

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

SUPPORT FOR THE FREE TRADE AREA OF THE AMERICAS (FTAA) ADMINISTRATIVE SECRETARIAT MEXICO 2003 - 2005

(TC0112083RG)

PLAN OF OPERATIONS

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I. Logical Framework

ABBREVIATIONS

AS	FTAA Administrative Secretariat
COF/CME	IDB Country Office in Mexico
EU	European Union
FTAA	Free Trade Area of the Americas
FTAA Entities	Collective reference to the nine Negotiating Groups (Market Access; Agriculture; Government Procurement; Services; Investment; Intellectual Property; Subsidies, Antidumping and Countervailing Duties; Competition Policy and Dispute Settlement) and the several Committees or other Groups (Customs-Related Business Facilitation; Electronic Commerce; Civil Society, Smaller Economies, Institutional Issues, and Rules of Origin)
FTA	Free Trade Agreement
INT/ITD	Integration, Trade and Hemispheric Issues Division of the Integration and Regional Programs Department of the IDB
INT/RTC	Regional Technical Cooperation Division of the Integration and Regional Programs Department of the IDB
NAFIN	Nacional Financiera, SNC
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organization
TNC	Trade Negotiations Committee
TPC	Tripartite Committee

**SUPPORT FOR THE FREE TRADE AREA OF THE AMERICAS (FTAA) ADMINISTRATIVE
SECRETARIAT – MEXICO 2003 - 2005**

(TC0112083RG)

EXECUTIVE SUMMARY

Requester: Government of Ecuador in its function as Chair of the FTAA Trade Negotiations Committee (TNC), and on behalf of the 34 countries participating in the FTAA process.

Executing agency: Nacional Financiera, SNC, as trustee of the Trust Fund for the FTAA Administrative Secretariat.

Amount and source:	IDB - non-reimbursable FSO:	US\$ 3,000,000
	Cofinancing (OAS & ECLAC):	US\$ 115,000
	Local:	US\$ 2,329,429
	Total:	US\$ 5,444,429

Terms:	Execution Period:	23 Months
	Disbursement Period:	29 Months

Objective: The general objective of the project is to facilitate the creation of the Free Trade Area of the Americas through the provision of direct support to the FTAA negotiating process.

The specific objective of the project is to support the operation of the FTAA Administrative Secretariat (AS), which provides temporary administrative and logistical support to the negotiating process. In particular, the project will support:

- The physical transfer and installation of the AS from Panama City, Panama, to Puebla, Mexico; and
- The operation of the AS in Puebla, Mexico, from March 2003 to January 2005, in compliance with the mandate established by the Ministers in the San Jose Ministerial Declaration.

As the negotiations are scheduled to end by January 2005, it is foreseen that this operation is likely to be the last to provide support to the AS.

Description:	<p>The project will support the physical transfer and installation of the AS from Panama City, Panama, to Puebla, Mexico, and the operation of the AS in Mexico from March 2003 to January 2005. Specifically, consultants will be hired and other goods and services procured to ensure that the AS is in a position to comply with its official mandate to: (a) provide logistical and administrative support to the FTAA negotiations; (b) provide translation services for documents and interpretation during the deliberations; (c) keep the official documents of the negotiation; and (d) publish and distribute documents.</p>
Environmental/ social review:	<p>The TC Profile was reviewed in the CESI/TRG meeting 35-02 of September 20, 2002, where it was approved as proposed without comments.</p>
Benefits and beneficiaries:	<p>The continued operation of the AS, which has provided critical support to the FTAA negotiating process so far, will ensure that the process can continue on track. Through its provision of translation, document, interpretation and conference services, the AS provides the necessary structure for the conduct of the FTAA negotiations allowing participating countries to dedicate their (often limited) financial and human resources to the substance of the negotiating process. The AS guarantees internal transparency by ensuring that all documents are circulated to the relevant delegates in each of the negotiating groups. It also provides a level playing field for all the countries participating in the FTAA negotiations by ensuring that documentation is distributed in both negotiating languages. In this respect, the AS is of particular benefit to the smaller economies in the region, whose costs of participating in the process would be unmanageably high if they could not count on the services of the AS. In its capacity as the official archive of the negotiations, the AS is moreover responsible for preserving the legislative history of the process, which will later serve to interpret hemispheric implementation of the final treaty. Finally, in addition to the Bank's membership and active participation in the Tripartite Committee, the project will strengthen the Bank's role as an important facilitator in the process of regional economic integration. The beneficiaries are the 34 countries participating in the FTAA process.</p>
Risks:	<p>The success of the AS will hinge to a considerable extent on the professional skills of its personnel to facilitate FTAA negotiations through logistical, administrative and language support. To ensure maximum quality in this respect, the Bank will participate actively in the selection processes. Also, to ensure a smooth transition between Panama and Mexico, some existing consultants are</p>

expected to transfer to Mexico with the AS.

**Bank's country
and sector
strategy:**

In its support to the FTAA process, the project complies with two of the Bank's central mandates:

- to support regional economic integration in Latin America and the Caribbean as a way to: (a) strengthen the region's strategy of opening up vis-à-vis the rest of the world; (b) bolster domestic market expansion and economic growth; (c) help consolidate structural reforms in the region and (d) foster the development of stable democracies;
- to support increased competitiveness by promoting freer trade in the Hemisphere.

**Special
contractual
conditions:**

Prior to first disbursement: (a) evidence that the Mexican Government has assigned to the AS a satisfactory physical operating environment to properly carry out its activities and provided to the AS the necessary materials (equipment, furniture and facilities) for its functions; and (b) evidence that the Government of Mexico and the Trustee have entered into an agreement for the transferring to the Trustee of the Bank financing as well as the necessary counterpart resources for the complete execution of the project.

**Exceptions to
Bank policy:**

See the Procurement section that follows.

Procurement:

The contracting of consulting services as well as the acquisition of goods and related services will be carried out by the Executing Agency according to the Bank policies and procedures. Due to the specialized nature of the activities of the AS, the professional expertise and knowledge of the consultants carrying out those activities and the time involved in training new consultants, as well as to ensure continuity of the FTAA negotiating process, some key AS consultants presently providing services in Panama are expected to transfer with the AS to Mexico. These consultants have been selected and hired through a competitive process in accordance with the Bank's policies and procedures (Procurement Manual GS-501 to GS-503) and their performance has been evaluated as satisfactory by the Bank. As such, it is recommended to continue their services without going through another competitive process. All other new consultants contemplated under the project will be hired following the Bank's standard policies and procedures. (see paragraph 3.17)

I. FRAME OF REFERENCE

A. The Free Trade Area of the Americas (FTAA)

- 1.1 At the 1994 Miami Summit of the Americas, the 34 democratic countries of the Western Hemisphere pledged to create a hemisphere-wide free trade area spanning from Northern Canada to the southern tip of Chile. Following a three-year preparatory phase, formal FTAA negotiations were launched at the Second Summit held in Santiago in April 1998. Governments agreed at the Third Summit held in April 2001 in Quebec City to complete the talks by no later than January 2005, and to seek the entry into force of the FTAA Agreement as soon as possible thereafter, but in any case, no later than December 2005. With a combined population of 800 million and a GDP of \$9 trillion, the FTAA will be the largest free trade area in the world and one of the most ambitious integration schemes in modern history.
- 1.2 The FTAA process is remarkable in that it has drawn together some of the richest industrialized economies with some of the least-developed countries in the world. It thus reflects a particular brand of “new regionalism” that is also prevalent in other on-going integration initiatives, including the North American Free Trade Agreement (NAFTA), the Canada-Chile free trade agreement (FTA), the EU-Mexico FTA, the FTA between Canada and Costa Rica, and the planned FTAs between Mexico and Japan, and the EU and Mercosur. These types of arrangements support economic transformation in participating developing countries and can confer significant benefits on the latter in terms of new market opportunities, credible market commitments with consequent investment growth, knowledge-transfer and technological development. In contrast to earlier integration schemes, and similar to the many new sub-regional trade initiatives pursued by Latin American and Caribbean countries in the 1990s, the FTAA is fully consistent with – and a natural consequence of – the outward-looking, market-oriented policy reforms that the region as a whole has been introducing since the mid-1980s. It thus forms an integral part of the structural reform process and of a regional development strategy aimed at promoting a fertile environment for private enterprise.
- 1.3 Trade, and greater trade opening, is central to that strategy. As Latin American and Caribbean countries prepare for enhanced global integration, hemispheric integration complements their unilateral and multilateral liberalization efforts under the Doha Development Round. Gradual liberalization in a hemispheric context will increase competition, benefit consumers, and contribute to growth and new market opportunities in the region, with attendant benefits in terms of employment creation, social development and poverty alleviation. This, in turn, should have a positive effect on the region’s trade and economic relations with the rest of the world. The new rules-based trade environment created by the FTAA should also help to consolidate (and “lock in”) policy reforms in countries with a record of policy dispersion.

- 1.4 The FTAA will be more than a simple free trade area. Its broad negotiating agenda includes traditional market access for goods, services and investment as well as intellectual property rights and competition policy, with parallel for a addressing related issues such as electronic commerce, business facilitation, the role of civil society and the concerns of smaller economies. The FTAA agreement must be fully consistent with multilateral trade disciplines as defined by the World Trade Organization (WTO), and build on the existing hemispheric network of subregional integration arrangements, eventually co-existing with those arrangements that pursue deeper integration beyond a free trade area (e.g. customs unions, common markets).

B. The FTAA Negotiating Process

- 1.5 The FTAA process has been a very dynamic one from the beginning. It has also been a very disciplined process, involving specific work programs, benchmarks and political and technical reviews. Since launching the process in 1994, governments have kept their self-imposed deadlines for each of the negotiating phases, and have already achieved significant progress in moving towards their established goal. Almost eight years into the process, the negotiations are approximately where they should be given the ten-year timeframe set out by the governments to launch the FTAA. Each phase of the process has produced concrete results:
- a. The 1995-1998 preparatory phase brought major results in terms of documenting the current trading environment in the hemisphere. Governments established comprehensive databases, compendia on laws and agreements, and other background information on key issues affecting trade, greatly increasing the transparency of existing rules. Many of these studies have been made public on the official FTAA webpage (www.ftaa-alca.org). They also agreed on the general structure and scope of the negotiations, and the rules that would guide those negotiations.
 - b. Formal negotiations were launched in 1998. The governments established nine Negotiating Groups (Market Access; Agriculture; Government Procurement; Services; Investment; Intellectual Property; Subsidies, Antidumping and Countervailing Duties; Competition Policy and Dispute Settlement) and several related Committees (Business Facilitation; Electronic Commerce; Civil Society and Smaller Economies). During the first 18 months of the negotiations, chaired by Canada and culminating in the Toronto Ministerial Meeting in November 1999, *[information deleted]* the negotiating groups produced annotated outlines for negotiations in their respective subject areas. In line with their aim to achieve concrete progress in the negotiations by 2000, governments also approved 18 new business facilitation measures (both customs-related and general), which, once implemented, will greatly facilitate business operations across the region and benefit hemispheric and international businesses alike.
 - c. The second phase of the negotiations was chaired by Argentina and meetings were

held in Miami. During this period leading up to the Buenos Aires Ministerial Meeting, governments negotiated normative text for the different subject chapters, modalities and procedures for the negotiations, and the overall architecture of the future FTAA agreement, including institutional aspects. At the conclusion of this stage, the Ministers responsible for Trade, in establishing new standards of transparency in trade negotiations, agreed to publicize the draft text of the FTAA Agreement in the 4 official languages.

- d. During the third phase of the negotiations, Chaired by Ecuador, the AS conducted its operations in Panama. *[Information deleted]*. During this 18-month cycle, FTAA entities intensified their efforts to resolve existing differences and reaching consensus with a view to eliminating the brackets (differences) from the draft text. Governments also worked on the basis of specific instructions, negotiating and developing areas of consensus. The Vice Ministers in reiterating their commitment to transparency in the process, made public the results of the “Methods and Modalities for Negotiations” for the 5 Market Access groups (Market Access; Agriculture; Government Procurement; Services; Investment) which established the principles under which countries will prepare and negotiate the lists of national commitments to the FTAA Agreement. A second version of the draft FTAA Agreement demonstrating the progress made by the Negotiating Groups is expected to be made public shortly after the Quito Ministerial Meeting in October 2002.
 - e. During the final phase of negotiations, to be co-chaired by Brazil and the United States, the AS will be operating in Puebla, Mexico as of 1 March 2003. *[Information deleted]* At this time, the governments will conclude the process by which offers will be exchanged and negotiated amongst all participating FTAA governments. The results of the negotiating process will yield a finalized legal text and its corresponding annexes of access commitments. At the Third Summit Meeting in Quebec City, Heads of State and Government directed their Ministers to ensure that the negotiations of the FTAA Agreement would be concluded no later than January 2005 and to seek its entry into force of the agreement as soon as possible thereafter, but no later than December, 2005.
- 1.6 Since the Miami Summit, the Tripartite Committee (TPC) – composed of the IDB, the UN Economic Commission for Latin America and the Caribbean (ECLAC) and the Organization of American States (OAS) - has provided crucial technical and analytical support to the process in addition to administrative and logistical support to the AS. Trade experts from all three institutions have helped governments compile country and region-specific trade and tariff data, analyze existing trade-related norms and regulations, and prepare background papers on key issues affecting hemispheric trade. The Bank has assisted these efforts through a number of FTAA-related regional technical cooperation projects.

BANK-FINANCED RTCs SUPPORTING THE FTAA PROCESS			
TC Number	Name	Year	IDB Financing (\$)
ATN/SF-5036-RG	Support Working Groups–FTAA Denver 1995	1995	150,000
ATN/SF-5230-RG	Denver Groups – Free Trade – Phase II	1996	750,000
ATN/SF-5272-RG	Free Trade Area of the Americas (FTAA)	1996	150,000
ATN/SF-5510-RG	Governmental Purchases Task Force	1997	149,000
ATN/SF-5633-RG	Free Trade Area of the Americas (FTAA)	1997	500,000
ATN/SF-5670-RG	Support for Publishing Reports in Portuguese	1997	148,000
ATN/SF-5726-RG	Support Pro-Tempore Secretariat FTAA	1997	98,000
ATN/SF-6107-RG	Support Tripartite Committee in FTAA	1998	650,000
ATN/SF-6353-RG	Support to the FTAA Secretariat – Miami	1999	3,000,000
ATN/SF-6860-RG	FTAA Negotiations	2000	650,000
ATN/SF-7225-RG	Support to the FTAA Secretariat – Panama	2000	3,000,000
ATN/SF-7431-RG	FTAA Negotiations Support	2001	750,000
ATN/SF-7983-RG	Technical Support to the FTAA Negotiations	2002	500,000

- 1.7 The success of the negotiations so far is not only the result of political vision and sustained commitment to the process among the 34 participating governments, but also of the effective negotiating structure established by governments during the 1988 San José Ministerial Meeting. According to this structure, the FTAA negotiations are overseen and managed by the Trade Ministers, who meet every 18 months to provide political guidance to the process. The Trade Negotiations Committee (TNC) – made up of the 34 Vice-ministers of Trade – is responsible for guiding the day-to-day work of the fourteen negotiating groups and related committees and defining the overall architecture and institutions of the FTAA. The AS was created in 1998 on a temporary basis to provide administrative, logistical, and language support to the negotiations.

C. The FTAA Administrative Secretariat

- 1.8 When the AS was created, the FTAA Ministers determined that its operations should be funded through resources provided by the host authorities. The Ministers also solicited resources from the institutions of the Tripartite Committee. In the Santiago Plan of Action, Heads of State of the 34 FTAA countries therefore requested that “the Tripartite Committee, in particular, the Inter-American

Development Bank, allocate appropriate existing resources within [their] institutions to support the AS for the FTAA negotiations”. The Bank has played a key role in helping countries set up and finance the AS during its first years of operation in Miami and during its present two years of operation in Panama. To this effect, the Bank approved a regional technical cooperation project in January 1999 (ATN/SF-6353-RG), which funded the AS in Miami until February 2001, and a second operation in November 2000 (ATN/SF-7225-RG) to fund the AS’s operations in Panama from March 2001 until February 2003.

1.9 The AS has the following core functions:

- a. *Conference Services*: provide logistical support to all FTAA negotiation meetings, including TNC and Ministerial meetings as required;
- b. *Interpretation Services*: provide simultaneous interpretation services during the deliberations into English and Spanish, the official languages of the FTAA negotiating process
- c. *Translation Services*: translate all of the documents arising from the FTAA negotiating process from their original into either English or Spanish and official documents into English, Spanish, French and Portuguese;
- d. *Document Services*: collect, maintain and distribute all official documents of the negotiating process;

1.10 In line with its core mandates, the AS is providing an invaluable service to FTAA delegations, and has played a key role in ensuring a smooth negotiating process. *[Information deleted]*.

1.11 The TNC *[information deleted]* is officially responsible for supervising the AS, *[information deleted]* including determining the size and composition of its personnel and appointing the Director of the AS. The current Bank project supporting the AS in Panama is being executed directly by the AS, with project supervision and administration being performed by the Bank’s Country Office in Panama. Advice on the execution is provided by a Coordination Committee of the TPC composed of the INT Deputy Manager and the Chiefs of the Trade Unit of the OAS and the ECLAC Washington Office. As far as is possible, this modality of execution, which has been efficient and successful, will be maintained in Mexico, with the exception of the executing agency, which will be administered through a Trust Fund.

1.12 The AS space includes both administrative offices and the meeting rooms where the FTAA negotiations take place. Following a decision by FTAA governments in San José, Costa Rica, to rotate the site of the meetings among several host cities during the negotiation process, the AS was originally based in Miami (May 1998 – February 2001), is currently located in Panama (March 2001 - February 2003) and will move to Mexico through the conclusion of the negotiations. (March 2003 –

January 2005).

- 1.13 The continued operation of the AS beyond February 2003, the ending date of the current regional technical cooperation, is crucial for the negotiating process. Hence, the Government of Ecuador, in its capacity as Chair of the TNC and on behalf of the 34 governments in the hemisphere, has submitted a formal request to the Bank, asking it to complement local (Mexican government) resources to support the AS's operation in Mexico from March 2003 to January 2005. The Bank would support the AS for its period of operation in Mexico with the same level of financing as for each of the previous two operations in Miami and Panama – US\$3 million.
- 1.14 As the negotiations are scheduled to end by January 2005, it is foreseen that this operation is likely to be the last to provide support to the temporary AS. At the Sixth Ministerial Meeting held in Buenos Aires on April 7, 2001, Ministers responsible for trade created the Technical Committee on Institutional Issues (TCI). The TCI meets regularly in the context of the FTAA negotiations to discuss proposals for the overall architecture of the FTAA Agreement for both general and institutional aspects. Currently, the future of the FTAA Administrative Secretariat is being negotiated by the TCI. Articles 18 and 21 of the Draft Text on General and Institutional Issues¹ contemplate the existence of a permanent Secretariat and further that thirty four (34) countries of the Hemisphere shall make contributions during the implementation phase of the Agreement. Although, further negotiations may result in additional modifications to existing draft, Bank representatives have given clear indications on various occasions that once the negotiations have concluded, the Secretariat can no longer be financed with IDB resources.
- 1.15 Over almost four years of receiving funds from Bank operations (ATN/SF-6353-RG and ATN/SF-7225-RG), the AS has developed into a very efficient agent for providing support to the FTAA negotiating process. It has successfully provided support in the four core areas detailed above and it has an efficient organizational structure that enables it to respond rapidly to the requirements of the FTAA delegates. A mid-term review of the current operation conducted by an independent consultant indicates that the AS has successfully achieved the goal of facilitating and supporting the negotiations towards the establishment of the Free Trade Area of the Americas and that its staff is heavily committed to the FTAA process. This is also the general conclusion reached by all Bank staff associated with the project. It should be emphasized that the AS's activities in Miami and Panama have been carefully monitored by the Bank on a continual basis, through fact-finding missions, evaluations, audits and regular participation in TNC meetings *[information deleted]*. *[Information deleted]*.
- 1.16 In addition to the above conclusions, the mid-term review has the following recommendations that are relevant for the operation in Mexico.

¹ This document may be consulted on the official FTAA web page at: http://www.ftaa-alca.org/ftaadraft02/eng/preamb_e.asp#general/institutional

- Due to the increase in workload, allowance should be made for increasing the number of translators.
- For the design and remodeling of the installations in Mexico, the flow of documents, the need for easy communication between certain work units and the need for quiet working conditions should be taken into account to ensure smooth operation of the AS.

These recommendations have been taken into account in the development of the project.

- 1.17 Finally, one of the most important lessons learned from the current operation is that the FTAA process is a very dynamic one. As the FTAA process matures, the pace of work is intensifying, *[Information deleted]*. This will be even more the case in Mexico where the negotiations will be reaching their conclusion. This operation has been designed accordingly to allow for the increased rhythm of negotiations foreseen.

II. THE PROJECT

A. Objectives

- 2.1 The general objective of the project is to facilitate the creation of the Free Trade Area of the Americas through the provision of direct support to the FTAA negotiating process.
- 2.2 The specific objective of the project is to support the operation of the AS, which provides temporary administrative and logistical support to the negotiating process. In particular, the project will support:
- a. The physical transfer of the AS from Panama City, Panama, to Puebla, Mexico; and
 - b. The operation of the AS in Puebla, Mexico, from March 2003 to January 2005, in compliance with the mandate established by the Ministers in the San Jose Ministerial Declaration.
- 2.3 As the negotiations are scheduled to end by January 2005, it is foreseen that this operation is likely to be the last to provide support to the AS.

B. Description

- 2.4 The project will finance the establishment and operation of the AS during its approximately two-year stay in Mexico. This will enable the AS to comply with its official mandate to provide administrative and logistical support to the negotiations, adequate translation and interpretation services, and efficient

document management.

Physical Infrastructure (In-kind Contribution)

- 2.5 Given the expected intensification of negotiations over the next two years, there will be a need to increase both the physical space of the AS, and the number of its staff. In terms of physical space, the Convention Center in Puebla, Mexico, has been selected as the future venue of the AS and the negotiations. After taking into consideration comments and recommendations received from the FTAA Chair, the AS, the TPC and representatives of interested countries, the Mexican authorities have commenced remodeling the building that will house the AS and the negotiations. This building will permit up to 3 simultaneous plenary meetings; will have six rooms available for bilateral meetings; will have adequate space for the work of the FTAA Chair, the TPC and the delegates to the negotiations; and will provide the AS with sufficient space for all its activities. Security has also been a prime consideration in the re-development of the building. The building will be outfitted with all the necessary equipment, furniture and facilities to ensure a satisfactory operating environment for the AS in Mexico. Work on the building is expected to be completed in December 2002 in time for the move of the negotiations from Panama at the end of February 2003. This category will be covered in its entirety by Mexico as an in-kind contribution

Installation of the AS in Mexico (\$249,435)

- 2.6 The project will finance some eligible costs related to the physical installation of the AS in Mexico in February 2003. This includes the installation costs for a limited amount of existing office equipment currently used by the AS, documents and other materials necessary for the activities carried out by the consultants, as well as the installation costs for key AS consultants transferring to Mexico. The transfer of the latter is necessary due to the specialized nature of the activities of the AS, the professional expertise and knowledge of the consultants carrying out those activities, and the time involved in training new consultants as well as to ensure the continuity of the “institutional memory” of the FTAA negotiating process. Travel expenses of AS consultants at the end of the project are also financing by the project.

FTAA Administrative Secretariat Consultants (\$4,723,971)

- 2.7 *[Information deleted]*.
- 2.8 Given this expected intensification of negotiations over the next two years, there will be a need to increase the number of its consultants. *[Information deleted]*. The FTAA countries are expected to retain the present AS structure (the Structure is available in the technical archives of the project). To ensure a smooth transition between Panama and Mexico, some existing key consultants are expected to transfer to Mexico with the AS (the Terms of Reference are available in the technical archives of the project).

Operating Expenses of the FTAA Administrative Secretariat (\$173,650)

- 2.9 The operating expenses of the AS will be financed in cash by the Mexican contribution. These will cover, amongst other items: (i) telephone and communications; (ii) office supplies; (iii) postal and courier service, and; (iv) photocopier maintenance and supply.

Project Evaluation and Auditing (\$42,000)

- 2.10 Annual financial audits of the project will be carried out, with a final comprehensive audit on its completion. The cost corresponding to the hire of the auditing firm will be chargeable to the Bank financing, and will be selected according to the Bank policies and procedures governing the matter. A final evaluation will be carried out at the end of the project.

C. Cost and financing

- 2.11 The overall costs and financing, necessary to support the AS during its approximately two-year tenure in Mexico, are estimated to be US\$5,444,429, of which the Bank is expected to provide US\$3,000,000, the OAS US\$100,000, ECLAC US\$15,000 and the Government of Mexico US\$2,329,429. Mexico will also contribute US\$3,323,376 in kind (see paragraph 2.13). This budget was agreed to at the TNC meeting of the 34 countries held in the Dominican Republic in August 2002. *[Information deleted]*.
- 2.12 The contribution of the Bank will be \$3,000,000, chargeable to the net income of the Fund for Special Operations (FSO) in convertible currency. The contribution will cover: (i) the installation of AS consultants, equipment and documents from Panama to Mexico as well as travel expenses of consultants at the end of the project – a maximum amount of US\$241,500 will be paid for installation and travel expenses for the consultants; (ii) part of the honoraria and travel of AS consultants; (iii) project evaluation and auditing costs, and; (iv) contingencies.
- 2.13 Cofinancing resources from the OAS and ECLAC, totaling \$100,000 and \$15,000 respectively, will finance additional AS consulting costs.
- 2.14 The counterpart resources will come from the Government of Mexico, which will finance with cash: (i) part of the honoraria of the AS consultants, and; (ii) the operating costs of the AS. In addition, Mexico will contribute approximately US\$3,323,376 in-kind for physical infrastructure in the following manner: (i) US\$1,800,000 for the remodeling of the building that will house the AS and the negotiations; (ii) US\$447,887 for office furniture; (iii) US\$663,998 for computers (hardware and software), and; (iv) US\$411,501 for photocopiers, faxes and other equipment.
- 2.15 It should be emphasized that all countries participating in the FTAA process incur

considerable expenses with respect to the negotiations. *[Information deleted]*. Countries finance the preparations of their delegations, and travel and per diem for continuous rounds of negotiations in Panama. A number of countries also incur considerable costs in relation to the Ministerial and TNC Vice-ministerial meetings. *[Information deleted]* the financial burden of the FTAA process is already relatively high for the countries of the region, and particularly for the smaller economies. It is anticipated that all countries will incur increased expenses, as the meetings of the FTAA Entities will meet with greater frequency during the phase leading up to the conclusion of the negotiations.

III. PROJECT EXECUTION

A. Project Execution and Administration

- 3.1 Given the nature of the FTAA negotiations, it is of critical importance that the project be executed in a way that ensures the smooth operation of the AS and the maintenance of direct communication links between the AS, the FTAA Chair, Mexico, the Bank and the other members of the Tripartite Committee. The project team, in coordination with the Mexican government, has studied a number of ways in which such legal status can be granted (available in the project's technical archives), and has established that the best way for doing so under Mexican law is through a trust fund. (The Structure of the Trust Fund and the Draft Trust Fund Agreement are available in the technical archives of the project). This mechanism maintains the ability of the AS to contract the consultants, goods, service providers and other services as directly as possible. The establishment of the trust fund as the executing mechanism has been evaluated by the 34 countries of the negotiating process and was considered appropriate at the meeting of the Vice-Ministers in August 2002.
- 3.2 Under Mexican legislation, a trust is a contract in virtue of which a private or artificial person (Settlor) transfers, for their administration, certain goods or rights to the Trustee (a Mexican fiduciary institution: a bank). The Trustee must dispose such goods or rights to perform exclusively the activities designated by the Settlor. It should be emphasized that, for this project, legal status will be of a temporary nature and for purely administrative reasons, namely to facilitate the process of project execution during the AS's Mexico phase (2003-2005).
- 3.3 For this project, the Settlor will be The General Secretariat of the Organization of American States and the Trustee will be Nacional Financiera S.N.C. (NAFIN) and the purpose of the Trust is to ensure that the Trustee will manage the Trust Assets (basically the project contributions) so that they are used to provide logistical and administrative support to the FTAA negotiations through the AS. In the Trust for this project, the role of the Settlor is confined to the initial constitution of the Trust. In its turn, NAFIN as the Trustee, will, through the Executive Director of the AS, enter into the agreements, and generally perform all legal acts and deeds, necessary for fulfilling the activities contemplated in the project and the Trust's purposes.

These activities include, among others, contracting the necessary consulting services; procurement of the relevant goods and services, rental of moveable and immovable property and payment of expenses and liabilities arising from the Trust purposes.

- 3.4 The Bank will sign the Technical Cooperation Agreement with the Government of Mexico, which will transfer the funds to the Executing Agency NAFIN as the Trustee of the Trust Fund for the Administrative Secretariat. Prior to first disbursement, the Government of Mexico should have entered into an agreement with NAFIN for the allocation and transferring of the Bank's contribution as well as the necessary counterpart resources for the execution of the Project.
- 3.5 The Executing Agency, through the Executive Director of the AS will be responsible for: (i) managing the program activities; (ii) contracting the goods and related services as well as hiring the consulting services of the program; (iii) overseeing the performance and handling of the budget according to established procedures; (iv) processing requests for disbursements of the Bank's contribution; (v) preparing the balance sheets on resources used, and; (vi) preparing administrative and technical reports for the Bank.
- 3.6 The Trustee, NAFIN, is a Development Banking Institution that operates in accordance with the rules of its own Organic Law, in accordance with the Law of Credit Institutions (Ley de Instituciones de Crédito) and the rules issued by the National Banking Securities Commission (NBSC - Comisión Nacional Bancaria y de Valores) of Mexico.
- 3.7 The main objectives of NAFIN are to promote the integral development and modernization of the industrial sector with a regional approach; stimulate the development of financial markets and act as financial agent of the Federal Government of Mexico in the negotiation, contracting and management of credits from abroad. The principal sources of NAFIN resources are loans from international development institutions such as the International Bank for Reconstruction and Development (IBRD) and the IDB, lines of credit from foreign banks and the placement of securities in the international and domestic markets.
- 3.8 NAFIN's has been engaged in trust activities since its very creation in the early 40's. Some of the advantages of NAFIN as Trustee are: its national and international prestige as trustee; its broad experience in the elaboration and operation of different trust schemes; and its participation in more than 500 national trusts and mandates for over 300,000 million pesos, which amount places NAFIN as the largest trust entity of Mexico (see: www.nafin.com).
- 3.9 Project administration and general supervision will be the responsibility of the Bank's country office in Mexico (COF/CME). COF/CME will consult closely with the Bank's Integration and Regional Programs Department (INT) and the TPC Coordination Committee on all technical matters.

- 3.10 The Executing Agency will be responsible for setting up and maintaining suitable accounting of finances, internal control and filing systems, so as to allow for identification of the sources and uses of project funds. The accounting system will be organized in such a way as to provide needed documents, facilitate verification of transactions and allow timely preparation of financial statements and balance sheets. Program-related records will be filed in such a way that: (i) amounts received from different sources can be identified; (ii) project expenses are reported according to a chart of accounts previously approved by the Bank, differentiating between contributions from the Bank and funds from other sources; and (iii) pertinent details for identifying goods purchased and services hired are included, along with the use made of the goods and services. The Executing Agency will also open separate and specific accounts for administering the contribution of the Bank and the local counterpart funds. Lastly, the Executing Agency will process the requests for disbursements and the related expense statements according to the Bank's disbursements procedures.

B. Monitoring, Reporting and Evaluation

- 3.11 The Executing Agency, through the Executive Director, will submit the following reports to the Bank:
- a. Every six months, an Execution and Planning Report. This contains three sections:
 - Execution: information on the semester just completed with respect to: (i) the AS's activities, indicating both achievements and problems encountered, with their solution; (ii) the performance of all consultants hired, and (iii) the execution of the budget by category and source of financing;
 - Work Plan: information on the upcoming semester with respect to: (i) all activities planned by the AS, including the calendar of negotiation meetings (as available), and (ii) an estimate of resource requirements to fulfill the work plan;
 - Financial Plan: information on the upcoming semester with respect to: (i) a comprehensive and detailed budget for the following six months, by category and source of financing; (ii) if necessary, requests for budget transfers, and; (iii) any further explanation that may be necessary to understand the budget planning exercise.
 - b. A final report, within the last 60 days of the last disbursement, summarizing the AS's activities phase and the application of funds contributed by the Bank and Counterpart sources.
- 3.12 In the 90 days following the final disbursement of the project resources, the Executing Agency will prepare a final financial statement to submit to the Bank

relating to the Bank's contribution and the local counterpart funds. A firm of independent auditors acceptable to the Bank will audit the financial statement. The cost of the audit will be paid for with funds from the Bank's contribution, according to Bank procedures.

- 3.13 In addition, a final evaluation will be carried out by the Bank within the last 60 days of execution of the project.

C. Execution and Disbursement Schedule

- 3.14 The execution period of the program will be 23 months and the period for disbursements will be 29 months. The Bank will establish a revolving fund corresponding to 15% of the total IDB contribution. This fund will enable the Executive Director to complete the transfer of the AS from Panama to Mexico and to hire and pay all necessary consultants in a timely manner. The fund will be replenished depending on the appropriate justification of expenses.
- 3.15 The OAS contribution will be paid in two annual installments of \$50,000 each in 2003 and 2004. The ECLAC contribution of \$15,000 will be paid in one installment in 2004. Both OAS and ECLAC contributions will be given directly to the Government of Mexico, which will transfer said funds to the Executing Agency.
- 3.16 The total cash contribution of the Government of Mexico amounts to US\$2,329,429 and will be distributed, as a donation, to the assets of the Trust for the FTAA Administrative Secretariat. The Trust will enter into force at the moment of its signing and will remain in force until January 31, 2005, or until the conclusion of the FTAA negotiations. Mexico will make its contribution in the following manner: US\$945,114 in 2003; US\$1,134,137 in 2004, and; US\$94,511 in 2005 for a total of US\$2,173,762. The remaining US\$155,666 corresponding to budget category 5. Contingencies will be disbursed as and when needed and justified, and taking into account the AS structure approved by the Vice Ministers at the TNC of August 2002.

D. Procurement

- 3.17 The contracting of all consulting services and the acquisition of goods and services will be carried out by the Executing Agency in accordance with the Bank's policies and procedures in these matters. Due to the specialized nature of the activities of the AS, the professional expertise and knowledge of the consultants carrying out those activities and the time involved in training new consultants, as well as to ensure continuity of the FTAA negotiating process, some key AS consultants presently providing services in Panama are expected to transfer with the AS to Mexico. These consultants have already passed through a competitive process of selection in accordance with the Bank's rules and procedures (Procurement Manual GS-501 to GS-503) and have received satisfactory evaluations. As such, it is

recommended to continue their services without carrying out another competitive process. All new hires will be contracted following the Bank's standard rules and procedures.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 The FTAA negotiating process is complex and strenuous, but promises to yield important benefits in terms of its final aim. The continued operation of the AS, which has provided critical support to the process for the last 4 years, will ensure that the process can continue on track.
- 4.2 Through its provision of translation, document, interpretation and conference services, the AS provides the necessary infrastructure for the FTAA negotiations while allowing participating countries to dedicate their (often limited) financial and human resources to the substance of the negotiating process. The AS guarantees internal transparency by ensuring that all documents are circulated to the relevant delegates in each of the negotiating groups. It also provides a level playing field for all the countries participating in the FTAA negotiations by ensuring that documentation is distributed in both negotiating languages. In this respect, the AS is of particular benefit to the smaller economies in the region, whose costs of participating in the process would be unmanageably high if they could not count on the services of the AS. In its capacity as the official archive of the negotiations, the AS is moreover responsible for preserving the legislative history of the process, which will later serve to interpret hemispheric implementation of the final treaty. Finally, in addition to the Bank's membership and active participation in the Tripartite Committee, the program will strengthen the Bank's role as an important facilitator in the process of regional economic integration.

B. Risks

- 4.3 The success of the AS will hinge to a considerable extent on the professional skills of its service providers to facilitate FTAA negotiations logistical, administrative and language support. To ensure maximum quality in this respect, the Bank will participate actively in the various selection processes and will continue to do so during the AS's Mexico phase. Also to ensure a smooth transition between Panama and Mexico, some key existing consultants are expected to transfer to Mexico with the AS.

C. Environmental and Social Impact

- 4.4 Because of the nature of the project, no adverse environmental impact is foreseen. With regard to direct social impact, through its provision of conference, translation, interpretation and document services, the AS is of particular benefit to the smaller economies in the region, whose costs of participating in the process would be unmanageably high if they could not count on the services of the AS.
- 4.5 Through its contribution to the formation of a free trade area between 34 countries of the Americas, and thus the facilitation of greater access to larger markets for the lesser-developed countries of the hemisphere, the project to support the AS is expected to have an indirect positive social effect.

D. Institutional Feasibility

- 4.6 Due to the fact that the AS has been satisfactorily providing services analogous to those required under this operation, and under similar conditions, during the years that the FTAA negotiating process has been located in Miami and in Panama, no problems of an institutional nature are foreseen.

E. Beneficiaries

- 4.7 The beneficiaries will be the 34 countries participating in the FTAA process.

**FTAA Information
Annex I**

**Logical Framework
Support for the Administrative Secretariat of the Free Trade Area of the Americas (FTAA)
Mexico 2003-2005**

Program	Indicators	Means of Verification	Assumptions
Objective: To support the creation of the Free Trade Area of the Americas (FTAA)	[Information deleted]	1. Trade and investment statistics.	A global economic environment which is conducive to trade liberalization.
Purpose: To provide efficient and effective support to the FTAA Negotiations through temporary administrative and logistical support to the process.	1. Logistical support for plenary meeting-days of the 14 negotiating groups and committees and meeting-days dedicated to market access negotiations between individual countries during the period March 2003 – January 2005.	1. Activity reports each semester, feedback from FTAA delegates and TPC members, together with a final report.	Within the Hemisphere, a political commitment to the process, including economic policies which are compatible with the future FTAA.
Products: 1. FTAA Administrative Secretariat moved from Panama to Mexico. 2. FTAA Administrative Secretariat established and functioning in an effective and efficient manner towards the project's purpose.	1.1 FTAA Administrative Secretariat physically installed and operational in Puebla, Mexico 2.1 Effective and efficient organization of translation and interpretation services for the meetings 2.2 Effective and efficient coordination of the meetings' logistics, including venues, equipment, document copies, etc. 2.3 Timely reproduction of documents and effective and efficient organization of a comprehensive FTAA filing system.	1.1 Physical inspection by COF/CME specialist 2.1 Activity reports and feedback from FTAA delegation members. 2.2 Periodic reviews by the TNC's Budget Committee. 2.3 Mission reports of the regular TPC visits to the Secretariat as part of the support for the negotiations.	Availability of top quality external services
Activities: 1. Moving of FTAA Administrative Secretariat equipment, documents, materials and some existing staff from Panama to Mexico. 2. Purchase of goods and services for installation and functioning of the FTAA Administrative Secretariat in Mexico. 3. Hiring of additional FTAA Administrative Secretariat personnel in Mexico.	Budget performance	Activity reports; financial reports; financial audits	Non-IDB financial contributions are made in accordance with the projects' co-financing scheme.