

TC ABSTRACT

I. Basic project data

▪ Country/Region:	Paraguay
▪ TC Name:	Fostering Cross Border Integration between Paraguay and Brazil
▪ TC Number:	PR-T1183
▪ Team Leader/Members:	Pablo Garcia (TIU/CUR), Team Leader; Carolina Vera de Camperchioli (CSC/CPR), Alternate Team Leader; Federica Gomez (TIU/CUR); Yasmin Esteves (INT/TIU)
▪ TC Taxonomy:	Client Support
▪ Reference to Request: (IDB docs #)	
▪ Date of TC Abstract:	June 26, 2015
▪ Beneficiary:	Paraguay
▪ Executing Agency and contact name:	IBD, through the Integration and Trade Sector (INT/INT)
▪ IDB Funding Requested:	US\$560,000 (EUR500,000)
▪ Disbursement period:	30 months
▪ Required start date:	August, 2015
▪ Types of consultants:	Individual
▪ Prepared by Unit:	Trade and Investment Unit (INT/TIU)
▪ Unit of Disbursement Responsibility:	Integration and Trade Sector (INT/INT)
▪ Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	Yes
▪ GCI-9 Sector Priority:	Yes (Competitive Regional and Global Integration)

II. Objective and justification

- 2.1 The general objective of the project is to contribute to the economic development and cross border economic integration between Alto Paraná (Paraguay) – Paraná (Brazil).
- 2.2 The specific objectives of the current project are the following: (i) strengthen local technical capacities; (ii) identify and analyze binational value chains that generate local spill overs and speed up investment in the border zone; and (iii) provide trade facilitation recommendations to improve cross border integration.
- 2.3 In the past decades, the development of the cross border zone between Alto Paraná and Paraná¹ has been determined by its commerce dynamism -which has a procyclical behaviour-, with a significant participation of the informal commerce.

¹ Alto Paraná Department is located in south-eastern Paraguay and is the second-richest and populated department of the country (820,000 inhabitants –which represents 12% of the Paraguayan population- and 70% of its inhabitants live in the metropolitan region –Ciudad del Este and neighbor municipalities as Presidente Franco, Minga Guazú and Hernandarias). Ciudad del Este is its capital city. Its part of a "triangle" known as the Triple Frontier (680,000 inhabitants), and lies in front of the Brazilian city of Foz do Iguazú (state of Paraná). This economic space crossed by an international frontier is important because of its tourists and commerce services as well its energy generation, its source of employment and royalties created on both sides. However, the Paraguayan side is more rural, more unequal and poorer. While Ciudad del Este received 300,000 tourists in 2014 (its economic activity is concentrated in commerce) Foz do Iguazú received more than 1.5 million visitors the same year since it has a more diversified touristic offer.

There is general consensus among the public and private sector that the economic development model in the border zone is obsolete and needs to be changed to promote integration and maximize the potential benefits that the frontier zone offers (given the diary exchange of goods and tourists).

- 2.4 Actually, the commercial situation is unfavorable for the zone, which has impacted in the reduction of its activity level, and is determined by two main factors: (i) the deterioration of the Brazilian economy, which reduced the demand for shopping tourism (both by income and price effect of the real devaluation); (ii) a change in the Brazilian regulation and an increase in the frontier controls, which reduced informal commerce. Furthermore, the frontier zone lacks attractive urban infrastructure and turistic services to offer shopping tourists that could generate local benefits.
- 2.5 The new economic development model should include productive matrix diversification in the cross border zone², optimizing productive sector integration, complementarities and cooperation among neighboring countries and the cost and location advantages that the zone offers. Therefore, the identification of best practices and international experiences (in particular, the *Programa de Cooperación Transfronteriza España-Portugal*) to develop high growth sectors is paramount to identify the key factors that promote investments, generate local spill overs, and therefore enable international integration.
- 2.6 The main challenges identified to implement a new economic development model are the following: (i) limited availability of human capital with the qualifications required to manage and promote productive development and attract large-scale investments in the cross border zone at different levels; (ii) market failures that limit binational productive integration that could complement and generate knowledge and technological spill overs as well as employment in their local economies; (iii) logistic problems at the border post and inefficient custom controls limit the possibility of exploiting location advantages that the border zone offers. Security and corruption problems affect the border zone business, commerce and investment climate.
- 2.7 This technical cooperation will lead the necessary studies that need to be carried out for the design of a potential loan in December 2015, that aims to increase integration in the cross border between Paraguay and Brazil.
- 2.8 The objective and activities of this operation correspond to the Banks' Sector Strategy to Support Competitive Global and Regional Integration, as it will enhance trade and investment in the global/regional integration context between Paraguay and Brazil: investment promotion, customs control, human capacity building and business climate.

III. Description of activities and outputs

- 3.1 **Component 1. Capacity building program.** The project will finance actions aimed at improving capacities at cross-border at the individual and company level. This will be accomplished through: (i) partial financing of a pilot customized training program

² Investments in touristic products and industrial activities are being led by Ciudad del Este and Foz de Iguazú enterprises as to diversify their productive matrix. Also, the *Plan de Desarrollo del Este* is taking place and aims to change in an integral way Ciudad del Este (in urban, productive and cultural terms). Another important initiative is the construction of the second bridge between Ciudad del Este and Foz de Iguazú that will solve partially the actual and complicated transit across border.

(often known as "Finishing Schools") based on firm demands³; (ii) training program for regional leaders to develop managerial skills on cross-border issues.

3.2 Component 2. Sectorial diagnosis of potential binational productive chains to boost integration. This will be accomplished through: (i) the identification of binational productive value chains with potential ⁴ to complement from both countries, to add value, to generate spill overs in the local economy and to leverage investments and access international markets; (ii) sectorial studies for the development of the selected chains, analyze sector needs in terms of quality of its products and services offered, commercialization and capacity gaps, strategic marketing positioning, infrastructure and investment requirements to improve border integration and develop diversified production, supplier development, public and private sector role in the promotion of the selected chains and a benchmark with other promotion methodologies and experiences in different cross-border zones, in particular Portugal-Spain (because of its similarities with Brazil-Paraguay⁵), etc.; and (iii) identification of the private-public action plan and strategy to foster productive clusters selected from a intersectorial perspective.

3.3 Component 3. Trade facilitation for productive integration. This will be accomplished through: (i) a custom and logistic process mapping; (ii) a cross border (in the frontier line) diagnosis and specific recommendations to improve border crossing incorporating international best practices including the possibility of using an authorised operator; and (iii) the identification of investment requirements. ,

IV. Indicative Budget

Estimated Budget (Exchange rate US\$1 = EUR 0.89 –june 29 2015)

Component / Activity	Total financing Euros	US\$
C1. Capacity Building	200,000	224,000
C2. Sectorial Diagnosis	210,000	235,500
C3. Commercial facilitation	60,000	67,000
Coordination, Administration and auditing	30,000	33,500
Total	500,000	560,000

³ Training programs will be financed by matching grants, where companies with investments of plans to invest in the border zone will cover part of the cost and will operate in accordance with market demand.

⁴ Some of the high growth potential chains identified are: (1) **Tourism:** event and leisure-adventure tourism could complement shopping tourism, attract foreign investment, create infrastructure and services and integrate a binational touristic package. The touristic sector faces commercialization problems (both in the supply and demand side): (i) low quality touristic products; (ii) lack of coordination and disconnection between Brazilian and Paraguayan touristic operators. However, there is a great opportunity to create high quality products of integrated tourism in President Franco (Saltos del Monday, Moises Bertoni, etc), in Hernandarias (Represa Binacional de Itaipú y Reserva Tati Yupi) and in Ciudad del Este (Lago de la República, Catedral de San Blas) and (2) **Industry:** although in the recent years the industry sector in Ciudad del Este has increased its presence, its development is still incipient and with low level of spill overs in the local economy. Textile, assembly and plastic offers great potential for regional productive integration.

⁵ Some successful examples of the POCTEP -which fostered economic and social integration and cross-border cooperation as well as those that aimed at increasing competitiveness- should be revised as: "Frontier accelerator for the creation of ITC innovator firms international market oriented Galicia-Norte", "Valorização de Competências e Qualificação Profissional Galicia-Norte", "Sistema TIC compartido de inteligencia turística em el área", "Internacionalization of the Euroregion Alentejo-Centro Extremadura", " Red Transfronteriza España Portugal de experimentación y transferencia para el desarrollo del sector agropecuario y agroindustrial".

V. Execution structure

- 5.1 The contracting of project consultants and services will be carried out according to the Bank's policies for the Selection and Procurement of Consulting Services Financed by the Bank.

VI. Project risks and issues

- 6.1 The success of the project will depend on the level of engagement and participation of the local governments (in particular, Ciudad del Este Municipality) and the coordination among the private and public sector at a national and binational level. The operation will mitigate the risk by engaging high level authorities from each organization in the supervision of the project. The project will also be a key successful case for government officials to promote effective mechanisms of coordination at a binational level (CODEFOZ seems to be an appropriate mechanism that has been installed with great potential).
- 6.2 Another risk is the lack of agile execution process. To mitigate the scarcity of possible highly trained counterparts the project will attract a diverse pool of talents from Brazil and Paraguay.

VII. Environmental and Social Classification

- 7.1 This operation does not present environmental and social risks.