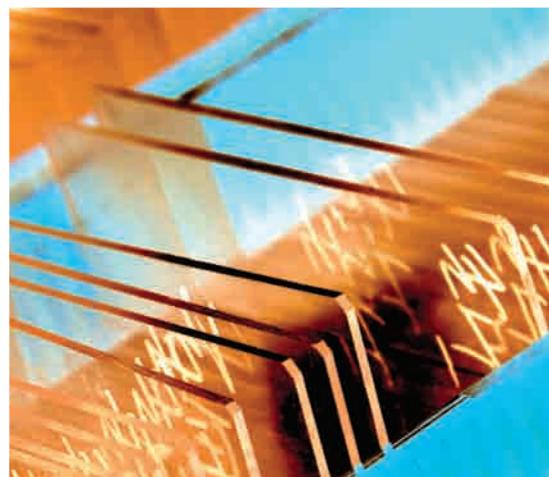




AID FOR TRADE REPORT 2012-2013





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ACRONYMS

AEO	Authorized Economic Operator	INT	Integration and Trade Sector, IDB
AfT	Aid for Trade	LAC	Latin America and the Caribbean
AP	Pacific Alliance	MIF	Multilateral Investment Fund
BPC	Building Productive Capacity	OC	IDB's Ordinary Capital
DEM	Development Effectiveness Matrix	OECD	Organization for Economic Cooperation and Development
EI	Economic Infrastructure	RIIF	Regional Infrastructure Integration Fund
EU	European Union	RPG	Regional Public Goods
FIRII	Fund for the Financing of Technical Cooperation for Initiatives for Regional Infrastructure Integration	SICA	Central-American Integration System
FTA	Free Trade Agreement	SICEX	Chilean Single Window
GCI-9	Ninth General Increase in the Resources of the IDB	SME	Small- and Medium-sized Enterprise
GVC	Global Value Chain	SPS	Sanitary and Phytosanitary Measures
IDB	Inter-American Development Bank	TFFP	Trade Finance Facilitation Program
IIC	Inter-American Investment Corporation	TIM	International Transit of Goods
IIRSA	Initiative for the Integration of the Regional Infrastructure of South America	TP&R	Trade Policy and Regulations
		WCO	World Customs Organization
		WTO	World Trade Organization

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WELCOME

Trade can be an engine for economic growth and poverty reduction. Latin America and the Caribbean (LAC) is a case in point, having experienced a period of robust growth characterized by remarkable progress in macroeconomic and social indicators. Trade liberalization in the form of lower tariffs and an ever-growing number of free trade agreements (FTAs) have been important catalysts for this trend.

Nevertheless, many developing countries, including those in LAC, face barriers that prevent them from increasing trade volumes, enhancing competitiveness, and benefiting from the world trading system. While some of these barriers are non-tariff barriers in export markets, many others are internal factors such as lack of knowledge of trade opportunities, excessive red tape, inadequate financing, insufficient trade facilitation measures, and poor infrastructure.

In this context, the AfT Initiative seeks to support developing countries to build trade capacity and infrastructure. LAC presents important areas for AfT intervention, including:

- **Trade reform and convergence of free trade agreements.** LAC tariffs have fallen from around 45 percent in 1985 to 9.6 percent in 2012, yet other non-tariff barriers remain in place. There is also a need to promote convergence of FTAs by harmonizing policies and regulatory frameworks, which would be conducive to the integration of supply chains.
- **High logistics costs.** Investments in economic infrastructure still fall short of the estimated 5.2 percent of regional GDP needed by 2020. In addition, inefficiencies at border crossings persist, and the region lacks well-functioning telecommunications networks. As a result, logistics costs remain high – from 18 to 35 percent of product value, and up to 40 percent for small- and medium-sized enterprises (SMEs), against 8 percent within the Organization for Economic Cooperation and Development (OECD).
- **Regional integration and institutional modernization.** LAC exports to other regions have grown – for instance, LAC-Asia trade has grown at an annual rate of 20.5 percent since 2000 –, yet intraregional trade, at 18.1 percent,

is small compared against the 38 percent in East Asia. Likewise, increased global competition and the growing complexity of FTAs call for institutional modernization, particularly for managing economic and social progress.

It is against this background that the IDB Group sees the AfT Initiative as an important and effective tool to support LAC countries' global and regional integration and to guide its borrowing-member countries in a broad range of complex trade policy and trade facilitation issues. As the main institutional counterpart for the World Trade Organization (WTO) in LAC for AfT, the IDB remains committed to supporting the implementation of the Initiative.

Between 2008 and 2012, in coordination with beneficiary countries and development cooperation partners, the Bank financed approximately USD 28 billion in AfT activities: 56, 43 and one percent targeted at initiatives focused on developing economic infrastructure (EI), building productive capacity (BPC), and strengthening trade policy and regulations (TP&R), respectively.

To this end, the IDB has used financial and non-financial instruments to address trade-related supply-side constraints in its borrowing member countries at the national and regional levels, thereby contributing to significant improvements. For example:

- Comprehensive capacity-building and market access programs have enhanced the export readiness of SMEs to enter developed markets in Europe, Canada, and the United States.
- Streamlined inter-agency coordination and technological solutions (such as foreign trade single windows) have slashed costs and waiting times for export and import operations in some countries by around 50 percent.

- In addition, LAC firms are increasingly participating in global value chains (GVCs), as exemplified by the Mexican aeronautics and Costa Rican medical devices industries.

- With direct technical assistance and business matchmaking opportunities, more women are gaining economic empowerment and enjoying the benefits of freer trade.

These examples of progress achieved on the ground provide a valuable set of lessons and motivate the Bank to further its focus on results. The Bank will continue leveraging both its software – policy and regulatory reforms – and hardware – infrastructure investments – interventions in order to enhance the region's competitiveness, open foreign markets, and, in general, unleash the potential of integration and trade as an engine for growth and development.

Capitalizing on the Bank's role as a catalyst for targeted AfT interventions, and drawing from the IDB's goal to increase its lending support for regional and global integration projects up to 15 percent by the end of 2015, we are confident that we will be able to boost the ability of LAC countries to create higher quality jobs that contribute to growth and poverty reduction.

Antoni Estevadeordal

Manager of the
Integration and Trade Sector
Vice-Presidency for Sectors and Knowledge
at the Inter-American Development Bank

AFT ON THE GROUND IN LAC

According to the data collected by the WTO and the OECD, AFT flows to the LAC region reached USD 3.5 billion in 2011, up from the USD 1.8 billion received on average annually for the period 2002-2005. The case story monitoring exercise that accompanied this data collection highlighted that mainstreaming trade into development strategies is a growing priority for countries in the region. In addition, and despite the considerable diversity in the 67 case stories received for LAC during the Third Global Review, the analysis found several clear common messages:

- National strategies must be in place to allow a country to fully benefit from AFT support;
- Development partners must ensure proper management of programs;
- Successful projects can have important multiplier effects; and
- Adequate funding must be available throughout the implementation of a strategy.

These messages must be reflected in Aft programs that seek to continue building capacity to assess and respond to the continually evolving trade landscape. Countries in the region will need to upgrade their standards to ensure continued access to key markets, such as Asia Pacific, the European Union (EU), and the United States (U.S.). Governments will also need to identify new strategies to maximize international trade, which will require learning how to do business with new partners and how to access GVCs.

A SNAPSHOT OF AFT ON THE GROUND LAC CASE STORIES

PRODUCTS

Main reported outputs:

- > Training activities
- > New processes
- > Trade policy reforms or changes put in place because of new FTAs
- > Funds financed or investments mobilized
- > Products exported

FACTORS FOR SUCCESS

- > Country ownership
- > Commitment of donor
- > Commitment of the partner country to implement the lessons learned from the project
- > Private sector engagement and commitment
- > Effective national coordination mechanisms

RESULTS

Main reported outcomes:

- > People trained
- > Improved processes
- > Strengthened public or private institutions
- > Improvements in the business climate
- > Reduced trade facilitation costs

AFT AS A VEHICLE FOR PROMOTING GVCs IN LAC

Despite the benefits of joining GVCs, these chains tend to concentrate in specific regions. Countries in Africa and LAC are perhaps the most disengaged from global production sharing. For instance, in 1990, the exports of parts and components as a share of total manufacturing exports was on average around 31 percent for Asia and 16 percent for LAC. Two decades later, in 2010, this share increased to 40 percent in Asia and even declined slightly to 14 percent in LAC. Intra-industry trade increased in LAC by 40 percent between 1980 and 2010, while in Asia this type of trade practically doubled during the same period. Furthermore, the share of foreign value-added in the average LAC export is 35 percent smaller than that of Asia or Europe.

In order to find ways for developing countries to improve their chances to participate in international production networks, it is pivotal to examine the rationale behind the emergence of GVCs. Firms locate slices of their production in other countries as long as the saved costs arising from this fragmentation process can compensate the additional costs associated with moving production, that includes, among others, costs related to coordinating remotely located production blocks, transporting parts and components across borders, and dealing with different legal and contracting environments.

Therefore, achieving these goals will continue highlighting the need to undertake far-reaching policy reforms. Such reforms include the development of adequate transportation and logistics management and infrastructure, effective telecommunication and information services, and institutions that respect and protect contracting relations with agents located in other countries. In addition, regional trade agreements, and particularly deep integration agreements, play an important role in the establishment of GVCs, as these schemes tend to incorporate disciplines beyond the simple reduction of tariffs, including rules in investment

policy, intellectual property rights, or the harmonization of customs procedures to expedite the clearance of goods. Results from on-going IDB research show that countries participating in deep integration agreements tend to exhibit more than double of the cross-border production linkages than in countries with shallower or no integration agreements.

LAC countries that have been undertaking these reforms are already reaping the benefits in expanded trade volumes, higher levels of investment, employment, and labor skills development. For example:

- **Aeronautical industry in Mexico:** the city of Querétaro has become an aeronautic hub thanks to a comprehensive mix of “hardware” and “software” integration policies, including an international airport developed specifically for handling the hub’s logistics; its location at the convergence of the country’s rail, road, and telecommunications network; and a bilateral aviation safety agreement with the U.S. in order to avoid double inspection. As a result, Querétaro, a city of just 1.8 million, has attracted 30 prominent foreign firms, including GE and Bombardier. Approximately 260 aerospace companies now operate in Mexico, exporting some USD 4.3 billion in aircraft and aircraft parts and employing 31,000 people – 1,800 in Querétaro alone – in 2012.



QUERÉTARO, MEXICO
HAS BECOME AN AERONAUTIC HUB. IN 2012, THE INDUSTRY EXPORTED SOME USD 4.3 BILLION IN AIRCRAFT AND EMPLOYED 31,000 PEOPLE IN ALL OF MEXICO.



COSTA RICA
IS NOW THE SECOND-LARGEST MEDICAL DEVICE EXPORTER IN LATIN AMERICA, WITH THIS INDUSTRY EMPLOYING AROUND 12,500 EMPLOYEES AND EXPORTING SOME USD 1.2 BILLION IN 2011

- **Medical devices in Costa Rica:** since 1987, Costa Rica has implemented a broad set of policies to upgrade labor skills, negotiate preferential access to international markets, and set up foreign investment promotion framework. Ever since, with 66 firms employing around 12,500 employees and exporting some USD 1.2 billion in 2011, the country has become the second-largest medical device exporter in Latin America.

Nevertheless, there are still large important gaps to be filled in LAC to catch up with other regions. For example, the maritime freight rate associated with the exports of LAC to the U.S. is on average 70 percent higher than that from Europe, and about 30 percent of this higher freight rate is explained by differences in port efficiency. A forthcoming IDB report titled “The International Fragmentation of Production: Latin American and the Caribbean in the Era of Global Supply Chains”¹ finds that if the average country in LAC improves the quality of its logistics infrastructure to the average level observed in the EU, the number of vertically-linked subsidiaries that the country hosts will increase by 15 percent.

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¹ *The International Fragmentation of Production: Latin America and the Caribbean in the Era of Global Supply Chains. Special Report on Integration and Trade, Inter-American Development Bank, Forthcoming.*



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THE IDB's ONGOING SUPPORT TO THE AFT INITIATIVE

The AFT Initiative aims to support developing countries' integration into the global and regional economies and their capacity to benefit from liberalized trade and increased market access. To this end, it channels resources towards the enhancement of trade-related capacities and the elimination of supply-side constraints. As the main institutional counterpart for the WTO in LAC, the IDB has been an active partner in the implementation of the Initiative since its inception. The Bank uses a wide ranging selection of financial and non-financial instruments that are concessional and non-concessional in nature, including grants, capacity-building activities, targeted investment loans, and, in the context of the Trade Finance Facilitation Program (TFFP), credit lines for financing international trade activities.

Since its approval in 2011, the IDB's Sector Strategy to Support Competitive Global and Regional Integration" (the "Integration Strategy") has framed the Bank's conceptual, thematic, and operational approach to AFT. The Integration Strategy reflects the emerging consensus in the region that LAC may deepen its regional and global integration if it focuses on:

- (a) Completing its unfinished trade agenda, including new agreements to fill the gaps of preferential trade relations in the region, the convergence among existing agreements, and – at the national level - the upgrading of human and technological capacities to effectively implement the trade commitments the countries have agreed to;
- (b) Reducing logistics costs by boosting investment in transport infrastructure, improving regulatory frameworks, updating and upgrading trade facilitation at border

crossings and customs procedures, promoting integration of energy markets, and reducing the digital divide through investments in broadband; and
 (c) Promoting regional cooperation and the provision of regional public goods. Growing economic interdependence is having a positive impact on cross-border cooperation in LAC and South-South cooperation globally, which in turn reinforces integration processes.

To effectively support the countries in implementing this ambitious agenda, the Integration Strategy proposes to:

- > Promote simultaneously investments on the software (policy and regulatory frameworks) and the hardware (physical integration) of integration, and
- > Use a smart mix of instruments, both financial (loans, grants and guarantees) and non-financial (applied research on the costs and benefits of integration, support to strategic integration initiatives of the region, capacity-building, policy dialogue and enhanced IDB integration programming) that should be deployed in a coordinated manner to enhance their individual and collective effectiveness.



*Total sum of financial and non-financial instruments, both concessional and non-concessional.

GRANTS AS AfT INSTRUMENTS

Grants play a prominent role among the Bank's instruments to finance projects in support of integration and trade. These projects imply a variety of challenges, including complementing national investments that sometimes do not generate immediate cross-border benefits and coordination among countries in the design and execution of operations. Against this background, grant funding can serve as an incentive to garner national interventions with less apparent results but with longer term strategic impact and collective action to develop a shared regional vision, objectives and interventions.

The IDB has three grant instruments that have been created with the explicit purpose to support the region's integration and insertion into the regional and global economies. As such, these funds are fundamental in implementing the Bank's Integration Strategy in general and its AfT framework in particular. In some cases the funds are supported by development cooperation partners of the Bank – both from non-borrowing and borrowing member countries –, which also provide in kind support through technical assistance engaging in South-South Cooperation.

AfT Fund: In November 2008, the IDB created the AfT Fund. The Fund was conceived to help LAC countries expand trade by building the supply-side capacity and trade-related infrastructure needed to implement and benefit from liberalized trade. The AfT Fund received a total of USD 14 million in contributions from Canada, Chile,

Switzerland and the United Kingdom to finance non-reimbursable technical assistance projects in four priority areas – trade policy, services, agricultural standards, and trade facilitation – and two cross-cutting themes – trade and gender and trade and the environment.

Fund for the Financing of Technical Cooperation for Initiatives for Regional Infrastructure Integration (FIRII): The FIRII was created in 2005 to support the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) and its objective of promoting the integration of physical infrastructure across national borders. Specifically, it provides non-reimbursable technical assistance to help countries in the preparation of strategic infrastructure integration projects, including prefeasibility and feasibility studies, project viability assessments, and social and environmental impact evaluations. Over time, the Fund has branched out geographically to include the countries of the Mesoamerica Project (PM), and thematically, with financing increasingly covering the hardware and software of infrastructure interventions. The FIRII is funded by the Bank's net income of the Ordinary Capital (OC) with a cumulative endowment of USD 46.5 million.

Regional Infrastructure Integration Fund (RIIF): The IDB's contribution to the FIRII has leveraged USD 22 million in resources from Canada, Colombia, Mexico, Spain and the United States, to create the multi-partner RIIF. With its objective to provide financial incentives for the preparation of strategic infrastructure integration projects in LAC, the RIIF mirrors FIRII's objective and complements its activities with donor funds. The RIIF has three thematic pillars: (i) the development and harmonization of regional regulatory frameworks; (ii) the strengthening of institutional capacities for regional and global integration, and (iii) supporting the preparation of physical infrastructure projects with a regional integration impact.

In addition, the following funds are instrumental to supporting LAC's regional and global integration and the IDB's AfT agenda:

Multilateral Investment Fund (MIF): As part of the IDB Group, the MIF supports economic growth and poverty reduction in LAC by encouraging increased private investment and advancing private sector development. The MIF works with the private sector to develop, finance, and execute innovative business models that benefit entrepreneurs and poor and low-income households; partners with a wide variety of institutions from the private, public and nonprofit sectors; evaluates results; and shares lessons learned.

Regional Public Goods (RPG) Initiative: Created in 2004, the RPG Initiative is based on the rationale that the IDB should support its clients in tackling development challenges and seizing development opportunities that can be addressed more effectively and efficiently at a regional level through collective action and cooperation, adding value to national interventions. The RPG is a prime example of the Bank's commitment to promoting South-South and triangular cooperation as a policy tool to foster sustainable growth in LAC: countries

The IDB has grant instruments created to support the region's integration and insertion into the global economy; they are fundamental in implementing the Bank's AfT framework.

work together to conceive regional development solutions and, in the process, partner with institutions and organizations from inside and outside the region, including development cooperation partners, to inform and enrich the process of regional decision-making. The RPG Initiative is thematically open and to date, it has approved 92 technical cooperation projects for a total of USD73 million provided by the IDB's own resources.

These funds are playing a significant role in implementing the IDB's roadmap for a more effective support to LAC's regional and global integration. They have been instrumental in:

> leveraging major investments in integration infrastructure, thus establishing themselves as important vehicles for supporting the Bank's 15 percent lending target for integration, as approved by IDB Governors in the Ninth General Increase in the Resources of the Bank (GCI-9);

- > providing incentives for countries to engage in cross-border coordination on software issues (such as trade policy coordination) decisions on the hardware of integration (such as joint border facilities) and investment in national segments of agreed transnational integration corridors;
- > fostering the generation of knowledge, the exchange of good practices and the upgrading of human and technological capacities through South-South cooperation; and
- > financing the analysis and mainstreaming of emerging topics in integration and trade, such as the identification of gender-sensitive trade indicators, trade facilitation and security, or enhancing the eco-efficiency of trade.

IDB's RIIF Partners:



IDB's Aft Fund Partners



SUPPORT TO CARIBBEAN REGIONAL AFT STRATEGY

The Bank has worked closely with its member countries on comprehensive national and regional AFT strategies. These AFT strategies present a thorough assessment of ongoing constraints and opportunities on the ground and provide a clear framework of national and regional priorities, thus providing holistic approaches to trade capacity development, competitiveness, economic growth, and sustainability. Examples of this work include the strategies of Belize and Jamaica, both of which have been profiled as models of best practices.

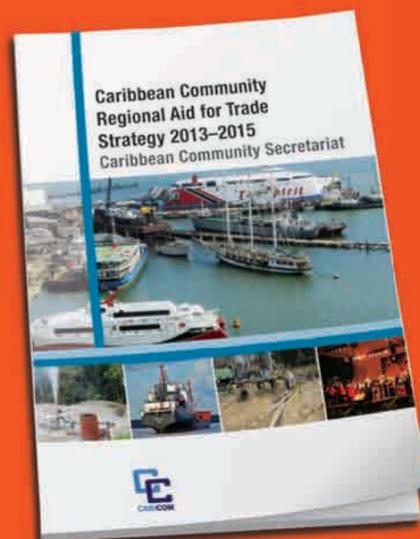
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More recently, the IDB supported the development of a Caribbean Community (CARICOM) regional strategy, which was recently launched in Port-au-Prince, Haiti with the attendance of Haitian President Michel Martelly, WTO Director-General Pascal Lamy, and CARICOM Secretary-General Irwin Larocque. The regional strategy outlines a coherent approach to resource mobilization and specifies ways that countries in the Caribbean intend to use existing and future resources from donors, investors, and international development partners.

The Aft strategies present a thorough assessment of ongoing constraints and opportunities on the ground and provide a clear framework of national and regional priorities.

The document is the result of a national consultation process that singled out various issues to be addressed through robust AFT interventions, including, but not limited to:

- Boosting export competitiveness;
- Upgrading economic infrastructure;
- Strengthening regional integration;
- Promoting diversification in national economies;
- Retooling the private sector; and
- Creating financial and non-financial tools for promoting research and development; and
- Focusing on maritime transport and information technologies.





AFT INITIATIVE IN ACTION

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CASE STORIES

This section provides a snapshot of different ways in which the AfT Initiative is making a difference on the ground in LAC. From addressing gaps in trade policy capacity to boosting the potential of entire national industries as engines for growth and development, the AfT Initiative continues to serve as a catalyst for targeted interventions that achieve measurable, lasting results.

This section will highlight the salience of these issues and show some approaches being used to address them. At the same time, it will highlight the role that the Bank has played in targeting technical and financial resources in order to ensure that these different challenges become opportunities for progress in the economic and social indicators for the region.

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BOOSTING LAC'S TRADE IN SERVICES PROFILE

RELEVANCE OF THE SERVICES INDUSTRY

As one of the dynamic growing regions in the world, LAC offers compelling opportunities for companies seeking to transfer certain processes overseas with the aim of increasing operational efficiency, reducing costs, and increasing quality. The region offers inherent advantages to participate in the global services supply industry: geographic proximity and shared time zones with the U.S. – the world's biggest market for services purchasing –, competitive costs, cultural affinities and growing government efforts to promote the services sector. Yet despite the region's potential to become an important center for outsourcing and global services, LAC businesses account for less than 10 percent of this USD 350 billion global industry.

FOCUSING ON RESULTS: THE CASES OF COLOMBIA AND URUGUAY

The IDB is supporting Colombia's efforts to position itself as a regional leader in information technology. Yet bottlenecks remain, such as the significant gap between academic output and the rapidly-evolving needs of business and industry. To address this skills mismatch, the Bank, with grant resources from the AfT Fund, helped develop a pilot training project for 41 recent university graduates. The IDB cooperated with 26 services companies with high IT services export potential that, upon conclusion of the pilot in March 2013,

offered employment to these students. The pilot served as an input to a USD 12 million investment loan that will, among others, scale up the grant-funded pilot experience. By 2016, the project seeks to increase qualified human capital by 4,000 people and to add 3,200 new jobs in the sector, as well as to boost monitored companies' exports by 10 percent from the 2012 baseline.

This experience is inspiring other LAC countries and the Bank to pursue AfT interventions. For instance, an IDB USD10M loan is supporting the Uruguayan global export services market by generating a critical mass of qualified individuals and by adjusting the current regulatory framework. The project is expected to boost the sector's exports, investment, and employment by 55, 66, and 28.4 percent, respectively, by 2016. Likewise, the Bank organized a Trinidadian government mission to Uruguay – a regional model in the development of the IT industry – and conducted a training program – organized with resources from the AfT Fund – geared towards improving Trinidadian services firm's export readiness and access to finance. Successful participants were then invited to participate in Outsource2LAC, the pioneering and largest regional event specifically geared towards promoting the global services industry in LAC.



OUTSOURCE2LAC

Outsource2LAC aims to present major trends in the global services industry, identify existing opportunities, and propose strategies for the growth and sustainable development of the sector. At the same time, it seeks to show the world the competitive advantages LAC countries can offer to potential investors. The forum has been held twice – in 2011 in Montevideo, Uruguay, and in 2012 in Medellín, Colombia.





EXPANDING THE EXPORT CAPACITY OF SMEs

IMPORTANCE OF SMEs IN LAC

Small- and medium-sized businesses make up over 90 percent of the LAC economic landscape and thus are the primary source of job creation in the region. Nevertheless, SMEs tend to lack the capacity to develop export potential and the necessary know-how to take advantage of the market access opportunities derived from multilateral trade liberalization and trade agreements. These barriers largely hinder their true potential as a tool for economic growth and poverty reduction.

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BOOSTING SMEs' ABILITY TO ACCESS MARKETS

FINPYME ExportPlus is a program of the IIC – part of the IDB Group – that seeks to boost SMEs' competitiveness and ability to access export markets by providing direct technical assistance. The program offers a comprehensive approach that tackles certification, operational, and managerial processes; it is implemented through a process that includes a market study, a comprehensive 18-month long capacity-building plan, and the selection of a key organization in each country to provide support in the delivery of the expert advice services.

Likewise, the IDB has regularly supported LAC governments' efforts to increase companies' market share in developed nations in the context of preferential trade agreements. This support has involved market studies, workshops, market penetration roadmaps, commercial missions, and communication strategies for disseminating the opportunities offered by these agreements.

FOCUSING ON RESULTS

FINPYME ExportPlus has benefited a total of 1,978 companies in 14 LAC countries, including over 150 SMEs in Haiti. Some success stories include:

- **Berling S.A.**, a Haitian family-owned rum company that suffered extensive damage during the 2010 earthquake, received technical assistance to plan the moving and transition to a bigger and modernized production line, as well as to develop a business strategy geared towards meeting their export goals. Thanks to the program, Berling increased its production capacity of 5 bottle/min to 40 bottle/min, and it now exports to Europe and soon to the U.S.
- **Marie Sharp** is a Belizean producer of jams, fruit squashes, and pepper sauces who attended the 2012 Seoul Food Expo, where she closed deals on the spot. Since the event, her firm has already sent two shipments to Korea.
- **Café Antigueño** is a Guatemalan gourmet coffee distribution company that received support in developing strategies to penetrate international high-end markets. The firm implemented a number of steps that would

allow it to play a larger role in the production chain. Since its participation in the program, the company has increased its exports by 300 percent.

The IDB's support to Peruvian authorities' strategy to boost their country's agricultural products' penetration in the Canadian market has also been yielding significant results, including APROMALPI, a Peruvian association that produces and exports fresh mangoes that developed a market penetration strategy and participated in a mission to Canada with IDB support. Ever since, APROMALPI has shipped over 30 containers of fresh mangoes to Canada, with one of the latest shipments valued at around USD 800,000.



SMEs make up over 90 percent of the LAC economic landscape and thus are the primary source of job creation in the region, but often lack the capacity to export.



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FACILITATING TRADE: THE IMPORTANCE OF EFFICIENT CUSTOMS PROCESSES

IMPORTANCE OF TRADE FACILITATION

Efficient, timely customs processes that are conducive to reductions in transactional costs are pivotal if LAC countries are to meet higher demands of competitiveness for intra-regional trade and for access to global markets. Yet governments often lack the staff, expertise, or inter-institutional coordination to implement solutions that will allow them to speed up clearance times at the border. In addition, national authorities also face real challenges in terms of security and illicit activities that attach risk factors to trade flows.

Efforts to modernize and optimize customs processes and border crossings have long been a top priority for LAC countries. Streamlining parallel processes and technologies at the domestic and international levels can reduce internal costs and inefficiencies and increase the ability to facilitate trade and generate revenue at the border. Moreover, it can improve security and risk management, particularly in the context of programs like the Authorized Economic Operator (AEO), which is an internationally recognized certification granted to private operators for providing evidence of compliance with supply chain security standards and with tax and customs obligations. Yet coordination and implementation of these programs is still uneven in the region, even if progress is being made.

IMPROVING BORDER CROSSINGS IN CENTRAL AMERICA

Costa Rica has dedicated important resources to modernizing its border crossings, focusing not only on infrastructure, but also on human capital,

information technologies, and services. One of these crossings is Peñas Blancas, Costa Rica's main border crossing, registering in 2011 USD 1.5 billion and USD 842 million in exports and imports, respectively. The first phase has sped up the processing of customs procedures – 6 trucks in an average of 8 minutes – by, for example, extending working hours till midnight and by implementing the IDB's International Transit of Goods program (TIM), which standardizes customs processes and incorporates the use of computer systems for paperless trade.

In addition, since 2012, the IDB has been supporting the improvement of Paso Canoas – the transit point for 75 percent of Costa Rican-Panamanian trade that nevertheless faced high transaction costs and long waiting times. Leveraging resources from the Aft Fund for its design, the project has already achieved the harmonization of border management procedures, which is expected to cut the volume of export and transit processes by up to 80 percent and would reduce the crossing time for a refrigerated truck from 17 hours to less than one hour.

The Costa Rican government expects to continue its modernizations efforts in Peñas Blancas, Paso Canoas, and the Sixaola border crossing with the Bank's support. The Costa Rican experience will be leveraged to other countries in the region to reduce the cost of cross-border trade and increase security in the framework of the Mesoamerican Project, which involves Central America, Mexico, Colombia, and the Dominican Republic.

INCREASING SPEED AND SAFETY OF TRADE FLOWS THROUGH AEO PROGRAMS

The Bank has worked closely with the governments of Argentina, Colombia, Costa Rica, Chile, Dominican Republic, Guatemala, Mexico, and Peru on the creation and strengthening of AEO programs. More than 200 companies in the region now enjoy expedited border crossings and reduced clearance times. In addition, political support has elevated AEO programs to goals of various regional integration initiatives such as the Pacific Alliance and the Mesoamerican Project.

Furthermore, LAC customs directors recently adopted an AEO Regional Strategy for 2013-2017. Moreover, mutual recognition agreements are being sought both within the region and with Asia as a result of a High Level Customs Dialogue organized by the Asian Development Bank (ADB) the IDB and the World Customs Organization (WCO), held in Panama in April 2013.



Harmonization of border management procedures in Paso Canoas is expected to cut the volume of export and transit processes by up to 80 percent and would reduce the crossing time for a refrigerated truck from 17 hours to less than one hour.





HIGHLIGHTING PRIVATE SECTOR PRIORITIES

IMPORTANCE OF THE PRIVATE SECTOR

The fast transformation of the global economy, the emergence of GVCs, and a growing network of trade agreements offer a series of both challenges and opportunities to countries across the globe, and particularly to LAC economies. If countries are to take advantage of the global marketplace, a modern, flexible, and expeditious trade policy management that reflects the realities of modern trade patterns must be in place.

Improving communication with the private sector is essential for crafting policies that both take into consideration the complexities of the modern marketplace and incorporate technologies that expedite the processing of trade flows. Against this background, the IDB has leveraged alliances with key partners in the private sector in order to clearly identify salient obstacles to efficient trade flows and possible policy solutions. The IDB has also provided capacity-building resources and financially and technically supported efforts to design and implement single window systems, which reduce time and costs related to trade processes by serving as a single entry point for all trade-related transactions.

WORKING WITH THE PRIVATE SECTOR TO IDENTIFY Aft PRIORITIES

The IDB, the U.S. Chamber of Commerce and the Association of American Chambers of Commerce in Latin America (AACCLA), supported the efforts by authorities of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) to conduct a private sector consultation and self-evaluation process with stakeholders in order to identify pending

trade policy-related challenges and to share best practices on how to address these challenges. To this end, these institutions launched a survey and organized focus groups with the private sector on trade facilitation priorities in the CAFTA-DR region, attracting the participation of over 370 companies in the process.

This work produced a report with specific recommendations on measures that hold the greatest return on investment for streamlining trade and investment opportunities in the region. Thanks to the report, Central American and Dominican authorities have presented a proposal to the international donor community that would channel funds to these and other trade facilitation priority areas, while also creating a monitoring mechanism to oversee projects currently in execution in order to avoid duplicity and to optimize and boost results.

IMPLEMENTING 21st CENTURY TECHNOLOGICAL SOLUTIONS

The Bank's comprehensive package of technical and financial resources to individual national single windows in Barbados, Chile, the Dominican Republic, Panama, Peru, and Central American countries has also been yielding significant benefits. Chile, for instance, recently unveiled the pilot exports module for its single

window, covering some 35 percent of exports. Once SICEX, the Chilean single window, becomes fully operational in June 2014, it is expected to cut costs and waiting time by 50 percent, going from 6 and 5 days to 3 and 2.5 days for exports and imports, respectively. In parallel, beyond technical training, the IDB is lending its support to the Inter-American Network of Single Windows (Red VUCE), an inter-governmental forum that seeks to provide a space for the creation, centralization, and dissemination of knowledge, as well as to promote a dialogue on the interoperability and integration of the region's single windows.



Improving communication with the private sector is essential for crafting policies that both take into consideration the complexities of the modern marketplace and incorporate technologies that expedite the processing of trade flows.



TRADE AGREEMENTS AS A TOOL FOR POLICY REFORM AND ECONOMIC INTEGRATION

THE CHALLENGE OF IMPLEMENTATION

Over the past few years, LAC countries have engaged in the negotiation of FTAs that have the potential to be an engine for growth and poverty reduction by generating new trade and economic opportunities. Nevertheless, such opportunities will only be palpable if the agreements are fully implemented and administered in an effective and timely fashion. After undergoing the long and complex trade negotiation process, many governments realize that the task is not over when the agreement is signed. Rather, new challenges equal to or usually surpassing the negotiations themselves must be addressed in order to successfully implement in full the treaty in question and benefit from market access opportunities.

Effective implementation remains a challenge, however, as many countries lack the institutional capacity to do so, and/or need to put in place innovative and adequate institutional processes and infrastructure involving several public and private agencies. It is therefore necessary to have an accurate understanding of the magnitude and scope of such challenges, and to develop strategies aimed at improving the efficiency of the institutions that are in charge of the regulation and administration of those agreements.

REFORM AND INTEGRATION THROUGH FTAS

The IDB has been working closely with LAC governments, including Colombia and Panama, in the context of the implementation of their respective trade agreements, particularly with key trading partners such as the U.S. The Bank has used tools such as seminars, roundtables, workshops for exchanging experiences with regional partners, high-level official delegation visits, and implementation roadmaps. This support has significantly improved the understanding of the complexities of the implementation process. Moreover, it also led to significant legal and regulatory reform necessary for the agreement's entry-into-force and full utilization of its opportunities: 5 laws, 11 decrees, 4 circulars, and one resolution in Colombia dealing with, for example, market access, rules of origin, intellectual property issues, and 8 laws, 2 cabinet decrees, 6 executive decrees, and 5 resolutions in Panama covering issues related to intellectual property and copyright, customs, and telecommunications, among others.

At the same time, the Bank has lent its full support to the ongoing negotiations on the Pacific Alliance (AP), an ambitious regional deep integration initiative that includes Chile, Colombia, Mexico and Peru. The Alliance aims to achieve the free movement of goods, services, capital, and people, and to strengthen links with other regions – in particular Asia-Pacific. Progress achieved to date is nothing short of impressive: immediate tariff elimination for 90 percent of intraregional trade; visa waiver for AP citizens; educational and scientific scholarships; agreement on tourism cooperation; a new cooperation Fund, integration of stock exchanges; among others. The IDB has been providing AP leaders and negotiators with direct technical assistance on a variety of issues, and it has also been supporting the implementation of the working agenda for the private sector under the AP Business Council, whose recommendations are taken by the AP Heads of State.



“The Pacific Alliance countries have the advantage of having already launched many of the reforms that Latin American countries must carry out in order to boost their productivity... If everyone makes similar efforts, we will reach faster the goal of becoming a region with a solid and prosperous middle-class.”
**Luis Alberto Moreno,
IDB President**



SANITARY AND PHYTOSANITARY MEASURES: MEETING GLOBAL STANDARDS

MEETING THE GLOBAL MARKETPLACE'S STANDARDS

Under the new structure of the global marketplace, trade is governed by a growing array of public and private sector standards addressing multiple factors, including health, safety, and consumer preferences. Despite having gained significant access to major markets, LAC must comply with increasingly tightening standards – particularly in the agri-food sector, one of the region's key exporting sectors. While compliance poses significant costs –including certification systems, changes in production, and appropriate skills and technologies–, overcoming these constraints is essential if LAC countries are to benefit from their trade relationships.

CAPACITY BUILDING, BUSINESS MATCHMAKING AND RESEARCH

The IDB has deployed a series of activities and tools to deepen its knowledge on the scope, impact, and prominence of these increasingly complex standards. Highlights of the Bank's support include the following:

- The first regional comprehensive training program on pest risk analysis, which included targeted mentoring and an internship in the U.S. Animal and Plant Health Inspection Service (APHIS) laboratory; the program led to pioneering South-South cooperation initiatives such as a training organized by Mexico for Guatemalan participants and an invitation from Chile to El Salvador to visit its laboratories.
- The first regional training on maximum residues for pesticides, leading to another initiative by Korean specialists for LAC participants.

- Training on new U.S. food safety legislation; related seminars will take place in 2013.
- In 2012, some 122 agricultural exporters from the region participated in LAC Flavors, the IDB's business roundtable for LAC food exporters and international buyers; the approximate total value of potential business from the event is expected to reach USD 7.5 million in the short/medium term and USD 18.2 in the long term.
- Manuals on sanitary and phytosanitary (SPS) requirements to export to the EU, Korea, Japan and Singapore; case studies on the value of public-private partnerships to enhance SPS capacity in LAC; and, in cooperation with the OECD, a working paper on the treatment of agriculture in regional trade agreements.
- INTradeBID, the first LAC trade database, which includes SPS requirements for exports by product and destination, import refusals by the U.S. and EU due to non-compliance, and claims filed with the WTO regarding SPS-related barriers to trade; INTradeBID provides a baseline to compare the effectiveness of IDB interventions on SPS issues and is starting to be used as a results indicator in some IDB projects.



LAC FLAVORS
LAC Flavors is an annual specialized business matchmaking meeting that brings together food exporters and international buyers to create new business opportunities.

LAC Flavors 2009, 2010, 2011, and 2012 led to the generation of approximately USD 21 million in business deals following more than 4,000 business meetings held during the events.





CAPACITY-BUILDING: CREATING EXPERTISE ON INTEGRATION

CLOSING THE GAPS AND BOOSTING KNOWLEDGE

While LAC countries have pursued an ambitious regional and global integration agenda, they still face challenges to implement complex obligations, make sector adjustments, and enhance competitiveness. As a result, capacity building and technical assistance that can close these gaps are needed so that countries can fully take advantage of the opportunities offered by the international trade system.

THE NEW IDB CAPACITY BUILDING PROGRAM

The Bank launched the new Capacity-Building Program on Integration as a tool for fulfilling its mandate to support global and regional integration, seeking to create and sustain a long-term and multi-sector critical mass of national expertise on and commitment to integration. To this end, the IDB provides technical-level training, short-term policy advisory services, and support to project identification, design, monitoring, and evaluation. The program targets key AfT areas, such as trade policy, trade facilitation, export promotion and investment attraction, transport, energy, and telecommunications.

The instructional content is based on an assessment of participants' needs, with courses lasting between six and nine weeks. As many as 40 participants take part in the online tutored courses that include discussion forums, answering quizzes, and solving case studies. A training coordinator and tutors evaluate attendees' participation and the level of knowledge on a weekly basis, respectively.

In order to ensure success and ownership, the Bank works closely with LAC institutions to identify and propose potential candidates, while at the same time building strategic partnerships with other institutions such as the WCO, WTO, Central-American Integration System (SICA), and Caribbean Customs Law Enforcement Council (CCLEC).

FOCUSING ON RESULTS

Since its launch in the second half of 2011, 300 participants from 17 Latin American countries have been trained in nine online tutored courses on single windows, customs management and leadership, strategic planning, e-commerce, and TIM. Eighty-five percent of participants have received certification. Additionally, 25 tutors were trained in online methodology.

According to the surveys carried out at the end of each course, all participants would recommend the training package to other coworkers, and more than 90 percent of them see a direct application of the acquired knowledge to their jobs – be it the implementation of single windows, export advice to SMEs, or the ability to lead team work and decision-making in customs. In light of these results and the region's reception to the initiative, the program is set to increase the delivery of online tutored courses, design communities of practice on single windows and rules of origin and build local capacity by designing online training courses for local trainers in order to ensure knowledge transfer. In addition, the program's materials will be used in other areas of capacity building, ultimately ensuring distribution of knowledge on a larger scale, including national courses.



The Capacity-Building Program on Integration serves as a tool for fulfilling the IDB's mandate to support global and regional integration, seeking to create and sustain a long-term and multi-sector critical mass of national expertise on and commitment to integration.

TRADE AND GENDER: FACILITATING FEMALE ACCESS TO GLOBAL TRADE FLOWS

GENDER AS AN ECONOMIC ISSUE

Gender equality is not only a human right, but it is also about economics and using 50 percent of the LAC region's human resources to their full potential. Investing in gender equality is central to human development, productivity, and economic growth. Studies show that increasing female labor force participation in LAC can lead to per capita income growth and poverty reduction. Likewise, women tend to spend a higher percentage of their income on education, health, and nutrition for the household, thereby decreasing the inter-generational transmission of poverty.

MAINSTREAMING GENDER INTO THE TRADE AGENDA

The Bank has continued its efforts to mainstream gender in its trade-related operations, particularly under the umbrella of the Trade and Gender Initiative made possible by the AfT Fund. In line with its gender component, the Fund targets gender-sensitive proposals in trade-related areas, including customs, and identifies gender-sensitive indicators for project assessments. With the Fund's support, the IDB has pursued strategic initiatives in order to promote gender awareness in national, regional, and global value chains, and women entrepreneurship and empowerment.

FOCUSING ON RESULTS

Highlights of results achieved to date on trade and gender include the following:

- WeConnect International training to more than 600 women entrepreneurs in Chile, Costa Rica, and Peru in order to facilitate their access to value chains. Success stories include:
 - *Alpacifica*, a Peruvian clothing firm with products made in a women-run cooperative; it secured a contract worth a 50 percent boost in sales and is on track to securing similar business opportunities in 2013.
 - *Fidenza Disegno*, a Peruvian women-managed jewelry producer with a 75 percent female workforce that is now selling to Walmart, the world's largest retailer and third largest public company in the world.
- According to the follow-up survey, the participation in 2012 of 42 women-owned companies and 10 export promotion agencies in LAC Flavors translated into USD 3.4 million worth of deals on the spot and around USD 6.6 million in the following months. Success stories include:
 - *Latin Fruit*, a Panamanian women-owned produce business that has accessed the U.S. market, is on track to sending one USD 20,000 produce container per week, and is working on expanding its export capacity.
 - *Tropix Food*, a Salvadorian food processing firm with a 95 percent female workforce; the company has generated over USD 300,000 in sales to international clients who attended the event.

- The first Week of Social Inclusion in October 2012, co-organized with the Peruvian government and the U.S. Department of State, catalyzing the announcement of 20 initiatives and commitments in the LAC region, including a MIF index to evaluate the environment for women's business start-ups and growth in LAC, as well as a new loan access process – with IDB financial support – at Brazil's Itaú Unibanco for women-owned SMEs.
- A partnership with the North-South Institute, a Canadian international development institution, which held regional workshops on trade and gender in Peru and Colombia.



Gender equality is not only a human right, but it is also about economics and using 50 percent of the LAC region's human resources to their full potential.



SUPPORTING HAITI'S PRIVATE SECTOR EXPORT CAPACITY

Despite a considerable drop in exports in the past 30 years, coffee plays a key economic, social, and environmental role in Haiti, and remains one of the agricultural engines of the rural economy. Between 100,000 to 200,000 smallholder farmers are engaged in coffee cultivation, mostly in creole gardens of less than one hectare. Approximately 58 percent of coffee produced in Haiti is consumed domestically.

The main challenge facing the coffee value chain is low production. While the creole garden system is considered an environmentally and socially sustainable method for coffee production, crop yields and productivity are low. Other challenges are limited access to credit and technical assistance for farmers, and poor agricultural inputs.

DEVELOPING PRODUCTION AND CAPACITY

Through the MIF, the IDB has implemented different programs to promote stronger coffee value chain that improves productivity and competitiveness, ensuring the long term economic development of the sector. Notable results include the following:

- Strengthening of the capacities of the *Institut National du Café Haïtien* (INCAH), the Haitian government agency dedicated to the development of the coffee sector; and
- Management training and skills strengthening to 5,000 coffee growers in select regions, which led to improved coffee crop quality and a fivefold annual increase in coffee, thanks to coffee cooperatives fetching higher market prices.

The MIF is implementing a comprehensive program to strengthen key stakeholders along the coffee value chain, boosting the incomes and livelihood of 10,000 small coffee producers and their families. The project will provide management and sustainability training to three cooperative networks and 25 cooperatives in the Northern, Central, and South East Departments, and build the capacity of three cooperatives in the Grande Anse Department, the National Platform of Coffee Producers and INCAH.

The MIF is partnering with the *Agence Française de Développement* on the coffee regions the Central, Southeast and Grande Anse Departments. Additionally, the Government of Colombia has facilitated two study tours in Colombia for the Haitian stakeholders and financed the training of eight young agronomists in Colombia. Furthermore, the Nestlé Corporation will contribute high-yielding seedlings to help restock coffee farms.



Despite a considerable drop in exports in the past 30 years, coffee plays key economic, social, and environmental roles in Haiti, and remains one of the agricultural engines of the rural economy.

MONITORING AND EVALUATING RESULTS

The Bank's proactive AFT agenda responds to several interrelated multilateral initiatives, among which the most significant are the following:

- The 2005 WTO 6th Ministerial Declaration to heighten the priority of AFT in the international aid architecture;
- The U.N. Millennium Development Goals to halve extreme poverty and hunger (MDG-1) by the year 2015, with particular focus on MDG-8 (build a global partnership for development) and MDG-3 (promote gender equality and empower women); and
- The Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Partnership Document (2011) focusing on country alignment, ownership, donor coordination and harmonization at country level, and mutual accountability for results and the added value of South-South and triangular cooperation.

Measurement of results is key as it represents an approach to ensure the Bank and its partners are achieving the expected impact with their resources and that they are transparent and accountable to all their stakeholders, ranging from citizens, governments and development cooperation partners to civil society organizations. Yet the task of measuring progress through pre-identified indicators and establishing baselines with targets was and will continue to be challenging, as many interventions may have limited visibility in the short run and because there are often issues of attribution, isolation of causes, and insufficient data.

In order to address those challenges to ensure short to medium-term results and to effectively measure progress, over the past few years the IDB has been carrying out efforts to enhance its measurement tools, share the results of its projects, and make information about them more accessible. To this end, the Bank remains committed to:

- define specific objectives and verifiable outcomes and indicators in the strategic selected areas at the outset;
- ensure that actual AFT related programming is aligned with targeted results;
- strengthen its results reporting system in close consultation with development cooperation partners and beneficiary countries;
- encourage and support beneficiary countries and IDB staff to make a good and accurate identification and assessment of existing baselines and to build in the design evaluation requirements and methodologies at the onset of projects in order to ensure results can be measured during implementation and execution and to facilitate evaluation;
- ensure that project monitoring systems are in place so as to facilitate periodic assessment of project and program performance against defined targets; and
- measure results through selective indicators and be realistic and selective in what to measure and how to measure.

In the context of its capital increase, the Bank created its Results Framework (RF) which includes best practices adopted by other multilateral and bilateral development organizations. The RF will allow shareholders to monitor the Bank's contribution towards selected regional development goals, as well as desired progress on the Bank's output indicators and operational effectiveness and efficiency.

Additionally, the IDB designed its monitoring and evaluation activities to cover the full spectrum of a project's life:

- During project design phase, the Bank uses the Development Effectiveness Matrix (DEM), which is a checklist that systematically scores how project teams plan to measure the results of the projects they design;
- During the execution phase, the IDB's Project Monitoring System ensures that project outputs are on schedule and that costs stay within budget; the Bank also monitors the flow of disbursements, reflecting which activities are being completed;
- Finally, for every project that is finalized, the Bank conducts Project Completion Reports, which are self-evaluations to report whether a project has met expected results.

The highlight of these development effectiveness efforts was the 2012 launch of MapAmericas (<https://www.iadb.org/en/MapAmericas>), a new online platform that allows users to easily view and track the results of development projects supported by the Bank and its partners. The platform features interactive maps of LAC countries that provide detailed information on ongoing IDB projects – ranging from data showing where and how money is being invested, to multimedia stories describing the development impact on communities.

“MapAmericas makes it easier for us, and the rest of the world, to share the results of our work more effectively and learn what works and doesn't work in development. This is a tremendous opportunity to empower people, to learn from our experiences, and to do our work better.”

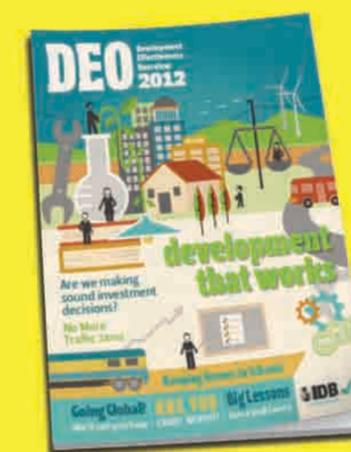
Julie T. Katzman,
IDB Executive
Vice President.

AFT FUND

In 2012, as part of IDB efforts to achieve a Bank-wide results reporting system, the AFT Fund's Results Matrix was adjusted in close consultation with development cooperation partners by developing a series of output and outcome indicators (both intermediate and ultimate) to allow for a more effective monitoring and reporting on results. This new matrix helps the IDB and its development cooperation partners to assess in a more effective manner how proposed interventions will contribute to the broader objectives of the AFT Initiative and ensure development effectiveness of the interventions.



Source: www.iadb.org/en/MapAmericas



The IDB's Development Effectiveness Overview (DEO) 2012 report assesses the effectiveness of the Bank's monitoring and evaluation instruments, highlighting a steady progress in the Bank's efforts to ensure that its work is duly executed and is producing a measurable positive impact in the LAC region.

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Integration
and Trade Sector

