

MULTILATERAL INVESTMENT FUND

Project Abstract

REGIONAL
(BELIZE, COSTA RICA, EL SALVADOR, GUATEMALA,
HONDURAS, MÉXICO, NICARAGUA, PANAMÁ)

DECEMBER 9, 2008

I. BASIC INFORMATION

Project name: **Plan Puebla-Panamá.** Promotion of Trade and Investment through the Harmonization of Standards, Technical Regulations and Rules of Origin

Project number: TC-01-12-00-3-RG

Project team: Mario Berrios (INT/ITD), Team Leader; Ennio Rodriguez (INT/ITD); and Nobuyuki Otsuka (MIF)

Executing agencies: Secretaría de Integración Económica Centroamericana (SIECA); Organismo Internacional Regional de Sanidad Agropecuaria (OIRSA)

Beneficiaries: The direct beneficiaries of this Project include: public entities, including national standards bodies, and other bodies involved in the administration of trade-related technical measures; regional and public agencies in charge of animal and plant health; trade and customs ministries in charge of administration of rules of origin; private sector associations; private sector traders and investors; and small and medium-sized firms.

Financing plan:

MIF: Facility I	US\$ 2,966,000
Local:	US\$ 1,271,000
Total:	US\$ 4,237,000

Tentative dates:

Analysis Mission:	January 2002
Donors Committee:	April 2002

II. BACKGROUND

- 2.1 The Plan Puebla-Panama (PPP) will support a series of projects in Mesoamerica (from southern Mexico to Panama) that capitalize upon the human and ecological advantages of the region. One of the goals of the PPP is to foster regional integration through projects that facilitate trade, investment and institutional reforms. While technological change and commercial liberalization continue to drive integration across the hemisphere, Mesoamerica remains unable to take full advantage of this trend because of low national and regional institutional capacity, a weak regional trading system, and lack of regional trade and standard-related organizations, and numerous technical and standard obstacles in regional trade. However, progress has been made on free trade and integration

agreements that PPP countries have negotiated and signed among themselves over the past 10 years. Also, the ongoing negotiations of the Free Trade Area of the Americas (FTAA), to be completed by the end of 2004, provide additional incentives to accelerate regional integration and harmonization. But the key challenge that remains is to work on implementing concrete actions to take advantage of the opportunities created by trade agreements. The existing and proposed intra-regional trade agreements have already signaled the move towards greater integration, yet these accords require the harmonization and application of the numerous procedures, processes, and regulations associated with the movement of goods across borders. Harmonizing procedures and systems and adopting practical actions would strengthen integration agreements both in the Central American Common Market and the free trade agreements between Central American countries and Mexico, all of which is essential for future trade expansion and regional integration. Another key action needed is to make available information to private sector stakeholders on technical standards and rules of origin requirements that these trade agreements have in place. There is also need for simplification and harmonization of forms and documentation on these issues. To date, however, regional and national institutions in Mesoamerica do not have the capacity, coordination and centralized information systems to implement these changes.

- 2.2 Further, countries of the region are signatories to international agreements focused on the reduction and elimination of various non-tariff barriers to trade under different agreements of the World Trade Organizations. Among others, three important obstacles to be immediately addressed particularly in the PPP region are: technical standards and related barriers to trade (TBT), Application of Sanitary and Phyto-sanitary Measures (SPS), and Rules of Origin (ROO). The technical infrastructure and human capital required to comply with the agreements in these areas is also very weak in Mesoamerica. This leads to foregone economic opportunities, as exporters – often small and medium-sized companies (SMEs) – are blocked from both regional and international markets because their products cannot meet technical requirements and standards. These shortcomings are being addressed within the framework of the negotiations of the FTAA, and all eight countries within the Plan Puebla-Panama are engaged in important discussions and actions recommended in these negotiations.
- 2.3 Technical barriers to trade assume several forms. All such barriers raise financial and transactions costs for international buyers and sellers of goods and services. Standards related to products, performance, and processes, and related technical regulations comprise a significant non-tariff impediment to the movement of goods and services across national frontiers, and are also significant impediments to flows of foreign direct investment. The TBT agreement addresses major issues arising from this growing trade barrier, urging that, inter alia, member countries adopt to the extent possible standards and technical regulations that are harmonized, with existing international standards and practices. However, the countries comprising the PPP region have struggled with limited success to meet the obligations of the TBT. The goal of promoting regional integration is also affected by the lack of a centralized system of information to provide traders with all the necessary technical information requirements. Also, technical advice on a regional basis is inexistent.

- 2.4 Sanitary and Phyto-sanitary (SPS) measures consist of rules for food safety, animal and plant health, and related technical requirements. The World Trade Organization (WTO) Agreement on the Application of SPS Measures sets out the basic multilateral rules on these issues. SPS issues now constitute major factors that can affect trade in a range of agricultural and agro-industrial exports from Latin America and the Caribbean, since all countries in the PPP region are signatories to the SPS Agreement. The SPS agreement also urges harmonization of regulations with international practices or the adoption of regulations that follow the guidelines of relevant international organizations, but most of the PPP countries have serious technical resources limitations that constrain their ability to fully implement these measures. This has created inefficiencies in the transshipment of goods and services within the region, and is now a major factor that affects agricultural and food products export from the region to the rest of the world. In the process, these countries have suffered losses in foregone trade and investment within the region and with the other countries.
- 2.5 As noted before, over the past decade, in the PPP region there has been an ongoing and diverse set of trade negotiations that has resulted in a number of bilateral and regional trade agreements. The enforced preferential trade access which is granted under those agreements, specific content requirements or rules of origin is established for different products. However, the diversity of these agreements has produced differing schemes involving rules of origin (ROO). On a regional basis, clear and accessible information on these requirements for private sector traders is limited. The implementation and administration of ROO is also complicated by the different customs and information requirement methods used in each country. This creates complexity and higher costs for the classification and movement of merchandise across the region. In light of the trend towards the convergence of regional and hemispheric trade agreements, this situation is untenable. The review and implementation of harmonized ROO procedures will greatly facilitate commercial arrangements, trade and rationalize existing and proposed trade agreements in the region.
- 2.6 Providing clear, comprehensive, accessible and centralized information on trade-related technical standards is critical to regional trade. Harmonization and implementation efforts on these issues can directly increase the efficiency of trade transactions. Technical advice and training on these issues is also urgent. Strengthening regional international organizations will provide the basis for a more sustainable integration of the Region. The creation of an information center will ensure a practical one-stop shop for traders and accelerate business decisions.
- 2.7 The problems described above, should be seen in the context that the local private sector, in particular SMEs across the region, are in a critical moment facing significant challenges due to globalization and to the fact that Countries in the Region continue to negotiate trade agreements (e.g. with hemispheric partners in the FTAA, and in the new round of multilateral negotiations which have just started in the WTO). It is clear that implementation of the requirements of these treaties place even greater demands on public sector entities responsible for various aspects of trade, and will provide opportunities for enhancing the enabling environment for the private sector in the Region. Inevitably, the success of these treaties depends on the efficiency of regulatory

institutions and their technical capacity. The harmonization of procedures related to these trade treaties is necessary to facilitate implementation, to reduce complexity in the diversity of trade rules, to take advantage of a natural regional market which is not exploited to its maximum, and to provide common grounds for an easy exchange of good, services and movement of investment across the region. The direct effect of such harmonization would result in an increased development and competitiveness of private sector activities and initiatives across the PPP region.

III. BENEFICIARIES OF THE PROPOSED PROJECT

- 3.1 The direct beneficiaries of this proposed project include: (i) public entities, including national standard bodies, and other bodies involved in the administration of trade-related technical measures; (ii) an international regional organization and public agencies in charge of animal and plant health and food security; (iii) trade and customs ministries in charge of administration of rules of origin; (iv) private sector associations; (v) private sector traders and investors; and (vi) small and medium-sized firms.

IV. OBJECTIVES

- 4.1 The general objective of this Project is to increase commercial exchange, investment and related business opportunities, thus accelerating economic growth within the PPP region. The specific objective is to establish sustainable and private sector-driven mechanisms for disseminating technical information and providing technical assistance for harmonizing trade-related procedures in the form of standards, technical regulations and rules of origin in the Plan Puebla-Panama countries, so that the private sector will be able to reduce the costs of engaging in trade, thus increasing intra-regional business opportunities.
- 4.2 Non-tariff measures on trade include: product, process, and performance standards and related technical regulations, technical requirements facing food, sanitation procedures and related factors affecting human, animal and plant health, and procedures related to ROO. Each of these technical measures was addressed in various WTO Agreements, and each of the 8 PPP participating countries in this project is a signatory to these Agreements. The Project is expected to provide support to the development of technical tools directly related to implementing the international trade agreements in a regionally harmonized way, but will not directly become involved in governmental negotiations as such. The Project will facilitate trade by simplifying and promoting harmonization of forms, procedures and related border requirements as products are traded in the 8 PPP countries. It will compile and make available to private traders the information they need to comply with concerning technical requirements. It will also address the need to disseminate information by providing training and technical assistance. By strengthening regional organizations and data base with this information, it will help in introducing a one-stop shop where information on these issues will be centralized thus facilitating the location and use of technical information. It will also create and consolidate the capacity to deal with new technical issues for which there is no regional capacity. Finally, by

helping regional harmonization, it will help the region to be better prepared to trade with other key trading partners outside the region and will support the region in preparing itself in advance for the future implementation of the FTAA Agreement.

- 4.3 To achieve the above-mentioned objectives, the Project is comprised of the following three components: (i) to assess the current disparity of different standards and related technical regulations within the region and promote their harmonization with existing international best practices; (ii) to design a harmonized system of SPS certificates and standard SPS forms and procedures for transportation on land border crossings and regional SPS services; and (iii) to support an integrated and practical approach on the application of ROO1 in intra-regional trade.

V. PROJECT COMPONENTS

5.1 Component 1. Regional Harmonization of Standard-Related Measures (US\$520,000)

The purpose of this component is to support the development of harmonized standards and related technical regulations among the countries of the PPP region. This effort will follow international best practices as codified in the Technical Barriers to Trade Agreement and procedures stipulated by international and regional standardization bodies. It is widely known that different standards and related technical regulations can become major obstacles to trade and integration efforts in the PPP region. Harmonizing standards and technical regulations will facilitate trade inside the PPP region and with the rest of the world.

- 5.2 Specifically, this component will finance a quick assessment of disparity on the standards and technical regulations that most affect specific products that are of great commercial importance to the PPP region and will finance technical assistance for developing a plan of action and a strategy aimed at harmonizing them. Another key activity is to centralize information under one stop-shop concept, dealing with standard issues to facilitate the private sector's need to find out the different standard requirements in PPP countries. This should become a type of clearing house for standard-related information, which would also facilitate the provision of technical advice to private sector traders. The data base to be created with this activity would become a key tool for any future work to be undertaken in this area. These efforts will be centralized and implemented through the establishment of a sustainable unit, within an existing regional organization such as SIECA (Secretaría de Integración Económica Centroamericana- See -Execution), that will institutionalize and coordinate harmonization initiatives and will provide technical assistance and advice. Technical advice and support will be provided for specific initiatives by product categories to harmonize standards, consolidating the service providing unit for technical advice and the database to update existing measures related to standards issues.

5.3 Component 2. Regional System of Sanitary and Phyto-sanitary Certificates and Control Mechanisms (US\$ 2,695,000)

This component will focus on the following activities:

- (i) *Strengthening of regional institutional capacity to manage SPS services.* Based on the regional harmonized SPS initiatives, the Project will provide to each national SPS agency with specific technical and management tools to ensure an efficient application of norms, directives, and operational mechanisms. It also will provide training on modern technology and equipment, management of specific SPS issues

and develop for producer associations and other community groups technical training and dissemination activities.

- (ii) *Harmonization of SPS regulations.* The Project will support the harmonization of operational mechanisms for import, export, and inspection procedures. The central objectives are to facilitate regional trade and to establish and implement regional criteria for SPS services and border requirements based on the WTO/SPS Agreement which allows the setting of acceptable level of SPS protection. This will include directives, certificates, forms, procedures, management, technical auditing and technical training. In addition, activities will include assessment of new technologies available for inspection and quarantine procedures, definition of criteria for accreditation to provide SPS services, definition of procedures for inspection, control and approval, and establishment of a regional system of information on quarantine requirements. The measures and administrative procedures that will be harmonized on a regional basis, will be managed in a regional information center in the executing agency so as to provide private sector stakeholders and SPS officials with the necessary information and technical requirements for the movement of goods on a regional basis.
- (iii) *Food inspection.* It will design and start the development of a regional system of food inspection with the following activities: define a regional food inspection system based upon international best practices, and involving private and public sectors; develop a rural program of best practices regarding risk analysis and control mechanism for food production; develop an early warning system to identify potential risks, hazards, and non-conformities to SPS and related requirements. It will also provide direct technical training to private and public sector stakeholders on food safety requirements for regional PPP and international markets. In addition, it will increase regional and international cooperation to design, create and modernize both regional and national food safety systems. The progress made on food safety will be organized in data base which will serve as a centralized information center for traders and public officials.
- (iv) *Natural disaster.* It will design and develop a program to mitigate risks associated with natural disasters and exotic diseases and pests. Activities include the design of warning systems that will be used across the region to act as a risk mitigating mechanism to ensure safety and non-interruption of trade to face the risks that natural disasters introduce for animal and plant health and food-related risks for human health. Technical training and dissemination of information on the warning systems will help in preparing producers, local and national authorities, traders and customs authorities, and regional organizations on how to prevent and control risks related to natural disasters.

- 5.4 The component will finance a variety of consultancies for: (i) designing a harmonized system of SPS certificates and standard SPS forms for transportation on land border crossings for the most important products of plant and animal origin that are traded intra-regionally in the PPP countries; (ii) strengthening the regional technical criteria for SPS inspection and control mechanisms, based on international best practices and as codified in the WTO-SPS Agreement; (iii) supporting the design of common regional regulations within the PPP for the application of SPS crossing criteria and requirements; (iv) supporting the

development of regional criteria on food inspection to facilitate trade exchange; (v) supporting the development of a regional system to decrease risks associated to pests, diseases and natural disasters; (vi) providing training for border personnel, laboratory technicians, SPS officials and private sector stakeholders; (vii) strengthening institutional capacity of public agencies and producers' associations in support of the development of a regional system for the application of SPS measures; (viii) supporting the establishment of a unit that will institutionalize, perhaps within OIRSA (Organismo Internacional Regional de Seguridad Agropecuaria- See Execution), the harmonization of application of SPS border control certificates and forms on regional basis and will provide technical advice.

5.7 Component 3. Rules of Origin (US\$450,000)

The countries in the PPP region have two types of trade agreements, namely, bilateral trade agreements signed between Mexico and individual Central American countries and sub-regional trade agreements among Central American countries. These agreements contain different Rules of Origin (ROO) requirements (to comply with certain product content according to national basis) which lead to inefficiencies in the administration of trade transactions, increased transaction costs, and overall losses in regional trade.

- 5.8 Taking into account the existence of the different trade agreements in the region, the Project will facilitate and simplify the administration and implementation of ROO by reviewing administrative procedures, custom forms, technical regulations; comparing rules of origin being implemented; identifying the product areas where these ROO exist and indicating the implications for the level of trade taking place on those product areas; identifying key areas where the harmonization of procedures could facilitate border crossing and customs clearance; and by providing training, technical advice and disseminating information to both traders from the private sector and customs officials. The project will also create a data base where all regional PPP information on ROO will be centralized under the approach of a one-stop shop on ROO and where private and public sector stakeholders could find all needed information on ROO for the PPP region. In addition, technical training for customs officials and traders would be organized using information from this data base. A work plan on ROO on regional basis will be prepared and aimed at minimizing problems related to the enforcement of preferential ROO.

- 5.9 This Component would focus on: identification, definition and comparison of the different rules of origin being implemented in the eight countries of the region; reviewing administrative procedures, custom forms, technical regulations; identifying the product areas where these ROO exist and indicating the implications for the level of trade taking place on those product areas; assessing the capacity in key productive sectors to comply with rules of origin requirements according to existing trade agreements; identifying key issues, such as the need to harmonize and streamline procedures, in order to facilitate border crossings and customs clearance; provision of training, based on a manual on ROO in the PPP region, to private sector traders and customs officials; recommendations on a regional approach on rules of origin; establishment of a data base and coordinating mechanism on ROO. It is expected that an institutionalized mechanism will be established, perhaps within the SIECA, to continue providing such information and technical assistance to harmonize the rules and regulations

VI. ESTIMATED COST, FINANCING AND EXECUTION PERIOD

- 6.1 The estimated cost of this Technical Cooperation is US\$4,237,000; of which US\$2,966,000 will be financed by the Bank as non-reimbursable assistance with resources from the MIF's Facility I, and US\$1,271,000 will be local counterpart. At least half of the local counterpart will be in cash. No more than 30% of the total cost of the Project will be used for the purchase of equipment for laboratories, with local counterpart financing at least 50% of the equipment expenses. The administration cost would be less than 15% of the total Project cost. The execution period for this Project would be 36 months, with a disbursement period of 42 months.
- 6.2 The institutional sustainability of the Project will be examined through a technical assessment to determine whether public organizations or regional technical institutions could institutionalize the Project results. The Project team would examine what service charges may be necessary to sustain operations in the long run. Sustainability would be also based on working with the regional building of technical and infrastructure capacity on application of a harmonized regional system of the improved measures. These regional activities will also be complementary to individual country-specific loans that the Bank has approved, which will strengthen the perspective of sustainability. In addition, it is expected that the project will help PPP countries in identifying new technical needs which can be addressed through IDB loan operations. During the preparatory phase of the project, some of these needs have been identified in different areas and during the project implementation period it is expected that discussion on potential Bank loan operations could be initiated.
- 6.3 The tentative project cost breakdown can be summarized as follows:

US\$	MIF	Local	Total
Component 1	366,500	153,500	520,000
Component 2	1,902,000	756,000	2,658,000
Component 3	317,500	132,500	450,000
Administration ¹	380,000	229,000	609,000
Total	2,965,000	1,271,000	4,237,000

VII. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 7.1 The Project will be executed by the Secretaría de Integración Económica Centroamericana (SIECA) and by the International Regional Organization for Plant and Animal Health (OIRSA). SIECA and OIRSA will be the official counterparts with the Bank on this Project, be responsible for securing the local counterpart resources, and will directly execute

¹ Administration in OIRSA: total: 379,000. MIF contribution = 200,000, local 179,000
Administration in SIECA: total: 150,000. MIF contribution = 100,000, local = 50,000

Components 1, 2 and 3. SIECA will be responsible for Components 1 and 3 and OIRSA for Component 2. All the components will be implemented in full consultation with each country's governmental agencies in charge of TBT, SPS and ROO.

- 7.2 It is contemplated that both SIECA and OIRSA will hire mostly third party consultants, whose terms of reference and hiring procedures will be acceptable to the Bank, for the Project execution, while the executing agencies will absorb some part of the administrative expenses through their local offices, which will be recognized as in-kind contribution to the Project.
- 7.3 SIECA is a regional public organization established to assist the process of economic integration of Central America. Governed by the Ministerial Council of Economic Integration, it has developed a technical capacity of financial and project management with third party donors including USAID, the European Union and the Bank (MIF/AT-176) particularly in the areas of trade and investment, intellectual property right and telecommunications. Recently, the Bank provided a regional technical cooperation to SIECA to create a trade database that was used as a model for the FTAA.
- 7.4 OIRSA, established in 1953, is the only international regional organization exclusively dedicated to the issues of plant and animal health. It has wide regional-international recognition for its technical expertise and management, including links to key international organizations and conventions on SPS issues. It is comprised of Mexico, Belize and 5 Central American countries and Panama, which coincide with the 8 PPP countries. OIRSA has been self-sustaining its operating budget by charging fees for the services it provides, and has been implementing several Bank operations and technical cooperation with the World Bank and other international public and private organizations to address plant and animal protection and food safety issues at a regional level. Recently, its focus has been on regional specific issues such as early warning systems of emergency situations.

VIII. PROJECT JUSTIFICATION AND ANTICIPATED RESULTS

A. Justification

- 8.1 This Project is consistent with the MIF's goal to increase trade and investment, in particular, competitiveness of small and medium size enterprises through the strengthening of conditions for private sector development. It is equally consistent with the Bank's efforts and priorities on modernization of the state, economic and regional integration, strengthening of international competitiveness, openness of the region to trade flows and foreign investment. MIF funds will provide additionality and complementarity vis-à-vis Bank resources. Bank programs have supported programs to establish institutions and frameworks in the region that promote trade.² MIF funds can assist these institutions in

² Currently, Guatemala has a loan operation and Honduras and Nicaragua are carrying out technical cooperation programs which will be complemented also by loan programs with the Bank in order to strengthen national institutions involved in foreign trade. Belize also has another technical cooperation program. These programs are establishing platforms that will complement several of the activities proposed in this Project.

improving efficiency and processes, thus becoming more effective in serving the private sector and achieving their technical and economic objectives.

- 8.2 The momentum towards trade integration within the Region continues as evidenced by continued opening to trade in the countries of the Region. This drives the demand for a range of activities needed to create the capacity within regional and national institutions to promote trade and make current and proposed agreements effective. Demand for the services provided by this Project has been established by the creation of current trade agreements that stipulate the implementation of procedures and processes that this Project seeks to support and/or improve.

B. Anticipated Results

- 8.3 Among the expected measurable end-of-project results are: (a) creation and implementation of regional PPP forms and procedures on standard, SPS, ROO requirements; (b) identification and contribution to the reduction of costs of shipment of goods and delivery of services within the Region and outside the region; (c) contribute to the reduction in time in transit, bureaucracy, and red tape in shipment; (d) increased capacity to protect the region from risks associated to SPS issues; (e) more favorable conditions for a rapid transit of goods in the region; (f) creation of regionally centralized one-shop information systems on standards, SPS and ROO issues; and (l) increased interest from external parties to trade and invest with a more simple and secure trading environment in the PPP region. The overall expected results are increased trade, investment, and economic growth throughout Mesoamerica resulting from enhanced efficiencies in intra-regional trade mechanisms. These efficiencies will be a result of harmonized standards and related technical regulations and requirements, the harmonization of SPS inspection and control procedures, and a harmonized regional approach to the origin of merchandise.

IX. RECOMMENDATION FROM

- 9.1 The Country Offices in the PPP region have expressed general support for this Project.

X. ISSUES.

- 10.1 SIECA and OIRSA will be the co- executing agencies and will house the project execution units. This arrangement is justified so long as the expected impact on trade in the PPP region by packaging three components and a scale economy effect in terms of execution will exceed the cost of setting up such a dual mechanism. A careful analysis with a view to seeking a more simplified execution mechanism will be needed, while looking for an effective way of maximizing the impact of the limited MIF financing resources.
- 10.2 MIF is developing another project to streamline the custom procedures in the same cluster of PPP Trade Facilitation. It is expected that this proposed Project will over time support the border and customs initiative of PPP. The Bank has in place ongoing investment agricultural projects that include components dealing with activities to strengthen SPS monitoring and control in various countries in the Region. The proposed Project with the regional dimension, would act in a complementary and additional fashion by extending strengthening

coverage on the harmonized regional system of SPS measures. It is also expected that this Project would encourage further country-specific Bank projects to increase national technical capacity on those measures. The Project Team, however, will ensure that there should be no duplications with the Bank resources, and make sure to coordinate to enhance its effectiveness and complementarity.

XI. ESTIMATED PROJECT PREPARATION AND ANALYSIS TIME

11.1 It is estimated the Donor's Memorandum can be completed by March 2002

Approved by:

Date:

