

# MEMORANDO

Clasificación de Archivo: **ATN/TP-10329-RS**

**FECHA:** 02 de abril de 2007  
RE2/TEC/045 (S#128)

**A:** Personas mencionadas al pie

**DE:** Arnaldo Medeiros da Fonseca Jr., Jefe [original firmado]  
Unidad de Coordinación de Cooperación Técnica

**ASUNTO:** MULTINACIONAL CT/FONDOS. Comercio y Reducción de la Pobreza (MTP). Evaluación del Impacto sobre Pobreza del Acuerdo Comercial Unión Europea/América Central (RS-T1329)

Cumplo con informarle que la operación mencionada en el asunto fue aprobada y registrada con el ATN/TP-10329-RS.

**Distribución:**

- Nohra Rey de Marulanda, INT/MGR
- Keisuke Nakamura, FSS/DEP
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- Mirna Lievano de Marques, COF/CNI
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- Jaime Granados, INT/ITD
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- Pablo García, RE2/OD3
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- John Madrid, FIN/CIB
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- Archivo Regional, INT
- Sección de Administración de Archivos

**Operación:RS-T1329**

## ➔ INFORMACIÓN BÁSICA

<b>Nombre:</b>	Evaluación del Impacto sobre Pobreza del Acuerdo Comercial UE-América Central	<b>Aprobado por:</b>	Gerente del Departamento
<b>Beneficiario:</b>	Países Prestatarios Miembros del Banco	<b>Fecha de Aprobación:</b>	26-Mar-2007
<b>País:</b>	APOYO REGIONAL	<b>Documento Aprobado:</b>	
<b>Sector:</b>	COMERCIO EXTERIOR/APOYO AL COMERCIO EXTERIOR	<b>Modalidad de la Cooperación Técnica:</b>	Servicios de Consultoría

## ➔ Descripción

Fortalecer la capacidad analítica de los gobiernos de América Central para evaluar el impacto económico y social de la integración comercial con la Unión Europea.

## ➔ Agencia(s) Ejecutora(s)

INTER-AMERICAN DEVELOPMENT BANK (US-IDB)

## ➔ Fondo(s), condición(es) Financiera(s), y Monto(s)

Número de Aprobación	Fondo	EQ. US\$	Moneda	Monto	Resolución
ATN/TP-10329-RS	MTP - COMERCIO Y REDUCCION DE LA POBREZA	149,940	USD	149,940	
	Contrapartida	0			
	Costo Total	149,940			

## ➔ Responsabilidades

División: INT/ITD

Rol	Nombre
Líder del Equipo	GIORDANO, PAOLO
Abogado	BUCHARA, DIEGO SEBASTIAN
Miembro del Equipo	OPERTTI, FABRIZIO
Miembro del Equipo	GRANADOS, JAIME
Miembro del Equipo	MIRANDA, JAIME ANTONIO
Miembro del Equipo	GARCIA, PABLO MARCELO



**Inter-American Development Bank  
Technical Cooperation Program  
Trade and Poverty Trust Fund**

**Technical Cooperation Project Brief**

**TC N°: RS-T1329**

**I. GENERAL INFORMATION**

Project title	Assessment of the Poverty Reduction Impact of the EU-Central America Trade Agreement
Project team	Paolo Giordano, team leader; Jaime Granados (INT/ITD); Fabrizio Opertti (RE2/SC2); Pablo García (RE2/OD3); Jaime Miranda (RTC); Diego Buchara (LEG)
Trust Fund	Trade and Poverty Trust Fund (MTP)
Beneficiary Countries	Honduras, Guatemala, El Salvador, Nicaragua, Costa Rica and Panamá
Executing Agency	Inter-American Development Bank
Project budget (in USD)	149,940
Trust fund contribution (in USD)	149,940
Execution and Disbursement period	Execution: 12 months; Disbursements: 15 months

**II. OBJECTIVES**

- 2.1 The overall objective is to strengthen the analytical capacity of Central American governments to assess the economic and social impact of trade integration with the European Union (EU). The specific objectives are to: (i) allow Central American countries to assess the impact of different trade and integration scenarios on poverty, particularly in the context of the CACM-EU bi-regional association negotiations; and (ii) guide governments' officials in the identification of appropriate policy interventions to maximize the gains from trade and to minimize transition costs.

**III. BACKGROUND AND JUSTIFICATION**

- 3.1 At the IV EU-LAC Summit held in May 2006, Central American countries and the EU agreed to launch negotiations aiming at concluding a bi-regional association agreement, which involves political, cooperation and trade liberalization chapters. The region is still characterized by high levels of persistent and severe poverty, with high degree of income disparity and heterogeneity among members. A significant opportunity for poverty reduction in the region is offered by the possibility of taking advantage of greater integration options, and thereby boosting trade, foreign direct investment, economic growth and employment. An eventual agreement between Central American countries and the EU provides an opportunity to enhance economic performance and improve the livelihoods of a large majority. However, a greater understanding of the economic and social effects of trade liberalization is necessary in order to provide Central American policy makers with

policy options to address the negotiation and implementation of such association agreement.

- 3.2 In the last years, the IDB has deployed in the sub-region a notable effort to strengthen the capacity of Trade Ministries to evaluate the impact of trade liberalization and implement trade reforms, through a variety of instruments: trade facility loans, technical cooperation projects, capacity-building initiatives for trade negotiators, etc. Nevertheless, the countries of the sub-region need to strengthen their capacity and instruments to comprehensively assess the quantitative impact of trade liberalization, particularly on the poor.
- 3.3 In the context of the IDB Regional Policy Dialogue on Trade and Integration, Central American Trade Vice-Ministers requested technical assistance to address the negotiations with the EU. In particular they requested IDB support to perform “quantitative and qualitative evaluations of the potential social and economic impact resulting from the association with the EU”.
- 3.4 The IDB, through the Integration and regional programs Department (INT), has developed a multi-region Computable General Equilibrium (CGE) model as an instrument to evaluate the economy-wide impacts of trade liberalization. Recently this CGE model has been expanded to incorporate disaggregated household-level data to improve the quality of analysis and to identify the potential distributive implications of trade integration initiatives, particularly for the poor. The IDB-INT model has been successfully applied to the evaluation of the trade and integration options available to the Andean countries.
- 3.5 The project is consistent with the objective of the IDB’s Strategy for Poverty Reduction and Promotion of Social Equity which seeks to promote faster progress in the reduction of poverty by tackling its root causes and fostering inclusion and greater social equity. It is also consistent with the Regional Integration Strategy which seeks to strengthen the institutional capacity of IDB member countries to negotiate welfare improving free trade agreements. It is finally well aligned with the objectives of the Trade and Poverty Trust Fund (TPTF) which seeks to promote activities that support the adoption of pro-poor trade related strategies and policies in the countries of the region.

#### IV. DESCRIPTION

- 4.1 The project is organized in four components: (i) **update of national datasets** for each of the Central American countries, ensuring the consistency with the IDB-INT CGE model; (ii) **extension and elaboration of the IDB-INT CGE model** constructed on the basis of the Social Accounting Matrixes (SAMs) of the Central American countries; (iii) **evaluation of the impact of trade liberalization**, with particular emphasis on the growth, poverty and inequality effects of trade integration with the EU; and (iv) **diffusion, dissemination and capacity-building**, including policy dialogue, public presentations and training activities.
- 4.2 The project will be developed in close coordination with local authorities, in the context of IDB bilateral CGE cooperation frameworks.
- 4.3 **Component 1 – Update of national datasets:** This component includes two activities: (i) update of Social Accounting Matrices (SAMs) for each Central American country; and (ii) construction of household dataset based on the most recent available household surveys.

The objective of the first activity is to update available SAMs for up to 6 Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama), which will serve as a base dataset for the INT-CGE model. The SAMs will be linked with household survey data in the second activity. The objective of the latter is to construct income and expenditure vectors for each household that are consistent with and operational in the CGE modeling framework. This dataset will be used to run micro-simulations to measure the impact of trade integration on poverty and inequality. The overall quality of the SAMs and of the household datasets will depend on the availability and accuracy of household survey data for Central American countries.

- 4.4 **Component 2 – Extension and adjustment of the IDB-INT CGE model:** The objective of the component is to expand and adjust the current structure of the IDB-INT CGE model currently used for various policy-oriented studies in trade and integration. The activities of this component will allow to: (i) evaluate the impact of trade liberalization on trade flows, economic activity and welfare, considering regional and social heterogeneity; (ii) consider different assumptions on the adjustment of the labor markets; and (iii) differentiate the impact of trade liberalization according to socio-economic variables such as gender, age, education, etc. Such modeling effort will help to improve the assessment of policy reforms and a better targeting of adjustment support policies.
- 4.5 **Component 3 – Evaluation of the impact of trade liberalization:** The objective of this component is to carry out the quantitative evaluation of trade policy options, considering both the sectoral economic effects and the impact on poverty and inequality. The possible methodologies are either (i) micro simulation, or (ii) FGT (Foster-Greer-Thorbecke) analysis. The former is more precise, accurate, and desirable than the latter, but the choice of the methodology depends on data availability, size and quality of the national household survey data. In order to ensure the best possible outcome, micro-simulations will be carried out for different socio-economic household groups for at least three countries, subject to the availability of quality household survey data.
- 4.6 **Component 4 – Diffusion, dissemination and capacity building:** This component is designed (i) to disseminate the results of policy-oriented research among policy makers, private sector and civil society representatives; and (ii) to provide on-site training to public officials and academic researchers on the methodology used, the results and the policy implications. To achieve these objectives, the component includes the following activities: (i) production of one policy-oriented report assessing (a) the economic impact of trade and integration options using the CGE model and (b) the poverty and equity evaluation applying the FTG techniques or the micro-simulation analysis; and (ii) a regional workshop and on-site training, preferably at a single location in Central America.
- 4.7 The project will generate four main outputs: (i) updated country SAMs for each Central American country identified in the model and at least three national household datasets to assess the distributive impact of trade and integration policies; (ii) a state-of-art CGE model including all Central American countries, which will be used to evaluate trade and integration options as well as to measure their distributive impact; (iii) a technical manual with explanations of the CGE model that will be used as a basis for CGE-related capacity-building activities; (iv) a policy report that will analyze the implications of the adjustment to freer trade in the Central American countries. All products will be made available to government officials and academics, if appropriate.

## V. BUDGET (in US\$)

- 5.1 The project will finance: (i) one senior consultant to develop the CGE model; (ii) one junior consultant to prepare the background data and the policy simulations results; (iii) travel tickets and per diem; and (iv) logistical support costs related to training and regional dissemination. The tentative terms of reference of the consultants are included in Annex I and II.

Figures in US\$	Trust Fund contribution
<b>Consulting services</b>	
1 senior consultant US\$ 544 * 160 days	87,040
1 junior consultant US\$ 210 * 190 days	39,900
<b>Travel and Per diem</b>	
Travel senior consultant	1,500
Per diem senior consultant (US\$ 200 * 5 days)	1,000
<b>Regional Training</b>	
Travel tickets participants US\$500 * 2 persons per country (6 countries)	6,000
Per diem participants US\$100 * 2 persons per country (6 countries) * 5 days	6,000
Training material	3,000
<b>Dissemination</b>	
Regional Seminar (venue, logistics and material)	4,000
<b>Contingencies</b>	1,500
<b>TOTAL</b>	<b>149,940</b>

## VI. EXECUTION

- 6.1 The project will be executed by the Integration and Regional Programs Department of the Bank. The Bank will be responsible for the procurement of goods and services, in accordance with the procedures set forth in documents GN-2349-7 and GN-2350-7 of July 2006. The Procurement Plan is included in Annex III.

## VII. RESPONSIBILITY IN THE BANK

### 7.1 Technical Responsibility:

Paolo Giordano, Integration, Trade and Hemispheric Issues Division (INT/ITD) (Tel: +202-623-2611, email: [paolog@iadb.org](mailto:paolog@iadb.org)) will have technical responsibility.

## 7.2 Responsibility for Disbursements:

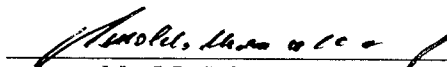
Jaime Miranda, Technical Cooperation Financial Transactions Official, Regional Technical Cooperation Division (INT/RTC) (Tel: +202-623-2859, email: [jaimemp@iadb.org](mailto:jaimemp@iadb.org)) will have the responsibility of disbursements.

## VIII. RECOMMENDATION

- 8.1 Paolo Giordano designated team leader for the project of the reference, recommends the approval of this operation and the use of resources from the Trade and Poverty Trust Fund for up to US\$ 149,940 to finance this technical cooperation project.


## IX. CERTIFICATION

- 9.1 I certify that this operation was approved for financing by a Management Review Committee on March 16, 2007. Also, I certify that resources from the Trade and Poverty Trust Fund (MTP) are available for up to US\$ 149,940 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of twelve (12) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Plan of Operations. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

  
Arnoldo Medeiros da Fonseca Jr, Chief  
RE2/TEC

March 29, 2007  
Date

## X. APPROVAL

  
Nohra Rey de Marulanda, Manager  
INT/INT

March 29/07  
Date

## **ANNEX I**

### **Terms of Reference - Senior Consultant (Coordinator) (Tentative)**

#### **1. Activities**

The consultant will coordinate the activities of the project. The specific tasks will involve the followings:

- (i) Construction of the CGE model for target counties identified in the project. This task will include the development of the code in GAMS, the calibration of the model and of the relevant underlying datasets, and the production of test simulations;
- (ii) Undertaking model simulations designed for alternative policy scenarios in collaboration with INT and local authorities;
- (iii) Production of a technical manual of the model to be used as a basis for capacity-building activities;
- (iv) Preparation of policy reports that includes simulation results.

#### **2. Supervision and characteristics**

The consultant will work with limited supervision and will report to the Project Team leader.

Qualification: the consultant will preferably have a PhD in economics; he will be familiar with trade and integration, poverty, household survey, SAM and CGE model development.

Duration: 160 working days, after the signature of the contract with the Bank.

Location: the consultant will work in the Bank's Headquarters, in Washington DC.

Honoraries: honoraries will vary according to qualification of the consultant up to a maximum of US\$ 90,000.

The project may cover the cost of traveling to the region for the training courses as well as the participation on the regional workshops.

## **ANNEX II**

### **Terms of Reference - Junior Consultant (Tentative)**

#### **1. Activities**

The consultant will provide support activities for the project, as demanded. The specific tasks will involve the followings:

- (i) Construction of the Social Accounting Matrices (SAMs) based on the framework specified by the Coordinator/CGE Expert for target counties identified in the project. This task will include wide range of data processing including trade, protection, household survey, labor market disaggregation, factor income mapping, and some parameter estimates for poverty analysis of trade and integration.
- (ii) Assistance in developing the CGE model for the project by the Coordinator/CGE Expert, if necessary, and in undertaking model simulations designed for alternative policy scenarios.
- (iii) Search for papers, studies, documents, reports and references related to the project to facilitate to identify the most appropriate framework, methodologies and approaches best to meet the objectives of the project.
- (iv) Preparation of simulation results (tables, graphs, PowerPoint) for preparation of papers and presentations.

#### **2. Supervision and characteristics**

The consultant will work under the supervision of the Coordinator/CGE Expert and will report to him/her.

Qualification: the consultant will have an economist degree, preferably a Master degree with some background or familiarity in trade and integration, poverty, household survey, SAM and/or CGE model, if possible.

Duration: 190 working days, after the signature of the contract with the Bank.

Location: the consultant will work in the Bank's Headquarters, in Washington DC.

Honoraries: honoraries will vary according to qualification of the consultant up to a maximum of US\$ 40,000.

The project may cover the cost of traveling to the region for the training courses as well as the participation on the regional workshops.

### Annex III

#### Procurement Plan

#### Assessment of the Poverty Reduction Impact of the EU-Central America Trade Agreement (RS-T1329)

Main project procurements	Amount in US\$	Financing source		Procurement method	Prequalification	Request for Proposal		Status
		BID	Local/other			Yes/No	Tentative publication date	
Procurement of consultants – CN-2350-7								
1 Senior Consultant (including travel and perdiem)	89,540	100%		Short list Review of qualifications	No		N/A	Pending
1 Junior Consultant	39,900	100%		Short list Review of qualifications	No		N/A	Pending
Procurement of works and goods (2 other services) – CN-2340-7								
12 participants (travel and perdiem)	12,000	100%		Shopping	No		N/A	Pending
Regional Seminar	4,000	100%		Shopping	No		N/A	Pending
Training material	3,000	100%		Shopping	No		N/A	Pending

## Nuchowich, Ana

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**From:** Zeballos, Erik  
**Sent:** Tuesday, April 03, 2007 11:44 AM  
**To:** Nuchowich, Ana  
**Subject:** FW: TP TF TC Brief RS T1329: Assessment of the Poverty Reduction Impact of the EU-Central America Trade Agreement

[Adjunto](#)  
[Erick](#)

-----Original Message-----

**From:** Kalil, Peter M.  
**Sent:** Tuesday, March 20, 2007 12:10 PM  
**To:** Medeiros-Fonseca-Jr., Arnaldo  
**Cc:** Giordano, Paolo; Cardenas, Susana Rosario; Zeballos, Erik; Florez Toro, Victoria E.  
**Subject:** TP TF TC Brief RS T1329: Assessment of the Poverty Reduction Impact of the EU-Central America Trade Agreement

Arnoldo,

This is to request funding certification for the above-referenced project document. This project would be financed by the Trade and Poverty Trust Fund administered by INT/ITD and funded by the UK Department for International Development (DFID).

The project has been technically reviewed by the Technical Review Team of the Fund as well as by a Virtual Management Review Committee (CRG) according to the Operational Guidelines established for this Fund (please see attached file containing the TC Brief and the CRG minutes for easy reference)

Please do not hesitate to contact me, or Project Team Leader Paolo Giordano (paolog), if there are further questions for clarification.

Thank you very much.

Best regards,

Peter

*Peter M. Kalil, Chief  
Integration, Trade and Hemispheric Issues Division  
Integration and Regional Programs Department  
Inter-American Development Bank  
Tel. 202-623-2554  
Fax 202-623-2995*



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