

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **NICARAGUA**

### **STRENGTHENING FOREIGN TRADE MANAGEMENT**

**(NI-0165)**

#### **LOAN PROPOSAL**

This document was prepared by the project team consisting of: Fabrizio Operti (RE2/SC2), Project Team Leader; Carolyn Robert (INT/ITD); Diego Buchara (LEG/OPR); Giovanna Caravaggi (COF/CNI); Beatriz Abizanda (RE2/SC2); and Damaris León (RE2/SC2), who assisted in the production of the document.

# STRENGTHENING FOREIGN TRADE MANAGEMENT

(NI-0165)

## EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Nicaragua	
<b>Executing agency:</b>	Ministry of Development, Industry, and Trade	
<b>Amount and source:</b>	IDB (FSO):	US\$5,000,000
	Local:	US\$ 555,000
	Total:	US\$5,555,000
<b>Financial terms and conditions:</b>	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	3 ½ years
	Interest rate:	1% for the first 10 years and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
<b>Objectives:</b>	<p>The purpose of the project is to help improve Nicaraguan government management of foreign trade by strengthening the country's capacity to formulate, negotiate, and apply an effective policy on trade and export promotion. The specific objectives of the project are to expand the government's capacity (i) to present and negotiate favorable initiatives for the country in bilateral, regional, and multilateral trade negotiations; (ii) to administer and apply commitments (rights and obligations) effectively under existing trade agreements; (iii) to actively promote export growth and diversification for the country; (iv) to help the private sector benefit from new trade opportunities flowing from negotiations on trade agreements; and (v) to consult with, and report to, civil society on the formulation, negotiation, and application of national trade policy.</p>	
<b>Description:</b>	<p>To accomplish the proposed objectives, the project envisages a number of activities grouped into the following three components:</p> <p><b>Strengthening management in trade negotiations and the application and administration of agreements.</b> This component includes activities to boost the country's technical and administrative</p>	

capacity to lead and take part in international trade negotiations, particularly for accession to a free trade agreement (FTA) between Central America and the United States, negotiations in progress under the World Trade Organization (WTO) Doha Development Round, Free Trade Agreement of the Americas (FTAA) negotiations, and any other trade negotiations of strategic importance to Nicaragua. This component also includes activities for strengthening the country's technical and management capacity to apply and administer existing trade agreements, particularly the commitments assumed with respect to the WTO, the Central American Common Market (CACM), free trade agreements with Mexico, Chile, and the Dominican Republic, and any other agreements that may be signed in the future with Canada, the United States, Panama, and other trading partners in the context of the FTAA and current multilateral negotiations.

**Strengthening technical capacity to promote exports.** This component entails drafting and introducing a national export development plan that is coordinated and implemented jointly by the private and public sectors. Such a plan would comprise the following activities: studies on exportable supply, product market profiles, coordination and dissemination of a country image, and participation in specialized trade fairs. The component also envisions developing a trade information system consisting of a single export window (VUE) within the Export Processing Center (CETREX), making it possible to centralize information and subsequently process through a single exit point all procedures involved in an export transaction; and an export website providing updated commercial information to existing and potential producers and exporters. In addition, the component provides for strengthening human resources in export promotion under a technical training plan in export facilitation for entrepreneurs and officials in the public sector on a series of specific export-related topics, implementation of the technical training plan in trade promotion for foreign-service personnel, and development of an in-training program for university students.

**Design and implementation of a strategy for consultation, dissemination, and participation.** This component includes formally establishing and putting in place permanent consultative mechanisms between the public sector, the private sector, and civil society to assist the country with trade negotiations, the application of commitments, and trade and investment promotion. It also includes training programs for reporters and communicators who cover foreign trade news, enabling them to deepen their analysis and to report objectively on subjects of relevance to foreign trade, especially the challenges and opportunities arising from international trade negotiations and agreements. A third aspect of this component is a training program for lawmakers that provides them with the means of acquiring a better

understanding of the diverse and complex range of issues that foreign trade involves to assist them in improving the efficiency of their parliamentary tasks in this specific area of their work.

**The Bank's country and sector strategy:**

The requirements of the international trade agenda have meant that countries in the region must study carefully the institutional challenges that lie ahead. In anticipation of such challenges, the Bank has established a fast track trade facility, whereby borrowing countries are able to request funding for strengthening and modernizing public institutions in charge of foreign trade.

The Bank's new strategy for Nicaragua, which was distributed to the Board of Executive Directors for its consideration, identifies the following priorities: macroeconomic policies that narrow the external and internal gap and stimulate economic growth, more effective governance, and institutional strengthening, and efforts to address the basic needs of the very poor. The proposed project is an important vehicle for attaining these goals insofar as it includes actions for (i) negotiating and administering trade agreements effectively and applying clear and efficient export promotion policies, making it easier for the country to penetrate world markets, to achieve sustainable export and investment growth, and to avail itself of the opportunities stemming from higher economic growth and financing of the external gap that now exists; and (ii) strengthening public management of foreign trade, by creating incentives to enhance the efficiency of public spending and promote participation by the private sector and civil society in policy formulation and application.

**Environmental and social review:**

The project is environmentally feasible. Although it would not have any direct impact on the environment, its effects would be favorable since it would include training in specific areas dealing with the links between international trade and the environment, technical assistance for formulating competitive environmental policies to permit the production and sustainable marketing of natural resources, and technical assistance for environmental certification of production.

The project is not expected to have any direct social impact. However, improving the country's external trade relations is a positive social consideration since increased exports and investment are major stimulants to economic growth and job creation.

**Benefits:**

One of the benefits of this project will be a public sector that functions more effectively, because project resources and activities will focus on strengthening institutions in charge of managing the country's foreign trade. In particular, it will strengthen Nicaragua's position in international trade negotiations as a prelude to opening new business opportunities for its goods and services. Moreover, the project is

pushing for the development of specific organizational and institutional capabilities to improve public management of existing trade agreements and export promotion.

In addition, the project seeks to bring together participation by the country's private sector and civil society, especially groups that are influential in shaping public opinion such as lawmakers and newsmen. Thus, the project will facilitate free and open dissemination of information and an understanding of the data and decisions relating to foreign trade. In this way, the project will make a meaningful contribution to Nicaragua's democratic culture through participatory and transparent practices

**Risks:**

The success of the project hinges largely on a proper relationship between entities in the public sector and between the latter and the private sector and civil society in the area of foreign trade. Although mechanisms for coordination have existed in the past, they were not wholly effective because the private sector was thinly represented in forums for consultation and coordination. Furthermore, public entities with responsibility for foreign trade have not made any systematic attempt to improve the quality of trade information coverage in the media nor have they given civil society a readily accessible means of communication and participation. The project will seek to mitigate these risks through the following actions: reengineering of government work processes, particularly the Ministry of Industry, Development, and Trade (MIFIC), which aims to formally establish permanent mechanisms for coordination within the public sector and between the latter and the private sector and civil society; the establishment and implementation of open and transparent channels of communication to civil society and the private sector; and a training initiative for groups that are influential in molding public opinion such as lawmakers and newsmen.

**Reimbursement  
of expenses  
chargeable to  
the financing:**

With the Bank's consent, up to the equivalent of US\$150,000 of the proceeds of the financing may be used to reimburse expenses incurred in connection with the project for engaging technical advisory services under the "International trade negotiations" subcomponent of the "Strengthening of trade negotiations management and application and administration of agreements" component and for technical training activities relating to trade promotion for foreign-service personnel under the "Human resources development" subcomponent of the "Strengthening of technical capacity for export promotion" component. Such expenses must have been incurred before the loan was approved and after 11 November 2002. Also, the financing may be used to reimburse expenses for project activities incurred after the loan was approved.

<b>Special contractual clauses:</b>	Special conditions precedent to the first disbursement. In addition to the Bank's usual contractual conditions, the following will need to be fulfilled: (i) establishment of the project executing team (paragraph 3.1); and (ii) approval of the project Operating Regulations (paragraph 3.2).
<b>Poverty-targeting and social sector classification:</b>	This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).
<b>Exceptions to Bank policy:</b>	No exceptions to Bank policy are anticipated.
<b>Procurement:</b>	All procurement of goods and services under the project shall be carried out in accordance with applicable Bank policies and procedures. International competitive bidding will be mandatory for procurement of goods and services valued at US\$250,000 or more. Procurement of goods and services in amounts below this threshold will be governed in principle by local law provided that such law does not conflict with the applicable Bank policies. No construction works are planned under the project. The timetable for procurement appears in the procurement schedule (Annex II).
<b>Key performance indicators:</b>	The key performance indicators of the project are grouped together by component. For the " <b>Strengthening management in trade negotiations and the application and administration of agreements</b> " component, the following indicators are included: greater participation and presentation of the government's negotiating positions in the country's different negotiating forums based on negotiating strategies and sector technical studies; greater coordination and processing of requests for supervision of standards of origin and fulfillment of technical, health, and phytosanitary standards. For the " <b>Strengthening technical capacity to promote exports</b> " component, the following indicators are included: better qualitative and more quantitative information and analysis of current and potential export markets; more trade contacts developed through government trade promotion instruments; streamlining of the export process in terms of shorter time frames and fewer export procedures required; more government channels of communication with the private sector of information on the export process, including procedures and analysis of current and potential markets; more private sector export agents or trained agents to assist with public sector exports (foreign-service personnel and graduate students). For the component involving the " <b>Design and implementation of a strategy for consultation, dissemination, and participation</b> ", the following

indicators are included: more government channels of communication and public access to State trade policies; broader coverage and better quality information on foreign trade issues in the country's printed media by reporters trained under the project; and greater participation and presentation of policy positions on foreign trade by lawmakers in debates in the National Congress. The performance indicators described by activity are found in the logical framework (Annex I).

**Information  
shared by the  
Bank and the  
executing  
agency:**

The project activities will be carried out in accordance with an annual timetable prepared on the basis of the annual work plans (AWPs), which are to be broken down for each component and to be agreed on with the Bank at the annual monitoring meetings. The AWPs will contain, in accordance with the logical framework, at least the following information: (i) an evaluation of the activities completed and the accomplishments in the preceding period; (ii) a description of the activities to be carried out in a given year; (iii) the semiannual objectives and targets by component and the indicators to be used to gauge such compliance; (iv) the semiannual timetable, showing the expenses incurred; and (v) the financing requirements for the period. The first AWP is available in the project technical files.

The project executing team (PET) and the Bank's Country Office, with the help of headquarters, will meet every year to assess the progress made in the year just ended and to monitor the fulfillment of the criteria established for disbursements and technical execution of the project, as well as to agree on the corresponding annual plans.

The PET will be required to keep accounting and financial records separate from the project records such that it is possible (i) to identify the financial transactions carried out with project resources separate from other resources administered by the MIFIC; and (ii) to prepare the project financial statements.

The project executing team will submit to the Bank each year, within 120 days after the close of the financial year, the project financial statements audited by a firm of independent external auditors acceptable to the Bank. The costs of the external audit will be charged to the project financing.