

## TECHNICAL COOPERATION PROFILE

12/10/2008

REGIONAL

### I. BASIC PROJECT DATA

<b>Country/Region:</b>	Regional.		
<b>Project Name/ Number:</b>	Strengthening Pro-Poor Integration in Latin America and the Caribbean. RG-T1669.		
<b>Team Leader/ Members:</b>	Kea Wollrad (INT/INT) / Paolo Giordano (INT/INT); Mauricio Mesquita Moreira (INT/INT); Christian Volpe (INT/INT); Juan Blyde (INT/INT); Julio Guzmán (INT/INT); Diego Buchara (LEG/SGO); and Virginia Franzini (LEG/SGO).		
<b>Beneficiaries:</b>	Governments of the Bank's borrowing member countries.		
<b>Executing Agency:</b>	The Bank.		
<b>Amount and Source of Financing:</b>	IDB (Market and US\$	500,000	
	Governance Trust Fund for US\$	500,000	
	Poverty Reduction - KMG):		
	Total:		
<b>Technical and Basic Responsibility:</b>	Integration and Trade Sector (INT/INT).		
<b>Tentative Dates:</b>	Approval	December, 2008.	

### II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 In many countries in Latin America and the Caribbean (LAC), policies in favor of greater trade liberalization are under systematic political pressure, because gains from trade integration tend to be significantly less visible than costs, such as job losses in traditionally protected and labor-intensive sectors. Indeed, although cross-country experiences vary, on average the extent of trade reform has not matched proportional reductions in overall poverty in Latin America and the Caribbean, damaging the perception that trade integration is a net welfare generator, particularly among the most vulnerable. It is therefore imperative to understand the social and economic impacts of trade integration and to devise ways to take full advantage of the potential offered by global market integration. Designing pro-poor trade and integration policies is important not only for obvious welfare considerations but also to improve the prospects of advancing on the regional trade agenda.

- 2.2 With the support of financing from U.K. Department for International Development (DFID)<sup>1</sup>, the IDB —led by the Integration and Trade Sector (INT)—pioneered a formal, open, academic dialogue and learning process both within and outside the Bank on the social and distributive impacts of trade integration in Latin America. Examples of the Bank’s initiatives in this area include the organization of the conference “Trade and Poverty in Latin America and the Caribbean,” held in June 2006; funding of 10 studies exploring the complex and contextualized effects of trade openness on well-being in different Latin American economies; and in-house development of the Computable General Equilibrium Model (CGE) technology—which has already been used to assess the distributive impacts of trade reform in 15 countries in the region.
- 2.3 The present project will broaden and deepen the state-of-the-art knowledge the Bank has acquired in this area. It will finance research and dissemination activities in three innovative topics: (i) the effect of climate change and trade in biofuels on socio-economic development in LAC; (ii) the development impact of international labor migration in the region; and (iii) the interaction between trade regimes and development disparities at the sub-national level. The new data, knowledge and policy recommendations that the project will generate are expected to help advance the implementation of domestic policies that maximize the benefits and mitigate the potential costs associated with progressive trade integration in the region.

### III. PROGRAM OBJECTIVE AND DESCRIPTION

#### Objective

- 3.1 The objective of the project is to generate state-of-the-art knowledge and policy recommendations in three emerging topics in trade and regional integration: biofuels, labor migration and the relationship between trade and sub-national disparities. The results of the project are expected to support governments in Latin America and the Caribbean in devising policies that take advantage of new trade opportunities while at the same ensuring that global market integration does not negatively affect the most vulnerable part of the region’s population.

#### Description

- 3.2 The project has three components:
- 3.3 **Component I: Trade in Biofuels - Measuring the “Subsidy” Component of Biofuel Policies.** Many controversies surround biofuels in general and biofuel subsidies in particular. A comprehensive look is warranted at the subsidy component of biofuel policies and the implications not only for trade negotiations and trade disputes (and lobbying positions), but also to understand trade flows. This information can be used to provide economic and policy advice to support governments to improve the domestic and international performance of their policies. It also improves the capacity to monitor and evaluate biofuel policies, and measure the impact of reforms.

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<sup>1</sup> Through the Trade and Poverty Trust Fund.

- 3.4 Under this component, the project will finance (i) consultancies to gather data and carry out a comparative analysis of biofuel policies and their effectiveness both in developed (USA, Canada) and Latin American countries (Brazil, Mexico); and (ii) a seminar with the participation of high-level policy makers to validate the results of the research and discuss the policy recommendations.
- 3.5 **Component II: The Development Impact of International Labor Migration in Latin America and the Caribbean.** As globalization spread dramatically over the last twenty years, migration expanded less rapidly than either trade or foreign investment. However, the development impact of labor migration on sending countries can be important. The question is whether the effects are positive or negative or a combination of both. For example, the withdrawal of unskilled laborers may prompt higher wages or less underemployment while the brain-drain associated with the exodus of skilled labor may jeopardize progress in some sectors of the economy.
- 3.6 The project will finance (i) support for the development of a research methodology that will allow to measure the development impact of key factors in international labor migration in selected LAC countries; (ii) the preparation of case studies; and (iii) a workshop to disseminate the results of the research.
- 3.7 **Component III: Trade, Transport Costs and Regional Disparities.** Research to be carried out under this component will analyze the complex relationship between trade and development disparities among regions in one country, with special emphasis on the role of transport costs. The research methodology will be to select a small sample of countries that combine both successful and not so successful regions in terms of their ability to leverage trade as a tool for convergence and development. The countries will be selected based primarily on the availability of reliable data on production, exports and domestic and international transport costs.
- 3.8 Under this component, the project will principally finance (i) consultancies to gather the data necessary for the research; (ii) the creation of a small group of external academic advisers; and (iii) the preparation of background papers on specific aspects of the research methodology and/or the case studies.

#### IV. BUDGET

- 4.1 The total cost of the project and the Bank's contribution will be US\$500,000. A budget summary is shown below.

Component	Amount (US\$)
Component I: Trade in Biofuels	150,000
Component II: International Labor Migration	150,000
Component III: Trade, Transport Costs and Regional Disparities	200,000
<b>Total</b>	<b>500,000</b>

- 4.2 The Bank's contribution for this TC will be non-reimbursable and charged against the Market and Governance Trust Fund for Poverty Reduction (KMG).

## **V. EXECUTING AGENCY AND EXECUTION STRUCTURE**

- 5.1 The Bank will be the executing agency for this project. The Integration and Trade Sector will have the responsibility for both the technical aspects of the project as well as the disbursement of its resources.

## **VI. MAJOR ISSUES**

- 6.1 No major issues are expected to negatively affect the timely processing and execution of this TC.

## **VII. ACTION PLAN**

- 7.1 The project team is currently preparing the Plan of Operations. The QRR is scheduled for the week of December 8, with final approval expected for December 16, 2008.

## **VIII. ENVIRONMENTAL AND SOCIAL IMPACT**

- 8.1 The scope of this project is limited to the preparation of studies and the organization of seminars and workshops to disseminate the findings of the studies. While the research is certainly intended to provide input for economic and social policy-making in LAC countries, it cannot be directly linked to policy decisions that could have an environmental or social impact.
- 8.2 In accordance with the Safeguard Policy Filter Report (#2008-12011718-2), the project does not require complementary environmental or social actions. Moreover, in accordance with the Safeguard Screening Form (# 2008-12012135-2), the operation has been classified as category "C".

Approved by: \_\_\_\_\_ (*original signed*) \_\_\_\_\_  
 Antoni Estevadeordal  
 Manager, INT/INT

Date: \_\_\_\_\_ **Dic.09, 2008** \_\_\_\_\_