

FOREIGN TRADE POLICY DEVELOPMENT PROGRAM

(PE-0219)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Peru	
Executing agency:	Ministry of Foreign Trade and Tourism (MINCETUR), through the Vice Ministry of Foreign Trade (VMCE)	
Amount and source:	IDB (OC):	US\$5 million
	Local counterpart:	US\$2.15 million
	Total:	US\$7.15 million
Financial terms and conditions:	Amortization period:	20 years
	Disbursement period:	3.5 years
	Grace period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1 %
	Credit fee:	0.75 %
	Currency:	United States dollar under the Single Currency Facility
Objectives:	<p>The overall aim of the project is to improve national trade policy management as a means of increasing and diversifying the country's exports and its markets. This objective will be attained by boosting Peru's institutional capacity to formulate an effective, comprehensive, and consistent external trade policy. The program will support a process of institutional reform designed to reorganize the sector that began in July 2002 with the establishment of MINCETUR and the VMCE.</p> <p>The specific objectives of the project include (i) strengthening Peru's negotiating capacity in international trade forums and its ability to administer and benefit from existing agreements; (ii) enhancing the performance of trade promotion policies, by encouraging their integration into negotiation policy; (iii) improving the technical skills of the personnel of institutions involved in external trade; (iv) establishing within the competent institutions a technical-analytical database and an information and communications system</p>	

suiting to the requirements of foreign trade; and (v) strengthening consultative mechanisms between the government and the legislative branch, the private sector, and civil society.

Components: The program has been divided into six components to accomplish its objectives:

1. **Support for institutional reform and reorganization (US\$830,000).** This component focuses on restructuring the Vice Ministry of Foreign Trade (VMCE) and strengthening the interagency external trade system.
2. **Training and specialization plan (US\$910,000).** This component will expand capacity and the degree of specialization of technical teams of the Vice Ministry and of other institutions involved with the tasks of policy formulation, trade negotiation, trade promotion and administration of trade agreements through courses and workshops offering general and specialized training and instruction.
3. **Technical studies program (US\$930,000).** This component will support the preparation and updating of a technical and analytical database for the VMCE for designing strategies and developing proposals in negotiation forums and to foster the export development.
4. **Establishment of an integrated foreign trade information system (US\$1,440,000).** This component will help start up an integrated external trade information system (SIICEX) within the VCME, PROMPEX, and other related institutions. Such a system will develop mechanisms for organization and dissemination of information and expertise relating to external trade.
5. **Consultation with the sector and civil society (US\$390,000).** These initiatives will set up effective institutional mechanisms for consultation and collaboration between government entities and associations and organizations in the private sector. Also, actions will be promoted to heighten awareness by civil society of the processes of economic and trade integration and its involvement in such processes, with a focus on bringing different regions and provinces across the country into the process.
6. **Development of trade promotion (US\$1,100,000).** This component will assist with the consolidation and strengthening of the institutional network in charge of formulating and

implementing trade promotion policy, by integrating it more effectively with national foreign trade policy.

Two technical annexes for the operation (the Operating Regulations and the three-year action plans drawn up for each component during program preparation) contain detailed information about such aspects as timetables, costs, activity indicators, and criteria for according priority and beneficiary selection.

Special contractual conditions:

Conditions precedent to the first disbursement are (i) the creation and membership of the Management Committee and the PCU through regulations for the entity; (ii) selection of a general coordinator (together with professional staff for the PCU) and the designation of the operations managers for the action plans; and (iii) the Bank's nonobjection to the AWP for year one of the project. In addition, as a condition precedent to disbursement of funding for component 2, a set of regulations establishing provisions for personnel retention or reimbursement of training expenses must be submitted to, and approved by, the Bank.

The Bank's country and sector strategy:

The Bank's strategy for Peru is set out in the country strategy paper (document GN-2205-1). The objectives of the strategy are to reduce poverty and support sustainable and equitable economic growth. The proposed program will help to achieve these objectives by boosting the productivity of the exporter system and improving the efficiency, targeting, and interagency coordination of public entities in the external trade sector, in accordance with general objectives (i) and (iii) of the strategy. Also, the present operation supplements three other operations now being prepared or approved (program for modernization of the State and decentralization [PE-0217], institutional support for the National Congress [PE-0220], and a program for competitiveness reform [PE-0239]). The objectives of these operations are to support the process of modernization and decentralization of government, strengthen the legislative branch, and to foster economic growth. These activities coordinated by the Bank are expected to make it possible to accomplish the overriding objectives that the country has set for itself in moving forward towards economic and social development.

In addition, the present operation fits in with the Bank's strategy for promoting the processes of regional integration, identified as one of the four areas of priority in the Bank's institutional strategy.

Coordination with other official development

The World Bank and the Andean Development Corporation are preparing projects to make the export sector more competitive. The activities to be carried out under these projects will go hand in hand with those of the proposed program. This initiative coordinated with

institutions: the Bank and other multilateral institutions is expected to go a long way towards accomplishing the objectives that the country has set for itself in order to move forward with its social and economic development.

Environmental and social review: The operation does not entail any activities having any adverse social or environmental effects that would require an evaluation. To this end, the program was reviewed by the Committee on Environment and Social Impact on 12 April 2002 (TRG 15-02), and the committee's recommendations have been incorporated into the design of the operation. Specifically, the program includes training in national and international standards for marketing biodiversity resources and environmental certification of natural resource exploration and marketing; measures to mitigate potentially adverse environmental and sociocultural effects; and inclusion of ethnic minorities in the consultative process included in the program.

The program is expected to produce a favorable social impact of its own as a result of the country's stronger position in international commercial markets.

Potential benefits: The program will help to augment national capacity in external trade policy formulation, in trade negotiations, and through more effective application of trade agreements signed in the past. The operation's comprehensive approach will make it possible to overcome the inefficiencies that exist in the gap between negotiation strategies and trade promotion policies, which should make both functions more consistent and more efficient. In addition, thanks to the activities envisaged in each component, the operation will encourage greater participation by the regional economic and institutional agents in establishing trade policies. Lastly, establishing permanent forums will help to create knowledge, dialogue, and consensus between government, the private sector, and civil society on the strategic course the country should chart in world markets.

Potential risks: There are two main risks associated with this operation. The first has to do with the operation's **interagency character**, which will have many beneficiary entities or coexecuting agencies in the public sector in Lima and, to a limited extent, in other parts of the country. This could generate problems and inefficiencies in coordinating the operation from a strategic, operational, and administrative standpoint. This risk will be minimized by the processes and agreements entered into while the program was being prepared. It should be stressed that the entities concerned with external trade worked throughout 2002 on designing and drawing up detailed action plans for each component of the operation, a feature that has produced a shared vision, a spirit of collaboration, and sense of ownership in the strategy and the program

activities. Moreover, the institutional reform undertaken with the recent creation of MINCETUR and the VCME began a process of sector adjustment that will contribute to improvements in interagency relationships.

The second risk concerns the **lack of experience** with this same new institutional structure. The development of new responsibilities and the creation of new national departments within the VCME will prove to be a considerable challenge, particularly with respect to the increasing commitments which will be needed in order to successfully complete the different negotiation forums. The activities of the component in support of institutional restructuring will have a direct effect on mitigating this risk, especially (i) the support that will be offered for activities to strengthen operational and administrative management; (ii) establishment of annual and medium-term work plans for the different units; (iii) establishment of a program unit that will function as a coordinating authority; and (iv) planning of institutional tasks on the basis of stable financing and program work plans offering guidance and discipline to institutional tasks.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as a poverty-targeted investment (PTI).

Procurement plan and timetable and thresholds for international competitive bidding:

All procurement of goods and services for the program will be conducted in accordance with the Bank's procedures. When the value of a contract exceeds US\$350,000 in the case of goods and US\$200,000 in the case of consulting services, procurement will be done by international bidding and/or competition. No civil works are envisioned under the program.

Key performance indicators and monitoring benchmarks:

- The value of exports of at least 50% of priority products listed in the Foreign Trade Priority Agenda (APCE) has risen in real terms by at least 10% plus the average of the basket of exports.
- In month 12 of the program, the Foreign Trade Interministerial Committee approves the APCE.
- By the end of 2005, 70% of the specific objectives established in the APCE and 50% of those in the National Export Plan for the same period have been satisfied.
- Upon completion of the program, at least 10 regions have trained personnel operating in an entity/office entrusted by the regional

government with foreign trade issues.

- Upon completion of the program, regulations have been prepared at for at least 50% of the commitments classified as not fulfilled in the Inventory of International Agreements and Treaties.

Information shared by the Bank and the executing agency:

Review of the AWP. On the basis of the action plans (which were drawn up while the program was in preparation), the VCME will establish an annual work plan (AWP) for each component, at the beginning of each year of the program. The plan will outline the activities, schedule, terms of reference, and indicative targets that are expected to be met during the following 12 months. All AWP, except those for year one, shall also include an evaluation of the work performed during the preceding period, with justification for any changes proposed to the original targets. Immediately before the interim evaluation, each of the action plans will be reviewed. The review will focus on the progress indicators set out in the logical framework to help establish the viability of pressing ahead with the program.

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

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

Ex post evaluation. On being consulted, the VMCE felt that a final evaluation would be more appropriate than an ex post evaluation. On the basis of the indicators and parameters contained in the information collected during the meetings to monitor the program and from the interim and final evaluations, the Bank and the borrower would have full details of what was achieved under the program. Such information would be available to the Bank in the event that it should decide to carry out an ex post evaluation of its own which, given the recent establishment of the Foreign Trade Sector Facility, could analyze simultaneously on a comparative basis the results of the present program and those of other operations executed under this Facility.

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