, blended finance “is the strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environmental results, such as improving infrastructure, education, agriculture, healthcare, and

¹⁵¹ Information for this table comes from interviews with directors of financial institutions and websites of banks

more”.¹⁵² According to Convergence, the 4 most common transaction types are (1) bonds/notes, (2) facilities, (3) funds, and (4) projects.

Blended finance in Paraguay is still emerging. The Convergence database, the leading resource for significant blended finance activity, has identified 5 historical blended finance deals in the country. These 5 deals constitute a total deal volume of USD 207 million from 2000 to 2019. They have not meaningfully impacted Paraguay's education sector, let alone the non-state education sector. This is consistent with OECD data, which indicates that less than 0.3% of all blended finance transactions go towards education. Blended finance in Paraguay does not appear to be growing more frequent: 4 of the 5 deals were launched in 2013 or earlier, including one established in 2000.¹⁵³

Table 9: Paraguay Blended Finance Transactions

| Manager | Vehicle Name | Type | Size ¹⁵⁴ | Year | Sectors | Countries |
|--------------------------------------|--|------|---------------------|------|----------------------------------|--|
| Incofin CVSO | Incofin Fairtrade Access Fund (FAF) | Fund | USD 57M | 2019 | Agriculture | Benin, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Guatemala, Honduras, Kenya, Nicaragua, Paraguay, Peru, Tanzania, Uganda |
| Bolivian Investment Management (BIM) | LOCFUND II | Fund | USD 80M | 2013 | Financial services; Microfinance | Argentina, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru |
| Grassroots Capital Management | Grassroots Business Investors Fund I (GBI-I) | Fund | USD 49M | 2011 | General | Colombia, Ecuador, Guatemala, India, Indonesia, Kenya, Madagascar, Mozambique, Paraguay, Peru, Rwanda, Tanzania |
| Deutsche Bank Group | Deutsche Bank Eye Care Fund | Fund | USD 14.5M | 2010 | Health | China, Nigeria, Paraguay |
| EcoEnterprises | EcoEnterprises Fund I | Fund | USD 6.5M | 2000 | Agriculture | Belize, Bolivia, Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay |

Blended finance deals in Paraguay are diverse in terms of size and sectoral focus. These deals have ranged from as small as USD 7M to as large as USD 80M, with the average size being USD 41 million, but the deals have a wide range of countries as part of their scope. For example, the Incofin

¹⁵² [Roddis, 2020](#)

¹⁵³ Convergence, n.d.

¹⁵⁴ The amount is the size of the deals which was distributed for all countries. There is no detail breakdown of what amount went into each of the countries.

Fairtrade Access Fund, reports that around 3% of its portfolio is invested in Paraguay in sugar cane¹⁵⁵ and the Deutsche Bank Eye Care Fund reports only 2% of their portfolio in Paraguay.¹⁵⁶

Paraguay's historical blended finance deals have focused on various areas, ranging from MFI support, to small business investment, to health. The limited examples of blended finance in Paraguay - and in the Latin America region broadly – is the likely reason for the scarcity of literature on the subject. Future analyses should look to perform primary research on the topic to supplement the existing body of literature on the sector.

4.3.2. BLENDED FINANCE IN THE EDUCATION SECTOR IN PARAGUAY

Blended finance in Paraguay's non-state education sector is limited. Perhaps the most evident example of blended finance at work in the sector can be seen in its private-subsidized school model. As of 2018, nearly 700 schools in Paraguay – amounting to approximately 6% of all educational institutions in the country - receive financing from public and private sources.¹⁵⁷ These institutions are often affiliated with a church or other religious body and are, in many cases, found in rural areas. While this institutional configuration is a significant element in the Paraguayan non-state education sector, the private-subsidized sub-sector's relationship with the Paraguayan government, its comparative advantage relative to other organizational structures, and its growth trajectory all remain unclear.¹⁵⁸ However, at minimum the prevalence of this educational model in Paraguay suggests that blended finance has a viable role to play in non-state education in the region.

Another example of blended finance benefiting Paraguay's education sector can be seen in the Higher Education Finance Fund (HEFF). HEFF is a blended finance facility with the explicit mandate to invest in education credit to improve access to higher education and, correspondingly, social outcomes. The fund provides lines of credit to in-country partner financial institutions – in Paraguay, *Visión Banco* – which then offer educational loans to tertiary education students. The facility has a two-tranche senior-junior debt and equity structure, alongside a fully grant-funded technical assistance facility. Although the fund was designed with higher education in mind, many partner financial institutions have begun providing credit for technical education as well as smaller, marginal educational expenses, like exam preparation. This model serves as a clear example of the potential value of blended finance in improving access to education in Paraguay.

However, macro-level trends suggest it may be challenging to capitalize on the promise of blended finance for non-state education in Paraguay. Global education funding remains public sector-dominated. Approximately USD 2.5 trillion was spent on education in 2010, excluding household spending, of which only USD 3 billion came from private impact investment institutions, which are common participants in blended finance structures.¹⁵⁹ Furthermore, the education sector has been largely neglected so far by blended finance players. The sector constitutes 2% of the total deals and has the smallest average deal size of any target sector. The non-state education sector likely constitutes only a fraction of this, although specific data on the non-state sector is not available.¹⁶⁰ Also, upper-middle income countries, of which Paraguay is one, attract only 24% of blended finance deals, compared to 48% by lower-middle income countries and 26% by low-income countries. These figures indicate that non-state education in Paraguay is likely not an obvious immediate focus for blended finance.¹⁶¹ In addition, Paraguay's financial institutions have little experience with blended finance or with sophisticated financial

¹⁵⁵ [Fairtrade Access Fund, n.d.](#)

¹⁵⁶ [Deutsche Bank Community Development Finance Group, 2010](#)

¹⁵⁷ [Ministerio de Educación y Ciencias, 2020](#)

¹⁵⁸ [Ministerio de Educación y Ciencias, 2020](#)

¹⁵⁹ Dalberg Advisors, 2013

¹⁶⁰ Convergence, 2018

¹⁶¹ Convergence, 2018

products, which may become a barrier towards collaboration with local partners. Furthermore, these same financial institutions also have a limited understanding of the education sector, and as such would not be able to provide insight into its needs or nuances.

4.4. SUMMARY

Overview of the Financial Sector:

- After years of financial instability, Paraguay's financial system has become strong and reliable
- The sector is well-regulated and conservative, with many measures that reduce volatility such as a cap on the interest rate the financial system can charge to customers
- Credit has grown dramatically in Paraguay in recent decades and now constitutes a key portion of banks' business
- Financing for SMEs is an increasingly important element of the Paraguayan financial system.

Traditional Finance for Non-state Education:

- Some inherent characteristics of non-state educational institutions – such as irregular cash flow which stops over the summer months, and the reputational risk banks incur by repossess school assets – undermine the argument in favor of extensive financial support to them
- While the financial system in Paraguay does not deploy equity investments into non-state schools to a significant degree, it does offer them loan products
- However, the financial system does not offer non-state schools tailored educational products; rather credit offered to the non-state education sector typically comes in the form of generic SME loans
- In addition, Paraguay does not disaggregate data on credit for education, making it difficult to observe the extent of the financial system's engagement with the sector
- Paraguay's major financial institutions have varied levels of engagement with the education sector, but with few exceptions – *Fundación Paraguaya* being one – do not have robust track records offering educational loans

Blended Finance for Non-state Education:

- Blended finance is still in development in Paraguay – only 5 major blended finance deals have reached the Paraguayan economy
- While blended finance in Paraguay has focused on a diversity of sectors, education has yet to be the emphasis of any blended finance instrument in the country
- However, there are some examples of Paraguay's education sector capitalizing on forms of blended finance to access capital. For instance, many schools in Paraguay operate on a private-subsidized funding model, where they receive financial support both from students' families as well as from public-sector sources
- Furthermore, there are some blended finance programs – such as the Higher Education Finance Fund – that can serve as a template for how to create value in the non-state education sector through blended finance
- Nevertheless, trends in blended finance suggest that significant blended finance investment into Paraguay's non-state education sector may not be a priority for international investors

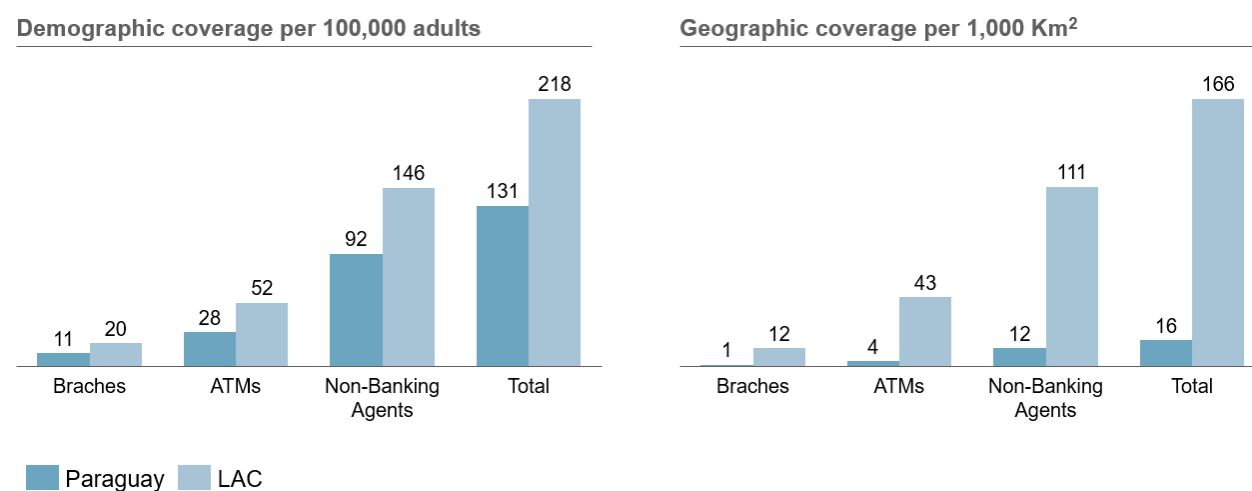
5. FINANCIAL INFRASTRUCTURE

5.1. OVERVIEW OF THE FINANCIAL INFRASTRUCTURE

5.1.1. DISTRIBUTION CHANNELS

Paraguay distribution channels are underdeveloped compared to LAC as a whole. Both in terms of demographic and geographic coverage Paraguay is behind in comparison to LAC. By demographic coverage, Paraguay has a total of 131 access points to the financial system, per 100,000 adults to the financial system while LAC has 218 per 1,000 adults. In terms of geographic coverage, Paraguay has only 16 access points per 1,000KM² while the average in the region 166 indicating a lack of coverage compared to other countries. In 2013, the National Survey of Financial Inclusion reported that 69 of the 245 districts in the country, with more than 2000 inhabitants, did not have financial services from financial branches, NBA or ATM; that the same figure in 2017 was 29 districts.

Figure 11: Distribution Channels 2018^{162, 163}



The Non-banking agents (NBA) are the access point where Paraguay is the furthest behind. The lower ratio is mainly explained by the late introduction of this channel compared to other countries in the region. This channel was introduced in Paraguay in 2011 – Paraguay Central Bank (BCP) Resolution No. 1 of 11/22/2011 – with the aim of allowing financial institutions (IFIs) to adapt to market demands, and thus offer some financial services in remote locations, allowing greater financial inclusion.¹⁶⁴

5.1.2. PAYMENT SYSTEMS

The main payment option in Paraguay is cash. Currently, 8 out of 10 Paraguayans prefer cash as a means of payment.¹⁶⁵ This is mainly due to a high percentage of the population being unbanked, only 31% of the population 15 and older in the country has an account in a financial institution (similar distribution

¹⁶² Felaban, 2018

¹⁶³ Banco Central de Paraguay, 2018

¹⁶⁴ Estrategia Nacional de Inclusión Financiera Paraguay, 2017

¹⁶⁵ Ultima Hora, 2020

by gender – male 33% and female 29%) and the low penetration of payment options such as debit cards (15% of the population age 15+) and credit cards (7% of the population age 15+).¹⁶⁶

Digital payments are emerging in the country. In 2017, 45% of the population older than 15, reported having received digital payments in the past year.¹⁶⁷ Also, according to a study from the Paraguayan Chamber of Payment Methods (CPMP, its Spanish acronym) in 2017, 88% of the transaction with a debit card are to withdraw cash from an ATM and only 12% to make payments.¹⁶⁸ The main 5 places where payments with debit and credit cards are made include: supermarkets, boutique stores, gas stations, appliances store, and restaurants and bars.¹⁶⁹ Notably, using credit and debit cards for education payments has not caught on in Paraguay, representing a potential opportunity to facilitate payment in the sector.

Mobile money services have been around since 2008. Paraguay is one of the few success stories on mobile banking in the region, with a penetration rate of active mobile accounts of 32%¹⁷⁰ of the population 15 and older in 2017 compared to other countries such as Haiti (14%), Mexico (6%), Brazil (5%), Colombia (5%), Argentina (2%) and Ecuador (3%).¹⁷¹ In 2014, the government of Paraguay regulated mobile money services and created "electronic payment companies." This created a new distribution channel in the country which allows deposits (cash-in) and withdrawals (cash-out) of electronic money. In 2017, there were more than 11,000 establishments in the country corresponding to Tigo, Personal and Claro.¹⁷²

5.1.3. ECOSYSTEM FOR LENDING

Paraguay ranks 132 out of 190 countries in the "Getting Credit" index, with a score of 40 points out 100 compared to the LAC regional average of 52 points. The Getting Credit index explores two sets of issues—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending.¹⁷³ More details on specific sub-rankings are presented in the figure below. The limited access to credit in Paraguay corroborates the information presented by directors of financial institutions in Paraguay, who mentioned that tailored products for educational purposes were generally not available in the country.¹⁷⁴

¹⁶⁶ [The World Bank, 2020](#)

¹⁶⁷ [The World Bank, 2020](#)

¹⁶⁸ [Payment Media, 2017](#)

¹⁶⁹ [ABC Color, 2020](#)

¹⁷⁰ [International Monetary Fund, 2019](#)

¹⁷¹ [The World Bank, 2020](#)

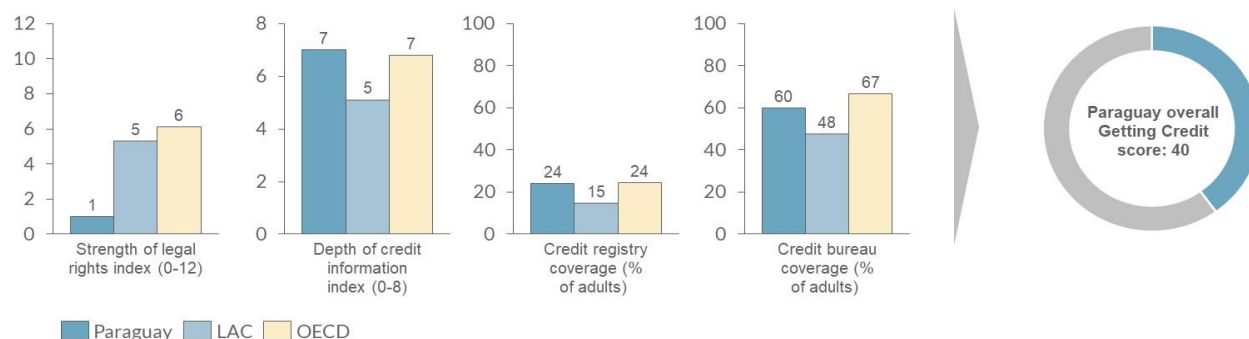
¹⁷² [Estrategia Nacional de Inclusión Financiera Paraguay, 2017](#)

¹⁷³ [Doing Business, 2020](#)

¹⁷⁴ Interview with members of financial institutions in Paraguay

Figure 12: Getting Credit Paraguay Score 2020¹⁷⁵

Getting credit score by indicator



Legal rights related to getting credit in Paraguay are particularly weak. According to the World Bank’s Doing Business program, Paraguay fails to achieve 11 of the 12 key metrics that feed into the program’s Legal Rights Index, earning it a score of 1/12. In this way, Paraguay far underperforms compared to the LAC region at large, where the average score is 5.3. Paraguay also falls behind much poorer countries such as Haiti, which received a score of 2/12. The specific metrics that constitute the Legal Rights Index are outlined below.

Table 10: Strength of Legal Right Index Details 2020

| Strength of legal rights metric | Fulfillment status |
|---|--------------------|
| Does an integrated or unified legal framework exist in the economy for secured transactions that extends to the creation, publicity, and enforcement of functional equivalents to security interests in movable assets exist in the economy? | No |
| Does the law allow businesses to grant a non-possessory security right in a single category of movable assets, without requiring a specific description of collateral? | No |
| Does the law allow businesses to grant a non-possessory security right in substantially all of their assets, without requiring a specific description of collateral? | No |
| May a security right extend to future or after-acquired assets, and does it extend automatically to the products, proceeds, and replacements of the original assets? | No |
| Is a general description of debts and obligations permitted in collateral agreements? Can all types of debts and obligations be secured between parties? Can the collateral agreement include a maximum amount for which the assets are encumbered? | Yes |
| Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name? | No |
| Does a notice-based collateral registry exist in which all functional equivalents can be registered? | No |
| Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party? | No |

¹⁷⁵ [Doing Business, 2020](#)

| | |
|--|----|
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure? | No |
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated? | No |
| Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and set a time limit for it? | No |
| Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction or private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt? | No |

5.1.4. CREDIT REPORTING BUREAU

Paraguay has widespread credit bureau coverage, with over 60% of the adult population included – higher than the OECD average. The system includes the Risk Center from the BCP and information from private credit bureaus such as Informconf or Criterion. The Risk Center from BCP has information stretching back to 1994 and data on over 1 million clients. It collects information from all banks and financial enterprises. Risk data from cooperatives is collected through the Risk Center for cooperatives, managed by the National Institute of Cooperativism (Incoop, its Spanish acronym).

Informconf and Criterion are private sector companies that produce credit reports.

Informconf, from Equifax, is the oldest credit bureau in the country, while Criterion started its operations in 2011. Both develop credit reports that allow financial institutions to make informed decisions based on the credit history and complementary information. For example, Informconf generates over 700,000 credit/risk reports each month.¹⁷⁶

Paraguay credit score information is high quality, at the same level as OECD countries, with a score of seven out of eight. According to the Doing Business 2020 report for Paraguay, credit information in Paraguay exists at both the corporate and individual levels and includes both positive and negative credit data as well as complementary information related to payment ability, such as payment records on utility bills. Borrowers – individuals and firms alike – can openly access their data and even view it online after paying a fee. The only criteria where there is room for improvement, is the category "Are at least 2 years of historical data distributed?" where the answer is no.¹⁷⁷ This robust data infrastructure can facilitate the improvement of the credit system in Paraguay by informing the creation of new, tailored financial products, like educational loans.

5.1.5. COLLATERAL REGISTRIES

Paraguay does not have a collateral registry. The Doing Business 2020 report for Paraguay, as part of its Strength of Legal Rights index, in which Paraguay performs poorly (1 out of 12), includes three questions related to collateral registries and in all of them the answer is no. The questions are the following: i) is a collateral registry in operation for both incorporated and non-incorporated entities, unified geographically and by asset type, with an electronic database indexed by debtor's name?; ii) does a notice-based collateral registry exist in which all functional equivalents can be registered?; and iii) does

¹⁷⁶ [ABC Color, 2014](#)

¹⁷⁷ [Doing Business, 2020](#)

a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party.¹⁷⁸

5.1.6. RATING AGENCIES

At the national level, Paraguay has a risk rating ranging from BB to BB+ / Ba1 indicating an elevated vulnerability of default risk. There are three rating agencies (Moody's Investors Service, Standard & Poor's, and Fitch Ratings) that establish the degree of risk in the country for investors. Paraguay has made great improvement in the last decade, moving from ratings of Caa1 (substantial credit risk) and B in 2006 to the current ratings of BB to BB+ / Ba1.¹⁷⁹

The main rating agencies for financial institutions in the country are Feller Rate, Solventa and Riskmetrica. The risk level varies from institution to institution, but all of the banks have high credit quality with ratings ranging from Apy to AAAPv. In terms of financial enterprises (e.g., *El Comercio Financiera*, *Solar Ahorro y Finanzas*) ratings range between good to highly speculative.

5.1.7. CREDIT GUARANTEES

The government of Paraguay has developed a guarantee fund to facilitate access to credit for SMEs. In 2016, Law No. 5628, created the Guarantee Fund for Micro, Small and Medium Enterprises (MSMEs), and is managed by the Financial Development Agency (AFD, its Spanish acronym).¹⁸⁰ This credit guarantee is available for banks, financial enterprises, and cooperatives. It has a minimum coverage of 20% and maximum of 70%.¹⁸¹ Also, given the COVID19 pandemic, the government created an Emergency Law which included the capitalization of the Development Finance Agency (AFD), the Guarantee Fund for MSMEs and the Agricultural Enabling Credit (CAH, its Spanish acronym).¹⁸²

5.2. SUMMARY

- Paraguay's financial infrastructure is underdeveloped compared to LAC, both in terms of demographic and geographic coverage Paraguay is behind compare to LAC as a whole. Non-Banking Agents (NBA) are the access point where Paraguay is furthest behind (92 vs 146 per 100,000 adults)
- The main payment option in Paraguay is cash, where 8 out of 10 Paraguayans prefer it as a means of payment. This is due to a high percentage of the population being unbanked (only 31% of the population 15 and older in the country has an account in a financial institution) and the low penetration of payments options such as debit cards (15% of the population age 15+) and credit cards (7% of the population age 15+)
- The overall lending ecosystem is ranked low, ranking 132 out of 190 countries in the "Getting Credit" index, with a score of 40 points out of 100 compared to the regional average of LAC of 52 points. Especially around legal rights where the country does not have a collateral registry system
- The lack of financial infrastructure and widespread access to the financial sector have limited the adoption of financing to pay for school loans and the low rating in the Getting Credit index means that there are challenges for SMEs when accessing credit including non-state schools and ancillary services

¹⁷⁸ [Doing Business, 2020](#)

¹⁷⁹ [Ministerio de Hacienda, n.d.](#)

¹⁸⁰ [FOGAPY, n.d.](#)

¹⁸¹ [FOGAPY, n.d.](#)

¹⁸² [ABC Color, 2020](#)

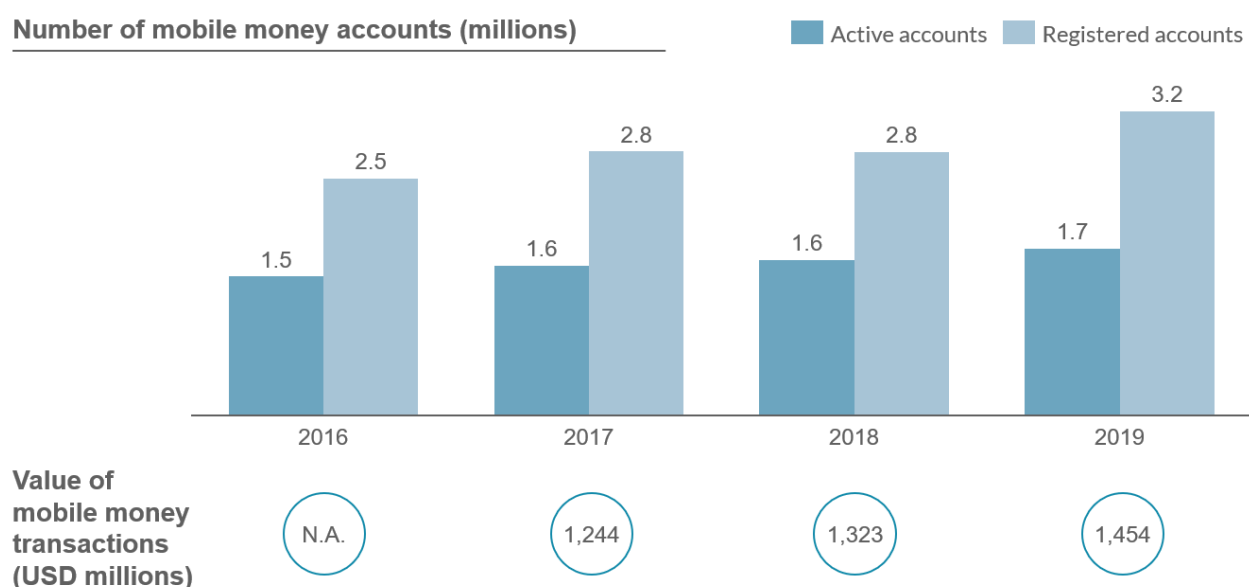
6. INTERMEDIARIES AND FACILITATORS

6.1. OVERVIEW OF INTERMEDIARIES AND FACILITATORS

6.1.1. STATUS OF MOBILE PAYMENT SYSTEMS

Mobile payments in Paraguay keep growing, and over half the population has a mobile account, with more than one third being active accounts. In 2019, there were over 3.2 million mobile money accounts in the country (64% of the population 15 and older) and of those, 1.7 million were active account (35% of the population 15 and older). In terms of transaction size, this reached USD 1,454 million in 2019, with an average transaction ticket of USD 23.¹⁸³ Below, we present more details about the recent trends of mobile payments in the country is presented below.

Figure 13: Mobile Money Accounts and Value of Transactions¹⁸⁴



The mobile money market in Paraguay is dominated by 1 key player, Tigo Money, with almost 80% of the active accounts in 2019. The other players in the mobile money market are Personal (16%), Claro (6%) and Zimple (0%). Tigo started this journey in 2008 as "Tigo Cash" but did not initially reach broad adoption due to 3 reasons: i) too many features leading to slow adoption rates, ii) complicated subscription paperwork, and iii) limited agent networks to deposit and withdraw money. In 2010, Tigo launched "Giros Tigo" focusing on person-to-person transfers and investing heavily in publicity. It got traction and in 2012, it changed once more into what it is today, Tigo Money, adding new services and becoming the leading mobile money service in the country.¹⁸⁵

The main use of mobile money is person to person transfers. According to José Monges, member of the board of directors of the Paraguayan Chamber of Payment Methods, the main use of mobile money in the country is national remittances (P2P), which are person-to-person wire transfers or electronic transfers, followed by retail payments, public and private services, and cellphone credit

¹⁸³ [International Monetary Fund, 2019](#)

¹⁸⁴ [International Monetary Fund, 2019](#)

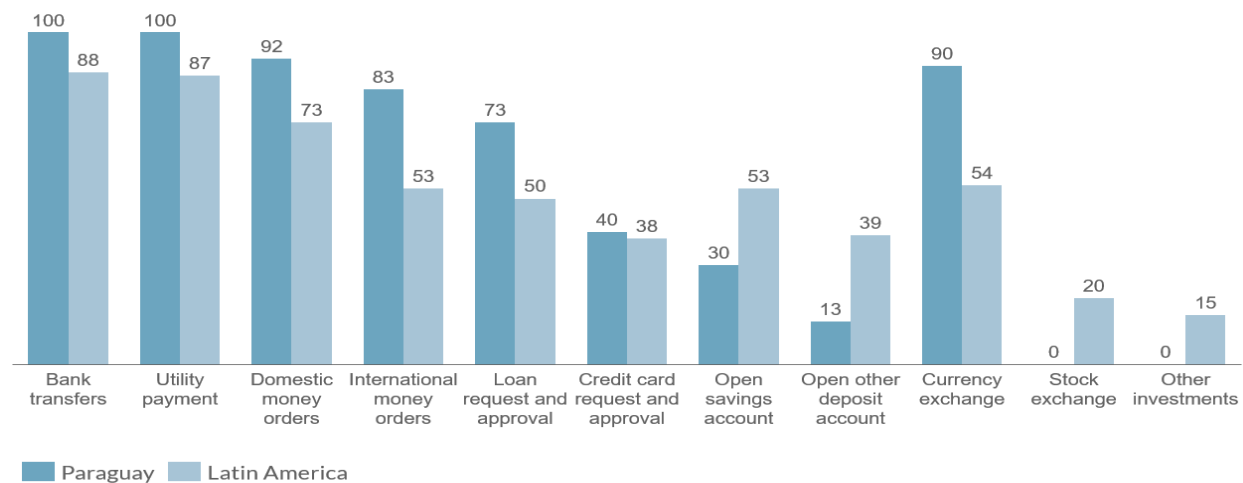
¹⁸⁵ [Inter-American Development Bank, 2017](#)

purchases.¹⁸⁶ He also mentions that until recently, many people received money and went to a physical location to withdraw it. Today people do not withdraw all of it, but instead use a portion to pay utility bills or send money from their wallet to another user.¹⁸⁷

6.1.2. STATUS OF DIGITAL FINANCE / FINTECH

Financial institutions in Paraguay have further developed their range of digital products compared to the rest of the region. A recent survey from the Federation of Latin American Banks (*Felaban*, its Spanish acronym) found that there is a large range of digital services (services that can be done fully online) offered, including bank transfers, utility payments, currency exchange, national and international money orders, as illustrated in the figure below.¹⁸⁸

Figure 14: Range of Digital Products from Financial Institutions in Paraguay¹⁸⁹



Paraguay’s financial institutions have a high level of investment in technology and innovation. Of the financial institutions, 25% invest over 20% of their budget in innovation and technology, compared to 17% in Latin America as a whole. There is also a higher representation of institutions in the investment range of 5-10% and 10-15% when compared to the region. The main investment areas are improving banking core operations and digital channels, followed by risk and compliance, analysis and data analytics, and big data (see figure below).

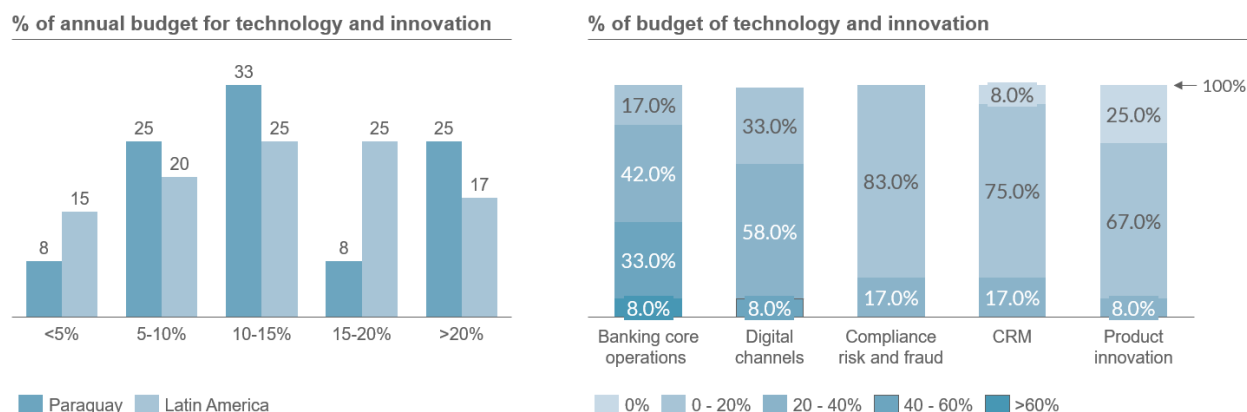
¹⁸⁶ [Infonegocios, 2020](#)

¹⁸⁷ [Infonegocios, 2020](#)

¹⁸⁸ [FELABAN, 2018](#)

¹⁸⁹ [FELABAN, 2018](#)

Figure 15: Investment in Technology and Innovation by Financial Institutions in Paraguay¹⁹⁰



Fintech is a nascent sector, but few financial institutions perceive it as a risk to their business model. Fintech in Paraguay is at a very early stage compared to other countries in the region. The IDB estimates that in 2018, less than 3% of the fintech companies in the region were distributed between Bolivia, Costa Rica, Dominican Republic, El Salvador, Honduras, Guatemala, Nicaragua, Panama, and Paraguay, with less than 1% in each.¹⁹¹ Only one-third of financial institutions consider Fintech a risk, mainly because it reduces intermediation margins, information security, and reducing their market share.¹⁹² To address this risk, financial institutions are undertaking 3 main courses of action: i) developing partnerships with Fintech companies, ii) building in-house programs, and iii) outsourcing services to Fintech companies. Given its novelty, the extent of fintech’s applications are not yet fully understood, but there is likely an opportunity for it to play a role in education financing.

6.1.3. COST OF DIGITAL PAYMENTS

The cost of making mobile payments in Paraguay is very similar across all mobile operators. Mobile money operators in the country are mostly charging for two types of activities: mobile wallet withdrawals and mobile wallet transfers between other mobile wallet users (person to person transfers). The amount charged in each case is a percentage of the total transaction amount, up to 5%. A more detailed breakdown of the fee structure is provided in the table below.

Table 11: Mobile Wallet Service Fees 2020^{193,194,195}

| Type of service | Tigo Money | Personal | Claro |
|---|------------|----------|-------|
|  Deposits | Free | Free | Free |
|  Mobile phone top-up | Free | Free | Free |
|  Utilities Payment | Free | Free | Free |

¹⁹⁰ FELABAN, 2018




¹⁹¹ Inter-American Development Bank, 2018

¹⁹² FELABAN, 2018

¹⁹³ Tigo Money, n.d.

¹⁹⁴ Personal, n.d.

¹⁹⁵ Claro, n.d.

| | | | |
|--|----------------------|---------------------|------|
|  In-store payments (retail) | Free | Free | N.A. |
|  Withdrawal of money | 4%-5% ¹⁹⁶ | Free | 5% |
|  Transfers | 0%-5% ¹⁹⁷ | 3-5% ¹⁹⁸ | 3% |

6.2. SUMMARY

- Mobile payment is strong in Paraguay, with over 3.2 million active accounts and 1 main player (Tigo Money) who has 80% of the country's active accounts as of 2019
- Mobile money payments are mainly used for person to person transfers, followed by retail payments, and public and private services. There is an opportunity to mainstream this channel to pay for school fees and ancillary services
- Digital payments are relatively developed compared to regional peers, and Paraguay's banks invest heavily in technology and innovation. If products are developed or tailored to the non-state education sector this will allow schools, ancillary services, and parents to access them and manage their products online
- Although fintech is still an emerging sector, there is an opportunity for it to add value to the country's educational finance system
- Specifically, the widespread familiarity with and use of mobile payment platforms like Tigo Money suggest that mobile money could function as an effective vehicle through which to accelerate financing to parents so they may pay for non-state education fees

¹⁹⁶ 4% for withdraws of cash transfers and 5% for withdraws of a deposit.

¹⁹⁷ 0% for transfer between Tigo Money accounts, 4% for transfer to other mobile wallets and 5% from a physical point to a money wallet.

¹⁹⁸ 3% for transfers between mobile wallets, and 5% from a physical point to a money wallet.

7. OPPORTUNITIES

This section highlights the opportunities for increasing blended finance in the non-state education sector in Paraguay. Identified high potential opportunities are presented below by type of instrument, clearly articulating the stakeholders involved and potential partners that could allow USAID to take action and continue the conversation to increase financing for non-state education through blended finance.

7.1. GUARANTEES: RISK-SHARING

- **Rationale:** Financial institutions consider the non-state education sector, especially non-state schools in the low/middle-cost range (up to USD 500), somewhat risky and not particularly attractive because i) the schools don't have a guarantee that the banks can make effective (i.e., the bank doesn't want to repossess school assets due to reputational concerns), and ii) schools have variable cash flows due to parents not paying fees for multiple months. Several financial institutions in Paraguay, including Banco Regional, have expressed interest in leveraging a guarantee fund to support the provision of financing for non-state schools to support their financial stability and scaling¹⁹⁹
- **Description:** Support the development of a guarantee fund for the non-state education sector – at the national or regional level (to diversify risk). The guarantee fund could be available to financial institutions who wish to offer loans to non-state schools, providing a partial reimbursement guarantee if the borrower were to default
- **Outcome:** Diminish credit risk for financial institutions by absorbing the cost of default risk, consequently driving increased propensity to lend to non-state schools. This will increase non-state educational institutions' access to capital and likewise fortifying the financial sector's level of trust in and experience with non-state school clients
- **Potential partners:** Such a facility could be coordinated between USAID and Paraguay's Agency for Financial Development (AFD), a second-tier financial institution responsible for lending capital to banks. AFD has experience with guarantee funds since they developed "FOGAPY (the Spanish acronym) – a guarantee Fund for Micro, Small and Medium Enterprises – and could bring lessons learned from that experience and promote the entire financial sector's engagement
- **Potential risks:** Low demand from the non-state education sector due to historic low engagement of this sector with financial institutions. To mitigate this risk, the guarantee fund should be paired with a broad-based information campaign to build awareness and capabilities so they can access financing, ideally leveraging the association of private schools as a vehicle to bring together the non-state education sector.

7.2. TECHNICAL ASSISTANCE FOR PRODUCT DEVELOPMENT

- **Rationale:** Some financial institutions expressed a lack of understanding and knowledge on how to lend to the non-state education sector. This is despite the fact that some offer financial products for non-state schools in the form of generic SME loans. Financial institutions expressed a need to better understand the business case for school loans, what criteria make an educational institution a good prospect for a loan and under what terms to provide the loan
- **Description:** Provide technical assistance to financial institutions (e.g., bank, MFIs, credit unions) to better understand the non-state education sector, showcasing successful examples of financial

¹⁹⁹ Interview with the president of Banco Regional

products for the non-state education sector that have worked in other countries, and helping them develop specific products for the non-state sector

- **Outcome:** Increased availability of targeted financial products for the non-state education sector, and thus a greater access to capital for stakeholders in the sector, driven by improved familiarity with client needs on behalf of financial institutions
- **Potential partners:** USAID could partner with Opportunity International, who is already operating in Latin America and has a long history of developing education financing products and partnering with local financial institutions to provide education financing throughout the developing world. In terms of end beneficiaries of the technical assistance it could include:
 - Financial institutions: *Banco Basa* expressed interest in the non-state education sector and currently does not have a specific offering available. However, they indicated it is an offering they would like to explore. Other financial institutions such as *Banco Familiar* and *Banco del Fomento* also expressed interest, but for *Banco de Fomento*, a closer link to vocational schools is critical as such a product would be more aligned with their mandate
 - Mobile payment providers: In partnership with financial institutions, Tigo Money could be a channel for deploying loans to parents to pay for school fees with direct payment to the schools through a mobile money transfer between the user and the institutions
- **Potential risks:**
 - Getting buy-in and interest from financial institutions: Financial institutions have many ongoing priorities and projects and have never perceived the education sector as an opportunity. To mitigate this risk, USAID and its partner will need to educate financial institutions about the untapped opportunity and existing demand within the non-state education sector in the country
 - Technical assistance might be ineffective if USAID fails to understand the background of each potential partner and tailor assistance to each institution's unique situation. Furthermore, institutional culture is particularly important when effecting change (i.e., innovation, open to change, collaborative spirit, etc.)
 - Low demand from the non-state education sector due to the traditional low engagement of this sector with financial institutions. To mitigate this risk, technical assistance should cover promotional strategies for the new products offered to the non-state education sector

7.3. ON-LENDING SCHEMES

- **Rationale:**
 - There is demand for financing but stakeholders in the non-state education landscape consider the current cost of financing to be too high: school directors expressed a need for OPEX and CAPEX resources at a lower cost than the market is currently offering. Also, they mentioned that parents, especially in light of COVID-19, need financial products that allow them to pay for school fees. Current consumer loan interest rates are prohibitively high
 - The supply side expressed interest in offering financial products at a lower rate for education, but their current cost structure does not allow them to be profitable if they go below current rates, due to both the cost of operation and the cost of capital
- **Description:** Provide access to capital at a cheaper cost than financial institutions are able to access it today to reduce their overall cost of lending and pass those savings to the end beneficiaries
- **Outcome:** Expand access to financing at more competitive rates and/or more extended repayment periods
- **Potential partners:** *Fundación Paraguaya* is an MFI with extensive experience in the education sector and has worked with multiple development institutions, such as IDB Lab and USAID. Other MFIs and credit unions who rely on international commercial funding will likely be interested in access to cheaper capital to fund their loans, enabling them to enter this new market

- **Potential risks:** The savings derived from the lower cost of capital may not be substantial enough to drive demand for the new products

Additional opportunities could include public-private partnerships (PPP) for non-state education and design-stage funding for innovative educational enterprises and ancillary educational institutions. For PPPs, Paraguay's private-subsidized schools present an intriguing educational model that mixes state funding to pay for teacher salaries with private funding, particularly from religious organizations (e.g., *Fe y Alegria*). These schools have the potential to provide quality education at highly subsidized costs. There is also design-stage funding for innovative educational enterprises such as non-state schools with a private sector endeavor (e.g., agriculture schools, and a school with a hotel) that are delivering high quality at almost no cost due to the profits of the business and ancillary educational institutions such as bilingual education platforms (Guarani to Spanish or Guarani to English) or educational publishers such as *Editorial Alianza* who is looking to digitalize their book and include data analytics and learning metrics.

8. ANNEX

8.1. REFERENCES

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8.2. STAKEHOLDER LIST OF INTERVIEWS

| Stakeholder name | Organization | Role |
|------------------------------|---|--|
| Public Sector | | |
| María del Carmen Giménez | Ministry of Education and Sciences | Representative, Educational Transformation |
| Marta Lafuente | Ministry of Education and Sciences | Ex-Minister |
| School Associations | | |
| Luis Cáceres Brun | Association of Private Educational Institutions in Paraguay | President |
| Luis Ramírez* | Association of Private Educational Institutions in Paraguay | Representative |
| Bank/MFI Associations | | |
| Raul Vera Bogado* | Association of Banks of Paraguay | President |
| Beltran Macchi* | Association of Banks of Paraguay | Vice-president |
| Banks/MFIs | | |
| Hilton Giardina | Banco Familiar | Director |
| Juan Manuel Gustale | Banco Nacional de Fomento | Director |
| James Spalding | Financiera el Comercio | President |
| Santiago Peña | Banco Basa | President |
| Raul Vera Bogado* | Banco Regional | President |
| Beltran Macchi* | Visión Banco | President |
| Edgar Alarcón | Agencia Financiera de Desarrollo | Board member |
| Martín Burt* | Fundación Paraguaya | Executive Director |
| Schools | | |
| Luis Ramírez | Cehtro para el Desarrollo de la Inteligencia (CDI) | Director |
| Emiliano Ramírez Mencia | Colegio Experimental Paraguay Brasil | Director |
| Yan Speranza | Centro Educativo Mbaracayu | Executive Director |
| Pascual Rubiani | Fe y Alegria Paraguay | President |
| Sanie Romero | Colegio Iberoamericano | President |
| Martín Burt* | Fundación Paraguaya | Executive Director |
| Funders | | |
| Richard Ambrose | Pomona Impact | Managing Partner |
| Juliana Guaqueta | IFC | Education and Technology Investments |

| | | |
|----------------------|---------------------|---------------------------------------|
| Virgilio Barco | Acumen | Director of Latin America |
| Lina Ramírez | Kiva | Regional Investment Manager for LATAM |
| Others | | |
| James Spalding* | Ministry of Finance | Ex-Minister |
| Santiago Peña* | Ministry of Finance | Ex-Minister |
| Maria de la Paz Peña | Paraguay Educa | Educational Advisor |
| Jorge Talavera | OMAPA | Presidente |

* The stakeholder is a member of multiple stakeholder categories

8.3. LIST OF DATA SOURCES AND KEY TERMS FOR LITERATURE REVIEW

| Type of source | Source | Keywords |
|--------------------------------------|-----------------------------------|--|
| Internet | Google | “Education in Paraguay” |
| Academic databases | Annual Review | “Non-State Education in Paraguay” |
| | Google Scholar | “Private Schools in Paraguay” |
| | BookLick | “Blended finance in Paraguay” |
| | Cambridge University Press | “PPPs in the education sector in Paraguay” |
| | JSTOR | “Impact bonds in education sector in Paraguay” |
| | Oxford Journals | “Impact investing in education sector in Paraguay” |
| | Proquest | “Blended finance in education” |
| | SCOPUS | “Paraguay subsidized schools” |
| International organizations | USAID | “Paraguay education trends” |
| | U.S. Federal Trade Administration | “Paraguay education finance” |
| | UNESCO | “Scholarships Paraguay private education” |
| | IADB | “Education quality Paraguay” |
| | Convergence | “Private and public-school comparison Paraguay” |
| Statistical databases | World Bank Open Data | “Pre-primary education Paraguay” |
| | | “Early childhood education Paraguay” |
| | | “Enrollment rate” |
| | | “Rural vs. Urban enrollment” |
| | | “Literacy rate” |
| | | “Population projections” |
| | | “Population growth” |
| | | “Out-of-school rate” |
| | | “Paraguay educational performance” |
| | | “School-aged population” |
| | | “Birth rate” |
| | | “School-aged population” |
| | | “Number of educational institutions” |
| “Educational performance” | | |
| “Expenditure in education, % of GDP” | | |
| “Pre-primary education rate” | | |
| “Poverty” | | |

8.4. LITERATURE REVIEW

INTRODUCTION

The literature review seeks to understand the non-state basic education sector - that is, ranging from pre-school through secondary school, including ancillary educational services - in Paraguay, with a focus on financing availability and access. This document examines the literature on Paraguay's non-state education sector by splitting it into three categories that have been informed by USAID's Five Point Blended Finance Framework. The three categories are: Enabling Conditions, Demand for Education Finance, and Supply of Education Finance.

In conducting this research, the consultants reviewed recent studies, reports, and journal articles explicitly related to Paraguay non-state education sector and/or blended finance as well as the USAID country development cooperation strategies (CDCS) report. This body of work approximates the totality of literature about non-state education in Paraguay. There are some areas of this report of great relevance to USAID for which there is little to no literature; for instance, blended finance, a nascent industry in Paraguay, has only been superficially discussed in the literature, presumably because there are few examples of it taking place in the country.

In the areas where the academic literature is inadequate, the consultants have sought to be transparent about its limitations. The objective of this literature review is to synthesize learnings from previous research. Moving forward, the consultants will complement the formal literature with interviews with experts in Paraguay to supplement their knowledge base on the subject and will present additional data, statistics, and figures in the final report. As a result, the final market assessment report will fill many of the gaps identified in this literature review. Despite the limitations of the literature, the consultants believe that this synthesis of the literature on non-state education in Paraguay can be of great use to USAID and other relevant actors in the sector.

This document is organized in the following order: the next section, "Scope and Methodology," describes the methodology to conduct the literature review; the "Literature Review" constitutes the main body of this document, as findings are presented and analyzed, covering both literature, reports and secondary data and statistics; finally, "Moving Forward" presents aspects to consider in the assessment, highlighting both strengths and limitations of the field and areas that need more in-depth examination. The references, annotated bibliography, and Five-Point Framework Diagnostic Tool are attached, as requested.

SCOPE AND METHODOLOGY

The methodology used included systematic searches in academic databases, desk research on regional and international organizations, research of education, and access to finance databases to identify relevant reports, studies, and statistics. The keywords were used both in English and Spanish, and date ranges were set from 2010 to 2020 for academic database and international organization searches. The table below summarizes the data sources and key terms used as part of this literature review.

| Type of source | Source | Keywords |
|--------------------|----------------|--|
| Internet | Google | "Education in Paraguay" |
| Academic databases | Annual Review | "Non-State Education in Paraguay" |
| | Google Scholar | "Private Schools in Paraguay" |
| | BookLick | "Blended finance in Paraguay" |
| | | "PPPs in the education sector in Paraguay" |

| | | | |
|-----------------------------|--|--|------------------------------|
| | Cambridge University Press | “Impact bonds in education sector in Paraguay” | |
| | JSTOR | “Impact investing in education sector in Paraguay” | |
| | Oxford Journals | “Blended finance in education” | |
| | Proquest | “Paraguay subsidized schools” | |
| | SCOPUS | “Paraguay education trends” | |
| International organizations | USAID | “MFI lending Paraguay education” | |
| | U.S. Federal Trade Administration | “Paraguay education finance” | |
| | UNESCO | “Scholarships Paraguay private education” | |
| | IADB | “Education quality Paraguay” | |
| | Convergence | “Private and public-school comparison Paraguay” | |
| Statistical databases | World Bank Open Data | “Pre-primary education Paraguay” | |
| | UN Population Division | “Early childhood education Paraguay” | |
| | UNESCO | “Enrollment rate” | |
| | Paraguay Ministry of Education and Science | | “Rural vs. Urban enrollment” |
| | | | “Literacy rate” |
| | | | “Population projections” |
| | | | “Population growth” |
| | | | “Out-of-school rate” |
| | | “Paraguay educational performance” | |
| | “School-aged population” | | |
| | “Birth rate” | | |
| | “School-aged population” | | |
| | “Number of educational institutions” | | |
| | “Educational performance” | | |
| | “Expenditure in education, % of GDP” | | |
| | “Pre-primary education rate” | | |
| | “Poverty” | | |

ENABLING CONDITIONS:

THE DEMAND FOR NON-STATE EDUCATION WILL CONTINUE GROWING, BUT AT A SLOWER PACE THAN THE PREVIOUS DECADE; SUPPORTED BY A MARKET-BASED APPROACH TAKEN BY THE GOVERNMENT, INTERVENING ONLY TO REGULATE CURRICULUM AND GUARANTEE ACCESS EVEN IN THE ABSENCE OF PAYMENT

Regulatory background

Article VII of Paraguay’s revised constitution, ratified in 1992, enshrined education as a principal policy priority after it was neglected during the 35-year reign of Alfredo Stroessner from 1954 to 1989. The new constitution asserted that public education should be free and universal and set ambitious new goals, such as mandating that 20% of the government budget be earmarked for education. While it has fallen short of this goal, education in Paraguay has improved since 1992, in line with increased investment in the sector (government expenditure on education in 1990 was just 1% of GDP and increased to 3.4% in 2016).^{200,201}

Moreover, the Paraguayan Ministry of Education and Science (MEC) takes a favorable position towards non-state education. Article XVI of Paraguay’s General Law of Education states, “Municipalities and

²⁰⁰ The World Bank, 2018

²⁰¹ The World Bank

community members will...promote the private contribution to education.” Further, Paraguay is a member of a shortlist of Latin American countries that permit the establishment of for-profit private educational institutions.²⁰² It also legally authorizes the use of public funds to support and advocate for private education.²⁰³ Finally, no regulations limit the fees that non-state schools can charge, nor are there restrictions on the extent to which these fees can increase year-on-year.²⁰⁴

Nevertheless, the MEC does place certain constraints on the country’s non-state education sector. Law #5,738 prevents private schools from inducing students’ non-paying parents through actions such as withholding grades, limiting private schools’ ability to secure their finances.²⁰⁵ Further, non-state educational institutions are typically not carved out of generalized policy restrictions on the education sector. For instance, Law #5136/13 prevents any school - be they public, private, or private-subsidized - from denying admission to or otherwise discriminating against disabled students.²⁰⁶

Quality of education

Despite improvements in recent decades, education in Paraguay remains deficient, lagging peers in the region. The World Economic Forum rated the quality of Paraguay’s primary education as 136th out of 137 surveyed countries, with secondary education ranked 97th. This has pernicious consequences: the World Economic Forum also reports that its inadequately educated workforce is the second-largest barrier facing doing business in Paraguay.²⁰⁷ Results from the Programme for International Student Assessment for Developing Countries (PISA-D)²⁰⁸ exam corroborate this: most Paraguayan students fail to achieve basic competency on the exam across reading, mathematics, and science.

Paraguay’s education system has struggled to achieve critical objectives, such as universal literacy. Although the country has been able to meaningfully expand literacy in recent decades – which as recently as 1982 was below 80% of the adult population - around 5% of adults in the country remain illiterate, with little to no progress made on the issue since at least 2002.^{209,210}

One of the Paraguayan educational system’s fundamental limitations is embodied in its constituents’ unique and complex needs. Article 140 of Paraguay’s constitution states: “Paraguay is a bilingual country with a pluralistic culture... Its official languages are Spanish and Guaraní.”²¹¹ Nevertheless, Guaraní, the most commonly spoken language in Paraguay, especially in rural areas, has been undermined by the country’s education system. Efforts to keep Guaraní integrated into the country’s educational system have been routinely underfunded; the New York Times has found that this has resulted in a situation where “Guaraní speakers are still schooled in Spanish, leading many to drop out.”²¹²

One challenge facing Paraguay’s education sector revolves around the education sector’s lack of clarity around how students perform and progress. Paraguay’s results on the National System of Evaluation for the Educational Process (SNEPE)²¹³ exams are not publicized on a by-institution basis, undermining the

²⁰² Campaña Latinoamericana por el Derecho a la Educación

²⁰³ Campaña Latinoamericana por el Derecho a la Educación

²⁰⁴ ABC Color

²⁰⁵ La Biblioteca y Archivo Central del Congreso Nacional

²⁰⁶ ABC Color

²⁰⁷ World Economic Forum

²⁰⁸ The PISA-D exam is offered every three years to 15-year-old students who are at least in the 7th grade in Paraguay, Ecuador, Guatemala, Honduras, Cambodia, Zambia, Senegal, and Bhutan

²⁰⁹ Ultima Hora, 2018

²¹⁰ The World Bank

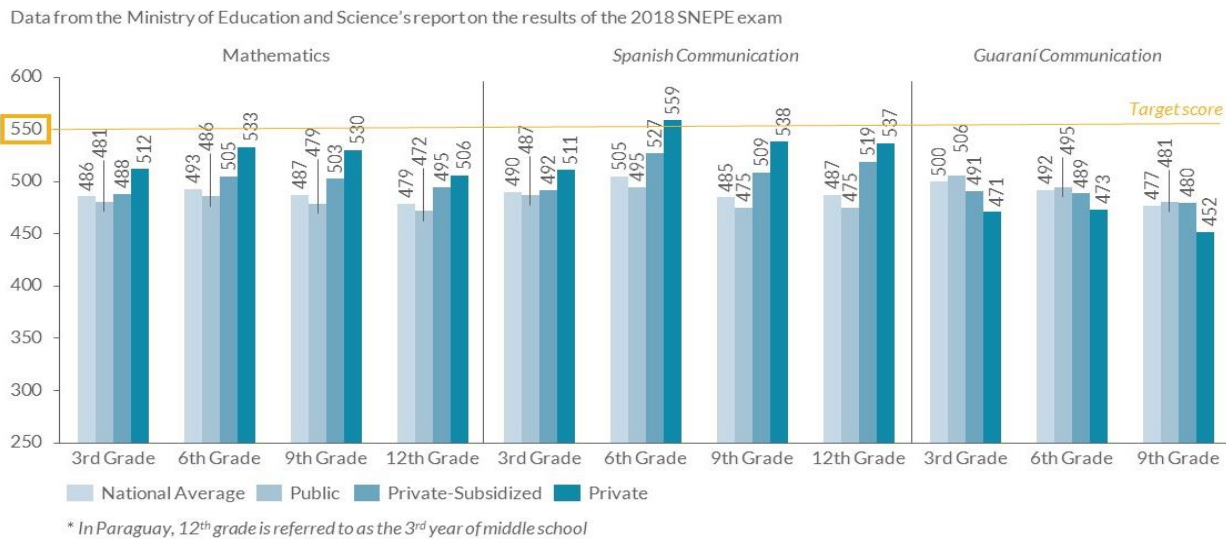
²¹¹ ICL Project

²¹² McCormick, 2018

²¹³ The SNEPE is deployed once every three years to assess students’ competencies at four grade levels across three subjects

ability of parents and outside organizations to make informed decisions in the education sector.^{214,215} Moreover, Paraguayan teachers provide student evaluations that are overly generous and not accurate representations of student competency: UNESCO found that 20% of 3rd-grade students who did not score better than the random guessing threshold on an exam were nonetheless assumed to be “proficient.”²¹⁶

Non-state schools stand out for their academic quality compared to public institutions. On the 2018 iteration of the SNEPE exam, private and private-subsidized school students outscored their public-school counterparts at every grade level and on every subject except Guaraní Communication.²¹⁷



Demand for education

The demand for K-12 education in Paraguay has increased from around 1.3 million students in 1990 to approximately 2.8 million in 2018.²¹⁸ This is driven by two factors: 1) population growth: since 1990, the population from 0-19 years old grew from over 2.17 million to over 2.7 million in 2020; and 2) rising enrollment rates: from 1990 to 2016, gross enrollment increased from 9% to 43% at the pre-primary level, hovered over 90% at the primary level, and gross enrollment has been above 90% since at least 1971, and rose from 31% to 66% at the secondary level.^{219,220}

Paraguay's population growth is decelerating after several generations of high birth rates. Paraguay's birth rate fell from 37 per 1,000 people in 1971 to less than 21 per 1,000 people in 2018. This has direct implications for the education sector: while Paraguay's school-aged population (here, taken to be ages 0-19) was nearly 60% of the country's population in 1960, its share of the population has fallen precipitously, to less than 40% in 2020. The absolute number of school-aged children is expected to peak in around 2030, and the relative size of the group is set to continue shrinking and predicted to fall to 20% by 2100.²²¹

²¹⁴ Ministerio de Educación y Ciencias, 2019

²¹⁵ Ministerio de Educación y Ciencias

²¹⁶ UNESCO, 2020

²¹⁷ Ministerio de Educación y Ciencias

²¹⁸ Ministerio de Educación y Ciencias

²¹⁹ Ministerio de Educación y Ciencias

²²⁰ Dirección General de Estadística. Encuestas, y Censos

²²¹ Population Pyramid

Paraguay's progress in increasing enrollment rate to education has stagnated, despite a high proportion of students who remain out-of-school. Despite the country's progress, as of 2018, nearly 60% of children in Paraguay do not complete high school.²²² Moreover, the country's success in increasing the enrollment rate is complex: For primary-aged students, the out-of-school rate fell from 29% in 1972 to 4% in 2016, but the rate increased somewhat for adolescents, rising from 24% in 1994 to 34% in 2016.²²³ Further, the out-of-school rate was lowest in 2001, when it was around 8% on average.

However, the demand for private education has undergone significant change in recent decades. The proportion of students enrolled in non-state primary schools increased from 14.5% in 1998 to 20% in 2016, while the enrollment rate in non-state secondary schools fell from 29% to 21% of all secondary students over the same period; as significantly more students are enrolled in primary schools than secondary schools,²²⁴ the overall private school enrollment rate likely also increased during this period.²²⁵

The increasing demand for non-state education in Paraguay can be examined from the angle of increasing ability and willingness to pay for private school. Paraguayan ability to pay for education seems to have increased in recent decades. From 1995 to 2018, Paraguay's GDP per capita more than doubled, rising at one of the fastest rates in continental South America, behind only Bolivia and Guyana.²²⁶ Moreover, this growth has been distributed equitably: over the same period, the country's Gini coefficient, a metric which reveals the severity of income inequality in a country, fell from .582 to .462, meaning that likely lower- and middle-income Paraguayans have a higher disposable income, contributing to an increased ability to pay for education. By contrast, there is little to no literature on the willingness to pay for non-state education in Paraguay.²²⁷

DEMAND FOR EDUCATION FINANCE:

THE NON-STATE EDUCATION SECTOR LACKS FINANCIAL RESILIENCE, AND COVID-19 INCREASED THE NEED FOR RESOURCES TO SURVIVE THE CRISIS

Educational institutions

The non-state educational landscape is diverse, composed of a network of institutions with unique value propositions and operational models. The Brookings Institution analyzes educational institutions through two lenses: the type of education provider and the type of financing the institution receives. The type of education provider can fall into one of three categories: state, non-state not-for-profit, and non-state for-profit. The type of financing can either be public or private. In addition, schools can be further segmented by both the quality of the education they provide as well as their overall cost of attendance, which can range from low-cost or subsidized to high-cost or market-rate.²²⁸

In Paraguay the Ministry of Education classify non-state institutions in two categories: Private and private-subsidized. Non-state schools in Paraguay face several structural challenges with respect to revenue generation. First, Law #5,738 establishes a system whereby non-state schools cannot pressure or induce parents to pay their outstanding debt by taking actions such as withholding exams or grades. This results in situations in which non-state schools continue educating students whose parents withhold

²²² UNICEF, 2018

²²³ Dirección General de Estadística. Encuestas, y Censos

²²⁴ World Development Indicator data shows that gross enrollment rate in Paraguay's primary schools is over 100%, and around 75% in its secondary schools. Moreover, Paraguay's primary school-aged population (ages 5-14) is more than double its secondary school population (15-19) as of 2020.

²²⁵ Dirección General de Estadística. Encuestas, y Censos

²²⁶ The World Bank

²²⁷ The World Bank

²²⁸ Steer, Gillard, Gustafsson-Wright, & Latham, 2015

payment.²²⁹ Moreover, some claim that, during times of economic difficulty, families are inclined to cease school fee payments first, likely because they know the school is unable to seek retribution. These circumstances have led to some schools offering discounts on their tuition to encourage debt repayment and attract new students.²³⁰

These conditions have worsened during the COVID-19 pandemic, due to which non-state schools in Paraguay face a financial tightening in three directions. Due to the economic damage wrought by the crisis, between 20%-50% of parents of children enrolled in Paraguayan non-state schools are missing fee payments, which cumulatively has significantly disrupted these schools' cash flow.²³¹ Further, to provide relief to families during the crisis, the MEC has sought to restrict private schools from charging fines or interest to parents who miss payments or pay late.²³² The MEC has also urged the non-state education sector to forgive up to 50% of outstanding student fees for the months during which the economic damage from the pandemic was most severe.²³³ Finally, because of the worsening financial situation, as many as 30,000 students (approximately 10% of the 2018 student population in the non-state education sector) are leaving the private and private-subsidized school sectors entirely in favor of the public sector.²³⁴

The inability to reliably procure fee payments is problematic, as it is the principal source of revenue for most non-state schools. Even expensive schools with affiliations to foreign governments, such as the American School of Asunción, report that their income is virtually exclusively from fee payments.²³⁵ Indeed, the sudden reduction of fee payments instigated by the COVID-19 crisis resulted in hundreds of non-state schools closing their doors permanently,²³⁶ Nevertheless, some non-state schools have been able to circumvent the need for additional financing by incorporating other revenue-generating activities into their business models. For instance, some agricultural schools - common in Paraguay - open small businesses attached to their campuses, which help fund the school while concurrently offering students hands-on work experience.²³⁷

Furthermore, the growing number of institutions in the sector suggests that Paraguay's non-state education may be gaining traction. While public and subsidized schools have not become meaningfully more popular - the number of institutions in the former category rose from 9,138 in 2012 to 9,267 in 2018 and increased from 665 in 2012 and 677 in 2018 in the latter category - the purely private sector has enjoyed significant growth. There were 1,054 private schools in 2012, there are now 1,577; most of this development has taken place in urban contexts: the number of urban private schools in Paraguay increased from 966 in 2012 to 1,415 in 2018.²³⁸

Ancillary services and other education-related enterprises

The education sector is made up of an ecosystem of companies and services in addition to formal educational institutions (i.e., schools). Ancillary services and education-related enterprises can include school transportation, food catering, extracurricular activities (e.g., sports, arts), bookstores, publishers, language academies, distance learning providers, test preparation companies, Ed-Tech companies,

²²⁹ La Biblioteca y Archivo Central del Congreso Nacional

²³⁰ Última Hora, 2019

²³¹ ABC Color, 2020

²³² Fernandez, 2020

²³³ Cámara de Diputados de Paraguay, 2020

²³⁴ ADN Paraguayo, 2020

²³⁵ U.S. Department of State, 2020

²³⁶ Advierten sobre cierre y quiebra de escuelas y colegios privados por la crisis, 2020

²³⁷ Fundación Paraguaya, s.f.

²³⁸ Ministerio de Educación y Ciencias

hardware providers, academic and administrative software. Examples of the status of education-related enterprises in Paraguay are presented below.

Vocational and Technical Training: Many educational institutions in Paraguay are dedicated to vocational or technical training or offer such training as a supplemental resource to their menu of traditional educational services. While some of this sector is targeted towards young adults - that is, individuals beyond school age - much of it goes through formal educational institutions.²³⁹ With respect to this sector's viability as an investment target, the U.S. International Trade Administration has identified this sector as a "best product industry sector for [Paraguay]".²⁴⁰ As of 2014, there were over 700 vocational and technical training schools around the country offering schooling in 26 distinct specializations.²⁴¹ As mentioned above, these institutions can generate revenue through two parallel streams: tuition and sales; one agricultural school reported generating over USD 700,000 in 2019.²⁴² This sector has been affected significantly by the COVID-19 crisis. The need for in-person instruction is greater for students pursuing technical education; this prompted the Minister of Education to propose a plan to commence in-person learning for exclusively technical schools in Paraguay.²⁴³ Some vocational and technical schools were launched with funding from MFIs in the country like Fundación Paraguay.²⁴⁴

School Transportation: In Paraguay, the school transportation sector - that is, the network of buses that take students to and from school - is fragmented and poorly regulated. Because of the sector's low startup costs, many people begin offering school transportation services without proper licensure to supplement their incomes, leading to many small, informal school transportation companies. These companies seldom heed regulations placed on the sector, such as the City of Asunción's Ordinance 67/02, resulting in widespread infractions and in some cases danger to students.²⁴⁵ Moreover, due to the COVID-19 pandemic and the subsequent closure of most educational institutions in Paraguay, the sector has sustained significant economic damage. Some members report no income during the crisis.²⁴⁶ In light of this, there is no evidence that companies in this sector have yet received credit from financial institutions.

English Language Academies: In 2013, Paraguay promulgated Law #5,031, which allowed for the incorporation of English language studies in Paraguayan public schools.²⁴⁷ Nevertheless, Paraguay's progress on English acquisition has been poor: the country's performance on the TOEFL, the Test of English as a Foreign Language, ranks in the bottom half of South American countries.²⁴⁸ This has led to the emergence of several English language-focused organizations that seek to supplement traditional classroom studies of English.²⁴⁹ While many language academies are nonprofits, some for-profit have been able to circumvent COVID-19's impact on in-person education by offering virtual educational alternatives.²⁵⁰ The extent to which the sector is able to access finance is currently unclear.

²³⁹ Ministerio de Educación y Ciencias, s.f.

²⁴⁰ U.S. International Trade Administration, 2020

²⁴¹ ABC Color, 2014

²⁴² Escuela Agrícola Cerrito generó ingresos por más de USD 700.000 durante el 2019, 2020

²⁴³ Clases en colegios técnicos podrían volver, 2020

²⁴⁴ Fundación Paraguay

²⁴⁵ ABC Color, 2013

²⁴⁶ Transportes Escolares

²⁴⁷ Ministerio de Educación y Ciencias

²⁴⁸ Cronquist, 2017

²⁴⁹ Anglo, s.f.

²⁵⁰ Berlitz, s.f.

SUPPLY OF EDUCATION FINANCE:

FINANCIAL ACTORS DO NOT SEE NON-STATE EDUCATION LENDING AS A PRIORITY, AND INNOVATIVE FINANCIAL MODELS FOR NON-STATE EDUCATION ARE YET TO BE EXPLORED

Traditional Finance

There is currently limited financing available for non-state education in Paraguay: few financial institutions offer loans directly to non-state schools or parents who seek credit to pay for non-state school fees. There is no evidence that Paraguay's formal financial institutions have tailored financial products for non-state educational institutions. On the debt side, credit offered to non-state educational institutions likely takes the form of small business loans. Insofar as credit is offered to the non-state education sector, it is typically in the form of startup capital from MFIs.²⁵¹ An example of one such institution is Fundación Paraguay, which stands up impactful organizations like private agricultural schools to become self-sustaining.²⁵² On the equity side, there is no evidence financial institutions make equity investments in non-state schools, although Fundación Paraguay has launched its own educational institutions.²⁵³

Further, while higher education loans are not uncommon, credit to cover pre-university tuition is not popular in Paraguay. One bank that does offer these products, Visión Banco, provides them at a slightly lower rate than student loans for higher education. Nevertheless, examples of such products are rare, and there is no evidence that more innovative models of educational credit - such as revenue sharing agreements - are used.²⁵⁴

Blended Finance

According to USAID, Blended finance “is the strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environment results, such as improving infrastructure, education, agriculture, healthcare, and more.”²⁵⁵ According to Convergence, the five most common transaction types are (1) bonds/notes, (2) companies, (3) facilities, (4) funds, and (5) projects.

Blended finance in Paraguay is still emerging. The Convergence database, the leading resource for significant blended finance activity, has identified five historical blended finance deals in the country. These five deals constitute a total deal volume of USD 207 million from 2000 to 2019; they have not meaningfully impacted Paraguay's education sector, let alone the non-state education sector more specifically. This is consistent with OECD data, which indicates that less than 0.3% of all blended finance transactions go towards education. Blended finance in Paraguay does not appear to be growing more frequent: four of the five deals launched in 2013 or earlier, including one established in 2000.²⁵⁶

| Manager | Vehicle Name | Type | Size | Year | Sectors |
|--------------|-------------------------------------|------|---------|------|-------------|
| Incofin CVSO | Incofin Fairtrade Access Fund (FAF) | Fund | USD 57M | 2019 | Agriculture |

²⁵¹ Fundación Paraguay

²⁵² Fundación Paraguay

²⁵³ Fundación Paraguay

²⁵⁴ Fundación Paraguaya, s.f.

²⁵⁵ Roddis, 2020

²⁵⁶ Convergence, s.f.

| | | | | | |
|--------------------------------------|--|------|-----------|------|----------------------------------|
| Bolivian Investment Management (BIM) | LOCFUND II | Fund | USD 80M | 2013 | Financial services; Microfinance |
| Grassroots Capital Management | Grassroots Business Investors Fund I (GBI-I) | Fund | USD 49M | 2011 | General |
| Deutsche Bank Group | Deutsche Bank Eye Care Fund | Fund | USD 14.5M | 2010 | Health |
| EcoEnterprises | EcoEnterprises Fund I | Fund | USD 6.5M | 2000 | Agriculture |

Blended finance deals in Paraguay are diverse in terms of size and sectoral focus. These deals have ranged from as small as USD 7 million to as large as USD 80 million, with the average size being USD 41 million. Paraguay's historical blended finance deals have taken various focuses, ranging from MFI support to small business investment to health. The limited examples of blended finance in Paraguay - and in the Latin America region broadly - speak to and likely serve as the basis of the thin collection of literature on the subject. Future analyses should look to perform primary research on the topic to supplement the existing body of literature on the sector.

Paraguay's non-state education sector's most evident example of blended finance can be seen in its private-subsidized school model. As of 2018, nearly 700 schools in Paraguay – amounting to approximately 6% of all educational institutions in the country - receive financing from public and private sources.²⁵⁷ These institutions are often affiliated with a church or other religious body and are, in many cases, found in rural areas. While this institutional configuration is a significant element in the Paraguayan non-state education sector, the private-subsidized sub-sector's relationships with the Paraguayan government, its comparative advantage relative to other organizational structures, and its growth trajectory all remain unclear.²⁵⁸ However, at minimum the prevalence of this educational model in Paraguay suggests that blended finance has a viable role to play in non-state education in the region.

Another example of blended finance benefiting Paraguay's education sector can be seen in the Higher Education Finance Fund (HEFF). HEFF is a blended finance facility with the explicit mandate to invest in education credit in order to improve access to higher education and, correspondingly, social outcomes. The fund provides lines of credit to in-country partner financial institutions – in Paraguay, Visión Banco – which then offer educational loans to students. The facility has a two-tranche senior-junior debt and equity structure, alongside a fully grant-funded technical assistance facility. Although the fund was designed with higher education in mind, many partner financial institutions have begun providing credit for technical education as well as smaller, marginal educational expenses, like exam preparation. This model serves as a clear example of the potential value of blended finance in improving access to education in Paraguay.

MOVING FORWARD

This literature review of the non-state education sector in Paraguay seeks to provide insight for the final market assessment report and offers a high-level overview of the current state of the sector, along with potential needs in financing, barriers in the supply of financing, and gaps in knowledge.

²⁵⁷ Ministerio de Educación y Ciencias

²⁵⁸ Ministerio de Educación y Ciencias

As mentioned above, the absence of substantial literature and practice on the focus of the research has limited the scope of the information presented. However, this piece of work must be thought of as a preliminary overview, not as a definitive guide to financing for non-state education in Paraguay. That is, an understanding of where the gaps in the literature are on this subject will inform the consultants' focus on the final market assessment report that will follow this literature review and will also serve as context for future researchers.

Notably, not only is there an absence of formal academic literature and country specific reports about non-state education broadly and blended finance, there is also a lack of clear online information on the actors that currently constitute the sector. For instance, the vast majority of schools in Paraguay do not have any online presence, which both reflects and contributes to the lack of information on the education sector.

Likewise, the minimal literature on school performance in Paraguay is plausibly a symptom of policy choices in the country that have resulted in low publicly available information on school quality. Indeed, Paraguay only releases the results of its SNEPE exams to school directors and publishes macro-level syntheses. Again, this set of circumstances both serves as proof and cause of the low level of academic literature on non-state education in Paraguay.

Through our review of literature on non-state education in Paraguay, the consultants identified several promising pathways for future analysis.

1. There is clearly growing demand for non-state education in Paraguay, in spite of the country's slowing population growth; furthermore, given the low proportion of students currently enrolled in private schools, the Paraguayan non-state educational sector clearly still has room to grow.
2. Next, financial intermediaries do not fully understand the nature of lending or investing in non-state educational institutions, which is not to say that there is not business case for such instruments: Fundación Paraguay has a long track record of supporting educational institutions and enjoying robust returns.²⁵⁹
3. Finally, there is a role for blended finance to play in standing up and supporting non-state educational institutions, exemplified by the success of private-subsidized schools in Paraguay.

As mentioned above, this review is intended to serve as a preface to a broader report that will attempt to fill many of the gaps identified here via interviews. Among those gaps are: blended finance; factors informing school performance; the business case for ancillary actors; and will also try to refine and identify specific opportunities for USAID and its partners to drive forward blended finance in the non-state education sector.

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²⁵⁹ Fundación Paraguay

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Campaña Latinoamericana por el Derecho a la Educación. (n.d.). Mapeo Sobre Tendencias de la Privatización de la Educación en América Latina y el Caribe.

This paper seeks to analyze the evolving landscape of non-state education in Latin America and the Caribbean through a critical lens. The paper begins by outlining the conceptual framework and methodology by which the analysis has been conducted. This includes an explanation of the context surrounding non-state education in Latin America and the Caribbean and definitions of the key terms and typologies of non-state education that will be discussed in the paper. Subsequently, the paper identifies trends and development in laws across the region relevant to non-state education; this is followed by a section explicitly outlining the laws in 14 countries in the region that speak to the development of non-state education. The paper assesses trends in the development of non-state education in the region. The piece then weighs the perspectives of experts from countries in the region and an analysis of the business networks in relevant countries that facilitate non-state education. The paper concludes by identifying key trends, typologies, and regulatory frameworks for non-state education in the region.

Retrieved from: <https://redclade.org/wp-content/uploads/Mapeo-sobre-Tendencias-de-la-Privatizaci%C3%B3n-de-la-Educaci%C3%B3n-en-Am%C3%A9rica-Latina-y-el-Caribe.pdf>

Galeano, D. (2016). *Paraguay's Public Spending on Education After Stroessner: Invest More?* Central European University.

This paper, a master's thesis submitted to Central European University, explores the trends in investment in education in Paraguay following the end of the dictatorship of Alfredo Stroessner in 1989. It begins by framing the historical context leading up to the end of the dictatorship, and subsequently identifies the key policy developments and transitions that shifted the investment landscape into the education sector in Paraguay. The paper uses data on public expenditure to benchmark Paraguay's investment in the sector and evaluate the adequacy of its relative investment. It then identifies resources provided by Paraguay's Ministry of Education and Science and uses them to examine the alignment between that level of investment in education and Paraguay's stated objectives in education. The paper concludes with the assessment that there are clear policy failures precluding Paraguay's achievement of its objectives in the education sector, despite its level of investment in it.

Retrieved from: http://www.etd.ceu.edu/2016/galeano_diana.pdf

Steer, L., Gillard, J., Gustafsson-Wright, E., & Latham, M. (2015, October). *Non-state actors in education in developing countries: A framing paper for discussion.*

This paper serves as a landscape assessment of non-state education, analyzing its typologies, its characteristics, and its strengths and weaknesses. It traces the development of non-state education in various contexts, examining trends in non-state school enrollment across country income groups and

region. The paper proposes a framework for segmenting education sector broadly and uses that framework to set the parameters for a discussion on the characteristics and typologies of non-state educational institutions. Moreover, the document offers archetypical examples of representative typologies of educational institutions, including defining the key characteristics of each typology. The paper also discusses the financing framework for non-state educational institutions, identifying the key actors involved in providing finance to the sector. The financial component of the paper segments the type of capital by its intended output, ranging from high social value to high financial value. In addition, the paper evaluates arguments in favor of and against non-state education, categorized by “access and scale,” “quality,” “equity,” and “cost effectiveness and efficiency.” Finally, the paper proposes a set of closing recommendations.

Retrieved from: <https://www.brookings.edu/wp-content/uploads/2016/06/102215-Non-State-Actors-in-Education-Framing-paper-Final.pdf>

Roddis, S. (2020). *Blended Finance in the Non-State Education Sector*. USAID.

This literature review begins by recognizing the importance of providing equal access to high-quality education and how there have been successful global efforts to increase education enrollment. It then defines and provides context for blended finance, including the institutions, instruments, and market conditions needed to facilitate its success. Finally, it describes how blended finance differs from alternative strategies for funding non-state education.

It also reviews the supply and demand for education at every stage. It explains that blended finance deals in non-state education can not only increase access to education but also improve quality. It provides a map of evidenced blended finance instruments and outcomes where it describes key blended finance deals, including their type and result. One of the conclusions of the report is that even though there is not enough evidence of blended finance deals to draw general conclusions, improving the quality of education is impossible to achieve without adequate resources.

Retrieved from:
https://www.edulinks.org/sites/default/files/media/file/CATALYZE_Blended%20Finance%20for%20Non-State%20Education%20Literature%20Review.pdf

The World Bank. (2018). *Invertir en Capital Humano: Una revisión de gastos públicos y de la gestión de los sectores sociales*.

This review presented by the World Bank seeks to quantify and qualify Paraguay’s public spending in social sectors, specifically it describes health, education, and social programs. It suggests that better quality in this investment will constitute the basis of long-term economical growth. It recognized that investing in the social sector has risen during the last years allowing almost national access to basic services such as primary education.

It suggests that the distribution of this investment has improved therefore improving the coverage rate and the access to preschool. It points out that even with the improvement in investment, the performance on the regional test such as TRECE is still low in comparison to similar countries. Finally, the document describes the financing model of the educative institutions and the impact on student's performance.

Retrieved from: <http://documents1.worldbank.org/curated/en/933691542659029507/pdf/132203-WP-PI64146-SPANISH-v5-16-11-2018-13-37-58-PYInvertirenCapitalHumanofinalImagebank.pdf>

UNESCO. (2020). *Global Education Monitoring Report 2020*.

This is a report about inclusion in education presented by UNESCO in 2020. It starts by recognizing that educational resources and opportunities are distributed unequally, and then highlights the importance of education as vehicle that can potentially transform lives and therefore it should be equally available to every child. It defines the following categories as drivers of discrimination: gender, remoteness, wealth, disability, ethnicity, language, migration, displacement, incarceration, sexual orientation, gender identity and expression, religion, and other beliefs and attitudes. It finally acknowledges that COVID-19 adds new dimensions to exclusion in education.

It reviews inclusion through the lenses of legal tools and identifies challenges in collecting data. Specifically, for Paraguay, it recognizes that is one of very few countries to have inclusive education laws covering all. The report also highlights Foundation Saraki's guidelines for inclusive education to ensure the implementation of the law on educational inclusion.

Retrieved from: <https://unesdoc.unesco.org/ark:/48223/pf0000373718>

World Economic Forum. (n.d.). *Global Competitiveness Index 2017-2018: Paraguay*

This World Economic Forum country report on Paraguay assesses global competitiveness. It describes a general economic overview of indicators such as GDP and population. It continues to conduct a performance overview of components of basic requirements for global competitiveness, including efficiency enhancing factors and innovation. Finally, it shows data on the most problematic factors impeding business in Paraguay.

Some of the key findings of this report are poor evaluations on infrastructure and institutions in Paraguay. In terms of efficiency enhancing factors, the indicator most hampering efficiency was technological readiness. Finally, with respect to innovation factors, both innovation and business sophistication scored poorly. The most problematic factors for doing business were corruption, an inadequately educated workforce, and inefficient government bureaucracy.

Retrieved from: http://www3.weforum.org/docs/GCR2017-2018/03CountryProfiles/Standalone2-pagerprofiles/WEF_GCI_2017_2018_Profile_Paraguay.pdf

Cronquist, K. F. (2017). *El aprendizaje del inglés en América Latina*.

This study describes the current status of English language learning in Latin America. It recognizes the strategic importance of speaking English in the region and describes the landscape of the current status of English learning throughout the region with a view of support for students, legal agendas, teacher training, and students' performance in exams.

The key findings of this paper include a focus on ensuring that legal policies toward making English learning a priority. In addition, countries must adequately guarantee the proper implementation of these policies. It highlights the importance of teacher training even though the timeline for such investments to bear fruit may be long. Finally, the paper emphasizes the importance of designing a structure that enshrines continuity in programming.

Retrieved from: <https://www.thedialogue.org/wp-content/uploads/2017/09/El-aprendizaje-del-ingl%C3%A9s-en-Am%C3%A9rica-Latina-I.pdf>

Ministerio de Educación y Ciencias. (2019). *Reporte Nacional: PISA-D Paraguay.*

This report by the Ministry of Education and Sciences presents the results of the national evaluations PISA-D (the version of the PISA exam adapted to low and middle-income countries) that took place in 2017. This test evaluates reading, math, and science. The performance results are shown in graphics analyzing different socio-economic segmentations and geographical factors. Results are compared with other countries of the region

The most relevant finding is that Paraguay fails to reach the minimum expected score in any of the areas of study. Reading is shown as the main driver for performance in the two other academic areas. High absenteeism and grade repetition are also evidenced in this report.

Retrieved from: https://mec.gov.py/cms_v2/adjuntos/15247?1545325232

Ministerio de Educación y Ciencias. (n.d.). *Resultados Evaluación SNEPE 2018.*

This report by the Ministry of Education and Sciences presents the results of the national evaluations SNEPE that took place in 2018. This test evaluates math, Spanish language, and Guaraní language. The performance results are shown in different graphics analyzing different socio-economic and other factors associated with learning.

The main takeaway of this report is that no group – segmented along gender, geography, or economic status – achieves the minimum score expected in any area. The only data input that approved the minimum expected is the segment of private education on the Spanish language portion of the exam.

Retrieved from: https://www.mec.gov.py/cms_v2/adjuntos/16022?1599670657

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