

TC ABSTRACT

I. Basic Project Data

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| ▪ Country/Region: | REGIONAL/CID - Isthmus & DR |
| ▪ TC Name: | Support to the process of Integration of the North Triangle of Central America |
| ▪ TC Number: | RG-T3384 |
| ▪ Team Leader/Members: | LIBBY HERNANDEZ, MARGARITA (INT/TIN) Team Leader; AGUIRRE FRANCO, CLAUDIA (CID/CGU) Alternate Team Leader; MENDEZ MEJIA, ERICK DANIEL (INT/TIN); ALFARO ZUNIGA, CINTHYA GRACIELA (INT/TIN); SARRIA ORTI, AGUSTIN (INT/TIN); ROSPIDE, MARIA DE LA PAZ (INT/TIN); BUSTOS BRENES, JUAN CARLOS (INT/TIN); BARRAGAN CRESPO, ENRIQUE IGNACIO (LEG/SGO); IMANA, ZAIDA VICTORIA (INT/TIN) |
| ▪ Taxonomy: | Client Support |
| ▪ Number and name of operation supported by the TC: | N/A |
| ▪ Date of TC Abstract: | 29 Nov 2018 |
| ▪ Beneficiary: | Guatemala, Honduras and El Salvador |
| ▪ Executing Agency: | INTER-AMERICAN DEVELOPMENT BANK |
| ▪ IDB funding requested: | \$ 400,000.00 |
| ▪ Local counterpart funding: | \$ 0.00 |
| ▪ Disbursement period: | 36 months |
| ▪ Types of consultants: | Individuals |
| ▪ Prepared by Unit: | Integration & Trade |
| ▪ Unit of Disbursement Responsibility: | Integration & Trade |
| ▪ TC included in Country Strategy (y/n): | No |
| ▪ TC included in CPD (y/n): | No |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Economic integration |

II. Objective and Justification

- 2.1 The objective of this technical cooperation is to support the implementation of the Honduras - Guatemala Customs Union and El Salvador 's accession process, through technical assistance in customs, tax and commercial facilitation matters for the integration and exploitation of trade in the North Triangle. Also, this technical cooperation will support the compliance of the Coordinated Border Management standards, the Central American Trade Facilitation Strategy and the guidelines of the Trade Facilitation Agreement of the WTO.
- 2.2 The countries of the northern triangle (Guatemala, Honduras and El Salvador) have a very interrelated commercial structure, being the set of exports and imports of this block of countries of 8,294.50 million dollars in the year 2017. According to the Statistics System of Trade of Central America of the Secretariat of Central American Integration (SIECA), this represents 60% of the total exports and imports of the Central American Region.

The Customs Union between Guatemala and Honduras entered into force in June 2017, creating a single customs territory of 221 km² and 23.5 million inhabitants (figures representing more than 50% of all Central America). This union means free transit of more than 80% of the products. Motivated by the advances of free trade, El Salvador officially approved the process of adhesion to the process of deep integration with Guatemala and Honduras in July 2018 and on August 20 the same year, the presidents

of the three countries signed, with the Declaration of Corinto the beginning of the participation of El Salvador. The three countries accounted for more than 50% of the trade in goods in the Central American market in the year 2017.

This process of deep integration requires: i) updates in the regulatory frameworks of the three countries; ii) technological and broadband upgrades; and iii) update of the border infrastructures, to ensure the dynamism of the movement of charges based on the use of the Central American Single Invoice and Declaration (FYDUCA).

The commercial processes of the three countries are accompanied by the IDB, through a series of regional initiatives such as the Project for the Design and Implementation of the Digital Trade Platform of Central America-PDCC, (ATN/ER-16366-RG), the installation of radiofrequency identification equipment (ATN/MR-14890-RG) and the equipment with camera monitoring systems (ATN/OC-16478-RG) at the border posts, acting as executor of the Projects, the SIECA.

III. Description of Activities and Outputs

- 3.1 The project is structured in two components: Component I: Strengthening the integration process. The result of this component will be to strengthen the technical and execution capacity of the institutions that carry out fiscal and parafiscal controls at border crossings. To this end, the following activities will be carried out: i) support with working sessions between authorities of nationals of each country and on a tripartite basis, as well as with business associations; ii) accompaniment of experts in integration and trade issues to promote good practices that affect the success of the Customs Union; iii) support consultancies in the identification/revision of the technical specifications of infrastructure and equipment in the border posts that make up the customs union of the northern triangle; iv) identification of technological needs including aspects related to the transmission capacity (bandwidth) and protection and integrity of commercial data by the countries; v) identification of integration mechanisms with regional platforms such as the PDCC and schemes such as the Trade Single Windows. Component II: Technical support for commercial management. The result of this component will be to strengthen the management of countries in commercial matters, generating proposals that serve as inputs for trade policy issues. To this end, the following activities will be carried out: i) identification of opportunities for improvement in areas such as intra-regional exportable supply, ii) support for the implementation of fiscal control instruments for regional goods (DUCA / FYDUCA), and iii) proposed regional agenda to define the next steps in commercial facilitation (maritime, air, passengers and interconnection with other platforms such as Alianza Pacifico).
- 3.2 **Component I: Accompaniment to the integration process of the Northern Triangle.** The result of this component will be to strengthen the technical and execution capacity of the institutions that carry out fiscal and parafiscal controls at border crossings.
- 3.3 **Component II: Technical support for commercial management.** The result of this component will be to strengthen the management of countries in commercial matters, generating proposals that serve as inputs for trade policy issues.

IV. Budget

Indicative Budget

| Activity/Component | IDB/Fund Funding | Counterpart Funding | Total Funding |
|---|------------------|---------------------|---------------|
| Accompaniment to the integration process of the Northern Triangle | \$ 210,000.00 | \$ 0.00 | \$ 210,000.00 |
| Technical support for commercial management | \$ 190,000.00 | \$ 0.00 | \$ 190,000.00 |

V. Executing Agency and Execution Structure

- 5.1 This program is executed by the Trade and Investment Division (TIN) of the Integration and Trade Sector (INT) of the Inter-American Development Bank.
- 5.2 This is justified by the role of technical expert and experience in similar binational operations that are carried out in the region, derived from trade facilitation measures.

VI. Project Risks and Issues

- 6.1 Although the process of integration under the platform of the customs union of the northern triangle is positive in commercial matters, there is a high risk due to schemes and instruments that have not yet been designed and implemented, therefore, it is proposed to strengthen the technical support to the countries before and during the negotiations of the countries. Another risk is not properly identifying the infrastructure and equipment specifications linked to the operation model under the FYDUCA regime that are required for the modernization of the infrastructures of the border crossings of the countries; therefore, it will be supported by the identification of needs and the revision of technical specifications to materialize the modernizations at the border points.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "C".