

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

Trade Sector Facility

FOREIGN TRADE MANAGEMENT SUPPORT PROGRAM

(EC-L1001)

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EXECUTIVE SUMMARY

Borrower:	Republic of Ecuador	
Executing agency:	Ministry of Foreign Trade, Industrialization, Fisheries, and Competitiveness	
Amount and source:	IDB: (OC)	US\$2,900,000
	Local counterpart:	US\$ 750,000
	Total:	US\$3,650,000
Financial terms and conditions:	Amortization period:	20 years
	Disbursement period:	42 months
	Grace period:	42 months
	Currency:	U.S. dollar from the single currency facility

The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established in accordance with document FN-568-3 Rev., and may be changed by the Board of Executive Directors, taking into account the available background information, and the recommendation of the Finance Department. In no case will the credit fee exceed 0.75%, nor will the inspection and supervision fee exceed 1% of the amount of the loan.¹

Interest rate: LIBOR-based option
Credit fee: 0.25%
Inspection and supervision fee: 0%

¹ With respect to the inspection and supervision fee, the amount payable in any six-month period will not exceed the equivalent of 1% of the financing divided by the number of six-month periods in the original disbursement schedule.

Objectives:	<p>The general objective of the program is to improve public management of Ecuador's foreign trade by strengthening the capacity to formulate, negotiate, and apply a comprehensive and consistent trade policy. The specific objectives are: (i) to improve the institutional structure for managing trade policy; (ii) to consolidate the technical and analytical capacity to formulate, coordinate, execute, and evaluate trade policies; and (iii) to establish a comprehensive, sustainable information system for dissemination and support of foreign trade activities.</p>
Components:	<p>The program contains three components: (i) <i>improving institutional organization and coordination</i>, through consolidation of the foreign trade sections of the main ministries involved; creation of effective mechanisms of communication with civil society organizations and the private sector; better organization of the work of the Foreign Trade and Investment Council (COMEXI); and formulation of a foreign trade policy for the country that will serve to guide sector activities; (ii) <i>developing the technical capacity to negotiate and implement trade agreements</i>, intended to create technical capacity in highly specialized areas in order to deal with the very complex upcoming negotiations; and (iii) <i>modernization of the information and communication system</i>, to support the technical and coordination work of trade policy officials by creating an effective information and communication system covering all relevant institutions in the sector, and offering technical tools for evaluating the economic impact of trade policy options.</p>
Special contractual clauses:	<p>The following will be conditions precedent to the first disbursement: (i) creation and establishment of the Interinstitutional Coordination Commission (CIC) and the Technical and Administrative Advisory Group (GATA); (ii) contracting of the general coordinator for the GATA and of the person responsible for accounting and procurement administration, as a minimum; and (iii) appointment of persons responsible for execution in each beneficiary ministry. Membership of the CIC has already been agreed with the counterpart, as has the composition and financing of the GATA.</p> <p>Special disbursement: Once the contract is in force and the general conditions precedent to the first disbursement set out in the loan contract have been fulfilled, the Bank may disburse up to the equivalent of US\$20,000 from the loan to initiate program activities.</p>

Relationship to the Bank's country and sector strategy:

The Bank's strategy with Ecuador calls for actions in support of the following objectives: (i) economic stabilization and recovery of growth capacity; (ii) poverty alleviation, human capital formation, and social inclusion; (iii) efficient management of infrastructure with private capital participation; and (iv) modernization and decentralization of the State, and promotion of regional sustainable development. By consolidating the institutions involved in foreign trade management, and helping to integrate the country more thoroughly and actively into world trade, the program will promote the recovery of growth capacity, and thereby contribute directly to achieving objectives (i) and (iv) of the strategy.

Coordination with other official development institutions:

The World Bank and the Andean Development Corporation (CAF) have both prepared projects in support of export competitiveness, and the proposed program will complement their activities. USAID is currently preparing a proposal for a foreign trade support program that will channel about 65% of the total funding of US\$1.5 million into private sector activities, while the remainder of the program will support the public sector in a manner complementary to the Bank's program. The CAF recently completed a technical cooperation program to simplify export procedures, and is now planning activities that will include a review of import procedures, strengthening of customs administration, promotion of the country's image abroad, and feasibility studies concerning border crossings, that will also be complementary to this program. In addition, as part of the exercise for defining a Hemispheric Cooperation Program under the FTAA, Ecuador has prepared a document, with Bank support, summarizing areas in which needs have been identified. Finally, the program takes account of the Regional Programming for Andean Countries, which defines integration objectives and joint activities.

Environmental and social review:

The program is not expected to have any direct environmental impact. Nevertheless, because it will include studies and specific training on linkages between the environment and international trade (an issue currently being addressed by a WTO working group, and regulated by OECD standards), the operation may be expected to have an indirect but positive impact on the environment.

In terms of its social impact, the program is expected to produce positive effects by positioning the country better in international markets. By increasing overall of trade and improving the country's negotiating capacity, the program will help to increase opportunities for economic growth and job creation.

**Potential
benefits:**

The program will improve the country's capacity to formulate its domestic economic policy by helping it to improve the design and administration of its foreign trade policy, strengthen its organization and preparation for the conduct of trade negotiations, and take greater advantage of trade agreements already signed, while implementing the commitments it has assumed. The comprehensive scope of the operation will also help eliminate the inefficiencies inherent in the existing gap between negotiation strategies and trade policy, a measure that should make both functions more consistent and effective. The operation's various components will also encourage greater participation by economic and institutional actors in defining trade policies, and in this way lend greater legitimacy and stability to those policies. Lastly, the establishment of permanent forums will foster better knowledge, dialogue and consensus among the government, the private sector, and civil society concerning the country's strategic orientation in global markets.

Potential risks:

The risks inherent in this operation relate primarily to its interagency nature, involving numerous beneficiary entities in the public sector. This could create difficulties and inefficiencies in the operation's strategic, operational, and administrative coordination. Nevertheless, given the necessarily cross-disciplinary and interagency nature of trade negotiations, it would be inadvisable to try to meet these challenges by concentrating activities on a single institution. It has been decided therefore to accept this risk and to mitigate it through active participation by all agencies involved in the definition of activities, which have been designed on the basis of constant and extensive consultations. That approach took shape in an interagency agreement that the Bank presented to all the sectors involved, covering the proposed activities. As well, the terms of reference for the CIC and the technical support group for the program (which includes at least one technical expert from every institution) will give priority to conducting the activities on the basis of efficient operating procedures and ongoing interagency coordination, while maintaining the necessary linkages to all beneficiaries.

A second risk has to do with the limited institutional management capacity of the ministries participating in the program. This risk will be mitigated under the first component, which will support organizational reforms, the revision of operating procedures, and the distribution of responsibilities and personnel, so as to strengthen management and implementation capacities in each of the units.

A third risk relates to the program's institutional and technical sustainability to handle negotiations once the loan funds have been exhausted. This risk will be addressed as follows: (i) all the technical

support personnel needed under the three components will be contracted with local counterpart funds, which will make it easier for them to remain in the institution once the program is completed; (ii) incentives (not necessarily financial) will be developed to give the institutions more leeway in retaining employees trained and qualified under the program; (iii) training will be provided in various technical issues of trade negotiations, and in the implementation and administration of trade agreements, to establish a core of expertise that will endure beyond the short term of this operation and can be applied in possible future negotiations; (iv) technical assistance services will develop instruments to support the negotiating teams, and these services will remain available and useful for future negotiations; and (v) the consolidation of consultation mechanisms with civil society and the private sector, and the user-friendly trade information system that will be established, are designed to provide a permanent sounding board for public demands and positions relating to foreign trade.

Poverty-targeting and social sector classification:

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). Furthermore, this operation does not qualify as a poverty-targeted investment (PTI).

Procurement plan and timetable, and thresholds for international competitive bidding:

Procurement plan and schedule and international competitive bidding amounts:

All procurement of services and goods for the program will be conducted in accordance with the Bank's procurement policies and procedures. When the value of goods is equal to or exceeds US\$350,000 and US\$200,000 in the case of consulting services, the bidding calls for proposals will be carried out at the international level. In both cases, procurement and services contracts for amounts below those indicated will be governed by the procedures established in national legislation, provided they are compatible with Bank policies. The program does not call for the financing of civil works.

Key performance indicators and monitoring benchmarks:

- The private sector conducts international trade transactions under better conditions of market access, under domestic regulatory frameworks compatible with the agreements negotiated, and with greater availability of information.
- The country has the institutional capacity to articulate negotiation proposals for presentation at international trade agreement meetings.
- New trade agreements have been negotiated and any necessary legislative and regulatory reforms and changes have been introduced.
- The government's management of foreign trade is reformed and better coordinated, responding efficiently to public interests and to

the needs of private exporters.

- COMEXI approves an overall foreign trade policy, with specific indicators and targets for both the short and long runs.
- The country's negotiators are better trained and informed, and are bringing specific proposals to the table in trade agreement negotiations.
- Trade information and domestic and external databases are accessible online, via electronic portals, to public and private users alike.

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

Review of the annual operating plans (AOPs). The GATA will prepare an AOP at the beginning of each year, outlining the activities, schedule, terms of reference, and indicative targets that are expected to be met during the following 12 months, for the operation's three components. All AOPs, except those for year one, will also include an evaluation of the work performed during the preceding period, with justification for any changes proposed to the original targets.

Midterm evaluation. This review will be performed at or around the end of month 18 of the program execution. The evaluations will be based mainly on the logical framework and the indicative targets used for monitoring the program.

Final evaluation. When at least 90% of the proceeds of the financing has been disbursed, a final evaluation will be performed to examine the results of the program and the extent to which the originally proposed targets have been met.

Ex post evaluation. The GATA will compile, record, and retain all information, indicators, and parameters, including the AOPs, the midterm evaluations, and the final evaluation, so that: (i) the Bank can prepare the Project Completion Report (PCR); and (ii) the Office of Evaluation and Oversight (OVE) can conduct an ex post verification of the program's results or impacts, if it so decides, in accordance with the policy guidelines in GN-2254-5.

Progress reports. The GATA will submit semiannual progress reports to the Bank describing the activities completed and the procedures used in applying the proceeds of the financing.