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MULTILATERAL INVESTMENT FUND

**REGIONAL**

**MODERNIZATION OF CUSTOMS AND BORDER CROSSINGS**

**(TC-02-02-01-7-RG)**

**DONORS MEMORANDUM**

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## ANNEXES

Annex I      Logical framework

## ABBREVIATIONS

CESI	Committee on Environment and Social Impact
COF/CGU	IDB Country Office in Guatemala
EU	European Union
FTAA	Free Trade Area of the Americas
INCAE	Instituto Centroamericano de Administración de Empresas [Central American Business Administration Institute]
INTAL	Instituto para la Integración de América Latina y el Caribe [Institute for the Integration of Latin America and the Caribbean]
INT/ITD	Integration, Trade and Hemispheric Issues Division, Integration and Regional Programs Department, IDB
KSC	Korean Customs Service
IRSA	Organismo Internacional Regional de Sanidad Agropecuaria [Regional Organization for Plant and Animal Health]
PPP	Puebla-Panama Plan
PROALCA	Proyecto de Apoyo a la Participación de Centroamérica en el Área de Libre Comercio de las Américas [Project in Support of Central American Participation in the Free Trade Area of the Americas]
SDS/ICT	Information Technology for Development Division, Sustainable Development Department, IDB
SIECA	Secretaría de Integración Económica Centro Americana [Secretariat of the General Treaty on Central American Economic Integration]
USAID	United States Agency for International Development

## MODERNIZATION OF CUSTOMS AND BORDER CROSSINGS

(TC-02-02-01-7-RG)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	Secretariat of the General Treaty on Central American Economic Integration (SIECA)	
<b>Beneficiaries:</b>	Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama, their respective border control agencies, and entrepreneurs engaged or participating in trade in those countries.	
<b>Financing:</b>	MIF, nonreimbursable (Facility I)	US\$ 2,015,000
	Local counterpart:	US\$ 1,000,000
	Total:	US\$ 3,015,000
<b>Objectives:</b>	<p>The project's general objective is to promote greater trade and higher productivity in Meso-America by streamlining the procedures and activities of the international authorities for border control of goods in transit, with the goal of reducing the operating cost of international freight transportation in the region.</p> <p>The project's specific objective is to design and implement a standard computerized procedure for international transit of goods in the form of a single declaration for all control agencies and a common operating procedure at the borders of the eight countries in the region.</p>	
<b>Description:</b>	The project consists of the following components: (i) coordination and dissemination of the project; (ii) preparation and design of an international transit procedure; (iii) computerization, outfitting, implementation, and maintenance of the international transit procedure.	
<b>Terms:</b>	Execution period:	30 months
	Disbursement period:	36 months
<b>Special contractual conditions:</b>	As a condition precedent to the first disbursement, SIECA will submit evidence, to the satisfaction of the Bank, that: (i) it has selected the technical coordinator for the project; and (ii) it has approved the Operating Regulations for the Project Management Committee.	

**Environmental  
and social  
review:**

The Committee on Environment and Social Impact (CESI) reviewed and approved the MIF project abstract at meeting TRG 18-02 on 3 May 2002 without remarks or comments.

**Exceptions to  
Bank policy:**

None

## **I. COUNTRY AND PROJECT ELIGIBILITY**

- 1.1 The countries that will benefit from and participate in the program (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama) have been declared eligible by the Donors Committee for all financing modalities of the Multilateral Investment Fund (MIF). The program is eligible to receive financing under the Technical Cooperation Facility as a project that will provide advisory services in the framework of procedural reform to promote trade and investment in the region of Meso-America. The project was deemed eligible by the MIF on 20 December 2001 and is consistent with the MIF's strategy to promote trade and international investment.
- 1.2 The proposed program, as part of the Puebla-Panama Plan, is regional in focus and orientation, and its objective is to harmonize procedures and streamline the international transit of goods through customs in Meso-America.

## **II. BACKGROUND**

- 2.1 Under the Tuxtla Agreement, the Mexican and Central American authorities have been cooperating and collaborating since 1991. In November 2000, the President of Mexico presented a proposal to the Presidents of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama, and to the Prime Minister of Belize, for a plan to develop the region from the State of Puebla in Mexico to Panama. This strategy is known as the Puebla-Panama Plan (PPP), and the presidents of the abovementioned countries have adhered to it.
- 2.2 The objective of the Puebla Panama Plan<sup>1</sup> is to open a new phase in the dialogue and to reduce poverty, improving socioeconomic welfare in Meso-America through cooperation. The PPP is structured around a set of initiatives to be implemented by means of specific projects. The proposed project for modernization of customs and border crossings is consistent with the initiative for the promotion of trade and constitutes a priority for these countries' governments.<sup>2</sup>
- 2.3 Recognizing that the wealth generated by private enterprise is the prime engine of growth, it is necessary to provide it with optimum conditions to enable it to benefit productively from the current opening up of the world economy. This is particularly important for small and medium-sized enterprises, given that they have less flexibility to meet bureaucracy requirements and are more dependent on the

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<sup>1</sup> More information on the PPP and its projects can be found on the Bank's Intranet at <http://portal/ppp/>.

<sup>2</sup> Joint Declaration of the Fifth Summit of the Tuxtla Mechanism for Dialogue and Consensus-Building, Declaration of Mérida, Mexico, 28 June 2002 (agreement no. 4), and Joint Declaration by the Ministers of Transportation of Meso-America, Mexico City, Mexico, 20 September 2001. See INT/ITD technical files.



intermediation chain.<sup>3</sup> The promotion and enhancement of trade throughout Meso-America plays a crucial role in the pursuit of this objective.

- 2.4 As guarantor of health, safety, the environment, and fiscal equity, the State has both the right and the obligation to exercise effective control over international trade flows in the region. It is therefore both reasonable and appropriate to assume that such control be exercised efficiently, taking advantage of the current climate of cooperation between governments, dramatic developments in technology, and the design of new control techniques.
- 2.5 The traditional obstacles impairing the international transit of goods through customs, and therefore trade in the region, include the regulatory activities of the various agencies involved in border control.<sup>4</sup> Because of inefficient procedures, the agencies often hinder the flow of transit, adding to both the formal and sometimes informal costs of paralysis and processing that increase the price of the transaction without adding any value to its oversight function. It has been calculated that freight vehicles waste up to 40% of their total travel time in border-crossing formalities. Establishing an expeditious standard procedure for international customs transit between the eight countries and minimizing inefficiencies is the objective of this project.
- 2.6 The process of opening up trade, formalized in free trade agreements, participation in creating free trade areas and in the respective integration processes, and in the implementation of the commitments entered into under the World Trade Organization Agreements, have represented new challenges for these countries. In this context, the governments have been identifying and eliminating certain barriers to trade, requesting help to modernize their road, electric power, and computer-based communication infrastructures.
- 2.7 As regards customs in particular, all the governments in the subregion have undertaken national modernization processes of various scopes, and some have also launched regional modernization processes.<sup>5</sup> Many of the activities being carried out under these projects will supplement those planned under the proposed project. Most national projects have focused exclusively on the customs administration and, within that area, the priority has been to modernize national operations. This project, however, will center on international operations and the exchange of information between the countries, which will benefit regional integration. It is worth noting that the European Union is providing financial and technical support

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<sup>3</sup> The intermediation chain consists of the private-sector agents: brokers, freight carriers, consignees, etc., who often, in defending local or industry interests, establish rules and customs that constitute actual obstacles to trade.

<sup>4</sup> "One of the greatest obstacles to trade within Central America stems from the problems generated by the procedures followed at customs and border crossings," studies by SIECA and INCAE, 1999.

<sup>5</sup> Customs Union initiative between El Salvador, Honduras, Guatemala, Nicaragua, and Costa Rica.

for a Central American customs union, to be implemented shortly by SIECA. The proposed project will be supplemented by the equipment component of the EU project and will help support its objective of strengthening Central American integration by streamlining processing for the transit of goods among the member countries of the prospective customs union.

- 2.8 The proposed project is consistent with the Bank's strategy in the region insofar as it will promote integration and development. It is also consistent with the MIF's strategy of assisting the private sector, particularly small and medium-sized enterprises, so that they can take advantage of changes in the world economy brought on by globalization and trade liberalization.
- 2.9 Over the last decade, the Bank has financed more than 10 national customs modernization projects,<sup>6</sup> which assigned priority to the strengthening of institutions and to aspects related to the customs and economic systems affecting national customs administration. The MIF, under technical cooperation operation ATN/MT-7080-RG, is supporting the implementation of eight measures in customs administrations for business facilitation in Latin America and the Caribbean. The project will take advantage of and incorporate the accomplishments of these initiatives, but it differs from previous projects in that (i) it targets a single customs system, the international transit of goods, which has not usually been included in previous projects; (ii) it will cover all government agencies and private agents<sup>7</sup> participating in the operation, beyond customs proper; and (iii) it will exclusively cover the eight countries in the region of Meso-America in a single standard, harmonized international transit procedure.
- 2.10 The positive experiences of other regions were also taken into account in the preparation of the project, especially those that led to a savings of US\$308 million a year in Korea<sup>8</sup> and that of the European Union's NTCS transit control system. These experiences demonstrated the efficiency of integrating trade partners through harmonized, uniform procedures supported by cutting-edge technology.
- 2.11 The project will be implemented by the Secretariat of the General Treaty on Central American Economic Integration (SIECA), which has extensive institutional experience in integration and in-depth knowledge of the specific issues of transportation and trade. SIECA has implemented projects financed by multilateral agencies and governments. With the Bank, the success of ATN/SF-5462-RG, the

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<sup>6</sup> Projects have been financed in all the countries in Meso-America, except Belize and Mexico.

<sup>7</sup> Noteworthy among the lesson learned from the projects financed in the area is that the government is not the only inefficient actor in the process. Private-sector participants must also be taken into account in the operation of foreign trade and must be integrated through strategic partnerships (customs agents, carriers, freight forwarding agents, etc.).

<sup>8</sup> Improvement in the Confirmation Process. Han, Yong-Woo, KCS. Best Practices in Customs. Japan /IDB Program, 2001, <http://www.iadb.org/int/spa/index.htm>.

program to support the establishment of a Central American network for information and technical support for trade and for the liberalization of trade in services was particularly significant: the information model developed under the project was adopted by INTAL and the FTAA.

### **III. PROJECT OBJECTIVES AND COMPONENTS**

#### **A. Objectives**

- 3.1 The project's general objective is to promote increased trade and higher productivity in the Central American region by streamlining the procedures and activities of the international authorities for border control of goods in transit, with the goal of reducing the operating cost of international freight transportation in the region.
- 3.2 The project's specific objective is to design and implement a standard computerized procedure for international transit of goods in the form of a single declaration for all control agencies and a common operating procedure at the borders of the eight countries in the region. To achieve the abovementioned objectives, the project will include the following components.

#### **B. Components**

##### **1. Component 1: Coordination and dissemination of the project (US\$332,000 MIF; US\$60,000 counterpart)**

- 3.3 The purpose of this component is to disseminate the project among the public- and private-sector parties involved in international goods transit procedures and to coordinate their participation in the activities of the other components described below in order to ensure awareness of the procedure, which will be appropriate for the needs of trade. The following activities will be performed to achieve the purpose of this component.
- 3.4 **Activity a)** will be the **dissemination of the project** to the public and private institutions involved in the international transit of goods, as well as to the other direct project beneficiaries, in order to present its benefits and execution plans and to generate the synergies and strategic partnerships that will facilitate execution. This activity will be carried out through at least eight workshops in the eight countries, to be attended by the public and private institutions involved in the international customs transit processing (Customs, Plant and Animal Health, Immigration, Transportation, intermediaries, carriers, etc.) and the other project beneficiaries (Chambers of Industry and Commerce, exporters, etc.). Activity a) will also include the attendance of the coordinator at public- or private-sector

international meetings to present the project and report on its progress, thereby maintaining interest. This, the second and the fifth activity will be carried out in the institutional framework of the Puebla-Panama Plan, and will be coordinated with the Commissioner<sup>9</sup> responsible for the trade promotion initiative and the institutional support from SIECA.

- 3.5 **Activity b)** will be **coordination with the authorities to determine which countries will participate in the pilot test and the sequence for replication of the new procedure**, taking into account the infrastructure situation and the condition of communications, the progress achieved in implementing the measures for streamlining, and the institutional support provided. This activity will be carried out once the reports of the activity a) of Component 2 of the project have been received.
- 3.6 **Activity c)** will be **coordination** with the authorities and the representatives of the transportation sector and private sector agencies participating in the design of the processes, **so that they can appoint the technical counterparts** the countries will contribute to the various working groups participating in the project. This activity will take place during the dissemination workshops.
- 3.7 **Activity d)**, will be to take the **institutional steps necessary to obtain approval of the procedure by the Executive** of the beneficiary countries, in coordination with the Commissioner responsible for the initiative.
- 3.8 **Activity e)** will be **monitoring of the technical work** of designing and implementing the transit control procedure, including no less than 20 inspection visits during the project execution period.
- 3.9 Given the complexity of the technical coordination of the activities, with significant participation from almost 40 public and a like number of private institutions in the eight countries, dissemination and coordination of the project must be scaled so as to support the executing agency in this area. Therefore, MIF resources will finance hiring of a project coordinator, who would be a customs expert and highly experienced in the coordination of institutional modernization projects, for a two-year period. The terms of reference agreed upon with the executing agency are available in Annex IV. MIF resources will also be used to finance the dissemination and monitoring activities. The remainder of the costs for administration, logistics, and the participation of officials in workshops will be financed with local counterpart funds.

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<sup>9</sup> Each of these eight PPP initiatives is headed by a Presidential Commissioner.

## **2. Component 2: Preparation and design of the international transit procedure<sup>10</sup> (US\$592,000 MIF; US\$462,000 counterpart)**

- 3.10 The purpose of this component is to provide and implement the minimum and standardized information to be exchanged electronically and the actual procedure to be followed by the agencies involved in international customs transit border control, within the framework provided by the international agreements in effect in the matter. The activities detailed below will be implemented to accomplish the purpose of this component.
- 3.11 Along with **activity a)**, a **technical study will be conducted on the data and formalities** currently required in each country by the control agency in its interventions, of the international goods transit procedure, and the time required for each one, by agency and by country. In addition to the field studies, in order to perform this activity the consultants will, wherever possible, take advantage of the work already performed by SIECA, the IDB, and other multilateral or regional agencies. The consultants will work with their in-country technical counterpart in order to present a report regarding the situation of the transit procedure in each country, coordinating their activities with those of the “Support to Agribusiness Trade by Means of the Regional Application of Health and Phytosanitary Measures” (ATN/MT-7957-RG) program financed by the MIF within the framework of the PPP and to be executed by the Regional International Organization for Plant Protection and Animal Health (OIRSA).
- 3.12 Along with **activity b)**, the delegates of the different country agencies, with the guidance of the consultants hired by the project, will, on the basis of prior reports and taking as a reference ISO coding standards, as well as the best international practices, obtain agreement on a **minimum data set to be exchanged electronically** to control the transit operation, to be sent by the mediation chain of each transit operation. This activity will be organized at SIECA’s headquarters in Guatemala, and will include multinational working groups by subject area, constituted by the technical staff of the local country counterpart with the support of the external consultants having expertise in the relevant area, and monitoring by the project coordinator.
- 3.13 **Activity c)** will consist of a **pilot program**, to be carried out in two countries, that will include the design of the operations procedures to be followed by the agencies and agents participating in the international transit of goods, as well as the risk analysis methodology to be used for the operation, distinguishing between the domestic and international risks that may affect it and providing users in both the public- and private-sector institutions involved with the necessary training for use of the procedure. The pilot program will be carried out in the two countries selected

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<sup>10</sup> The procedure consists of a series of formalities or steps: presentation of declarations, operations activities, physical reviews, etc.

and the training will be provided by training trainers who will pass on the knowledge gained. The country working groups designated in each subject area, made up of the technical staff of each country's counterpart, will participate in this activity, with the support of the external consultants with expertise of the activity in question and with monitoring by the project coordinator. The respective national working groups of the remaining countries not involved in the pilot program will be kept informed of all progress made in this activity on an ongoing basis.

- 3.14 Lastly, **activity d)** will **replicate the pilot program** generated with the activities described above in the remaining countries in the framework of the "Logistics Corridor"<sup>11</sup> of the PPP.
- 3.15 In this component, MIF resources will finance the hiring of four temporary consultants with expertise in each subject area. The countries will finance their officials' travel to the international meetings at SIECA's headquarters to design the transit declaration, and to provide local technical, logistical, and administrative support for the consultants for establishing and implementing the transit procedure.

### **3. Component 3: Computerization, outfitting, implementation, and maintenance of the international transit procedure (US\$929,000 MIF; US\$378,000 counterpart)**

- 3.16 The purpose of this component is to develop and implement the appropriate management and communications software for electronic data exchange and the transit control procedure among the participating agencies within the logistics corridor, providing them with the necessary additional equipment and ensuring the initial system maintenance in the eight countries of the region. The following activities will be performed in order to attain the purpose of this component.
- 3.17 **Activity a)** will consist of a **Master Plan for Computer Systems** will be designed, requiring a technical study of the current status of management systems applications of the agencies responsible for oversight of international transit, as well as the recommendations, analysis, and methodology required for the implementation of the new application for transit control in each of the beneficiary countries, including an evaluation of the computer and telematics equipment requirements for administration of the procedure in each country.
- 3.18 **Activity a)** will then be carried out through the following two sub-activities:  
(i) **design of an information technology module** appropriate for management of the international transit procedure, taking into account requirements such as real

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<sup>11</sup> "The 'Logistics Corridor' is an action plan to provide the region with a series of competitive facilities and services in which communication and information technology is combined with basic transportation to enhance and expand service capacity. Productive enterprises will thus be able to withstand the pressure of competition thanks to shorter productive cycles and better customer service...", INCAE and SIECA studies (see INT/ITD technical files).

time exchanges, an interface with national computer applications of agencies and other parties involved in transit, and the ability to transmit to a central server to be located at SIECA headquarters and which will constitute the backup and the source of data audits for transit data and operations. This activity will take place according to the schedule set up for activities b) and c) of Component 2 of the project; and (ii) **development and implementation** of the transit information technology module in the agencies and the provision of training for the managers identified as users. This activity will be performed by hiring individual consultants, a consulting company, or a combination of both options, in order to ensure optimal implementation of the activities indicated in the Master Plan for Computer Systems.

- 3.19 Lastly, **activity c)** will support the agencies and SIECA, by providing **computer and communications equipment, and the licenses necessary to operate the system where these items are not already covered by the country or by other projects**. This activity involves remedying deficiencies in equipment and adding new equipment as required by the system at some agencies.
- 3.20 Under this component, MIF resources will be used to finance the necessary consulting activities according to the appropriate line items in the budget. In addition, MIF resources will be used under **activity d)** to finance up to 70% of the total cost of the equipment, while the remaining 30% will be financed with the local counterpart contribution in cash. The administrative and technical support for the consultants and maintenance of the equipment installed will be financed by the local counterpart funding.

#### IV. COST AND FINANCING

##### A. Costs

- 4.1 The total budget for the project amounts to US\$3,015,000, of which the MIF will finance US\$2,015,000 on a nonreimbursable basis, under Facility I. SIECA will contribute US\$1 million, as the local counterpart, in accordance with the following table and the itemized budget available in the technical files. Of the counterpart amount, SIECA is to contribute 50% in cash, which will be financed by USAID under its Regional Trade and Investment Program for Central America, known as PROALCA, and by nonreimbursable technical-cooperation funding from the Central American Bank for Economic Integration (CABEI). The remaining 50% will be contributed in kind.

**Budget (US\$)**

<b>Components</b>	<b>MIF</b>	<b>SIECA</b>	<b>Total</b>
1. Project coordination and dissemination	332,000	60,000	392,000
2. Preparation and design of the international transit procedure	592,000	462,000	1,054,000
3. Computerization, outfitting, implementation and maintenance of the international transit procedure	929,000	378,000	1,307,000
4. Operating expenses		100,000	100,000
5. Evaluations and audits	77,500		55,000
6. Contingencies	100,000		100,000
<b>TOTAL</b>	<b>2,015,000</b>	<b>1,000,000</b>	<b>3,015,000</b>
<b>Percentage</b>	<b>66.8%</b>	<b>33.2%</b>	<b>100%</b>

**B. Operating sustainability**

- 4.2 The computerized procedure for the international transit of goods, as designed, will be integrated as an additional module into the computer applications of the agencies' private sector participants, establishing a data coordination and administration link with a central server to be physically located at SIECA headquarters, thus connecting the premises of the participating agencies through telecommunications networks already existing in the countries. This existing and identified network infrastructure will ensure a secure, low-cost web-based exchange of data. Once it is integrated into their current management systems applications, of which it will be an integral part, the operating module will be maintained by the countries. Ensuring compatibility with these applications will be one of the project activities. The central data repository, its administration, and maintenance will be the responsibility of SIECA, as is the case in other similar projects.

**V. EXECUTING AGENCY AND EXECUTION MECHANISMS**

**A. Executing agency**

- 5.1 The executing agency of the program will be the Secretariat of the General Treaty on Central American Economic Integration (SIECA), a non-profit organization created by the General Treaty on Central American Economic Integration in 1960. It is subject to international law, has as its main mission a technical advisory function and administrative support to the Central American economic integration process, and its headquarters in Guatemala City.
- 5.2 SIECA has ample administrative experience in the execution of programs with multilateral agencies and proven technical capability demonstrated in its participation in innumerable activities in trade and transportation. In addition, SIECA is the project executing agency for the creation of the Central American



Customs Union, which has the technical and financial support of the EU, so that the execution of both projects by SIECA in Central America is a favorable element for their effective coordination and complementary implementation.

- 5.3 SIECA will hold technical and administrative responsibility for project execution. To this end, it will establish an executing unit, assigning the necessary staff to administer the project.

**B. Execution mechanism**

- 5.4 **Selection of the coordinator.** SIECA will select the project coordinator in accordance with the terms of reference set forth in the technical files, subject to nonobjection on the part of the Bank.

- 5.5 **Constitution of the Project Management Committee.** Under SIECA-appointed chairmanship, a Project Management Committee will be established and will include the project coordinator, the person in charge of administrative execution appointed by SIECA and the responsible party or parties appointed by the International Technical Committee, as counterpart. The committee's main functions will be to establish the strategy and approve the execution plan, define the activities and resources to implement the project, with the necessary supervision, approve the working groups established, approve the set of data to be transmitted, and approve the transit operating procedure and the bidding conditions, subject to the nonobjection of the Bank, in the terms set out above.

- 5.6 **International Technical Committee.** This committee will consist of officials from the agencies and private-sector institutions appointed by each country or group of countries. The committee will hold plenary or commission meetings and will be assisted by the project coordinator and the consultants and experts in the respective areas. It will support the working groups in proposing and defining the operating procedures and data to be exchanged for the international transit of goods, and will approve the final designs in both areas for presentation to the Project Management Committee.

- 5.7 **Working groups.** The working groups required to implement the activities planned under the project will be established according to a proposal from the coordinator, approved by the Project Management Committee. The groups will consist of the project consultants and their local counterparts, who will be experts in the respective areas.

- 5.8 **Operating strategy.** For the execution of the project, within a complex framework and with multiple government agencies and private operators involved, the implementation strategy will be to carry out a pilot program so that the design can be validated. Upon successful execution of the pilot program, the methodology will be expanded to the rest of the region. Both the pilot program and its subsequent

expansion will be coordinated with the activities carried out under other initiatives in the areas of telecommunications, roads, and energy, and in the area of customs modernization and integration.

- 5.9 In the Bank, the Country Office in Guatemala (COF/CGU) will hold basic responsibility for the project. The Integration and Regional Programs Department, through its Integration, Trade, and Hemispheric Affairs Division (INT/ITD), and the Information Technology for Development Division of the Sustainable Development Department (SDS/ICT), as appropriate, will hold technical responsibility for the project, providing support for the Country Office in Guatemala.

**C. Execution period**

- 5.10 **The execution period** is estimated at thirty months and the disbursements will be effected over a period of thirty-six months from the date of coming into effect of the Agreement. A revolving fund of up to 10% of the total approved amount will be established, the amount deemed necessary for project start-up.
- 5.11 **Procurement.** SIECA will procure the goods, general services, and consulting services required for the execution of the project in accordance with the applicable Bank and MIF policies and procedures.

**D. Accounting and financial audits**

- 5.12 **Accounting.** The executing agency will establish and be responsible for proper financial accounting, internal control, and records systems, which must allow for identification of the source and application of the program funds. The accounting system will be organized so as to provide the required documents, facilitate the verification of transactions, and enable timely preparation of financial statements and reports. The project books are to be kept in a manner such as to: (i) enable identification of sums received from different sources; (ii) report on the expenses of the project according to a chart of accounts previously approved by the Bank, differentiating between the contributions of the MIF and funds from other sources; and (iii) include the details required to identify the goods and services procured, as well as the use of such goods and services. The executing agency will also open separate and specific bank accounts for the administration of the MIF contribution and for the local counterpart funds. Lastly, the executing agency will process the disbursement requests and the supporting expense vouchers according to the Bank's disbursement rules.
- 5.13 **Financial audits.** The executing agency will prepare and submit to the Bank three annual final financial statements on the Bank's contribution and the local counterpart funds. The financial statements will be audited annually by an independent auditing firm acceptable to the Bank, based on terms of reference

previously agreed upon with the Bank. The audit costs are to be financed with the funds contributed by the MIF in accordance with the Bank's procedures.

## **VI. MONITORING AND EVALUATION**

### **A. Progress and final reports**

- 6.1 **Monitoring.** The executing agency will prepare and present progress reports on the project to the Bank's Country Office (COF/CGU) within 30 days after the end of each six-month period, and a final report 30 days after the final disbursement. These reports will be made according to a format previously agreed with COF/CGU and will address project activities and financing, as well as results measured according to the performance indicators identified in the logical framework for the project. COF/CGU will use these reports to supervise the progress made in the project execution and prepare a project completion report within three months after the last disbursement.

### **B. Mid-term and final independent evaluations**

- 6.2 **Evaluation.** The Bank will hire individual consultants to conduct two evaluations of the project. A mid-term evaluation will be carried out once 50% of the funds have been disbursed. A final evaluation will be conducted within the three months prior to the end of the project execution period. Based on the mid-term evaluation, COF/CGU, together with the project team if necessary, will conduct annual performance evaluations to determine whether the project should continue, be suspended, or be cancelled.
- 6.3 During execution of the project, the executing agency will compile the data on the performance indicators to be used for project supervision and evaluation. The indicators are described in the logical framework (see Annex I) and will be used by COF/CGU and the executing agency to monitor the general impact and evaluate the results of the project.

### **C. MIF Project Performance and Monitoring Reports**

- 6.4 The internal monitoring instrument for all MIF Projects (Project Performance Monitoring Report (PPMR)) should be based on the logical framework for the project and be developed during project preparation. A COF/CGU staff member appointed to supervise the project will be responsible for the annual update.

## VII. PROJECT JUSTIFICATION AND RISKS

### A. Project benefits and impact

- 7.1 The project is **innovative** because, supported by cutting-edge technology, it will establish, for the first time in the region, a flexible, simplified system for the control of goods, vehicles, and persons participating in trade, with a reduction in the operating costs that will help increase trade. In addition, the project will **add value** by supplementing (without duplicating) the initiatives of the Bank, the MIF, and other donors to streamline customs procedures, with a different approach. The project will be **sustainable** from two points of view: from an institutional perspective because all the stakeholders will be involved in the project design and will therefore have a sense of project ownership; and from an operational perspective, since the transit module will be designed to be used in the computer applications for management of the countries that they already maintain, and thanks to maintenance of the repository at SIECA, the use of low-cost technology and web-based maintenance, and the contribution SIECA will make to maintenance of the information repository through its data bases. Finally, being the first initiative of this nature in Latin America, it will have a **demonstration effect** with potential for future **replication** in other areas in the region.
- 7.2 The project is expected to contribute significantly to improving the international business environment in Meso-America, by coordinating and streamlining border control activities. The project will especially benefit small businesses doing business internationally, since their lesser experience and resources render them more vulnerable to border obstacles.
- 7.3 Funding for the project is justified by its consistency with the strategy followed by the Bank in the areas of modernization of the State, regional economic integration, strengthening of regional competitiveness, opening up of the region to the flows of trade and foreign investment, and establishment of international information exchange links. It is also consistent with the MIF's objective to improve the environment for the development of the private sector and the strengthening of small-business competitiveness. In addition, since the project will be part of the MIF program to *enhance trade and international investment*, its execution will be enriched through the exchange of lessons learned on an ongoing basis with other executing agencies that are also part of the MIF program. To this end, resources have been allocated for workshops, virtual exchanges, conferences, and advisory services on operational issues and international trade.

### B. Beneficiaries (direct and indirect)

- 7.4 The direct beneficiaries of the project are the entrepreneurs and private individuals involved actively or passively in trade, as the streamlining, standardization,

responsiveness, and simplification of the administrative procedures of the control agencies will reduce their operating costs.

- 7.5 Other direct beneficiaries of the project are the agencies having border control functions, as they will improve their effectiveness and efficiency in international goods transit control.
- 7.6 An indirect, yet no less crucial benefit accrues to the remainder of the business community and citizens in general owing to the reduction in administrative costs and their transfer to the chain of production and trade in the countries of the region.

#### **C. Risks**

- 7.7 The main risk of the project can be summarized as a lack of political support for the Puebla-Panama Plan, which would prevent the necessary agreements to standardize international transit procedures between the countries from being reached. This risk is mitigated by the support the presidents and authorities in Meso-America have been giving for the trade enhancement initiative and to this project in particular at various meetings (see footnote 2), and also by the very growth of regional integration itself, which requires simplification of customs procedures. It should also be borne in mind that the trade agreements signed with other countries and regions exert pressure on the governments for modernization of customs procedures, and that SIECA will disseminate information on the program through the workshops.
- 7.8 Another risk is the complex coordination of the project due to the multiplicity of participating public and private sector agencies. This risk is mitigated by the selection of SIECA as executing agency, given its experience and its ability to bring together the agencies involved in trade, integration, and transportation, with dedicated support from the project coordinator.

#### **D. CESI**

- 7.9 The Committee on Environment and Social Impact (CESI) reviewed and approved the abstract of the MIF's project in its meeting TRG 18-02 of May 3, 2002 without any remarks or comments.

### **VIII. SPECIAL CONTRACTUAL CONDITIONS**

#### **A. Condition precedent to the first disbursement**

- 8.1 As a condition precedent to the first disbursement, SIECA will submit evidence, to the satisfaction of the Bank that: (i) the technical coordinator for the project has been selected; and (ii) the Operating Regulations of the Project Management Committee have been approved.

**B. Degree of preparation for execution**

- 8.2 The project's degree of preparation is high as it has been designed jointly with the executing parties, including definition and formulation of the operating regulations and the profile of the coordinator and the remaining specialists. Moreover, SIECA has the support of USAID and CABEI in providing the counterpart funding in cash needed to start up the project.

## LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
The project's general objective is to promote greater trade and higher productivity in the region of Meso-America by reducing the operating cost of international transportation.	Upon project completion, a reduction of 50% will be achieved in the operating costs attributable to slow administrative procedures for border control followed by the agencies and users involved in foreign trade operations at border crossings.	Comparison of border crossing times before and after the project Private sector survey Project reports Mid-term evaluation Final evaluation Project Performance Monitoring Report (PPMR)	The government agencies and private sector users continue to employ the system effectively.
<b>PURPOSE</b>			
Design and implement a standard computerized procedure for the international transit of goods under a single declaration for all control agencies and a common operating procedure at the borders of the eight countries in the region.	By month 30, all international transit of goods among the beneficiary countries will follow the new computerized procedure for transit control.	Report of the agencies and institutions involved in the operation in the beneficiary countries Private sector survey Project reports Final evaluation Project Performance Monitoring Report (PPMR)	The government agencies and private sector users employ the system effectively from the onset.  There is the political will to harmonize the border transit procedure.
<b>COMPONENTS</b>			
<b>Component 1: Coordination and dissemination of the project</b>  1.a Eight workshops held, one in each country	At least eight workshops are held within four months after the project coordinator is hired, with the attendance at each workshop of at least one delegate for each government agency and private sector institution participating in operations for the international transit of goods.	Documentation on notices of meetings, attendance, and material presented	High-level institutional dissemination by PPP and SIECA coordinators of the importance of attending workshops and their scope.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>1.b Two countries designated for implementation of the pilot program</p> <p>1.c The International Technical Committee is established and its members and the government officials who will support implementation in each country are appointed.</p> <p>1.d Single document and procedure for transit approved by the countries.</p> <p>1.e Consultants are hired and goods procured, as needed for project execution</p>	<p>At the end of the fourth month after the coordinator has first been hired, a ministerial agreement designates the two countries to participate in the pilot program.</p> <p>Within the same period, at least one person in each government agency and private institution is identified in each country to work on the project.</p> <p>Between month 8 and month 24 of project execution, the Executive approves the document for the exchange of data and the transit procedure designed in at least six countries.</p> <p>The project coordinator and remaining consulting services are hired and goods procured, as indicated in the itemized budget for the project execution period.</p>	<p>Ministerial resolution adopted</p> <p>Records of establishment of the International Technical Committee and agreements on designation of the participating agencies and institutions.</p> <p>Official publication of the regulations on international transit approved by the Executive in each country.</p> <p>Accounting records documenting expenses incurred and nonobjection to the hiring of consultants provided by the Country Office.</p>	<p>SIECA promotes meetings with the respective ministers for each area in the countries involved.</p> <p>Appointed officials are able to devote the necessary time to the project (to be defined by the Coordinators).</p> <p>The Executive authorities continue to support the trade enhancement initiative.</p> <p>Appropriate consultants can be identified (INT/ITD will cooperate with the executing agency in identifying candidates in the area).</p>
<p><b>Component 2: Preparation and design of the procedure for international transit of goods</b></p> <p>2.a Technical study on the current status of documentation and procedures in the individual countries.</p> <p>2.b Single document with the data to be exchanged electronically designed and approved by all eight countries.</p> <p>2.c Procedure and risk module designed and approved in the pilot program countries.</p>	<p>At the end of month 7, the procedures and data currently required by each agency participating in transit control in the eight countries identified.</p> <p>Single document to be used by all agencies in the countries developed by the end of month 10.</p> <p>By the end of month 14, the control procedure and the applicable risk module designed for the two countries are available.</p>	<p>Consultants' report</p> <p>Record of approval of the single document containing the data set by the International Technical and Project Management Committees.</p> <p>Official publication in both countries of the regulations adopting the new transit control procedure.</p>	<p>The agencies involved provide legislation, forms, and procedures, and support the consultants' field visits to identify current operating procedures for transit.</p> <p>Delegates attend international working meetings and have the authority to proceed proactively in order to reach an agreement in the design of data to be exchanged.</p> <p>The Executive of both countries maintains interest in the project.</p>



NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2.d Procedures and risk modules designed and approved in the rest of the beneficiary countries.	By the end of month 26, the control procedure and the applicable risk module designed for the remaining beneficiary countries are available.	Official publication in the remaining beneficiary countries of the regulations adopting the new transit control procedure.	The Executive of the countries involved maintains interest in the project
<p><b>Component 3: Computerization, outfitting, implementation, and maintenance of the procedure for international transit of goods</b></p> <p>3.a Master plan for computer systems available.</p> <p>3.b Analysis, design, programming, and implementation of computer systems for the module designed for control of international transit of goods completed.</p> <p>3.c System has the equipment, communications, and licenses to operate.</p>	<p>By month 7, a table available showing the current status of the countries' computer applications, communications, and needs with respect to the project objective.</p> <p>By month 12, presentation of the model designed.</p> <p>Implementation of the module developed at the borders of the beneficiary countries: for those selected for the pilot program, by the end of month 15, and for the remaining countries, by the end of month 26.</p> <p>The equipment and licenses listed in the budget are in operation in the countries and at SIECA headquarters prior to implementation of the module in the countries.</p>	<p>Consultants' report approved by the Project Management Committee</p> <p>Approval of the model by the Management Committee.</p> <p>Executing agency accounting records documenting expenses incurred and the nonobjection to the hiring of consultants by the Country Office.</p>	<p>The agencies involved provide the information requested by the consultants and support the field visits they make. The private sector involved participates in the design of data and procedures.</p> <p>The countries approve the regulations for the procedure and single document.</p> <p>Appropriate consultants can be identified and hired and goods and services procured on a timely basis.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>ACTIVITIES</b>			
<b>Component 1:</b> 1.a At least eight dissemination workshops held 1.b Coordination to designate the two countries to participate in the pilot program 1.c Coordination with the government agencies and private sector institutions to appoint the members of the local counterpart 1.d Support for approval of the proposed procedure by the Executive in the countries 1.e Supervision of the design of the standard document and implementation of the computerized system; procurement of goods and services	US\$392,000		
<b>Component 2:</b> 2.a Technical study on the current status of documentation and procedures in the countries 2.b Design of document with the data to be exchanged electronically 2.c Pilot program in two countries with the design of the procedure and risk module 2.d Replication of the pilot program in the other beneficiary countries	US\$1,054,000		

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>Component 3:</b></p> <p>3.a Master plan for computer systems</p> <p>3.b Analysis, design, programming, and implementation of the computer systems for the module designed for control of international transit of goods</p> <p>3.c Equipment, communications, and licenses for system operation</p>	<p><b>US\$1,307,000</b></p>		