

## TC ABSTRACT

### I. BASIC PROJECT DATA

<b>Country/Region:</b>	Regional: Colombia, Chile, Mexico, Peru, Panama and Costa Rica
<b>TC Name:</b>	Trade Facilitation and Security in the Pacific Alliance through the Authorized Economic Operator (AEO) <sup>1</sup> .
<b>TC Number:</b>	RG-T2368
<b>Team Leader/Members:</b>	Sandra Corcuera (INT/TIU), Team Leader; Alvaro Sarmiento, Aurelio Garcia and Maria Rospide from (INT/TIU); Matthew Shearer and Kaori Yamakazi from (INT/INT)
<b>Type of Project</b>	Client Support
<b>Reference to Request:</b>	<u>IDBDOCS-#36515996-CQ</u> ; <u>IDBDOCS-#37275110-PE</u> ; <u>IDBDOCS-#37275108-CH</u> ; <u>IDBDOCS-#37757676-ME</u>
<b>Date of TC Abstract:</b>	April 1, 2014
<b>Beneficiary:</b>	Customs Administrations and the private sector of the Pacific Alliance (CH, PE, CO, ME, CR, PN)
<b>Executing Agency and Contact:</b>	Inter-American Development Bank, through the Integration and Trade Sector (INT/INT). Contact: Sandra Corcuera (x1661)
<b>IDB Funding Requested:</b>	US\$400,000
<b>Local Counterpart Funding:</b>	US\$80,000
<b>Disbursement Period:</b>	36 months.
<b>Required Start Date:</b>	April 30, 2014.
<b>Types of consultants:</b>	Individuals and firms.
<b>Prepared by Unit:</b>	INT/INT.
<b>Unit of Disbursement Resp.:</b>	INT/INT.
<b>Included in Country Strategy:</b>	YES
<b>TC Included in CPD:</b>	NO
<b>GCI-9 Sector Priority:</b>	No. 4 Regional and Global Competitiveness and Integration

### II. OBJECTIVES AND JUSTIFICATION

- 2.1 Cross-border threats and illicit activities have introduced risk factors in current trade flows. Furthermore, higher demands of competitiveness for intra-regional trade and for access to global markets are driving forces for reduction of transactional costs. The public sector, in particular Customs Administrations, and the private sector are negatively affected by the lack and/or breaches in security. At the same time, both sectors benefit from increases in legitimate trade flows. This implies that both have a shared responsibility to secure the supply chain and to

<sup>1</sup> AEO is a certificate issued by a Customs Administration to an organization that has a proven track record of security and fiscal compliance and that has agreed to implement additional security requirements and practices to guarantee the integrity of its operations. The Customs Administration rewards the security and fiscal compliance of the company by offering benefits and priority treatment at the border. It also enhances the reputation of the company as a trusted partner for its suppliers and customers, Customs authorities and society in general.

identify trade facilitation measures. The World Customs Organization (WCO) in the SAFE Framework of Standards established the formation of public-private alliances and the definition of collaboration programs, such as the Authorized Economic Operator (AEO), as a tool to facilitate and secure trade.

- 2.2 In addition to improving security in international trade, the AEO program also contributes to the modernization of Customs Administrations, advancing the concept of coordinated border management and improving risk management. Furthermore, the program also helps companies export to international markets by improving the competitiveness and integrity of the company. The AEO certification is recognized worldwide and facilitates trade at both the originating and destination port of entry in cases where there is a Mutual Recognition Agreement (MRA) in effect between the two countries. Lastly, AEO programs also foster global integration through the optimization and harmonization of Customs requirements and procedures between countries.
- 2.3 **The objective of this TC** is to support the consolidation of AEO programs in the beneficiary countries<sup>2</sup> (CH, PE, CO, ME, PN and CR) to increase trade facilitation and security measures of the logistics chain, and to support pragmatic initiatives for collaboration, harmonization and regional integration. Four countries (CH, ME, PE and CO) joined together in 2011 to establish the Pacific Alliance, a deep integration agreement with the objective of moving progressively towards the free circulation of goods, services, capital, and people, with a strong element of trade facilitation and Customs cooperation. Panama and Costa Rica are observer members in late stages of negotiations to become full members of the Pacific Alliance.
- 2.4 This TC is in line with the priority to support “Regional and Global Competitive Integration” set forth in the IDB's Report on the Ninth General Capital Increase of Resources (AB-2764) (GCI-9). This TC also supports the mandate of the Pacific Alliance and the AEO technical subgroup under the group of Trade Facilitation and Customs.

### III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 **Component I: Strengthening the design and implementation of AEO programs.** Activities will support Customs Administrations in designing, implementing, and consolidating their AEO programs. The novelty and complexity of the AEO program make it very important for Customs Administrations to have access to specialized support to train human resources and help them carry out the necessary legal and technical changes to their legislation and procedures such as validations, inspections, security requirements and benefits. Activities include: (i) specialized technical assistance for AEO teams; (ii) capacity-building activities for Customs and other border control agencies to develop the programs and guarantee their sustainability; (iii) exchanges of officers among Customs Administrations in the region and other trade blocs to learn and share good practices.
- 3.2 **Component II: Design a strategy for mutual recognition agreement discussions.** Activities financed under this component will develop tools to assist and facilitate the dialogue amongst Customs Administrations and other border-related agencies towards mutual recognition discussion of their AEO programs. Activities include: (i) design a strategy to pursue mutual recognition, including the development of a matrix for comparing AEO programs; (ii) working visits to analyze programs' compatibility; (iii) participation in regional workshops to exchange good practices and harmonize programs as a prerequisite to achieving mutual recognition agreements.

---

<sup>2</sup> The Bank has supported the region with the TCs RG-T1325 and RG-T1705.

- 3.3 **Component III: Support private sector compliance with security standards.** The objective is to facilitate the information and tools for the private sector to meet the security standards required for AEO status. Activities include: (i) workshops to disseminate the outreach of the program; (ii) cost-benefit analysis of the AEO certificate; (iii) capacity-building activities to meet security standards and requirements; (iv) organization of workshops to disseminate the benefits of AEO programs.

#### IV. INDICATIVE BUDGET (US\$)

Component	IDB	Local	Total
Component I: Strengthening the design and implementation of AEO programs	137,000	31,000	168,000
Component II: Design a strategy to facilitate discussions for mutual recognition agreements	129,000	29,000	158,000
Component III: Support private sector compliance with security standards	89,000	20,000	109,000
Support to Monitoring and Evaluation	25,000		25,000
Contingencies	20,000		20,000
<b>Total</b>	<b>400,000</b>	<b>80,000</b>	<b>480,000</b>

\*\* Beneficiaries will provide as counterpart (up to 20%) in logistical support and all the necessary equipment to carry out regional workshops and technical missions.

#### V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

- 5.1 The IDB will be the executing agency through the Integration & Trade Sector, as requested by the beneficiary countries in their letters of intent due to the Bank's experience in the coordination and implementation of regional TCs as well as its expertise in the subject matter.

#### VI. PROJECT RISKS AND ISSUES

- 6.1 The risks are related to the weak communication and coordination mechanisms between Customs Administrations and the private sector, and to positions resistant to changes derived from the implementation of AEO programs. The strategy to mitigate these risks is through the IDB serving as executing agency in its role as facilitator of knowledge and dialogue mechanisms and as an honest broker. Furthermore, the strong support of the Customs Directors of the beneficiary countries and the presidential mandates supporting the AEO of the Pacific Alliance serve to mitigate the risks.

#### VII. SOCIAL AND ENVIRONMENTAL CLASSIFICATION

- 7.1 This operation has been pre-classified as Category C by the Environmental and Social Safeguard System of the Bank.

# Annex I- RESULTS MATRIX

## Trade Facilitation and Security in the Pacific Alliance through the Authorized Economic Operator (AEO). RG-T2368

Results Statement	Indicator	Base Line	Goal 2014	Goal 2015	Goal 2016	Final Goal	Data Source
Outcome 1	Actions at national level to simplify, harmonize, and improve regulations and procedures	5	0	1	0	6	National and Customs Regulatory Frameworks
Outcome 2	Procedure and Regulatory Frameworks harmonized and improved regionally	0	1	2	3	6	Official communications between Customs Administrations to establish a Mutual Recognition Agreement
Outcome 3	Strengthened capacities of public and private sectors to participate in international trade flows	400	115	150	200	865	AEO database management system in Customs Administrations of beneficiary countries
Outputs Component 1	Technical assistance and capacity building to design and strengthen AEO programs	1	2	2	2	6	Project documents at the executing agency (INT)
		5	0	1	0	6	Project documents at the executing agency (INT)
		0	40	40	40	120	Project documents at the executing agency (INT) and tests results
		0	16	16	16	48	(same as above)
Outputs Component 2	Activities to facilitate the dialogue (compatibility and validation missions, regional workshops on good practices) to promote harmonization and mutual recognition agreements	0	0	1	0	1	Project documents at the executing agency
		0	1	1	1	3	Project documents at the executing agency (INT) and reports and documents from the workshops
		0	1	2	2	5	Mission reports and project documents at the executing agency (INT)
Outputs Component 3	Technical Assistance and Capacity building activities to promote the AEO program among the public and private sectors	0	0	1	0	1	Project documents at the executing agency (INT)
		0	5	10	5	20	Project documents at the executing agency (INT) and tests results
		0	1	3	2	6	Project documents at the executing agency (INT) and reports and documents from the workshops

- 3.3 **Component III: Support private sector compliance with security standards.** The objective is to facilitate the information and tools for the private sector to meet the security standards required for AEO status. Activities include: (i) workshops to disseminate the outreach of the program; (ii) cost-benefit analysis of the AEO certificate; (iii) capacity-building activities to meet security standards and requirements; (iv) organization of workshops to disseminate the benefits of AEO programs.

#### IV. INDICATIVE BUDGET (US\$)

Component	IDB	Local	Total
Component I: Strengthening the design and implementation of AEO programs	137,000	31,000	168,000
Component II: Design a strategy to facilitate discussions for mutual recognition agreements	129,000	29,000	158,000
Component III: Support private sector compliance with security standards	89,000	20,000	109,000
Support to Monitoring and Evaluation	25,000		25,000
Contingencies	20,000		20,000
<b>Total</b>	<b>400,000</b>	<b>80,000</b>	<b>480,000</b>

\*\* Beneficiaries will provide as counterpart (up to 20%) in logistical support and all the necessary equipment to carry out regional workshops and technical missions.

#### V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

- 5.1 The IDB will be the executing agency through the Integration & Trade Sector, as requested by the beneficiary countries in their letters of intent due to the Bank's experience in the coordination and implementation of regional TCs as well as its expertise in the subject matter.


#### VI. PROJECT RISKS AND ISSUES

- 6.1 The risks are related to the weak communication and coordination mechanisms between Customs Administrations and the private sector, and to positions resistant to changes derived from the implementation of AEO programs. The strategy to mitigate these risks is through the IDB serving as executing agency in its role as facilitator of knowledge and dialogue mechanisms and as an honest broker. Furthermore, the strong support of the Customs Directors of the beneficiary countries and the presidential mandates supporting the AEO of the Pacific Alliance serve to mitigate the risks.

#### VII. SOCIAL AND ENVIRONMENTAL CLASSIFICATION

- 7.1 This operation has been pre-classified as Category C by the Environmental and Social Safeguard System of the Bank.

#### VIII. APPROVAL

  
 Antoni Esteveordal  
 Manager, INT/INT

4/8/2014  
 Date