

## SUMMARY

# Annual Action Programme 2016 in favour of Nicaragua for Border Integration Programme – San Pancho Border Crossing to be financed from the general budget of the European Union

### 1. Identification

Budget heading	21.02.01.00 – Cooperation with Latin America
Total cost	EUR 20 million of EU contribution  Other part of the Border Integration Programme is financed by an IADB (Inter-American Development Bank) loan for an amount of EUR 50 million and co-financed in parallel by the Government of Nicaragua for an amount of EUR 2,45 million
Basic act	Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation

### 2. Country background

Nicaragua has been showing significant economic growth during the last years (4.9% estimated in 2015) but continues to face complex development challenges in terms of poverty, inequality as well as effects of climate change and resilience to natural disasters. Although insecurity is lesser in Nicaragua as compared to the Northern Triangle countries (El Salvador, Honduras and Guatemala), it is an increasing concern.

About 58% of Nicaraguan rural households are poor and 14% are extremely poor with livelihoods limited to subsistence farming and local labour markets. Nicaragua is characterized by a growing young population which is challenging low quality of education. Given that the national economy is largely based on the exploitation of natural resources, any environmental degradation or climate variability have a significant impact on economic development and can be a major burden for future generations.

Promoting agriculture and agro-industry exports are the main axes for developing the national economy and eradicating poverty. However, one major bottleneck impairs the economic development of the country: there exists only one trade route to and from Costa Rica and Panama, and in particular there is no direct access to the deep-sea harbour of Puerto Limón on the Atlantic coast of Costa Rica. Furthermore, generally speaking, Nicaragua's management of its border crossings is sub-standard. The shortcomings in transportation infrastructure and border crossings increase transport costs by 4% to 9%, and this erodes the country's economic performance and competitiveness.

### **3. Summary of the Action Programme**

- **Background:**

In June 2014, the Presidents of Central American countries instructed the Central American Council of Ministers of Integration, Economy and Trade (COMIECO) to design and implement a Trade Facilitation and Competitiveness Strategy for Central America, which was approved in October 2015 and eventually aims at the creation of a custom union.

The Nicaraguan Ministry of Finance requested the Inter-American Development Bank (IADB) to finance and manage a border integration programme in all five land border crossings of the country, including the provision of adequate infrastructure and equipment in three of them (Peña Blanca, San Pancho and El Guasaule). Costa Rica, Panama and Guatemala are currently preparing border integration programmes similar to Nicaragua's with the support of the IADB. Of the three land border crossings where infrastructure will be improved, San Pancho has the unique particularity not to be open to general trade of goods yet. The action will thus open a new trade route on the eastern shore of Lake Nicaragua.

- **Cooperation related policy of beneficiary country**

The overarching Government development policy is the Human Development National Plan 2012-2016. The Plan defines twelve national development priorities, three of which have been prioritised as focal cooperation sectors for the EU to support Nicaragua:

1. Productive sector (agriculture and agro-industry)
2. Education for employment
3. Adaptation to climate change

The productive sector development priorities comprise strengthening trade competitiveness and economic performance of small agro-industrial enterprises as well as inclusion of small farmers in productive chains in order to reduce poverty and to promote equality. Government policies in this area have helped to improve sectoral planning and donor coordination.

In line with the Development Plan and regional integration initiatives, the Government of Nicaragua seeks to implement an integrated border management model based on international best practices with provisions for interoperability and information sharing, capable of handling rising demand due to the flow of goods and people. It will also help Nicaragua to fulfil its commitments in the context of the Trade Facilitation Agreement of the WTO.

- **Coherence with the programming documents:**

The action falls under focal sector I (support to productive sector – agriculture and agro-industry) of the EU Country Strategy Paper 2014–2020 for Nicaragua that seeks to promote the value-chain approach to foster linkages between small providers and medium and large-sized companies. Accordingly, while larger producers will benefit from opportunities opened by the EU-Central America Association Agreement, they will increase the demand for goods and services from smaller actors of the chain. As EU development cooperation focusses on the needs of these smaller producers, it will tackle factors of exclusion and barriers that prevent them to access the market, foster employment and self-employment, and ultimately reduce poverty in rural areas.

The action is also aligned with the Multiannual Indicative Regional Programme 2014–2020 for Central America as it offers an opportunity to promote economic integration and facilitate Central American regional trade flows.

- **Identified action**

The general objective of the action is in line with the CSP 2014-2020 for Nicaragua:

To promote economic development by boosting Nicaragua's foreign trade competitiveness and economic performance in agricultural and agro-industrial sectors, to reduce poverty and to promote equality.

The specific objectives of the action are:

1. Implement an effective and efficient integrated border control consistent with international best practices and regional parameters.
2. Open a new trade route unlocking the south-eastern region of the country, applying state-of-the-art processes for integrated border management.

- **Expected results:**

The project aims at achieving the following results:

1. All necessary data tools, control processes, operational schemes and regulatory framework to secure efficient and effective control from Nicaraguan border agencies at border crossings, including customs and phyto-sanitary, are implemented and consistent with international best practices and regional parameters.
2. The Nicaraguan border crossing *San Pancho* is built, equipped and operational.

- **Past EU assistance and lessons learnt.**

In the last decade, the EU has contributed approximately EUR 50 M to a number of regional programmes aiming at increasing the efficiency of border management in Central America by standardizing customs procedures, harmonizing regulations and improving sanitary facilities. The EU financed regional programme "*Seguridad Fronteriza y Gestión Integrada de Fronteras*" (SEFRO) has strengthened the coordination among many border control agencies in Central America such as customs, police, army and migration offices, and confirmed the relevance of improving existing capacities and promoting dialogue among partners.

The integrated border management model has brought up important benefits in terms of (i) reducing clearance time and costs and (ii) enhancing control and security enforcement. However, the experience also shows that multi-country agreements in the area of trade facilitation can take a long time to achieve consensus and buy-in. In this sense, a domino effect can be achieved when a pair of countries moves forward in an initiative. The proposed action could ultimately encourage other countries in Central America to engage in border modernization based on the integrated border management framework. It aims to align individual countries to common parameters, which will ultimately facilitate the interoperability and mutual recognition of procedures - a basis for easing trade flows in a future Central American Customs Union.

- **Complementary actions/donor coordination.**

This proposed action will complement the EU planned programme on regional economic integration in Central America (INTEC). As a matter of fact, INTEC will modernize the regulatory framework for regional trade, support the interoperability of systems (digital platform) and strengthen the competitiveness of Central American SME's. Additionally, this action will set up the conditions at national level to enable Nicaragua to take full advantage of the digital platform. Specifically that part of INTEC is expected to be implemented through delegated cooperation with IADB, which will facilitate synergies between both actions.

This action may also facilitate Nicaraguan exports of the bovine products supported by the EU funded project "Support to Bovine Value Chain in Nicaragua", to be implemented in the Departments of Chontales and Río San Juan and the Autonomous Region of South Caribbean.

In addition, this action is the missing link that will realize the full potential of the significant investments in roads and connectivity infrastructure that have been made in Nicaragua and Costa Rica border over the last years, many of them financed by Japanese cooperation.

#### **4. Communication and visibility**

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country and contractors. Appropriate contractual obligations shall be included in, respectively, the delegation agreement and procurement contracts.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

#### **5. Cost and financing**

Border Integration Programme – San Pancho Border Crossing	EUR 20 million
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Total EU contribution to the measure	EUR 20 million
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This action is part of a national programme that aims to improve border management in Nicaragua. Other part of the Border Integration Programme is financed by an IADB loan for an amount of EUR 50 million (USD 55 million) and co-financed in parallel by the Government of Nicaragua for an amount of EUR 2,45 million (USD 2,7 million).

The Committee is invited to give its opinion on the attached Annual Action Programme 2016 in favour of Nicaragua for theme Border Integration Programme – San Pancho Border Crossing.



# ANNEX

of the Commission Implementing Decision  
on the Annual Action Programme 2016 in favour of Nicaragua

## Action Document for Border Integration Programme – San Pancho Border Crossing

1. Title/basic act/ CRIS number	Border Integration Programme - San Pancho Border Crossing CRIS number: LA/2016/039-555 financed under Development Cooperation Instrument			
2. Zone benefiting from the action/location	Nicaragua, Central America  The action shall be carried out at the following locations: San Pancho and Peña Blanca border crossings between Nicaragua and Costa Rica and El Guasaule border crossing between Nicaragua and Honduras			
3. Programming document	Multiannual Indicative Programme 2014-2020  Country Strategic Paper for Nicaragua			
4. Sector of concentration/ thematic area	Sector 1: support to productive sector, with focus on rural areas	DEV. Aid: YES		
5. Amounts concerned	Total amount of EU budget contribution EUR 20 M  Other part of the Border Integration Programme is financed by an IDB loan for an amount of EUR 50.0 M (USD 55.0 M) and co-financed in parallel by the Government of Nicaragua for an amount of EUR 2.45 M (USD 2.7 M)			
6. Aid modality, implementation modality	Project Modality  Indirect management with Inter-American Development Bank (IDB)			
7 a) DAC code(s)	33120 - Trade facilitation – 80%. 32130 – Small and medium-sized enterprises development – 20%;			
b) Main Delivery Channel	IDB -909			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	x	<input type="checkbox"/>
	Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women	<input type="checkbox"/>	x	<input type="checkbox"/>

	In Development)			
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	x
	Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. GPGC thematic flagships</b>	n/a			

## SUMMARY

This action is part of a national programme that aims to improve border management in Nicaragua. The loan signed between the Nicaraguan Ministry of Finance and the Inter-American Development Bank (IDB) includes the provision of adequate infrastructure and equipment in three border crossings and the implementation of an efficient operational border management scheme countrywide.

The EU will fund (i) the border control scheme and technological equipment in San Pancho, El Guasale, Peña Blanca border crossings; and (i) the provision of adequate infrastructure at the border crossing in San Pancho<sup>1</sup>.

The action is aligned with the 2015 Trade Facilitation and Competitiveness Strategy for Central America approved by Central American Council of Ministers of Integration, Economy and Trade in October 2015 in San Salvador. Therefore, this action represents an opportunity to increase effectiveness in border control and reduce the time and cost of transit for intra-regional trade. It will benefit the Nicaraguan economy and ultimately promote economic integration and facilitate regional trade flows throughout Central America.

*General objective:* To promote economic development by boosting Nicaragua's foreign trade competitiveness and economic performance in agricultural and agro-industrial sectors, to reduce poverty and to promote equality.

### Specific objectives

1. Implement an effective and efficient integrated border control consistent with international best practices and regional parameters.
2. Open a new trade route unlocking the south-eastern region of the country, applying state-of-the-art processes for integrated border management.

<sup>1</sup> This specific border crossing is called San Pancho on the Nicaraguan side and Las Tablillas on the Costa Rican side. As the action will develop only in Nicaragua, the border crossing is called San Pancho for the purpose of this action document.

## 1 CONTEXT

### 1.1 Sector/Country/Regional context/Thematic area

#### *1.1.1 Public Policy Assessment and EU Policy Framework*

Nicaragua's Human Development National Plan 2012-2016 sets the framework for policies in economic development, with a particular focus on micro enterprises (small family enterprises, and small farmers). Government policies in this area have helped to improve sectoral planning and donor coordination. Currently, however, one major bottleneck impairs the territorial development of the country: there exists only one trade route to and from Costa Rica and Panama, and in particular there is no direct access to the deep-sea harbour of Puerto Limón on the Atlantic coast of Costa Rica.

In June 2014, the Presidents of Central American countries instructed the Central American Council of Ministers of Integration, Economy and Trade (COMIECO) to design and implement a Trade Facilitation and Competitiveness Strategy for Central America, with a focus on coordinated border management<sup>2</sup>, which was approved in October 2015.

In line with this initiative, the Government of Nicaragua seeks to implement an integrated border management model based on international best practices with provisions for interoperability and information sharing, capable of handling rising demand due to the flow of goods and people. It is based on measures to handle border control in a coordinated manner among the national control agencies in order to reduce the time and cost of transit and ensure efficient and effective control of persons and merchandise. This model is coherent with the above regional strategy for trade integration, which eventually aims at the creation of a custom union. It will also help Nicaragua to fulfil its commitments in the context of the Trade Facilitation Agreement of the WTO.

The Nicaraguan Ministry of Finance requested the Inter-American Development Bank (IDB) to finance and manage a border integration programme in all five land border crossings of the country, including the provision of adequate infrastructure and equipment in three of them (Peña Blanca, San Pancho and El Guasaule). Costa Rica, Panama and Guatemala are currently preparing border integration programmes similar to Nicaragua's with the support of the IDB. Of the three land border crossings where infrastructure will be improved, San Pancho has the unique particularity not to be open to general trade of goods yet. The action will thus open a new trade route on the eastern shore of Lake Nicaragua.

Nicaragua signed a Memorandum of Understanding (MoU) with Costa Rica on 13 March 2015 establishing the operational model for the border crossings of San Pancho and Peña Blanca. This model includes the operational rules for the design and execution of infrastructure at the two border crossings between Nicaragua and Costa Rica (San Pancho and Peña Blanca). It is foreseen to sign a similar MoU with Honduras regarding El Guasaule border crossing and most likely regarding Las Manos and El Espino crossings.

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<sup>2</sup> Coordinated border management is the concept used by COMIECO and focusing on trade facilitation. Integrated border management is the equivalent concept in the EU, covering both trade facilitation and security. In the rest of the document, we will refer to integrated border management.

The action falls under focal sector I (support to productive sector – agriculture and agro-industry) of the EU Country Strategy Paper 2014–2020 for Nicaragua that seeks to promote the value-chain approach to foster linkages between small providers and medium and large-sized companies. Accordingly, while larger producers will benefit from opportunities opened by the EU-Central America Association Agreement, they will increase the demand for goods and services from smaller actors of the chain. As EU development cooperation focusses on the needs of these smaller producers, it will tackle factors of exclusion and barriers that prevent them to access the market, foster employment and self-employment, and ultimately reduce poverty in rural areas.

The action is also aligned with the Multiannual Indicative Regional Programme 2014–2020 for Central America as it offers an opportunity to promote economic integration and facilitate Central American regional trade flows.

### ***1.1.2 Stakeholder analysis***

The executing agency will be the Ministry of Finance (MHCP), through its General Coordination Office for Programmes and Projects (CGPP). It will be responsible for all technical, administrative, and fiduciary aspects of the national border integration programme, and will also have the technical and strategic support of appropriate government institutions for implementation.

The Ministry of Finance is responsible for approving budgets to ensure that State institutions can provide their services in accordance with public policy priorities. It is thus endowed with enough authority to coordinate the following institutions, which exercise specific controls at border crossings: the Customs Services Bureau (DGA), Ministry of Development, Industry, and Trade (MIFIC), the National Police (PN), National Army (EN), the Agricultural Health and Protection Institute (IPSA), the Immigration and Alien Registration Bureau (DGME), the Ministry of the Interior (MIGOB), and the Ministry of Health (MINSA). To strengthen institutional coordination, a Strategic Steering Committee (CDE) will be established, coordinated by the MHCP.

The CGPP has a good track record of supervising large size projects financed by multilateral banks. The IDB carried out an institutional capacity assessment of CGPP which identified a medium-to-low level of risk, thanks to mitigation measures carried out in the past (hiring of additional staff and specific training to improve performance). Admittedly, some subsisting capacity weaknesses at CGPP could negatively affect, in particular, the achievement of environmental and social objectives. Hence, the national programme contemplates a further strengthening of CGPP by bringing aboard additional qualified staff and equipment.

The action's end beneficiaries will be mainly the exporting agricultural and agro-industrial MSMEs of the south-eastern region of the country, freight transport users, and other players in the logistics chain as well as individuals who use border crossings. They will enjoy time and cost-related improvements as well as greater reliability when it comes to border control formalities and predictability.

Moreover the IDB is conducting social and environmental assessments that are expected to suggest complementary measures and improvements to help local communities to take advantage of the border opening and/or modernisation.



### ***1.1.3 Priority areas for support/problem analysis***

Generally speaking, Nicaragua's management of its border crossings is sub-standard. The shortcomings in transportation infrastructure and border crossings increase transport costs by 4% to 9%, and this erodes the country's economic performance and competitiveness.

So far, most Central American border crossings (including those in Nicaragua) operate based on a “juxtaposed model”, in which:

- Each country performs all border controls with little or no coordination with their counterparts on the other side;
- The layout and infrastructure on both sides are developed separately, which entails double investment and maintenance cost. This results in inadequate and/or poorly maintained facilities. Moreover, infrastructure limitations in any side of the border have a detrimental effect for passengers and goods traveling in both directions;
- The countries' data systems are not compatible and cannot share anticipated information that would accelerate the clearance process;
- Controls and inspections are not based on risk-analyses and are not coordinated or jointly performed;
- Socio-economic implications for communities around the border are not considered, which may ultimately hamper the efficiency and/or sustainability of the border crossing.

This type of management, combined with poor infrastructure, limits the performance of border clearance in Central America. From a public sector perspective, this situation results in higher administrative and operational costs, as well as less fiscal and security control. For the private sector, particularly for small agriculture exporters of perishable goods, the existing border controls generate delays and increased logistical costs. These inefficiencies ultimately affect the consumers in the region, who end up paying up to 11% more for intraregional traded goods (World Bank, 2013).

In order to tackle these concerns, the Government of Nicaragua requested the IDB a loan for an integrated border management programme that included both the infrastructure needs as well as an operational scheme. This loan proposal was approved by the Nicaraguan Assembly on July 13, 2015. Later in February 2016 the Nicaraguan Ministry of Foreign Affairs formally requested the EU Delegation in Nicaragua to finance a part of the border integration programme with EUR 20 million.

Nicaragua's border integration programme addresses the weaknesses of current border management practices by integrating the processes and activities of all Nicaraguan control agencies, incorporating risk management approaches, upgrading infrastructure and equipment at three border crossings, and serving the border communities. It will be implemented in two dimensions, one involving national inter-institutional coordination and the other requiring collaboration between neighbouring countries. IDB offered a similar border modernization programme to Costa Rica which is currently being discussed by the Costa Rican National Assembly.

Peña Blanca and El Guasaule border crossings are situated on the principal overland freight route in Central America. Poor condition of buildings in the primary customs zones, inadequate parking zones and obsolete equipment at the border control agencies affect the efficiency of processes and is leading to high levels of user dissatisfaction, informal economic activities and lack of security within the border crossings' premises.

San Pancho border crossing is located within the agricultural exporting route from the eastern part of Nicaragua to Puerto Limón in Costa Rica. At present, the border crossing lacks adequate physical infrastructure, functional layout and equipment as well as sufficient permanent staff. On the Nicaraguan side, the crossing of San Pancho consists of small isolated facilities serving the national border authorities (DGA, DGME, IPSA and PN). It is also equipped with a scanner for cargo trucks, a fumigation bow, an ATM and a small canteen. Las Tablillas, on the Costa Rican side, has been recently equipped with prefabricated modules, but there is a need for a logistic reorganisation, adequate equipment and sufficient permanent staff. San Pancho - Las Tablillas is currently closed to trade in goods except, on an extraordinary basis, for some dispatches of oranges and timber from Nicaragua to Costa Rica and agrochemicals and raw materials for the lumber industry in the opposite direction.

According to preliminary demand projections, upon the full opening of this border crossing to trade an approximate of 450,000 tons of merchandise; 34,000 trucks and 63,000 persons could move across the border yearly. By 2032, such figures could increase to 700,000 tons of merchandise, 52,000 trucks and 110,000 persons. Consequently, in order to make this opportunity come true and take advantage of it for the economic development of the country, there is a need to up-grade San Pancho by building suitable infrastructure and implementing efficient operations, guaranteeing the enforcement of national controls but also facilitating Nicaragua's exports.

Both countries have already invested in complementary road and bridges to open this new export route to Puerto Limón. These projects have already been completed on the Nicaraguan side (for a total cost of 91 million US dollars). The roads and bridges adapted for cargo trucks are currently being built on the Costa Rican side; works are expected to be completed by October 2018.

## 2 RISKS AND ASSUMPTIONS

Risks	Risk level	Mitigating measures
Historically, there have been political tensions between the governments of Costa Rica and Nicaragua due to territorial disputes and migration control policies. The escalation of friction due to these issues may negatively impact the political will to carry on the implementation of the national programme.	Medium	1/ A Memorandum of Understanding has already been signed by Nicaragua and Costa Rica in April 2015 for the development of border crossings of San Pancho-Las Tablillas and Peña Blanca. 2/ Binational technical commissions and committees working on practical arrangements between the two parties will be further strengthened to ensure the continuity of work at technical level.

Lack of the political will to implement regional integration initiatives and to align the border management practice to the regional trade platform developed by SIECA.	Low	The EU Delegation and IDB coordinate closely with SIECA and the private sector associations their support to the regional integration initiatives promoting the application of the integrated border management approach.
Limited institutional capacity	Medium	1/ Adequate training will be provided to officials and to the private sector to ensure proper empowerment, which should improve performance at border crossings. 2/ Additional technical staff will be hired to build up the CGPP's institutional capacity
Interagency coordination weaknesses	Medium	A programme's multisector Strategic Steering Committee will be established. The leadership of MHCP will be ensured,
Delays in preparation and execution of the environment and social management plan	Low	IDB will provide resources to build up the CGPP's institutional capacity before the start of the national programme.

#### **Assumptions**

(ii) The environmental license from the Ministry of Environment and Natural Resources has been obtained, together with the authorizations that Nicaragua's environmental legislation requires;

(iii) At least one public consultation has been held at border crossing before the launch of the works;

(iv) The road between the border crossing Las Tablillas and Puerto Limón is fully operational for cargo trucks by end 2018. So far, Costa Rica has upgraded two-thirds of the 28-km road from Vuelta Cooper to Chilamate (which represents the most critical section of the 261 kilometres from Las Tablillas to Puerto Limón) and works are expected to conclude in October 2018.

(v) The IDB loan for the Costa Rican border management programme, including the construction of a new infrastructure at Las Tablillas, is approved by the Costa Rica's legislative assembly by end 2016 and subsequently starts implementation.

### **3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES**

#### **3.1 Lessons learnt**

Coordinating control procedures between countries sharing a border has proved crucial for the improving both the efficiency and the effectiveness of border controls. Modernization of infrastructure and control systems implemented solely in one country is likely to have limited results. The proposed action benefits from the commitment of both countries to simultaneously develop an efficient scheme, coherent with the regional border and economic integration initiatives.

The EU financed regional programme *"Seguridad Fronteriza y Gestión Integrada de Fronteras"* (SEFRO) has strengthened the coordination among many border control agencies in Central America such as customs, police, army and migration offices, and confirmed the relevance of improving existing capacities and promoting dialogue among partners. The integrated border management model has brought up important benefits in terms of (i) reducing clearance time and costs and (ii) enhancing control and security enforcement.

Experience also shows that multi-country agreements in the area of trade facilitation can take a long time to achieve consensus and buy-in. In this sense, a domino effect can be achieved when a pair of countries moves forward in an initiative. The proposed action could ultimately encourage other countries in Central America to engage in border modernization based on the integrated border management framework. It aims to align individual countries to common parameters, which will ultimately facilitate the interoperability and mutual recognition of procedures - a basis for easing trade flows in a future Central American Customs Union.

The evaluations foreseen in this action will take into account the fact that the results of the action could be replicated in other countries beyond Nicaragua in order to strengthen the border modernization agenda in Central America.

### **3.2 Complementarity, synergy and donor coordination**

The Nicaraguan national programme is aligned with the regional initiatives that Central American and Mesoamerican countries have undertaken since 2014. At the request of the Heads of State and Government, expressed in the June 2014 Declaration of Punta Cana, a regional strategy for trade facilitation and competitiveness was developed with emphasis on coordinated border management. Subsequently, in the December 2014 Declaration of Placencia, instructions were issued to move ahead towards the Central American Customs Union. The integrated border management scheme in the present national programme constitutes a framework for national action to handle border control in an integrated manner among the various national control agencies. It is aligned with the above regional initiatives and promotes trade facilitation measures that will contribute to the economic integration of Nicaragua into Central American and global markets.

In the last decade, the European Union has contributed approximately EUR 50 M to a number of regional programmes aiming at increasing the efficiency of border management in Central America by standardizing customs procedures, harmonizing regulations and improving sanitary facilities. Ongoing programmes are “*Programa Regional de Apoyo a la Calidad y a la Aplicación de Medidas Sanitarias y Fitosanitarias en Centroamérica*” (PRACAMS), “*Programa Regional de Apoyo a la Integración Económica Centroamericana y a la Implementación del Acuerdo de Asociación CA – UE*” (PRAIAA); concluded programmes are “*Unión Aduanera Centroamericana*” (UAC), “*Programa de Consolidación de la Unión Aduanera Centroamericana*” (CONSUAC) and “*Seguridad Fronteriza y Gestión Integrada de Fronteras*” (SEFRO).

This proposed action will complement the EU planned programme on regional economic integration in Central America (INTEC). As a matter of fact, INTEC will modernize the regulatory framework for regional trade, support the interoperability of systems (digital platform) and strengthen the competitiveness of Central American SME's. Additionally, this action will set up the conditions at national level to enable Nicaragua to take full advantage of the digital platform. Specifically that part of INTEC is expected to be implemented through delegated cooperation with IDB, which will facilitate synergies between both actions.

This action may also facilitate Nicaraguan exports of the bovine products supported by the EU funded project "Support to Bovine Value Chain in Nicaragua", to be implemented in the Departments of Chontales and Río San Juan and the Autonomous Region of South Caribbean.

In addition, this proposed action is the missing link that will realize the full potential of the significant investments in roads and connectivity infrastructure that have been made in Nicaragua and Costa Rica border over the last years<sup>3</sup>.

### **3.3 Cross-cutting issues**

The proposed action foresees to elaborate and implement a social and environmental management plan based on the outcome of a public consultation and a socio-economic analysis, currently in progress. The public consultation has the following structure: i) description of the project; ii) description of the identified environmental and social impacts; iii) description of the proposed measures to manage these impacts; iv) description of a mechanism for processing complaints; and v) a space for receiving suggestions. The plan will include measures a) to help local communities to take advantage of the border opening, focusing on income-generating activities for local population prioritising women, and b) to mitigate possible negative impacts on the environment.

#### ***Environment:***

The action will build a new border infrastructure at a non-critical ecological area of approximately 10 hectares owned by the Nicaraguan State with little vegetation and surrounded by old pastures and citrus crops. The new construction will include infrastructure for customs, migration, and animal and plant health, among others. The environmental licenses are being requested from the Ministry of Environment and Natural Resources MARENA, as a prerequisite to start the works.

#### ***Gender:***

This action will include activities directed to the public and private sectors promoting equal opportunities for the participation of men and women. Any obstacles to the equitable participation of women and men will be addressed during implementation.

#### ***Human Rights:***

The action will benefit Nicaraguan population in that it reduces clearance time and costs and increases control and security enforcement. It is also expected to increase transparency in the clearance procedures, reduce corruption and illegal crossing of the border.

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<sup>3</sup> Nicaragua: rehabilitation of the road between San Carlos and San Pancho, including construction of the new Santa Fe Bridge over the San Juan River, 5 km North from San Pancho, financed by Japanese government; pavement of the 200 km long highway from Acoyapa to San Carlos and of the road between San Pancho and Los Chiles. Costa Rica: rehabilitation of the highway from Las Tablillas to Puerto Limón, including construction of a 27 km long highway stretch, increasing capacity of the existing cargo route and reducing the distance to the port.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results**

The general objective of the action is in line with the CSP 2014-2020 for Nicaragua:

To promote economic development by boosting Nicaragua's foreign trade competitiveness and economic performance in agricultural and agro-industrial sectors, to reduce poverty and to promote equality.

The specific objectives of the action are:

1. Implement an effective and efficient integrated border control consistent with international best practices and regional parameters.
2. Open a new trade route unlocking the south-eastern region of the country, applying state-of-the-art processes for integrated border management.

The expected results are the following:

1. All necessary data tools, control processes, operational schemes and regulatory framework to secure efficient and effective control from Nicaraguan border agencies at border crossings, including customs and phyto-sanitary, are implemented and consistent with international best practices and regional parameters.
2. The Nicaraguan border crossing San Pancho is built, equipped and operational.

### **4.2 Main activities**

Indicatively, activities will include the following:

1. Main activities relating to result 1: Effective and efficient border control.
  - 1.1. Establish a system of integrated control for freight and passengers at each crossing point<sup>4</sup>, including integrated risk management;
  - 1.2. Upgrade Nicaragua's Single Window for Foreign Trade (VUCE);
  - 1.3. Implement an interinstitutional regulatory framework<sup>5</sup> for control based on the SAFE Framework of Standards;
  - 1.4. Develop a management control system for border agencies at each crossing point;
  - 1.5. Provide each crossing point with the required technological equipment and connection to the management control system;
  - 1.6. Carry out training for private sector and public authorities in modernized border control processes.

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<sup>4</sup> San Pancho, Peña Blanca, El Guasale, possibly Las Manos and El Espino.

<sup>5</sup> The unified Central American Customs Code (CAUCA) and its regulation (RECAUCA), and other regulatory provisions governing fiscal, parafiscal and immigration controls.

2. Main activities relating to result 2: Infrastructure and equipment of San Pancho border crossing.
  - 2.1. Set up the physical and functional configuration of the border crossing and make the engineering designs;
  - 2.2. Carry out ground preparation and/or improvement and infrastructure refurbishing, including any demolition required;
  - 2.3. Construction of buildings, roads, parking lots and inspection areas;
  - 2.4. Equipment for basic services such as drinking water, power, and telecommunications;
  - 2.5. Installation of nonintrusive control devices and of management stations;
  - 2.6. Technical and environmental supervision of works;
  - 2.7. Implementation of social and environmental management plan.

Additionally the action will include activities related to programme management, monitoring, evaluation and audit as well as communication with beneficiaries and impacted populations.

### **4.3 Intervention logic**

The action aims at promoting Nicaragua's competitiveness and productivity via a two-fold strategy: on one hand it will increase the opportunities for Nicaraguan producers to access intra-regional and international markets and generate income; on the other, it will strengthen the capacity of national institutions and implement physical and regulatory systems to deliver a sound integrated border management consistent with regional parameters. The action will ultimately promote economic integration and facilitate regional trade flows in Central America.

The first result entails activities related to (i) integrated control of freight and passengers at border crossings, including integrated risk management, the second phase of the Nicaragua's VUCE, and the implementation of a regulatory framework for control based on international standards; (ii) technological equipment of border crossings and connection to management control system; and (iii) training for private sector and public authorities in modernized border control processes.

Activities carried out under the second result relate to the construction and equipment of the necessary facilities at border crossing San Pancho. Intensive use of technology will ensure a strict enforcement of migration controls as well as phytosanitary, zoosanitary and consumer safety or other specific controls, as established in the international protocols, standards and conventions in each particular area. The management control system and the logistic set up will guarantee that users may exit the border station premises only after the specific inspections have been conducted and they have been cleared to continue their journey. A social and environmental management plan will be elaborated and implemented, based on outcomes of a public consultation and a socio-economic analysis. The latter may include measures to capitalize the opening of the San Pancho border crossing by local communities and producers with emphasis on women. Indicatively, it may include: a local products market, or an export promotion centre, and/or support services for migrants.

After completion of the above activities (i) Nicaragua will have all necessary data tools, control processes and regulatory framework to secure efficient and effective control at border crossings and (ii) the border crossing of San Pancho will have the adequate infrastructure and equipment for performing an efficient border control.

It is expected that all these outcomes will ultimately enhance the sustainable productivity and competitiveness of agricultural and agro-industrial MSMEs in Nicaragua, due to:

- i. Reduced transport costs for Nicaraguan exports and imports from Costa Rica and those that are shipped through Puerto Limón in Costa Rica to/from international markets, due to shorter travelling distances in comparison to the crossing Peña Blanca.
- ii. Improved fiscal, phyto-sanitary, migration and security control for the movement of goods and people between Nicaragua and Costa Rica.
- iii. Creation of new sources of income for rural communities located close to the border crossing, who exhibit lower levels of development in comparison to the countries' average.
- iv. Increased tourism in the border regions.
- v. Reduced clearance times in Peña Blanca border crossing for both binational and regional transit thanks to reduced flow of cargo trucks in that border crossing.
- vi. Taking full advantage of the road infrastructure and connectivity investments that have been recently implemented in the area

Furthermore, the EU funds would leverage IDB resources to be used for the modernisation of the remaining land border crossings (Las Manos and El Espino) thereby including all five land border crossings of Nicaragua in the national programme.

## **5 IMPLEMENTATION**

### **5.1 Financing agreement**

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of adoption by the Commission of this Action Document.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

### **5.3 Implementation modalities**

#### **5.3.1 Indirect management with IDB**

The action may be implemented in indirect management with Inter-American Development Bank - IDB in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails investments in infrastructure and equipment at border crossing San Pancho and the establishment of effective and efficient control processes.



This implementation is justified because of the technical and administrative competence that IDB possesses. The IDB Transport Division and its Integration and Trade Sector designed an integrated border management model addressing challenges that border controls represent for trade and movement of people and goods in Central America. In the last years, IDB has executed border crossing operations in Costa Rica, Ecuador, and Guatemala. It has also conducted studies on the physical and operational aspects of border crossings in the region. In addition, IDB is currently financing the implementation of medium and long-term measures of the Trade Facilitation Strategy in a number of Central American countries, which entail substantive reforms in border infrastructure and procedures.

The entrusted entity would carry out the following budget-implementation tasks: administrative management of the programme, procurement of services and goods, award grants, monitoring, communication, visibility, evaluation and audit.

### **5.3.2 Changes from indirect to direct management mode due to exceptional circumstances**

The Commission, in consultation with the Government of Nicaragua, may change the implementation modality of one or more component of the action, to direct management mode, when the preferred modality (indirect management with IDB) cannot be performed due to circumstances beyond the control of the Commission.

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Border crossing San Pancho infrastructure	Works	2	1-2018
Border crossing San Pancho equipment	Supplies	1	2-2018
Effective and efficient border control	Services	2	1-2017
Overall management and M&E	Services	1	1-2017

## **5.4 Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply. Any event, goods, organisations, companies and experts eligible under the applicable regulatory provisions of the European Union, shall be eligible for any activity funded by the EU.

## **5.5 Indicative budget**

**Estimated EU contribution:** EUR 20 million

<b>Indicative budget</b>	<b>EUR million</b>
Component 1. Effective and efficient border control	7.7
Component 2. Border crossing San Pancho	10.5
Direct management costs	0.5
Communication	0.2
5.8% fee for budget administration	1.1
<b>Total (indirect management with IDB)</b>	<b>20.0</b>

The other part of the national programme is financed by an IDB loan for an amount of EUR 50.0 M (USD 55.0 M) and co-financed in parallel by the Government of Nicaragua for an amount of EUR 2.45 M (USD 2.7 M). IDB is committed to a co-financing amount that will be defined in the Delegation Agreement with the European Union.

## **5.6 Organisational set-up and responsibilities**

The budget administration of the EU funds will be under the responsibility of the IDB who will supervise and monitor implementation by national institutions (executing agencies). Each executing agency will implement the corresponding activities directly through its own organisational structure. When needed, inter institutional agreements will be signed.

The national executing agency of the whole national programme is the Ministry of Finance (MHCP), through its General Coordination Office for Programmes and Projects (CGPP) strengthened with technical personnel for the execution of funds. The CGPP is responsible for all technical, administrative, and fiduciary aspects of the programme: (i) preparation of terms of reference, bidding documents, evaluation reports and other procurement-related documentation; (ii) elaboration of reports requested by the Monitoring and Evaluation Plan; (iii) monitoring of the programme; (iv) financial supervision and contracting the programme auditors; and (v) processing the environmental authorizations for tendering and execution of works. It will have to comply with the programme Operating Regulations.

The following institutions which exercise specific controls at border crossings will be also involved in the programme execution:

- Customs Services Bureau (DGA) and the Ministry of the Interior (MIGOB) will implement activities related to customs and migration control;
- Ministry of Development, Industry, and Trade (MIFIC) will implement the second phase of the VUCEN and will participate in its installation at border crossings;
- Agricultural Health and Protection Institute (IPSA) will implement SPS activities related to VUCEN at border crossings; and
- the National Police (PN) and Army (EN) will coordinate on security issues.

To strengthen institutional coordination and plan and supervise the implementation of the whole national programme, a Steering Committee (CDE) will be established. It will be coordinated by the MHCP and comprising, among others: DGA, MIFIC, MIGOB, MINSA, IPSA, PN as well as IDB and the EU Delegation to Nicaragua. CDE could invite to its meeting representatives of other institutions involved in the programme. The strategic functions of the CDE will be defined in the Operating Regulations and would include, among

others, validation of the strategic plan and the work schedules, validation of the specifications and design of works and systems, overall monitoring of the works, and review of the product acceptance and processes. CDE will meet at least twice a year, and as much as necessary.

## **5.7 Performance monitoring and reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the IDB's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and a final report. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.8 Evaluation**

Having regard to the importance of the action, at least one final evaluation will be carried out for this action or its components via independent consultants contracted by IDB.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the results of this action could be used for countries beyond Nicaragua and further border modernization in Central America.

The IDB will need the approval from the Commission and the Government of Nicaragua, regarding the terms of reference of the evaluation. In addition, the implementing partner shall inform the national institutions at least 30 days in advance of the dates foreseen for the evaluation missions. The national institutions shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

## **5.9 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing decision.

## **5.10 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation. Communication activities will be supported with the budget indicated in section 5.5 above. Visibility activities will be covered by the support measures of the MIP Nicaragua.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

## APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) <sup>6</sup>

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To promote economic development by boosting Nicaragua's foreign trade competitiveness and economic performance in agricultural and agro-industrial sectors, to reduce poverty and to promote equality.	1. Average Global Competitiveness Score**	1. 3.8 (2015)	1. 4.1 (2020)	World Economic Forum (WEF) Global Competitiveness Report	
		2. Customs procedures efficiency index	2. 3.1 (2015)	2. 4.2 (2020)		
Specific objective(s): Outcome(s)	1. Implement an effective and efficient integrated border control consistent with international best practices and regional parameters.	1.1 Percentage of technical notes transmitted via the VUCEN platform	1.1.1 Export: 0 (2015) 1.1.2 Import: 0 (2015)	1.1.1 Export: 100% (2020) 1.1.2 Import: 100% (2020)	VUCEN Statistics	VUCEN set up and functioning
		1.2 Average transit time for passengers (minutes / passenger)	1.2.1 Direction NI-CR n/a 1.2.2 Direction CR-NI n/a	1.2.1 9.40 1.2.2 9.68	Management control system	

<sup>6</sup> Mark indicators aligned with the relevant programming document mark with '\*' and indicators aligned to the EU Results Framework with '\*\*'.

	2. Open a new trade route unlocking the South-Eastern region of the country, applying state-of-the-art processes for integrated border management.	2.1 NI exports to CR (tons/year)	2.1 256.791 (2015)	2.1 317.266 (2020)	SIECA Trade Information	
Outputs	1. All necessary data tools, control processes, operational schemes and regulatory framework to secure efficient and effective control from Nicaraguan Border Agencies at border crossings, including customs and phyto-sanitary, are implemented and consistent with international best practices and regional parameters.	1.1 Status of Risk Management System	1.1 Risk management system not in place	1.1 Risk management system coordinated and implemented at the border agency (2020)	1.1 Executing agency report	Current regulations updated with best practices on trade facilitation
		1.2 Status of VUCEN	1.2 VUCEN phase one in need of upgrading (2015)	1.2 VUCEN upgraded and integrates the recording systems of every state agency involved (2020)	1.2 Executing agency report	VUCEN set up and functioning
		1.3 Number of officials and/or operators trained in handling new management and control systems and processes (VUCEN) by sex	1.3 Women 0 (2015)  Men 0 (2015)	1.3 Women 75 (2020)  Men 75 (2020)	1.3 Executing agency report	
		1.4 Number of public trade officials and private entrepreneurs trained in trade and investment by sex	1.4 Women 0 (2015)  Men 0 (2015)	1.4 Women 300 (2020)  Men 300 (2020)	1.4 Executing agency report	

	2. The Nicaraguan border crossing San Pancho is built, equipped and operational.	2.1 Status of San Pancho border crossing regarding infrastructure and equipment	2.1 Border crossing partially built, equipped and operational for exceptional dispatches (2015)	2.2 Border crossing built, equipped and fully operational (2020)	Executing agency report	Automated control centres, laboratories, and other control means installed and service teams functioning.
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