

INSTITUTIONAL SUPPORT TO STRENGTHEN FOREIGN TRADE TRADE SECTOR FACILITY PROJECT

(BO-0212)

EXECUTIVE SUMMARY

Borrower:	Republic of Bolivia	
Executing agency:	Ministry of Foreign Trade and Investment (MCEI)	
Amount and source:	IDB: (FSO)	US\$5 million (71%)
	Local:	<u>US\$2 million</u> (29%)
	Total:	US\$7 million
Terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	3 ½ years
	Interest rate:	1% first 10 years
		2% next 30 years
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	<p>The general objective of the project is to help improve Bolivia's competitiveness in tradable goods and services and to enhance international trade. Its specific objective is to modernize and strengthen the capacity of the Ministry of Foreign Trade and Investment and other government agencies and private institutions in the sector in order to: (i) formulate and implement trade policy, including international negotiations; (ii) attract domestic and foreign private investment; and (iii) formulate and implement policies, programs and strategies to promote trade.</p>	
Description:	<p>In order to achieve the proposed objectives, the project will consist of activities divided into the following five components:</p> <ol style="list-style-type: none"> Formulation and implementation of public policy on foreign trade and investment. The objective of this component is to strengthen the MCEI's capacity to formulate, administer and evaluate foreign trade and investment policy instruments and to support linkage of public policy with the private sector. It will include the following activities: (i) identify and implement changes or reforms in trade policy; (ii) identify objectives and priorities and formulate strategies for the country for international trade negotiations; 	

- (iii) develop and consolidate MCEI mechanisms for dialogue and coordination with the private sector and other government agencies for policymaking on trade; and (iv) design systems to monitor and evaluate the performance of foreign trade.
2. **Strengthening of technical and negotiating capacity.** The objective of this component is to provide the country with a specialized negotiating team with sufficient expertise and analytical capacity to participate actively, in coordination with the various ministries and public and private institutions, in the concurrent trade negotiations under way in various international fora. The component will include the following activities: (i) create and implement an International Trade Negotiation Unit (UNCI) in charge of coordinating negotiating policies and strategies and participating in negotiations, directing the technical aspect of trade negotiations at the various international fora; (ii) provide training and advisory services for the experts responsible for trade negotiations in both the public and private sectors; and (iii) carry out public information and outreach activities with the private sector and civil society regarding the progress made in trade negotiations and the implications for the country.
 3. **Execution of trade agreements and commitments.** The objective of this component is to support the MCEI in effective execution of trade agreements and commitments undertaken by Bolivia for bilateral, regional and multilateral trade. It will include the following activities: (i) design and implement reforms in the institutional framework for effective implementation of existing trade commitments; (ii) develop and implement mechanisms to monitor trade agreements and assess their impact; and (iii) develop and implement systems for coordination between the MCEI, the Ministry of Foreign Relations (RREE) and other government agencies in charge of implementing agreements in their respective areas of authority.
 4. **Development and diversification of trade and investment.** The objective of this component is to support the design and implementation of policies and programs that will help diversify foreign trade, increase the number of exportable products, take advantage of access to external markets and improve procedures and mechanisms to enhance trade and investment. It will include the following activities: (i) consolidate the Single Export Window Facility (SIVEX) by including ISO 9000 certification and other technical requirements; and (ii) design sector programs for development and promotion of exports and investments, including implementation of a comprehensive program to establish

“export business clusters”; preparation of pilot program to develop the supply of exportable products with natural advantages and promote their access to international markets; and implementation of a program to attract foreign investment in the United States market in previously identified strategic sectors.

5. **Information systems.** The objective of this component is to strengthen the capacity of trade-related government agencies and private institutions to communicate and exchange information among each other. It will include the following activities: (i) design and formulate a master information technology plan to establish the MCEI technology strategy and an action plan for its implementation; (ii) improve and technically consolidate the trade information system; (iii) design and implement a pilot program for e-trade for Bolivian export businesses; (iv) establish a system to connect the MCEI, RREE and other government agencies to ensure fast, timely access to statistical information on trade flows; and (v) train technical staff in charge of administration and maintenance of the trade information system and system users.

**Special
contractual
conditions:**

- a. Special conditions precedent to the first disbursement of the loan: in addition to the standard contractual conditions, the following must be met: (i) the CDP must be established (paragraph 3.7); (ii) the UEP must be established and its staff hired or appointed (paragraph 3.7); and (iii) the annual work plan for the first year of program execution must be submitted and attached to the first progress report on the project (paragraph 3.11).
- b. As a condition precedent to disbursements under the component for strengthening of technical and negotiating capacity, in addition to the conditions established in paragraph (a) above, evidence must be submitted that the legislation establishing the UNCI and its structure and functions has entered into force, in accordance with the terms and conditions previously agreed upon with the Bank, along with the regulations for the unit (paragraph 3.9).
- c. As a condition precedent to disbursements for the design and implementation of a pilot program for e-trade by Bolivian export businesses, in addition to the conditions set forth in paragraph (a) above, evidence must be submitted that the agreement between CEPROBOL, Banco BISA, telecommunications firm ENTEL, and ALADI on their joint participation in the initiative has entered into force (paragraph 3.9).

- d. As special contractual conditions for project execution, the MCEI must submit to the Bank: (i) the annual work plans for the following years of project execution, within 60 days after the end of the previous year of execution (paragraph 3.11) and (ii) the mid-term evaluation, as established in paragraph 3.17).

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

The key objective of the Bank's strategy in Bolivia is to support the fight against poverty through three priority lines of activity: (i) economic growth and the creation of opportunities; (ii) human capital development and access to basic social services; and (iii) governance and consolidation of reforms. The proposed project is consistent with this strategy. Specifically, it will support the first and third lines of activity by contributing to modernization and technical strengthening of the agencies in charge of formulating trade and investment policy and international trade relations so that the private sector in Bolivia can take advantage of business opportunities in international markets under better conditions.

**Environmental
and social
review:**

The activities to be financed under the project concern the strengthening of the MCEI, other government agencies and private institutions involved in the foreign trade sector, and include training in trade and the environment. Accordingly, project execution is expected to have a positive impact on the environment. Moreover, given that the project will promote better management of a specific area of public policy, it will not have any direct social impact.

Benefits:

As a result of project execution, the technical capacity of the MCEI to formulate, administer and evaluate foreign trade and investment policy instruments will be strengthened. In particular, the design and operation of several special regimes for exports and to attract investment will be enhanced (such as duty-free treatment under the RITEX regime, the tax reimbursement policy and free-trade zones). The project will also help the country develop a national strategy for international trade negotiations and improve and consolidate the system for dialogue between the public and private sectors on policy and technical issues (paragraph 4.5).

The project will help improve institutional organization and linkage in the public sector and between the public and private sectors for trade negotiations and will also help enhance Bolivia's negotiating capacity. It will thus contribute to improving the country's performance in trade negotiation fora and to preparing and defending better articulated and better designed national positions that take into account national interests. The project will also help raise awareness in the general public and in the government of the importance of foreign trade and the implications of trade negotiations for the country (paragraph 4.6).

Furthermore, the project will help the country better fulfill the trade commitments undertaken in international agreements and to thereby reduce any eventual conflicts with other trading partners. It will establish mechanisms to help the private sector reap more benefits from the agreements negotiated (paragraph 4.7).

The project will support consolidation of the Single Export Window Facility and will stimulate new investments and export business in strategic sectors, thereby promoting an increase in exports and the development of new market niches. Lastly, it will promote the restructuring and improvement of trade information systems (paragraph 4.8).

Risks:

There is a risk in the linkage among government agencies and between the public and private sectors with respect to foreign trade and trade negotiations. Although coordination systems have been established in the past, they have not proven fully effective, given the overlapping functions of the various government agencies with authority in trade negotiations and the inadequate representation of the private sector in existing fora for outreach and coordination. However, the project will strengthen the systems for dialogue under the National Export Council (CONEX). A supreme decree will establish a permanent specialized unit responsible for technical matters in trade negotiations (UNCI), made up of trained professionals carefully selected on the basis of objective, transparent criteria. The project will thus significantly contribute to strengthening coordination among the various parties and will improve Bolivia's negotiating capacity in the different international fora (paragraph 4.10).

Another potential risk for the project is that the UNCI negotiating team might be disbanded once the project is completed. In order to mitigate this risk, the project design includes the mechanism under which the government will absorb the cost of the consultants who will staff the UNCI beginning in year three of the program, by hiring them as civil servants (paragraph 4.11).

Poverty-targeting and social sector classification:

This operation does not qualify as a social-equity enhancing project as described in the key objectives for Bank activity in the Report on the Eighth General Increase in Resources (document AB-1704).

Exceptions to Bank policy:

See section on procurement below.

Procurement: A procurement schedule has been prepared for the goods and consulting services to be procured for the project during its three-year execution period. Standard Bank procedures will be followed for the procurement of goods and related services. For the hiring of consulting services, the procedures set forth in document GN-1679-3 will be followed. In cases of selection based on quality and pricing, for consulting firms, the relative weight of pricing as a criterion for evaluation may be no higher than 30% and the technical or quality component, no less than 70%. International competitive bidding will be required for consulting contracts in amounts equal to or greater than US\$200,000 and for the procurement of goods in amounts equal to or greater than US\$250,000. The project does not call for the construction of any works (paragraph 3.19).

Solely for the purposes of the selection and hiring of certain consultants who will be part of the UNCI negotiating team and who will be financed with local counterpart resources, it is proposed that a waiver of the standard procedures in the case of conflicts of interest between a consulting firm or individual consultant and the borrower, beneficiary or hiring entity be waived for the selection and hiring of consultants. The object of the waiver is to allow government employees with experience in trade negotiations to participate in competitions for the selection and hiring of the negotiating team to be carried out according to the above-mentioned procedures (paragraph 3.20).

Special concerns: The project resources will be used to finance the travel and per diem expenses of the consultants who make up the UNCI for their participation in international negotiations. To ensure that the Country Office properly administers these activities, an expeditious mechanism will be devised with the executing agency to verify such expenses (paragraph 3.10).

Key benchmarks and performance indicators: The following will be the key benchmarks and performance indicators: (i) consolidation of the regime for trade liberalization and special regimes for international trade; (ii) guidelines and strategies for trade negotiations designed and agreed upon with the private sector; (iii) start-up of unit in charge of the technical handling of negotiations, UNCI; (iv) 70 government and private-sector officials trained in the design of new instruments for policymaking and trade negotiations; (v) methodologies and systems for evaluation and monitoring of trade policy impact in use; (vi) streamlining of export procedures and fast, efficient, predictable tax reimbursement system; (vii) pilot sector programs to promote trade implemented; and (viii) information systems to support foreign trade integrated and consolidated.

Reports agreed upon by the Bank and the executing agency:

For thorough monitoring and execution of the project, the Bank and the executing agency jointly agreed that the following reports would be submitted: (i) reports and work plans for each year of program execution (annual work plans) (paragraph 3.11); (ii) semiannual progress reports (paragraph 3.14); and (iii) annual financial statements, audited by an independent accounting firm acceptable to the Bank (paragraph 3.16). In addition, once 50% of the loan proceeds have been disbursed, a mid-term evaluation of the project will be conducted jointly with the executing agency. The purpose of the evaluation will be to measure the progress achieved with respect to the benchmarks and performance indicators set forth in the logical framework for the project (paragraph 3.17).