

SUPPORT FOR THE TECHNICAL MANAGEMENT AND CONDUCT  
OF INTERNATIONAL TRADE NEGOTIATIONS

(TC-96-10-50-3)

EXECUTIVE SUMMARY

**REQUESTER:** Republic of Paraguay

**EXECUTING AGENCY:** Ministry of Industry and Trade

**BENEFICIARIES:** Ministry of Industry and Trade, Ministry of External Relations, and Ministry of Integration

**FINANCING:**

IDB - FSO foreign currency:	US\$1,476,000
IDB - FSO local currency:	US\$ 544,600
Local counterpart funding:	US\$ <u>1,429,400</u>
Total:	US\$3,450,000

**TERMS:**

Execution period:	24 months
Disbursement period:	30 months

**ENVIRONMENTAL REVIEW:** The Bank's Committee on Environment and Social Impact reviewed this operation at its meeting of November 21, 1997, and recommended that explicit reference be made to the issue of trade and the environment. In its presentation to the Committee, the project team agreed to expressly include this topic in the training courses provided for in the different components of the program.

**OBJECTIVES:** The overall objective of this technical cooperation is to help make for greater and more effective participation by Paraguay in the design and conduct of trade negotiations in regional and international trade negotiation forums, by bolstering the technical negotiating capacity of the institutions responsible for the country's trade and foreign policies.

**DESCRIPTION:** The project will consist of three components: (i) strengthening the technical capabilities of the Ministry of Industry and Trade's Undersecretariat for Trade; (ii) reinforcing the Ministry of Integration's internal coordination and communications and information mechanisms; and (iii) strengthening the Ministry of External Relations' negotiating and foreign-service management capacity.

**BENEFITS:** Given the vital importance of international trade talks to the Paraguayan economy in general, modernizing the institutions and providing training

for officials in charge of the technical side of these negotiations will enable the country to participate more fully and effectively in the various international forums, and thus strengthen its bargaining position.

**RISKS:**

The principal risks of this operation have to do with (i) the capacity for interagency coordination both within the public sector and between the public and private sectors, and the possibility of opposing interests in the private sector with respect to certain areas of negotiation; and (ii) possible changes in personnel in the course of the technical-cooperation operation or in the years immediately following its completion.

To mitigate the first of these risks, the program itself includes the design of interagency coordination arrangements. To counter the risk of personnel changes, a condition precedent to the first disbursement under the program is the appointment of counterpart technical staff for the entire duration of the operation.

**THE BANK'S  
COUNTRY STRATEGY:**

This operation is consistent with the Bank's strategy for Paraguay, inasmuch as the country paper includes State reform as one focus for strategic action, underscoring the need to modernize the operational and administrative capabilities of the country's ministries and decentralized public agencies, with particular emphasis on institution-strengthening, which is the main goal of the present operation. In addition, the Eighth Replenishment calls for the Bank to assist the region's countries in modernizing their production structures and public sectors through greater access to external markets and training programs aimed at making them more competitive in the global marketplace and satisfying basic needs of the population. The Bank's strategy for MERCOSUR supports the consolidation and expansion of free trade through activities that are consistent with reforms and trade liberalization processes already under way. Finally, the Bank as a member of the IDB/OAS/ECLAC tripartite committee has also been providing support for the process to pave the way for a Free Trade Area of the Americas.

**PROCUREMENT OF  
GOODS AND  
CONSULTING  
SERVICES:**

The technical-cooperation agreement will include provisions requiring adherence to the Bank's procedures regarding the recruitment and contracting of consultants and the purchase of goods and services.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

- a. The following are conditions for presentation of the operation to the Board of Executive Directors: (i) submission of proposed regulations for reorganizing the Ministry of Industry and Trade (MIC) and draft executive order to that end (see paragraphs 3.44 and 3.45); (ii) submission of a draft executive order to create a department in the Ministry of Integration to be responsible for information programs and coordination of economic integration processes (see paragraph 3.46); and (iii) an interagency agreement between the MIC, the Ministry of External Relations, and the Ministry of Integration, to establish a mechanism for coordinating the design and implementation of Paraguay's trade policy, including its participation in international trade negotiations (see paragraph 3.48).
- b. The following activities must be completed to the Bank's satisfaction as conditions for the first disbursement under the program: (i) selection of the lead technical advisor (see paragraph 3.38); (ii) recruitment and hiring of coordinators satisfactory to the Bank for each component, on a full-time basis for 24 months, with budgetary allocations for 12 months from each executing agency (see paragraph 3.37); (iii) recruitment and hiring of permanent employees required by the three ministries, under the conditions set out in the plan of operations (see paragraphs 3.50 to 3.52); (iv) approval of the new draft regulations to reorganize the MIC (see paragraphs 3.44 and 3.45) and issuance of the corresponding executive order; (v) issuance of the executive order and implementing regulations to create a department in the Ministry of Integration to be responsible for information programs and coordination of economic integration processes (see paragraph 3.46); (vi) changes to the project arranged between the MIC's Undersecretariat for Trade and the United Nations Development Programme (see paragraph 3.53); (vii) submission of the work plan for the first year of the program (see paragraphs 3.55 and 3.56); and (viii) submission of joint ministerial and interagency agreements on the appointment of officials to represent other ministries and agencies in specified negotiations (see paragraph 3.48).

**DATE OF APPROVAL  
OF PROFILE:**

The technical-cooperation profile was presented to the Bank's Programming Committee for information on July 21, 1997.

Executive Summary

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EXCEPTIONS TO BANK None.  
POLICIES:

## I. BACKGROUND

### A. Importance of foreign trade

- 1.1 Paraguay's trade with the rest of the world has experienced steady growth since 1992. Official exports rose 25% between 1992 and 1995, while official imports were up 47% over the same period.
- 1.2 Regional trade has taken on considerable importance in recent years with the signing of agreements for liberalization of markets. Between 1990 and 1996, the volume of Paraguay's imports from other countries in the region climbed by 27%, and in value terms nearly tripled, rising to US\$1.3 billion. In 1996, more than 43% of Paraguay's imports came from other Latin American countries, and 13% from the United States.
- 1.3 Meanwhile, Paraguayan exports to other countries of the region grew by 38% over the period 1990-1996, accounting for two thirds of its total exports in 1996.
- 1.4 Trade within the MERCOSUR countries has seen particularly strong growth in recent years. Whereas exports to its MERCOSUR partners in 1990 accounted for only 39.6% of Paraguay's official export trade, by 1996 this figure had ballooned to 62.8%. Similarly, imports from MERCOSUR countries made up only 31% of its import total for 1991; by 1996 the MERCOSUR share had risen to 54.3%.
- 1.5 Brazil is Paraguay's chief trading partner, and under MERCOSUR, Argentina and Brazil have become its leading export markets. In 1996, Brazil accounted for 49.9% of the country's exports, while Argentina absorbed 9.2%. In that year as well, Brazil was the main source of Paraguayan imports (32.7%), followed by Argentina with 19.5%.

### B. Paraguayan international trade negotiations

- 1.6 In the 1960s and 1970s, Paraguay negotiated economic and trade assistance or cooperation agreements with a number of countries intended to boost bilateral trade. These included treaties signed with the United States (1961), Taiwan (1962), Spain (1971) and Germany (1978). However, these bilateral arrangements did not form part of an overall trade policy framework aimed at opening up the country's economy as a means of securing greater access to external markets.
- 1.7 In 1975, Paraguay began implementing these agreements by enacting a series of laws and decrees affecting various areas of its foreign trade sector. Then, in the early 1980s, Paraguay joined the Latin American Integration Association (LAIA), set up by the Montevideo Treaty of August 12, 1980. Under its auspices, economic complementarity agreements were signed with Argentina (1989),

Bolivia (1994) and Ecuador (1994). On November 29, 1991, Paraguay along with Argentina, Brazil and Uruguay signed the agreement establishing the Southern Cone Common Market (MERCOSUR).

- 1.8 As well, beginning in 1989 Paraguay has set about freeing up its economy by rewriting many of its trade and investment policies, in effect unilaterally eliminating a series of obstacles to foreign trade and investment. To this end, bilateral investment agreements have been signed with Spain, Peru, Romania and Venezuela.
- 1.9 Since the early 1990s, Paraguay's trade legislation has come to be based increasingly on provisions adopted under integration agreements or in trade negotiations such as those taking place within MERCOSUR and the World Trade Organization (WTO).
- 1.10 In short, Paraguay's participation in MERCOSUR beginning in 1991, its accession to the General Agreement on Tariffs and Trade (GATT) in 1994, and new international commitments undertaken by the country in 1995 in the wake of the Uruguay Round, are major steps forward in the effort to ensure its full participation in regional economic integration and the globalization of trade.
- 1.11 The above-mentioned international agreements ratified by Paraguay have expedited foreign trade and represent fundamental milestones in the regional integration process and trade liberalization in general.

#### 1. Paraguay and MERCOSUR

- 1.12 Paraguay is a member of MERCOSUR, which was created in March 1991 under the Treaty of Asunción with the goal of establishing a common market and free trade in goods, services and factors of production between its member states. Since late 1994, MERCOSUR has wiped out nearly 95% of the tariffs formerly levied in intraregional trade. The remaining tariffs will be gradually removed under the Phased-in Reduction Regime, in which tariffs on lists of sensitive products will be lowered in stages. Certain sectors, such as the automotive and sugar refining industries, are not due to come under a common regime until the years 2000 and 2001, respectively.
- 1.13 MERCOSUR's common external tariff (CXT) took effect on January 1, 1995, covering approximately 85% of all tariff headings. The rest of the goods are included in lists of exceptions with detailed timetables for reaching a CXT by no later than 2006 in the case of Paraguay and Uruguay, and 2001 for Argentina and Brazil.
- 1.14 Negotiations are currently being held to do away with nontariff measures and harmonize or coordinate policies in other trade-related areas, including services, with a view to a full-fledged customs union in future. With this in mind, the new institutional structure of MERCOSUR (created in 1994 by the Ouro Preto Protocol) calls for numerous negotiating forums to deal with specific topics

and sectors. Thus, under the framework of the Common Market Group (GMC), technical and ad hoc subgroups have been established to analyze the following topics: (i) technical standards; (ii) manufacturing policy; (iii) agricultural policy; (iv) transportation; (v) sugar; (vi) services; (vii) external relations; and (viii) trade-distorting public policies.

- 1.15 Moreover, nine technical committees are now operating under the MERCOSUR Trade Commission (CCM) with a mandate to continue negotiation of tariffs, customs issues, trade rules and disciplines, protection against anti-competitive and unfair trade practices, consumer safeguards, nontariff barriers, the automotive sector and textiles.
- 1.16 The process for expanding subregional agreements is considered part of the "building block" approach to establish a South American Free Trade Area (SAFTA). Under this approach, the members of MERCOSUR maintain a united front in renegotiating existing preferential agreements with nonmember countries under the LAIA framework and in other negotiating forums. In doing so, the MERCOSUR countries adopt a "Four plus One" format in which they negotiate as a bloc with individual countries. Using this mechanism they have concluded free-trade agreements with various countries, among them Chile and Bolivia, which have thus become permanent members of MERCOSUR.
- 1.17 MERCOSUR is currently holding discussions with the members of the Andean Community, Canada and Panama, aimed at concluding trade agreements. In addition, negotiations are under way for the multilateralization of the preferences agreed to under the LAIA framework, between the MERCOSUR member states and Mexico.
- 1.18 MERCOSUR signed a framework cooperation agreement with the European Union in December 1995 intended to expand economic and trade cooperation, and raising the possibility of an association between the two blocs aimed at mutual abolishment of trade barriers.
- 1.19 Beginning on January 1, 1999, Paraguay will once again serve as President *pro tempore* of MERCOSUR, having already occupied this post on a prior occasion under the organization's six-month rotating presidency arrangement.

## 2. Paraguay's accession to the General Agreement on Tariffs and Trade (GATT)

- 1.20 Even before its accession to GATT in 1994, Paraguay had participated in the multilateral trade negotiations of the Uruguay Round, and in November 1994 the country signed the Marrakesh Agreement, thus becoming a founding member of the World Trade Organization (WTO) on January 1, 1995. Since then, Paraguay has dedicated itself to following through on the commitments assumed in that forum, reviewing its trade policies, passing new legislation

and complying with a series of provisions concerning notification of changes to its trading partners.

- 1.21 Notwithstanding these efforts, the magnitude of the country's commitments and its limited institutional and human resources leave Paraguay with a series of unfinished tasks in various areas.
- 1.22 Commitments under the WTO alone will require that Paraguay be prepared to negotiate in several areas of singular importance to international trade, including agriculture, services, and rules of origin. Also upcoming are discussions on very complex issues such as trade and the environment, protection against anti-competitive practices and analysis of the dispute settlement process, among others.
- 1.23 As part of its WTO commitments, Paraguay agreed to conduct its first trade policy review this year (for countries in Paraguay's category, a review is required every six years). The point of this exercise is to regularly assess the full range of each member country's trade policies and practices, and the effect these have on the operation of the multilateral trade system.
- 1.24 Even though Paraguay just submitted its trade policy review in July 1997, the officials of the MIC and the other institutions in charge of the country's trade policy will need to keep constant watch over Paraguay's foreign trade system in order to ensure that its commitments under the WTO framework are being honored.
- 1.25 Because certain of the agreements made by Paraguay under MERCOSUR are at odds with its WTO commitments (vis-à-vis tariff bindings in particular), Paraguay has also agreed to initiate negotiations with its trading partners in accordance with the mechanisms established for this purpose by the WTO.
- 1.26 Finally, Paraguay also has a number of measures that must be carried out for full compliance with its obligations under agreements signed during the Uruguay Round. These actions must be carried out on time and in accordance with the international commitments undertaken, and will also require ongoing, comprehensive monitoring.

3. Paraguay's participation in negotiations to establish the Free Trade Area of the Americas (FTAA)

- 1.27 In December 1994, the presidents of the Western Hemisphere agreed to establish a Free Trade Area of the Americas (FTAA) by the year 2005. To this end, 12 working groups were set up to examine various topics and make recommendations on the best ways for achieving this objective in each of the areas studied. The groups are addressing the following areas: (i) market access; (ii) customs procedures and rules of origin; (iii) antidumping, subsidies and countervailing duties; (iv) competition policy;



(v) sanitary and phytosanitary measures; (vi) technical barriers to trade; (vii) investment; (viii) smaller economies; (ix) services; (x) government procurement; (xi) intellectual property rights; and (xii) dispute settlement.

- 1.28 Preparatory discussions are planned within each of these technical groups to pave the way for the FTAA. Several rounds of talks will take place in the latter half of 1997, culminating in the ministerial meeting to be held in San José, Costa Rica, in early 1998, followed by the Hemispheric Summit of Heads of State and Government which will take place in Santiago, Chile, in April 1998.

C. Institutional framework for trade negotiations

- 1.29 Responsibility for international trade negotiations and policy is spread among a number of Paraguayan government agencies. The principal agencies with specific responsibilities for international trade matters are: the Ministry of Industry and Trade (MIC), acting through its Undersecretariat for Trade, which is legally empowered to participate in international negotiations for the advancement of Paraguayan trade and industry; the Ministry of External Relations, the agency in charge of international affairs; and the Ministry of Integration, which is responsible for Paraguay's participation in regional integration processes.
- 1.30 The act creating the Ministry of Industry and Trade (Law 904 of 1963) assigns to the MIC *inter alia* the following duties: (i) to adopt, in coordination with other government agencies, economic policies which will help ensure the supply of the goods and services needed by the nation; (ii) to participate in international negotiations and meetings relating to the nation's trade and industrial development; and (iii) to conduct economic analyses and studies of the nation's trade and industrial development.
- 1.31 Under MERCOSUR, the MIC has functioned since 1995 as coordinator (National Section) of both the Common Market Group (GMC) and the MERCOSUR Trade Commission (CCM). In addition, the Ministry coordinates four technical subgroups of the GMC, and seven of nine technical committees operating under the CCM. The MIC also serves as national coordinator for the FTAA, and bears technical responsibility for 8 of its 12 working groups.
- 1.32 The duties and functions assigned to the Ministry of External Relations (MRE) under Decrees 5817/84 (which sets out its organizational structure) and 15735/92 (approving its internal regulations) include: conduct of the political, economic and legal affairs of the Republic at the international level, and hence the preparation and formalization of international treaties and agreements; directing the diplomatic corps and consular services abroad; and representing the Republic in dealings with external organizations and at international congresses and meetings.

- 1.33 In its capacity as spokesperson for the nation's interests and director of its diplomatic and consular representatives abroad, the MRE also heads Paraguay's delegation to MERCOSUR'S governing body, the Common Market Council (CMC).
- 1.34 Among the objectives assigned to the Ministry of Integration in the Act that governs its structure and operation (Law 93 of 1991) are the following: (i) ensure that Paraguay participates in regional and hemispheric integration movements; (ii) coordinate and promote fully competitive and effective participation by Paraguay in integration processes; (iii) foster and encourage specific projects involving the association of firms as a means of increasing the effectiveness of, and hastening, the integration process; (iv) cooperate with the Ministry of External Relations in negotiating integration projects, agreements, conventions or treaties; and (v) monitor the actions of other ministries and State agencies which help chart integration policy.
- 1.35 In addition, the Ministry of Integration has been assigned a lead role in the vital task of providing information and supervising communications to ensure that the private sector and the rest of civil society are kept up to date on official developments in the integration process and their ramifications.
- 1.36 For the purpose of negotiating Paraguay's accession to GATT and ensuring interagency coordination of the country's trade negotiations, the public institutions responsible for the design, management and implementation of trade policy 1/ have joined with the Paraguayan Manufacturers Association to form a National Foreign Trade Council.
- 1.37 In preparation for the country's first WTO trade policy review this year, a government decree was issued creating the Interagency Commission for Paraguay's Trade Policy Review under the WTO. This body is coordinated and headed by the Ministry of Industry and Trade, and is made up of representatives from the Ministries of External Relations, Finance, Integration, Agriculture, and Transport, along with the country's leading private-sector entities and associations.

D. Rationale for strengthening Paraguay's technical and negotiating capacity

- 1.38 One of the main areas of activity under the government's economic program is that of developing the country's capacity to participate actively in international trade negotiations in order to make

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1/ Ministry of Industry and Trade, Ministry of Finance, Ministry of External Relations, Ministry of Agriculture, Ministry of Integration, and the Central Bank of Paraguay.

certain that Paraguay's interests are duly reflected in regional and global integration policies.

- 1.39 With this in mind, and cognizant of the enormous challenge that such trade negotiations are representing for the country and the government in terms of technical and institutional resources, in November 1996 the Government of Paraguay requested technical assistance from the Bank. In response, the Bank conducted an identification and orientation mission from November 30 through December 4, 1996, with the participation of representatives of the Ministries of Industry and Trade, External Relations, Integration, and Finance, and the Planning Secretariat. In the course of the mission, these representatives pointed out the deficiencies, problems and needs to be addressed in order for the country to effectively conduct its trade negotiations, and agreed that under the current circumstances the strengthening of Paraguay's technical and negotiating capacity constitutes a priority.
- 1.40 Given the economic importance of trade agreements to be signed by Paraguay under the WTO, MERCOSUR and the FTAA, strengthening of the institutions responsible for the associated negotiations is vitally important. Provision of training, advanced specialization and professional upgrading for the personnel of these institutions is essential in order for Paraguay to be effective in negotiating international trade agreements.
- 1.41 Given its current position in the global economy and its need to take an active role in the various negotiation forums mentioned above, Paraguay faces a major challenge. Specifically, the complexities of international trade talks require a high level of expertise in the various subject areas, the lack of which has until now prevented Paraguay from effectively participating in these negotiations.
- 1.42 The foregoing situation has resulted in weak foreign trade policies and negotiating strategies without solid technical underpinnings and largely bereft of medium- or long-term objectives. Paraguay's challenge in entering these negotiations is greater still considering its status as a smaller economy with a relatively low level of social and economic development.

E. The Bank's strategy and prior experience in Paraguay. Other donors

1. The Bank's strategy and experience in Paraguay

- 1.43 The Bank's strategy: In its activities, the Bank will concentrate on five strategic areas: (i) the financial sector, where the Bank will work to improve the operation of the financial system and support development of capital markets; (ii) reform of the State, to help make public services more efficient and strengthen governance; (iii) modernization of the productive apparatus, to help build an efficient economy; (iv) support for the social

sectors, as a means of promoting their development; and (v) support for the rural sector, with the aim of reducing poverty and raising the standard of living, especially among those most in need.

- 1.44 One of the priority areas under State reforms is to modernize the operational and administrative capabilities of the country's ministries and autonomous public agencies, with particular emphasis on institution-strengthening. In addition, the Eighth Replenishment calls for the Bank to assist the region's countries in modernizing their production structures and public sectors through greater access to external markets and training programs aimed at making them more globally competitive and satisfying basic needs of the population. Hence, the operation proposed herein is in line with the Bank's strategy for Paraguay.
- 1.45 Likewise, the Bank's strategy for MERCOSUR (as set out in the regional programming paper) is designed to promote the consolidation and expansion of free trade under MERCOSUR (including Bolivia and Chile), in a manner consistent with the reform and trade liberalization processes already under way.
- 1.46 At the request of 34 member countries in the hemisphere, the Bank -- as a member of the IDB/OAS/ECLAC tripartite committee -- has also been providing support for creation of the FTAA through ongoing assistance to the working groups established to examine specific areas.
- 1.47 The Bank's experience in Paraguay: In December 1992, the Bank approved an investment sector program (still under way) which includes action on trade reforms. Included under this subprogram are activities intended to strengthen the capacity of the MIC to: (i) develop legislation on unfair trade practices and safeguard measures under the MERCOSUR agreements and for the GATT Uruguay Round (including creation of a Committee on Trade Distorting Practices); (ii) devise strategies for liberalization of the nation's trade policy; (iii) produce diagnostic studies of competitiveness for certain subsectors of industry, agriculture and services; and (iv) produce studies and propose a national policy on free-trade zones.
- 1.48 The present program is designed to further the effort being made by the Bank under the investment sector program to strengthen the analytical capabilities of the public agencies that manage the country's trade policy.

## 2. Other donors

- 1.49 The Ministry of External Relations (MRE) is currently receiving technical and financial assistance under the United Nations Development Programme (UNDP) valued at US\$371,950, as well as assistance from the governments of Korea (US\$400,000) and China

(US\$60,000), to help carry through institutional reforms and modernize Paraguay's foreign affairs department.

- 1.50 For its part, the Ministry of Integration is receiving technical cooperation valued at US\$185,000 from the Agencia Española de Cooperación Internacional to advise the government on the most effective means of achieving integration under MERCOSUR. In October 1996 the MIC through its Undersecretariat for Trade began an institution-strengthening project for the design and adoption of trade policies, with UNDP support. The US\$2.6 million in funding for this project will come from the MIC's own resources; the program will be carried out over a period of 39 months ending in December 1999.

## II. OBJECTIVES

- 2.1 The overall objective of this technical cooperation is to contribute to greater and more effective participation by Paraguay in the design and conduct of trade negotiations in regional and international trade negotiation forums, by strengthening the technical capacity and bargaining power of institutions responsible for the country's trade and foreign policies.
- 2.2 The specific objectives of the program are follows:
- a. To provide training for current technical officials and build expertise in additional officers in effective methods of conducting trade negotiations. The aim is to ensure that those responsible for the negotiation and ultimate implementation of trade accords have an opportunity to acquire expertise in the various subject areas to be examined and discussed in trade negotiations to which Paraguay will be party.
  - b. To bolster internal coordination arrangements and mechanisms for disseminating information to the private sector and civil society for purposes of promoting: (i) greater discussion and understanding of matters on the bargaining table and their ramifications for the country; and (ii) effective coordination between public and private sectors to ensure that the trade negotiations conducted by the public sector accurately reflect the realities of the country's private sector.
  - c. To ensure effective implementation of the trade agreements signed by Paraguay.
  - d. To help develop the necessary logistical support locally and in the international sphere, to ensure effective intergovernmental coordination and communication in the management and

distribution of information generated by trade negotiation processes.

### III. DESCRIPTION OF THE PROGRAM 2/

#### A. Components

3.1 The project will consist of three components:

1. Strengthening the technical capabilities of the Ministry of Industry and Trade's Undersecretariat for Trade (US\$915,496)

3.2 The objectives of this component are to: (i) give responsible officials greater technical expertise in the different issues to be discussed in international trade negotiations; and (ii) develop the technical support necessary for designing policy strategies and negotiating positions that take the country's actual circumstances into account and accurately reflect the economic potential of the country, its producers and exporters.

3.3 The principal activities to be carried out under this component include:

#### a. Strengthening human resources in high-priority areas

3.4 Training and other strengthening activities will be provided in high-priority areas to build core expertise in the various subject areas which are the focus of trade negotiations, for purposes of: (i) the trade policy review required under the WTO; (ii) negotiations within the CCM technical committees and the GMC working subgroups; (iii) MERCOSUR's "Four plus One" negotiations; and (iv) discussions within FTAA working groups.

3.5 A total of 15 officials will benefit from this component, by means of the following:

3.6 (i) Hiring of local and international consultants to promote transfer of expertise and exchange technical information with local officials. The specific tasks to be carried out by these consultants are also designed to facilitate the design of policies, technical approaches and negotiating positions which will secure maximum benefits for Paraguay in the trade liberalization process.

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2/ The Logical Framework in Annex I lists the program's components and activities, expected outputs and outcomes, and means of verifying same.

- 3.7 (ii) Production of technical studies in the areas of trade and services (financial, telecommunications and professional services), and public policies which skew competition. The purpose is to make more information and technical analysis available in support of the design, formulation and technical underpinnings of national policy strategies during the various trade negotiations conducted by the institutions in charge in each case.
- 3.8 (iii) Training courses specially designed by academic institutions and international centers with recognized expertise in the field of trade negotiations. Given the level of specialization necessary in the program subject areas and the requirement to tailor training courses or programs to the needs and particular circumstances of Paraguay, selection of the training institutions will be based on guidelines identified in advance. A further requirement is that the training courses address the environmental issue as well as labor and trade.
- 3.9 (iv) Internships in counterpart offices of other countries, to enable local officials to build specialized knowledge in specific areas and gain experience in the handling and administration of agreements, laws and regulations, and in the operation of institutions.
- 3.10 (v) Design and implementation of a permanent university course on foreign trade and economic integration, to help establish an ongoing mechanism for solid professional training in these areas. This course must likewise cover the topics of environment and labor and trade. The technical cooperation will include funds to hire an international consultant who, in coordination with the administrative and academic authorities of the chosen university, will design the course content and provide support during its initial implementation.
- 3.11 (vi) Seminars designed to ensure adequate transfer of expertise and promote implementation of the recommendations and suggestions put forward by international consultants and derived from the technical studies. These seminars will deal with unfair trade practices, protection against anti-competitive behavior, intellectual property, and competition-distorting public policies.
- 3.12 (vii) External *in situ* training for the purpose of ensuring effective participation by local officials responsible for the technical side of issues dealt with in the respective trade negotiation forums.
- 3.13 The human-resources development programs will focus on the following areas:
- 3.14 (i) Market access and rules of origin: The purpose of this training will be to help secure broader and better access to other markets for Paraguayan exports, and to determine the costs and

benefits that accrue to the nation under hemispheric economic integration and trade liberalization.

- 3.15 (ii) Unfair trade practices: Training will be designed to:  
(i) complete and consolidate the process of implementing the Uruguay Round agreements in this area, for purposes of adoption of regulatory and institutional measures; and (ii) ensure due enforcement of the new national legislation.
- 3.16 (iii) Protection against anti-competitive practices: The aim will be to implement and consolidate regulations and institutional measures in respect of MERCOSUR agreements on this topic, and to facilitate the handling and understanding of the impact on Paraguay of eventual negotiations in this area under the WTO and FTAA frameworks.
- 3.17 (iv) Investment: The purpose of the strengthening activities in this area is to promote the adoption of a regulatory framework that will effectively attract foreign investment in Paraguay.
- 3.18 (v) Intellectual property: Training here will help to: (i) consolidate the process of implementing the Uruguay Round agreements on intellectual property; (ii) bring the new national legislation on trademarks, patents, copyright and associated rights into line with the WTO agreements; and (iii) modernize the organization and operation of institutions responsible for enforcement and administration of intellectual property legislation.
- 3.19 (vi) Trade in services: Activities here are designed to maximize opportunities for exports and investments which may benefit the country in this area, and to identify the limitations and deficiencies, and the potential advantages, of freeing up the trade in services.
- 3.20 (vii) Government procurement: The object here will be to:  
(i) promote greater transparency in government contracting;  
(ii) adjust legislation to reflect the basic principles applying in this area, and conduct periodic updates to keep abreast of international developments regarding government procurement; and  
(iii) identify existing limitations and deficiencies, as well as potential advantages of liberalizing trade in this area.
- 3.21 (viii) Competition-distorting public policies: The goal in this area will be to identify those public policies and practices applied by other countries which are keeping Paraguayan exports from being competitive, and work to eliminate them.
- 3.22 The areas listed above were determined based on international commitments undertaken by Paraguay for which it does not yet have a national policy, the definition of which may require legislative reforms in which it is important to consider existing parameters



(international agreements and the national laws of other countries).

b. Creation of databases

- 3.23 The objective in this activity is to create databases from materials on the various areas of trade negotiations and existing information systems on foreign trade, including acquisition of the required equipment, to build a strong team with expertise in the management of foreign trade databases and preparation of technical analyses and studies, in order to improve administration of Paraguay's trade policy. The databases will cover areas such as trade flows, tariffs, nontariff measures, international prices for selected goods, provisions governing trade in services, etc.

2. Strengthening of internal coordination and dissemination of information to the private sector and civil society  
(US\$166,160)

- 3.24 The objectives of this component, which is to be carried out by the Ministry of Integration, are to: (i) encourage private-sector participation in the trade negotiation process; (ii) promote effective coordination between the public and private sectors to ensure that public-sector trade negotiations accurately reflect the reality of the nation's private sector; and (iii) generate understanding, dissemination of knowledge, discussion and deeper analysis of matters under negotiation, their scope and ramifications for the country as a whole, as well as for specific sectors of society. Given the importance of the agricultural sector to Paraguay's economy, this component will include special efforts to promote dialogue with private-sector interests in rural areas.
- 3.25 The principal activities in this component are: (i) creation of discussion and support groups made up of representatives of the public and private sector; (ii) seminars and workshops for the private sector on trade negotiation issues; (iii) periodic publications regarding the issues on the bargaining table; (iv) generalized Internet access for the public agencies heading up the negotiations; (v) creation of a government web page containing information on trade agreements signed by Paraguay and negotiations currently in progress; (vi) creation of a computer network linking institutions in charge of international negotiations and allowing better utilization and management of existing information; (vii) travel for purposes of participating in international trade negotiations; and (viii) purchase and installation of equipment.

3. Strengthening the Ministry of External Relations' negotiating and foreign-service management capacity in the area of international trade (US\$765,424)
- 3.26 The objective of this component is give the country a stronger voice and presence in international trade negotiations by providing professional development for its representatives in the Ministry of External Relations.
- 3.27 The principal activities envisaged in this component are:
- a. Human-resources development
- 3.28 Suitable training in negotiating skills will be provided for the local officials in charge of these negotiations, and for foreign service staff with selected embassies and/or diplomatic missions identified as high-priority posts (based on negotiations currently under way). The embassies in Argentina, Bolivia, Brazil, Chile, the United States and Uruguay fall into that category, as do Paraguay's ambassadorships to the European Union in Brussels and the international agencies in Geneva.
- 3.29 This training will cover the following:
- 3.30 (i) Design and delivery of training courses on international trade negotiations: Courses will be organized with selected academic institutions in other countries with extensive, recognized experience in this topic, as well as international centers specializing in delivering field training in trade negotiations.
- 3.31 Given the highly specialized nature of the subject areas dealt with under the program, and the resultant need to design courses or training programs tailored to Paraguay's needs and circumstances, the training institutions will be selected according to guidelines identified in advance. A further requirement is that training courses address the environmental issue as well as labor and trade.
- 3.32 The component will include training courses in Geneva, the United States, and Asunción, to be attended by personnel from selected embassies as noted above, and by two officials from the foreign ministry and four instructors. In all, 14 individuals will receive training.
- 3.33 (ii) Training of instructors: Courses will be designed and delivered so as to allow for the training of instructors, particularly the courses given in the MRE's Academy of Diplomatic and Consular Services. As well as attending this special program, the above-mentioned (four) instructors will also take part in training courses referred to earlier. The program for instructors must address the topics of environment and labor and trade.

3.34 (iii) Design and delivery of a course on trade negotiations through the Academy of Diplomatic and Consular Services: The goal will be to develop a mechanism for providing ongoing training of foreign service officers in international trade negotiations.

3.35 The technical cooperation will provide funds with which to hire an international consultant to design the course content and provide support during its initial implementation, in coordination with the foreign ministry's authorities.

b. Logistical support

3.36 This subcomponent will consist of setting up a computer network between the foreign ministry and the above-mentioned Paraguayan embassies, and the purchase and installation of equipment in these same embassies. The objective is to ensure effective coordination between the Ministry of External Relations and the other institutions in charge, for management and distribution of information associated with trade negotiation processes.

B. Program implementation, supervision, and monitoring

1. Implementation

a. General considerations

3.37 This operation will be carried out over a period of 24 months under the supervision of the MIC, which must sign agreements with each co-executing agency (the Ministries of Integration and External Relations) for its implementation. Each ministry will appoint a coordinator to take responsibility for its component.

3.38 The program will be conducted in coordination with, and under the direct supervision of, a lead technical advisor (LTA) appointed to oversee the program and reporting directly to the Ministry of Industry and Trade's Undersecretariat for Trade. The LTA will coordinate and supervise execution of the activities comprising each component. Included in the LTA's duties will be monitoring of the planned activities and due implementation of the conclusions and recommendations put forward in the consultants' reports, studies, seminars and internships, as well as strict compliance with eligibility criteria applicable to training program participants. All of these tasks are to be carried out in cooperation with the coordinators for each component, and in coordination with the Bank.

3.39 Program execution will include the letting of consulting contracts worth a total of US\$757,000, and procurement of hardware and software valued at US\$114,000. It will be a requirement in the technical-cooperation agreement that Bank procedures be adhered to for the recruitment and hiring of consultants, and for the procurement of goods and services.

- 3.40 The requirements for the various consultancies, technical studies, internships, seminars and training courses are set out in terms of reference, in the Bank's technical files (technical file II). As well, special care will be taken to ensure that women participate on an equal footing.
- 3.41 Two basic eligibility criteria for participation in the training program are that candidates: (i) be officials with responsibilities in each of the technical areas which the training program will cover; and (ii) remain in their positions throughout the program's execution period.
- 3.42 In the course of the program, funds for preparation of each activity must be allocated on schedule (see program timetable in technical file III), and in accordance with specific needs and requirements as they arise.

b. Specific features

- 3.43 The following activities will be required for this program:
- 3.44 (i) Executive orders required for implementation of the program: The execution of this program will require approval and implementation of the proposed new regulations reorganizing the MIC, in accordance with recommendations made by the consultants hired in the area of trade reforms under the investment sector program (727/OC and 728/OC).
- 3.45 This is an essential requirement, since with its current institutional structure the MIC cannot rise to the new demands and challenges facing the country's foreign trade sector, and this would limit the impact of this technical-cooperation program. It is therefore necessary to consolidate the ongoing Bank-supported effort to create a structure consistent with the new international economic order and, in particular, with the trade policy objectives being pursued under the multilateral and regional economic integration schemes to which Paraguay is now committed.
- 3.46 The program will also require issuance of an executive order and enabling regulations creating an office within the Ministry of Integration to oversee information programs and coordination of economic integration processes. This step is necessary in order to strengthen and consolidate the ministry's handling of new duties assigned to it in the area of information and communications with the private sector and the rest of civil society, by developing solid institutional mechanisms for disseminating information, encouraging discussion and providing the necessary coordination.
- 3.47 This new institutional arrangement will require assigning staff to specific duties in order to ensure ongoing performance and continuity of these functions.

- 3.48 (ii) Joint-ministerial and interagency agreements: The MIC will need to sign the following five agreements: (i) an agreement with the Ministry of Agriculture (MAG) to appoint an MAG official to take responsibility for negotiation of market access and rules of origin for agricultural products; (ii) an agreement with the Ministry of Public Works and Communications (MOPC) for appointment of an official of that ministry to take responsibility for negotiations involving transportation services; (iii) an agreement with the Central Bank of Paraguay to have one of its officials placed in charge of negotiations having to do with financial services; (iv) an agreement with the National Telecommunications Commission (CONATEL) for appointment of a CONATEL official to handle negotiations involving telecommunications; and (v) with the ministries of External Relations and Integration, to establish a mechanism for coordinating the design and implementation of Paraguay's trade policy, including its participation in international trade negotiations. The mechanism is to provide for periodic meetings, with representatives of the pertinent ministries participating.
- 3.49 (iii) Selection and hiring of personnel for the program: The recipient ministries must recruit and hire a coordinator for each component, satisfactory to the Bank, on a full-time exclusive contract basis for a period of 24 months, 12 of which are to be covered under the respective allocation from the ministry's own budget.
- 3.50 The MIC must also assign officials in the numbers indicated below, to work on the program in the following technical areas: market access (2), rules of origin (2), unfair trade practices (2), protection against anti-competitive practices (2), investment (1), intellectual property rights (2), services (1), government procurement (1), competition-distorting public policies (1), and databases (2). The MIC will make arrangements to have the aforesaid officials remain in their positions after the proposed technical cooperation is finished. If any of them resigns, the MIC undertakes to immediately hire a replacement, who will be trained for at least three months by the outgoing official before his or her departure. In addition, the ministry will need to assign one secretary and two assistants to work full-time on the program for 24 months.
- 3.51 The Ministry of External Relations (MRE) will likewise need to assign the following personnel to work on the program: (i) two foreign ministry officers; (ii) two officials from each of the following embassies: Argentina, Bolivia, Brazil, Chile, the United States, and Uruguay, plus Paraguay's missions to the European Union in Brussels and the international agencies in Geneva; (iii) and four instructors. The MRE will make arrangements to have the aforesaid officers remain in their foreign-service posts beyond the duration of the proposed technical cooperation. If any officer resigns from the post for which he or she was specifically trained,

the MRE undertakes to immediately hire a replacement, who will be trained for at least three months by the outgoing official before his or her departure. In addition, the ministry will need to assign one secretary and two assistants to work full-time on the program for 24 months.

- 3.52 Lastly, along with the coordinator, the Ministry of Integration must assign a secretary to work full-time on the program for 24 months.
- 3.53 Amendments to the project signed between the MIC's Undersecretariat of Trade and the United Nations Development Programme (UNDP): The MIC will need to make any changes in this project required to dovetail with the activities planned under the technical cooperation. Specifically, all travel required for negotiations which will not be paid for under the technical cooperation should be financed under the aforesaid project.

## 2. Supervision and monitoring

- 3.54 Technical responsibility for the operation will fall to Country Division 1 (OD1) and the Integration, Trade, and Hemispheric Issues Division (INT/ITD). The Bank's Country Office in Paraguay will bear basic responsibility for the operation.
- 3.55 When the technical-cooperation operation begins, the executing agencies must provide the Bank with a detailed proposed work plan for each component for the first year of the operation. At the end of the first year, they must submit a work plan for the second year.
- 3.56 The work plan must include: (i) activities scheduled for the first 12 months in each component; (ii) the timetable for the activities; and (iii) an estimate of the funding needed for the activities, including amounts to be provided by the Bank and local counterpart contributions.
- 3.57 After the operation begins, the executing agencies must submit semiannual progress reports to the Bank in order to expedite monitoring of the technical cooperation. These reports must contain or describe: (i) progress on activities according to the program timetable; (ii) progress in disbursing funds under the technical cooperation, compared to the disbursement schedule, and outlays under the counterpart contribution; (iii) recommendations by consultants hired with program funds; and (iv) activities scheduled for the following six-month period.
- 3.58 Given the broad scope of this operation, and in order to maximize its outcomes and expedite monitoring and supervision of scheduled activities, periodic evaluations will be conducted so changes may be made to correct any problems or shortcomings arising during its execution. Thus, immediately after submission of each semiannual

progress report, evaluation meetings will be held to examine performance under the program.

- 3.59 These meetings will be attended by: (i) the lead technical advisor; (ii) staff of Country Division 1 (OD1) and the Integration, Trade, and Hemispheric Issues Division (INT/ITD); (iii) officials from the Bank's Country Office in Paraguay; (iv) the coordinators for each component; and (v) Deputy Ministers of Trade (MIC), Economic Policy (MRE), and Integration, along with such technical staffers as they may designate.
- 3.60 The recommendations coming out of these meetings will be implemented in the following six-month period and taken up in the subsequent evaluation.
- 3.61 The lead technical advisor, in coordination with the Bank's officials, will design suitable monitoring and evaluation measures to ensure that the program's objectives are accomplished. These measures will include questionnaires to be filled out by participants in courses, training programs and seminars or internships, with a view to improving these activities.
- 3.62 Three months after the start of the program, the executing agencies must demonstrate that the local network and modems have been installed in the units of the institutions involved: the MIC's Undersecretariat for Trade, the MRE and its embassies and/or diplomatic missions identified in the program, and the Ministry of Integration.
- 3.63 Within six months after the program ends, the executing agencies are to submit a final report summarizing the program activities, the application of funds contributed by the Bank and the local counterpart, outputs and outcomes, decisions taken as a consequence of the program, and the ultimate results expected on the basis of these.
- 3.64 In addition, the technical-cooperation agreement will contain a provision requiring the executing agencies to submit financial statements for the program, audited by a firm of independent auditors acceptable to the Bank and in accordance with standards acceptable to the Bank. To this end, a financial specialist will be hired using program funds (terms of reference in technical file III).

C. Cost and financing

- 3.65 The total cost of the proposed technical cooperation has been estimated at US\$3,450,000. The Bank will contribute a total of US\$2,020,600, of which US\$1,476,000 will be drawn from the Fund for Special Operations (FSO) in foreign currency and US\$540,600 from FSO local currencies - in both cases on a nonreimbursable basis. The local counterpart will be equivalent to US\$1,429,400, of which

US\$1,022,460 will be provided by MIC, US\$147,800 by the Ministry of Integration, and US\$259,140 by MRE.

- 3.66 The technical cooperation will be carried out over a 24-month period, reckoned from signature of the agreement. The final disbursement will take place not later than 30 months following the signing of the agreement.
- 3.67 Following is a breakdown of the cost by component, including itemized expenses in each category:



CONSOLIDATED BUDGET (U.S. dollars)					
Budget category	IDB FSO Foreign currency	IDB FSO Local currency	Local contribution	Total	%
<b>A. Building technical capacity in the Ministry of Industry and Trade's Undersecretariat for Trade</b>	610,696	304,800	1,090,860	2,006,356	58.1
1. Consulting services	513,760	0	30,000	543,760	15.8
2. Training	91,476	250,320	956,460	1,298,256	37.6
3. General support	0	47,000	89,400	136,400	3.9
4. Publications	0	0	0	0	0
5. Contingencies	5,460	7,480	15,000	27,940	0.8
<b>B. Strengthening of internal coordination and dissemination of information to the private sector and civil society</b>	144,160	22,000	79,400	245,560	7.1
1. Consulting services	60,940	0	60,000	120,940	3.5
2. Training	0	10,000	0	10,000	0.3
3. General support	10,000	12,000	14,400	36,400	1.1
4. Publications	67,000	0	0	67,000	1.9
5. Contingencies	6,220	0	5,000	11,220	0.3
<b>C. Strengthening the Ministry of External Relations' negotiating and foreign-service management capacity in the area of international trade</b>	547,624	217,800	259,140	1,024,564	29.8
1. Consulting services	202,028	0	24,000	226,028	6.5
2. Training	338,628	156,686	144,000	639,314	18.5
3. General support	0	55,000	78,400	133,400	4.0
4. Publications	0	0	0	0	0.0
6. Contingencies	6,968	6,114	12,740	25,822	0.8
<b>D. Administration of the operation</b>	173,520	0	0	173,520	5.0
Lead technical advisor	167,520	0	0	167,520	4.8
Financial specialist	6,000	0	0	6,000	0.2
<b>GRAND TOTAL</b>	1,476,000	544,600	1,429,400	3,450,000	100
<b>Percentage</b>	42.8	15.8	41.4	100.0	

#### IV. BENEFITS AND RISKS

- 4.1 Modernizing the institutions and providing advanced training for officials responsible for the technical side of international trade negotiations will enable the country to participate more fully and effectively in the various international forums, and thereby strengthen its bargaining position.
- 4.2 The principal risks of this operation have to do with: (i) the capacity for interagency coordination within the public sector and between the public and private sectors, and the possibility of opposing interests in the private sector with respect to certain areas of negotiation; and (ii) possible changes in personnel during the execution period or in the years immediately following completion of the cooperation.
- 4.3 To mitigate the first of these risks, the program itself includes the design of interagency coordination arrangements. To counter the risk of personnel changes, one of the conditions precedent to the first disbursement under the program is the appointment of counterpart technical staff for the entire life of the technical-cooperation operation.

#### V. SUSTAINABILITY

- 5.1 Medium- and long-term sustainability of the effort to strengthen technical capabilities in the field of trade negotiations is the key to achieving better and more efficient participation by Paraguay in the process of economic globalization. It will be necessary in future for the institutions charged with designing and implementing the country's trade policy to continue earmarking sufficient technical and financial resources to consolidate the initial process for strengthening their bargaining capacity, which is being supported by the Bank under this program.
- 5.2 An indication of these agencies' commitment to do so can be seen in the fact that the MRE, MIC, and Ministry of Integration have all expressed the vital need to provide suitable training for their personnel responsible for important trade negotiations, on which Paraguay's economic future will depend in large measure. Accordingly, all three agencies have begun to strengthen their technical teams by hiring officials with high-level technical expertise.
- 5.3 The program also will require that the beneficiary institutions make the necessary administrative and financial arrangements to ensure that officials receiving training remain in their posts beyond the duration of the technical cooperation.

- 5.4 As for local financial resources, the three ministries have been allocating increasing amounts for their training needs. An important consideration here is that MIC has received support from UNDP for the administration of the budgetary resources it allots for training in negotiations.
- 5.5 The programs designed to prepare instructors and the delivery of advanced training courses, creation of a university-level program on foreign trade and economic integration, and introduction of specialized courses on trade negotiations under the MRE's Academy of Diplomatic and Consular Services, will help to ensure ongoing educational opportunities in the area of international trade negotiations.
- 5.6 Given that Paraguay is well advanced in the process of State modernization and decentralization, and that the Bank is supporting a number of institution-strengthening activities in the country, this operation will have a suitable institutional framework to draw on. In this regard, the efforts made under this program to provide coordination both within individual institutions and between these institutions and various public agencies will make it possible to strengthen mechanisms of cooperation and mutual assistance.

## VI. EVALUATION

- 6.1 The information and data obtained during this operation will be utilized to conduct an ex post evaluation in order to determine how successful it has been in implementing the activities described above.