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PROGRESS REPORT: E-COMMERCE ACTIVITY WITH CENPROMYPE

PHASE I SAF-DE TRADE LOGISTICS DIAGNOSTIC IN EL SALVADOR, GUATEMALA AND HONDURAS

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CONTENTS

ACRONYMS	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
PROGRESS-TO-DATE	8
IMPLEMENTATION PLAN: PHASE I (MILESTONES)	8
INITIAL BENCHMARKING DATA	10
TECHNOLOGY AND E-COMMERCE	10
TRANSPORT AND LOGISTICS	12
TRADE AND ENABLING ENVIRONMENT	13
LINKING TO SAF-DE TRADE LOGISTICS CHECKLIST	15
CONCLUSION AND NEXT STEPS	17
ANNEX – SAF-DE TRADE LOGISTICS CHECKLIST	18

ACRONYMS

Acronyms	English	Spanish
CENPROMYPE	Regional Center for the Promotion of Micro, Small-, and Medium-sized Enterprises	El Centro Regional de Promoción de la Micro, Pequeña y Mediana Empresa
CAUCA	Central American Uniform Customs Code	Código Aduanero Uniforme Centroamericano
GDP	Gross Domestic Product	Producto Interno Bruto
FDI	Foreign Direct Investment	Inversión Extranjera Directa
FYDUCA	Central American Invoice and Single Declaration	Factura y Declaración Única Centroamericana
ICT	Information and Communications Technology	Tecnologías de la Información y la Comunicación
ITU	International Telecommunications Union	Unión Internacional de Telecomunicaciones
MSMEs	Micro, Small-, and Medium-sized Enterprises	Micro, Pequeña y Mediana Empresa
SAF-DE	USAID's Systems Analytic Framework for the Digital Economy	Marco analítico de sistemas para la economía digital de USAID
TFA	Trade Facilitation Agreement	Acuerdo de Facilitación de Comercio
TFB	USAID Regional Trade Facilitation and Border Management Project	Proyecto Regional de USAID de Facilitación de Comercio y Gestión de Fronteras
UNCTAD	United Nations Conference on Trade and Development	Conferencia de las Naciones Unidas sobre Comercio y Desarrollo
USAID	United States Agency for International Development	Agencia de los Estados Unidos para el Desarrollo Internacional
VAT	Value Added Tax	Impuesto sobre el Valor Agregado
WCO	World Customs Organization	Organización Mundial del Comercio

EXECUTIVE SUMMARY

Facilitating e-commerce and digital trade has become an increasingly important part of the growth strategy for Central American economies in recent years. With the onset of the global pandemic and the resulting economic setbacks, digital trade and the ecosystems that support e-commerce are even more relevant especially as firms, governments, and consumers look for safer ways to conduct business. While progress towards identifying and strengthening these ecosystems in Central America has been achieved at the regional level by country governments and by private sector actors and other stakeholders within these countries, much work remains to be done.

Recognizing the importance of promoting e-commerce and digital trade in El Salvador, Guatemala, and Honduras (herein after “the three countries”), the United States Agency for International Development (USAID) approved an e-commerce initiative as part of the Year 3 workplan for its Regional Trade Facilitation and Border Management Project (‘TFB’), implemented by Nathan Associates, Inc. Throughout implementation, TFB will work closely with the Regional Center for the Promotion of Micro, Small-, and Medium-sized Enterprises (CENPROMYPE) to implement a program in three phases aimed at facilitating the growth of e-commerce and digital trade, initially focusing on the trade logistics pillar. Phase I of the initiative, a deep dive report examining policy considerations, legal foundations, core institutions, key stakeholders, and quantitative indicators in the trade logistics environment, began in May 2021.

Progress-to-date includes a review of existing reports, studies, and research to collect relevant data (including national statistics and international benchmarks) related to trade logistics in Guatemala, Honduras, El Salvador, and Central America more broadly. Inefficiencies in transport and logistics have a disproportionate impact on micro-, small-, and medium-sized enterprises (MSMEs). MSMEs are the engine of growth for developing economies, including in the three countries. In El Salvador, they comprise nearly all businesses, employ two-thirds of the population, and generate 35 percent of Gross Domestic Product (GDP). MSMEs generate 40 percent of GDP and employ 75 percent of workers in Guatemala, and account for 70 percent of jobs in Honduras. Facilitating cross-border trade through more streamlined processes, greater accountability and more regular public-private feedback channels is critical to link these growing businesses to consumers in international markets.

As of 2019, 65 percent of the population in Guatemala, 34 percent of the population in El Salvador, and 32 percent of the Honduran population had access to the Internet. But each country performed relatively poorly on international indices measuring Information and Communications Technology (ICT) readiness and uptake, including on the potential to benefit from e-commerce. Related to trade and logistics, the World Bank’s Logistics Performance Index (LPI) is a commonly used benchmark for international comparisons. In 2018, the three countries ranked relatively low among the 160 economies in the index. Honduras was highest at 93, El Salvador was ranked 101, and Guatemala was closer to the bottom at 125. The World Bank’s *Doing Business* Report measures progress in 12 areas of business regulation across 190 economies. In 2020, the results were similar to the LPI: El Salvador ranked highest at 91, with Guatemala closely behind at 96 and Honduras lower down at 133. These figures provide some initial context for the activity. TFB will continue to dig deeper into the factors driving this level of performance across each country in the coming months.

During May and June, the team also solicited applications for a set of local experts on e-commerce and trade facilitation and legal/regulatory matters to assist with the next stage of the activity, which involves

stakeholder outreach and interviews of key actors in government, business advocacy groups, private sector enterprises, logistics providers, lawmakers, and universities or training institutions, as appropriate, among others.

The initial data and benchmarking presented in this report will guide preparations for the next stage of work under Phase I. Once the local consultants are approved by USAID, the team will accelerate preparations for field work with local stakeholders. This will include continuing to compile and review desk research, triangulating data and analysis from international, regional, and national organizations, donors, etc., finalizing the list of key contacts and institutions in each country, finetuning the targeted socialization materials, and beginning outreach to set up meetings for mid-to-late July through early to mid-August.

Due to the differing conditions in each country, the approach to stakeholder engagement will be adjusted to the national context. The team will seek to prioritize engagement with “anchor” stakeholders with relationships and sufficient influence to ensure the widest possible participation by public and private sector representatives. The team will also consider whether it would make sense to separate various actors or institutions during interviews for the purposes of ensuring candid conversations (i.e., in some countries it may be wisest to separate firms from government officials, and both from other professionals like lawyers).

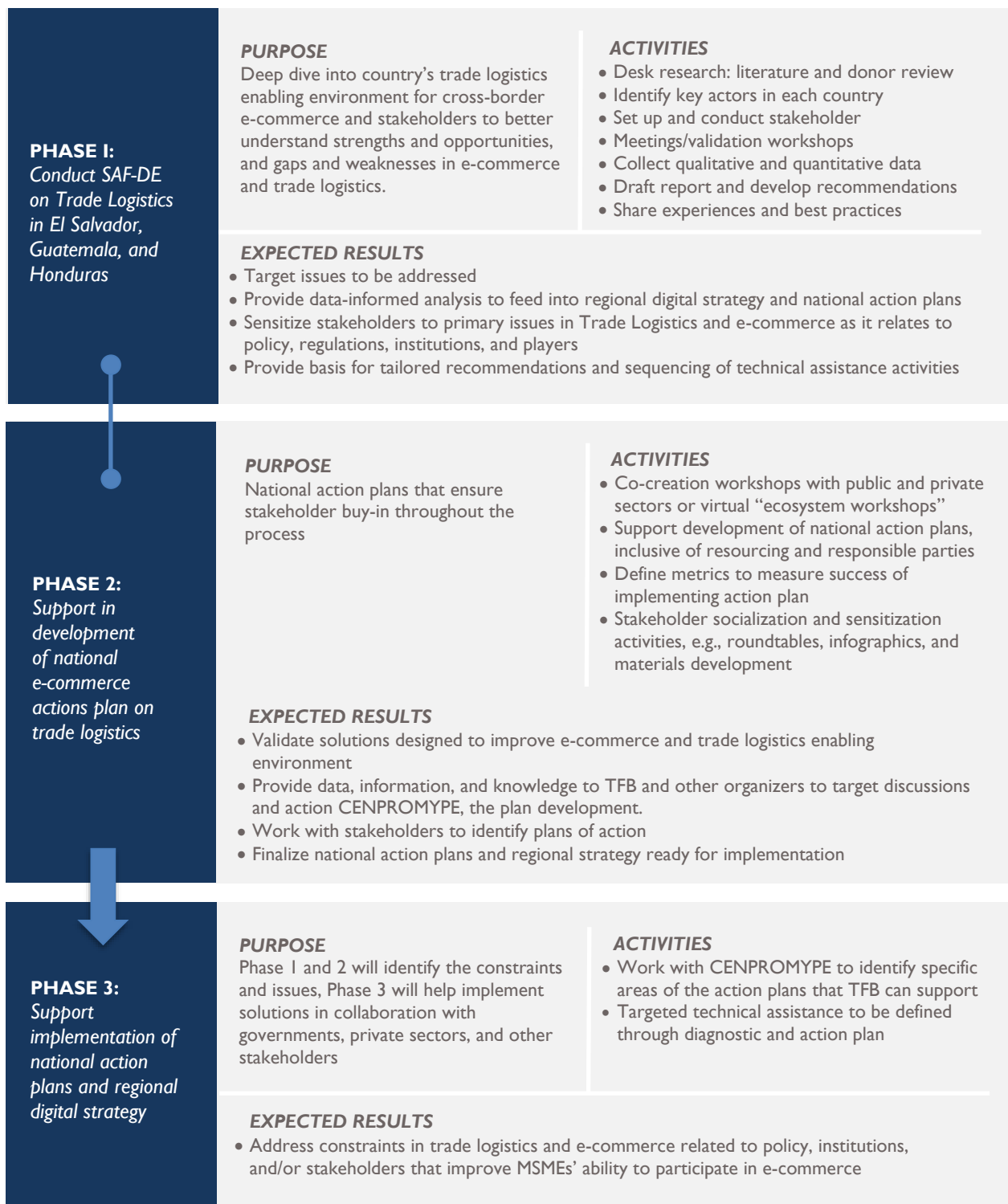
INTRODUCTION

The USAID Regional Trade Facilitation and Border Management Project (TFB) seeks to strengthen trade-related capacity and competitiveness among Central American countries. The Project supports the implementation of key elements within the framework of the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO); the Process of Deep Integration toward the Free Transport of Merchandise and Persons between the Republics of El Salvador, Guatemala, and Honduras; and the Central American Strategy for Trade Facilitation and Competitiveness. TFB works with key national and regional institutions such as Customs Agencies and Ministries of Economy, Health, and Agriculture of El Salvador, Guatemala, and Honduras, as well as private sector organizations and companies in the three countries.

CENPROMYPE, the Regional Center for the Promotion of Micro, Small-, and Medium-sized Enterprises (MSMEs), is in the process of developing a regional digital strategy (covering Costa Rica, El Salvador, Guatemala, Honduras, and Panama) to promote e-commerce development, particularly for MSMEs. Central to CENPROMYPE's approach is working with national governments to develop country-level strategies aimed at improving the public policy framework and strengthening institutional capacities while fostering skills development in MSMEs.

In late 2020, TFB developed a concept note that laid out a proposal to collaborate with CENPROMYPE to undertake detailed stakeholder analyses on e-commerce and trade logistics. TFB will work closely with CENPROMYPE throughout the implementation of the technical assistance activity, which will be carried out in three phases: 1) undertake a diagnostic assessment focusing on Trade Logistics-related aspects of e-commerce development; 2) support the development of national e-commerce action plans on trade logistics; and 3) support implementation of priority action plans on trade logistics and e-commerce. See Figure I for more detail on purpose, activities, and expected results for each phase.

FIGURE I. IMPLEMENTATION PHASES OF TECHNICAL ASSISTANCE



Phase I will use USAID’s Systems Analytic Framework for the Digital Economy (SAF-DE) methodology (inclusive of the Trade Logistics checklist) as the guiding framework for the analysis.¹ The goal of the SAF-DE is to support national stakeholders and CENPROMYPE gather data and conduct analysis needed to design regional and country-level strategies to harness the potential of e-commerce, thus resulting in broad-based economic growth. As noted in Figure I, Phase I will consist of several tasks.

Data Collection and Literature and Donor Review. The team will

- Review existing reports, studies, and research from multilateral organizations as well as current donor (bilateral and regional) projects working on digital economy and trade logistics issues, the latter of which to avoid any redundancies;
- Collect relevant data and reporting, e.g., from national statistics, World Bank logistics performance index, OECD’s going digital, World Customs Organization, etc.;
- Identify and validate a list of key stakeholders (e.g., government regulators, ministries/agencies, lawmakers, business advocacy groups, private sector enterprises, MSME’s, logistics providers, and training institutions as appropriate), among other things; and
- Examine key policies, regulations, strategies and/or programs related to trade logistics in Guatemala, Honduras, and El Salvador, as well as existing regional instruments for Central America (for example, the Central American trade facilitation strategy, CAUCA and RECAUCA, etc.), and international instruments such as the WTO Trade Facilitation Agreement (TFA).

Coordination and integration of key stakeholders. Strategic coordination with key stakeholders is essential to obtaining buy-in and sustainability of reform efforts. The team will determine coordination efforts at the outset of Phase I and adjust coordination mechanisms to fit the dynamics of El Salvador, Guatemala, and Honduras to ensure the participation from the private sector, government agencies, and regional organizations. The team will work closely with CENPROMYPE and the TFB’s country representatives to develop and vet the coordination approaches at the beginning of the activity, and will seek to use existing structures, e.g., National Trade Facilitation Committees, or if appropriate, create an ad-hoc group.

‘Deep dive’ using Trade Logistics checklist. The team will

- Carry out diagnostic activities examining key policy considerations, legal foundations, core institutions, stakeholders (e.g., key organizations such as chambers of commerce, trade and professional associations, women’s business organizations, universities, training academies, think tanks, etc.), political economy analysis, and quantitative indicators; and
- Produce a summary report reflecting the analysis of specific laws, regulations, institutions and political economy considerations and include tailored recommendations aimed at addressing

¹ The SAF-DE is a diagnostic tool that takes a rapid “snapshot” of the enabling environment for digital trade and helps stakeholders to create an agenda for capturing opportunities and addressing constraints. “Trade logistics” refers to the various phases of cross-border delivery of goods purchased through digital transactions (transport and shipping; crossing the border/clearing Customs; delivery to the end-user; and facilitating product returns).

issues impacting a range of stakeholders, both for the 3 beneficiary countries as for integration of online trade in Central America.

The final report will be action-oriented towards stakeholders, setting out details and concepts that could be presented to the coordinating group (as identified in CENPROMYPE's five phased approach to developing the national action plans and regional digital strategy), and help inform content for the virtual planning sessions discussed under Phase 2 of the activity.

Framing recommendations. The team will use the results of the data collection and desk review, coordination and validation with stakeholders, and the deep dive into trade logistics checklist to develop recommendations. The report will identify existing constraints, both national and regional (of C.A.), including how these constraints can be avoided, addressed or overcome. Recommendations will prioritize issues and provide examples of reform models that can foster changes, e.g., best practices in other countries, using internationally accepted standards, but that can be adapted to meet the economic and cultural circumstances in the El Salvador, Guatemala, and Honduras. Specific recommendations will be aimed at having a Central American market more integrated and harmonized in its rules, as well as promoting a more integrated approach for digital and physical commerce.

PROGRESS-TO-DATE

TFB began work on Phase I in late May 2021. Work to-date comprises preparation needed to lay the groundwork for field-based interviews and data gathering efforts, which will begin in July, and includes initial data collection, desk research and review of existing reports, studies, and research, along with current donor projects operating in the region. In parallel, TFB developed job descriptions for local consultants (in each of the three countries) with expertise in trade facilitation, logistics, e-commerce, and legal/regulatory issues, and solicited and reviewed applications, held interviews, and followed up with qualified candidates. Once candidates have been approved by USAID, they will help to finetune the list of key stakeholders and points of contact in each country; assist with setting up meetings; provide input into the list of interview questions tailored to each stakeholder; and review outreach materials developed by TFB (providing a short explanation of the project and the activity and inviting recipients to participate).

IMPLEMENTATION PLAN: PHASE I (MILESTONES)

Tasks	Outputs	Responsible	Illustrative Timeframe
Local consultants approved and onboarded		Country Managers, Home Office (HO)	Assume interviews through mid-June; submitted to USAID for approval by end of June; approved by mid-to-late July
Desk research	Identify key challenges and emerging trends related to e-commerce and trade logistics	HO	June/July
Identify key stakeholders (institutions, providers, users)	List of stakeholders and POCs with contact information by country	HO to start, then Country Managers and local consultants	June/July
Develop outreach materials	Short explanation of the project and activity and invitation to participate (Spanish and English)	HO, with input from Country Managers	June/July
Set up meetings	Meeting agenda with organization/institution, POC, contact information	Local consultants and Country Managers	June/July
Develop list of interview questions	List of questions tailored to the context/circumstances of each interviewee	HO, with input from local consultants	By week of July 11
Field work	Meeting notes and general observations/key takeaways/identification of key themes from interviews, etc.	Local consultants, with remote support from HO and in country support from Country Managers	3 - 4 weeks (Weeks of July 18, 25 and August 8, 15)
Draft report		Local consultants, with support from HO	Weeks of August 15, 22, 29

Review report and provide feedback		HO and Country Managers	Weeks of September 6, 13
Prepare materials for validation workshop	PowerPoint presentation with key findings/recommendations	Local consultants, with input from HO	Week of September 27
Lead validation workshop	Take notes for further consideration/incorporation into final report	Local consultants, with input from Country Managers	Weeks of October 4, 11
Finalize report		Local consultants and HO	By October 29, 2021

INITIAL BENCHMARKING DATA

Inefficiencies in transport and logistics have a disproportionate impact on micro-, small-, and medium-sized enterprises (MSMEs). MSMEs are the engine of growth for developing economies, including in El Salvador, Guatemala, and Honduras. In El Salvador, they comprise nearly all businesses, employ two-thirds of the population, and generate 35 percent of Gross Domestic Product (GDP).² MSMEs generate 40 percent of GDP and employ 75 percent of workers in Guatemala,³ and account for 70 percent of jobs in Honduras.⁴ Facilitating cross-border trade through more streamlined processes, greater accountability and more regular public-private feedback channels is critical to link these growing businesses to consumers in international markets.

SMEs in the Central America have identified Customs and border procedures as a general barrier to doing business. A 2019 survey of 2,000 firms in five countries in Latin America found that Customs and international delivery costs were the top challenges for companies of all sizes engaging in e-commerce, especially SMEs. The survey was developed into a report for CENPROMYPE highlighting key bottlenecks and challenges to cross-border trade in Central America. In particular, the report found that SMEs face significant barriers to moving packages into and out of countries. Complex customs requirements, convoluted import and export procedures, and changing government rules have led to cross-border e-commerce shipments that are costly, time-consuming, and poorly integrated into the domestic shipping market. In turn, frictions associated with logistics are critical factors for trade of small packages (essentially a category of trade developed by SMEs), as they do not have the size, resources, or administrative capacity to navigate legal and regulatory issues in multiple jurisdictions. However, the report was less specific about the causes of these pain points or how best to address them. Since the global pandemic hit, the region has seen significant increases in online sales. But that has created new challenges: increased delivery times; lack of reliable suppliers; and difficulties in using e-commerce marketplaces. These logistical issues also affect buyers. According to a survey of 1,000 Latin American consumers, challenges to e-commerce include long delivery times (more than two weeks) and dramatic differences in delivery costs from domestic vs. international suppliers.

TECHNOLOGY AND E-COMMERCE

As of 2019, 65 percent of the population in Guatemala (10.8 million out of 16.6 million), 34 percent of the population in El Salvador (2.2 million out of 6.5 million), and 32 percent of the Honduran population had access to the Internet (3.1 million out of 9.7 million). Related to trade logistics, on a scale of 0 to 100 (with 100 being best) the global average for postal services was 43.4. The postal service in Honduras compared favorably with a rating of 53.9, while the 28.9 rating for El Salvador was significantly below that benchmark. Clearing direct exports through Customs is fairly efficient in the region – it takes 2.9

² According to the Superintendency of Competition, MSMEs comprise 99.3 percent of businesses in El Salvador.







<https://www.iadb.org/en/news/el-salvador-will-boost-credit-micro-and-small-businesses-idb-support>

³ <https://www.cuinsight.com/an-innovative-strategy-for-digital-sme-lending-in-guatemala.html>

⁴ <https://www.iadb.org/en/news/idb-supports-sustainability-msmes-honduras-face-covid-19-crisis>

days in El Salvador, 3.8 days in Honduras, and 4.7 days in Guatemala, compared with 7.6 days for the global average.

FIGURE 2. STATISTICS ON TECHNOLOGY AND E-COMMERCE

	 EL SALVADOR	 GUATEMALA	 HONDURAS
 Population with access to internet	34 percent (2.2 million out of 6.5 million)	65 percent (10.8 million out of 16.6 million)	32 percent (3.1 million out of 9.7 million)
 Postal reliability index	28.9 rating (1 to 100 scale)	N/A	53.9 rating (1 to 100 scale)
 Clearing exports through Customs	2.9 days on average	4.7 days on average	3.8 days on average

Source: eTradeForAll.org Country Profiles for El Salvador, Guatemala, and Honduras (generated in March 2021).

In terms of global e-commerce, the three countries performed relatively poorly on common indices.

- Out of 176 economies in the International Telecommunications Union (ITU) ICT Development Index, El Salvador ranked 119, Guatemala ranked 125, and Honduras ranked 129. The ICT Development Index is a composite of 11 indicators designed to measure ICT readiness (infrastructure and access), ICT intensity (level of use in the country), and ICT impact (capability and skills).
- Out of 134 economies in the World Economic Forum’s Networked Readiness Index, El Salvador ranked 95, Honduras ranked 102, and Guatemala ranked 106. The Networked Readiness Index assess how Information and Communications Technology (ICT) affects national competitiveness. It measures the market, legal, political, and regulatory environment for ICT; the readiness of key stakeholders (public and private) to use ICT; and the level of ICT usage in the economy.
- Out of 152 economies on the UNCTAD B2C e-commerce index, Honduras ranked 98, El Salvador ranked 106, and Guatemala ranked 108. The B2C e-commerce index gauges a country’s readiness to engage in and benefit from e-commerce by measuring its preparedness to support online shopping.⁵

⁵ The B2C e-commerce index is calculated as the average of four indicators: financial account ownership (including mobile money); percent of population using the Internet; postal reliability index; and secure Internet servers (per 1 million people).

With respect to existing legal and regulatory frameworks, Honduras had legislation in place in four critical areas for the digital economy: electronic transactions, consumer protection, cybercrime, and privacy and data protection. Guatemala and El Salvador have legislation in place in the first three areas. When it comes to privacy and data protection, El Salvador has draft legislation and Guatemala has no legislation.⁶

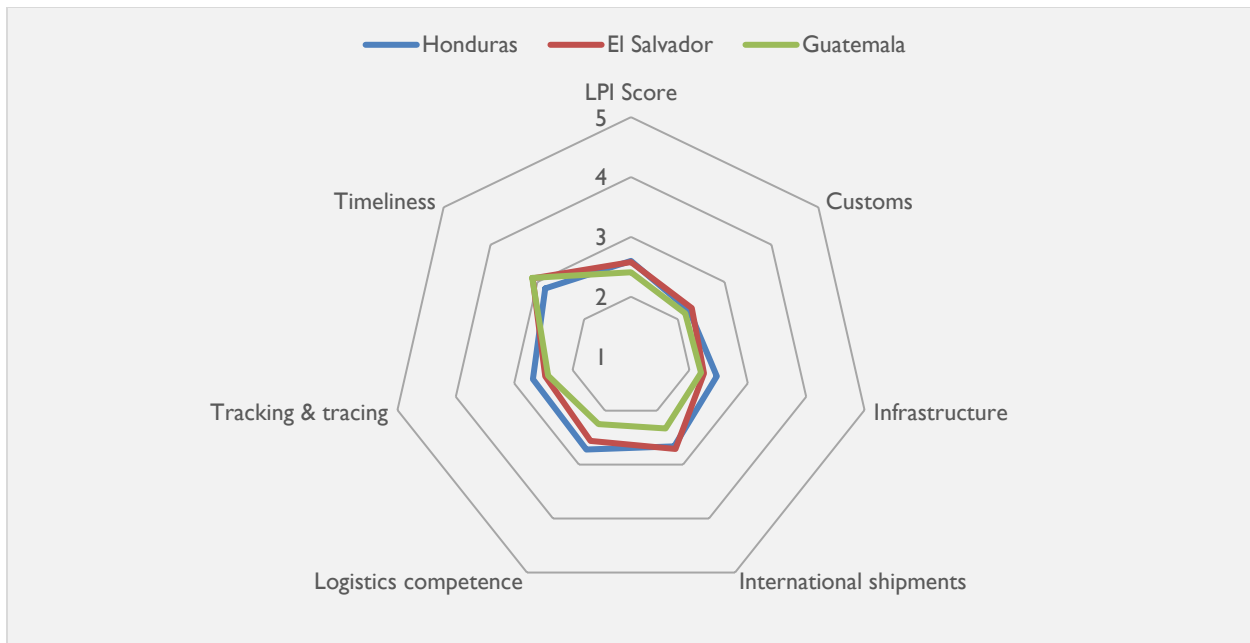
TRANSPORT AND LOGISTICS

The World Bank's Logistics Performance Index (LPI) is a commonly used benchmark for international comparisons on trade and logistics. Each country's LPI ranking is the weighted average of the country's scores across six dimensions: (1) Efficiency of the clearance process by border control agencies (including Customs); (2) the quality of trade- and transport-related infrastructure; (3) ease of arranging competitively priced shipments; (4) competence and quality of logistics services; (5) ability to track and trace consignments; and (6) timeliness of shipments in reaching destinations within the scheduled or expected delivery time.

In 2018, the three countries ranked relatively low among the 160 economies in the index. Honduras was highest at 93, El Salvador was ranked 101, and Guatemala was closer to the bottom at 125. Between 2012 and 2018, Honduras steadily improved its logistics competence, which is reflected in the 2018 ranking. Over this same period, El Salvador and Guatemala both experienced backslides. Each peaked in 2014 (at 66 for El Salvador and 77 for Guatemala), and have deteriorated since then. In 2018, all three countries performed best on timeliness and worst on Customs (Figure 3).

⁶ eTradeForAll.org Country Profiles for El Salvador, Guatemala, and Honduras (generated in March 2021).

FIGURE 3. 2018 LPI SCORES FOR HONDURAS, EL SALVADOR, AND GUATEMALA BY DIMENSION



Source: World Bank Logistics Performance Index Country Scorecards.

TRADE AND ENABLING ENVIRONMENT

The World Bank’s *Doing Business* Report measures progress across 12 areas of business regulation. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency—are included in the ease of doing business score and ease of doing business ranking.⁷

For the 2020 edition of *Doing Business*, no Latin American economies ranked in the top 50 (out of a total of 190 economies). In the three countries, El Salvador ranked 91, with Guatemala closely behind at 96 and Honduras at 133. The report highlighted several positive developments in the region in 2020.

Honduras reduced the notary fees for a business to prepare articles of incorporation, thus lowering the cost of starting a business. El Salvador made it easier to get electricity, by accepting electrical plans at the same time as connection requests.⁸

The Trading Across Borders indicator measures the time and cost to export and import a standard shipment. A country’s performance is measured against regulatory best practices, with 0 representing

⁷ *Doing Business* also measures regulations on employing workers and contracting with the government, which are not included in the ease of doing business score or ranking.

⁸ El Salvador received a *Doing Business* score of 65.3; Guatemala received a score of 62.6; and Honduras received a score of 56.3 in 2020. <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf>

the lowest and 100 representing the highest level of performance. The three countries had no change in their performance between 2019 and 2020. Consistent with the overall Doing Business rankings, El Salvador performed the best (scoring 89.8 in both years); Guatemala was slightly lower at 77.2 (in both years); and Honduras scored 64.3 (in both years). By this measure, Honduras fell below the regional average for trading across borders (which declined slightly from 69.2 in 2019 to 69.1 in 2020) for Latin America and the Caribbean.

El Salvador, Guatemala, and Honduras have ratified the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) and submitted notifications on the status of each country's implementation of provisions. The TFA adopted an innovative implementation approach, allowing developing countries to request more time and technical assistance to implement various provisions of the agreement. Each country submitted an implementation schedule categorizing each provision of the Agreement and notifying other members of the WTO of these commitments:

- Category A for those provisions which could be implemented once the agreement entered into force (in February 2017) or one year later (for Least Developed Countries);
- Category B for those provisions that will be implemented after a transition period, but with no external assistance; and
- Category C for those provisions which will require additional time to implement and technical assistance/capacity building support from developed countries.

The TFA is relatively broad, covering many aspects related to expediting the movement, release, and clearance of goods as well as coordination between Customs and other border agencies and international customs cooperation. The table below shows the level of commitment by El Salvador, Guatemala, and Honduras on measures that are particularly relevant to e-commerce. Ecommerce is typically characterized by higher volumes of smaller, often expedited and/or low-value parcels purchased through digital transactions (i.e., not containerized cargo). The TFA includes measures for efficient transport, clearance, and delivery of small shipments crossing the border and clearing Customs.

Provisions related to key policy objectives for facilitating e-commerce for SMEs include:

- Article 1. Publication and Availability of Information: seeks to ensure that domestic rules on taxes, duties, and other fees are accessible, clear, consistent, and aligned with international commitments.
- Article 3. Advance Rulings: provides for advance notice to traders on the tariff classification and origin of good prior to importation, determining trade-related costs before shipping and reducing the cost and risks of trade. This helps ensure compliance and increases predictability, consistency, and efficiency.
- Article 7. Release and Clearance of Goods: covers a host of measures designed to simplify procedures, expedite shipments, and allow for timely clearance of goods. Greater speed and efficiency in clearance is particularly important as the volume of lower-value transactions increase (due to expanded e-commerce).
- Article 10. Formalities Connected with Importation and Exportation and Transit: encourages the safe and secure electronic exchange of data, including advance information shared by traders with government agencies.

TFA Provision and Relevance	El Salvador	Guatemala	Honduras
1.1 Publish trade-related information promptly and in an accessible manner	A	A/B/C	A
1.2 Internet accessible guides to import, export, transit of goods	A	A/C	A
1.3 Enquiry points to respond to questions in a timely manner without charging fees	A	A/B/C	A
3. Advance notifications to traders on the tariff classification, origin of a good, and other customs treatment (before importation)	A	A/B	A
7.1 Pre-arrival submission (including electronic) and processing of import documentation to expedite release of goods upon arrival	A	A/C	A
7.2 Electronic payments of duties, taxes, fees and charges	A	A	A
7.4 Risk management system that focuses on high-risk consignments and expedites the release of low-risk consignments	A	A/C	A
7.8 Expedited shipments, including minimizing documentation and establishment of a consistent <i>de minimis</i> value for lower-value shipments	A	A/C	A/B
10.4 Single Window as a one-stop shop for traders to submit all documents related to import/export/transit of goods	C	A/C	C

Source: World Trade Organization, Trade Facilitation Agreement Facility, Notifications List.⁹

LINKING TO SAF-DE TRADE LOGISTICS CHECKLIST

Drawing from the initial benchmark data as well as further research to be conducted, the team will develop more tailored questions for stakeholders in each country to explore the factors hindering (or enabling) cross-border trade, assess the extent of implementation of relevant regulations, and report on any recent developments affecting the enabling environment for e-commerce using the SAF-DE trade logistics checklist as a guide (see Annex for complete checklist). Data from the World Bank and the TFA also represent a starting point in understanding the respective government’s commitment to and timeline for adopting international best practices. Initial observations, which will be explored and validated through desk research and in stakeholder outreach, include the following:

Policy Objectives

- Increasing awareness (for both public and private sector authorities) of the need for new customs processes (including risk management and data analytics) to facilitate the types of shipments (and volume) generated by e-commerce;
- Private transportation services (within countries) are protected from international competition (and thus inefficient and lacking incentives to invest in upgrading of vehicles);

⁹ <https://www.tfafacility.org/notifications>. Accessed June 2021.

- Rules and procedures around *de minimis* values need to be clarified and must be made more transparent and available to all operators;
- Pre-arrival processing is available but not compulsory and usage needs to be expanded. For example, electronic invoices are being promoted domestically in Guatemala and El Salvador and Guatemala and Honduras are using the electronic Central American Invoice and Single Declaration (FYDUCA), which applies to approximately 70 percent of bilateral trade between the two countries (most products not requiring a sanitary certificate). However, FYDUCA does not offer the option for third-country invoicing, which has been an issue in implementation.¹⁰ The share of this invoicing being used for e-commerce transactions needs to be studied.
- There does not seem to be any engagement at the government level with respective international trading partners for cross-border e-commerce trade logistics systems, which will be necessary to build consistency, clarity, predictability, and integrity.

Legal Foundations:

- The legal framework for modern and transparent customs administration and border procedures based on risk management, paperless entry, and incentives for compliance exists in the region—but often, not in practice.
- There do not seem to be specific legal requirements for warehousing and packaging of goods in place for e-commerce (including measures related to traceability of smaller packages, and the need for safe, speedy delivery).
- There does not seem to be a legal framework in place to ensure that traders have advance knowledge of the full costs of international shipping, applicable VAT charges and customs duties, and other key information. In fact, costs may increase from the original quote or due to unforeseen delays at the border.
- There are no legal provisions to support efficient and timely border operations related to e-commerce, with minimal restrictions on transport services (i.e., avoiding cabotage, warehousing restrictions, or intolerance of “extra” payments).

Core Institutions:

- Across institutions, trade logistics is not recognized as an integral part of the digital economy. Border agencies do not regularly engage in public outreach and education for the purpose of informing e-commerce stakeholders about their cross-border opportunities, rights, and responsibilities.
- Border agencies should commit to adopting e-commerce standards based on trade facilitation, simplification, safety, and security, including through advanced technology for data-based risk-management. These standards and criteria do not seem to be applied consistently.

¹⁰ <https://www.internationaltaxreview.com/article/b1gts9dqc5sgz7/central-america-central-america-sees-developments-in-the-trade-and-customs-areas>

CONCLUSION AND NEXT STEPS

The initial data and benchmarking presented in this report will guide preparations for the next stage of work under Phase I. This will include continuing to compile and review desk research, triangulating data and analysis from international, regional, and national organizations, donors, etc., finalizing the list of key contacts and institutions in each country, finetuning the targeted socialization materials, and beginning outreach to set up meetings for mid-July through early August.

While the team awaits the on-boarding of the local consultants, the TFB team will undertake the following:

- Development of a Donor/Multilateral/Regional Organization Matrix detailing existing activities and highlighting areas of complementarity with the TFB effort.
- With the assistance of the local consultants, TFB Country Managers, and CENPROMYPE, develop a Stakeholder Matrix of key public and private contacts in El Salvador, Guatemala, and Honduras. These include: government regulators and Ministries/Agencies, lawmakers, business advocacy groups, private sector enterprises, MSMEs, logistics providers, and universities/training institutions, as appropriate, among others.
- Develop socialization materials to use in the stakeholder engagement process, e.g., introduction letter (to be co-developed with CENPROMYPE), potential stakeholder questions (developed using the findings from desk-based research and the SAF-DE checklist for Trade Logistics), and a short one-page primer on e-commerce and trade logistics.
- Continue with research to identify the main restrictions or barriers, national and regional, faced by SMEs in trade logistics, and the benefits that the removal of these restrictions could bring.
- Continue with research to define the national/regional public and private sector priorities on Trade Logistics and ecommerce for El Salvador, Guatemala, and Honduras, as appropriate.
- Continue to compile relevant international best practices that relate to the priorities identified for trade logistics, and identify how adopting them could improve logistics.
- Organize and begin carrying out a schedule of meetings, roundtable discussions, and key informant interviews with government and private sector stakeholders in collaboration with TFB Country Directors and CENPROMYPE. These discussions will be used as an opportunity to dig deeper into the issues emerging from the desk research, as well as to triangulate data and findings from other sources.

Due to the differing conditions in each country, the approach to stakeholder engagement will be adjusted to the national context. The team will seek to prioritize engagement with “anchor” stakeholders with relationships and sufficient influence to ensure the widest possible participation by public and private sector representatives. The team will also consider whether it would make sense to separate various actors or institutions during interviews for the purposes of ensuring candid conversations (i.e., in some countries it may be wisest to separate firms from government officials, and both from other professionals like lawyers).

ANNEX – SAF-DE TRADE LOGISTICS CHECKLIST



SAF-DE Checklist: Trade Logistics

Section A: Definition, Scope, and Gender Overview	
Definition.	For the purposes of this tool, the term “Trade Logistics” refers to the various phases of cross-border delivery of goods purchased through digital transactions. These phases include transport and shipping; crossing the border/clearing Customs; delivery to the end-user; and facilitating product returns.
Scope.	Trade Logistics stem from a multi-faceted, public-private sector system that relies on both government interventions, including Customs, regulation and infrastructure, and private-sector capacities, such as the ability to properly identify, package, and transport products. Emphasis in this section is placed on efficient transport, clearance, and delivery of small shipments, which are characteristic of expanded e-commerce systems.
Gender overview.	This section incorporates and applies to the experiences of women engaged in e-commerce and the digital economy, in particular as entrepreneurs, workers in the transport or logistics arena, and consumers.
Section B: Policy Objectives	
1.	Among key stakeholders, there is awareness of the impact of e-commerce on traditional methods of cross-border trade, including the emerging demand for transport and customs systems that accommodate higher volumes of smaller, often expedited and/or low value, parcels. Both the public and private sectors recognize that efficient and interoperable customs processes and procedures can be a competitive advantage and prepare for these changes through updates in policy, practice, and public outreach.
2.	Traders may count on efficient, solid, and extensive infrastructure – that, as appropriate, allows for multimodal transportation – within their borders. Where infrastructure is lacking, there is a credible domestic strategy for prioritizing, funding, and undertaking improvements.
3.	The regulatory environment for private transport services promotes competition and safety, and may include incentives for maintaining and upgrading aging fleets. The government encourages FDI as one means of improving shipping and delivery services.
4.	As the volume of lower-value transactions increases, border authorities strive for greater speed and efficiencies in clearance processes, for both incoming parcels and returns. They integrate new systems of risk management and data analytics in response to changes brought about by e-commerce supply chains. Establishment of commercially relevant or useful <i>de minimis</i> value levels that are applied equally to all operators can contribute to efficient entry of lower valued parcels.
5.	Policies and practice encourage the safe and secure electronic exchange of data among all parties involved in the international supply chain, including advance information shared by e-commerce traders with border agencies.
6.	Border agencies strive for excellence in data management with respect to their e-commerce -related functions, including consistency in data collection processes and accuracy and adequacy of the data they collect. They use the data to evaluate their own performance and inform improvements in their own systems.
7.	Domestic rules on the application of duties and taxes are accessible, clear, consistently applied, and aligned with international commitments (such as regional trade agreements and membership in the WTO). Customs duties are not levied on digital products.



8. Trade, transport, and border policies and practices are responsive to the needs of woman-owned enterprises and women traders, including through steps that provide for their access to information and resources and that address their personal safety issues.
9. Public and private-sector trade logistics systems use risk management systems to guard against criminal and terrorist activity while facilitating low risk trade, including through regular review and adaptation to prevent new threats.
10. The government regularly engages in consultations with international trading partners for the purposes of building consistency, clarity, predictability, and integrity of cross-border e-commerce trade logistics systems.
Section C: Legal Foundations
1. The legal framework provides for modern and transparent customs administration and border procedures based on risk management, paperless entry, and incentives for compliance. Streamlined, simplified procedures, including timely clearance, and commercially relevant or useful <i>de minimis</i> levels are promoted.
2. Integrity safeguards, including enforcement provisions, are integrated throughout the legal framework as it pertains to Trade Logistics underlying e-commerce and the digital economy.
3. Requirements for safe and lawful warehousing and packaging of goods, including perishable goods, take into account the special considerations of e-commerce, such as the traceability of smaller packages and the need for safe, speedy delivery.
4. The legal framework pertaining to e-commerce-related transport and infrastructure is clear; regularly reviewed and updated through an inclusive, multi-stakeholder process; and transparently administered.
5. The legal framework ensures that traders have advance knowledge of the full costs of international door-to-door shipping; applicable VAT charges and customs duties; required export documents; and other key information.
6. The legal framework supports efficient and timely border operations related to e-commerce, with minimal restrictions on transport services (i.e., avoiding cabotage, warehousing restrictions, or intolerance of “extra” payments).
7. Legislation prevents application of customs tariffs on digital goods.
8. Regulation and practice support efficient and effective communication, including through ICT means, between national customs and other authorities across borders to facilitate trade.
9. The legal framework ensures principles of non-discrimination against all supply chain operators, whether public/private or domestic/foreign, and guards foreign operators and investors in services related to Trade Logistics against nationalization or expropriation.
10. The regime for civil and criminal enforcement of trade violators is clear and intended to motivate compliance by e-commerce marketers, carriers, freight forwarders, and brokers.
Section D: Core Institutions
1. There is an institutional mechanism or framework for “whole of government” engagement and input into the development and oversight of policy and regulation of services supporting transport and logistics services. Across institutions, Trade Logistics is recognized as an integral part of the digital economy.
2. Within the national legislature, there are appropriate administrative frameworks and technical resources to support logistics, customs, and transport-related developments related to e-commerce, along with public dialogue, legislative drafting, legal harmonization, and amendment over time. There is an appreciation of the case for applying the same rules with respect to parcels to both private operators and government carriers (i.e., postal administrations).



3. Border agencies, with Customs as their lead, commit to adopting e-commerce standards based on trade facilitation, simplification, safety, and security, including through advanced technology for data-based risk-management.
4. Border agencies engage in public outreach and education for the purpose of informing e-commerce stakeholders about their cross-border opportunities, rights, and responsibilities.
5. Border agencies strive for excellence in data management, including consistency in data collection processes and accuracy and adequacy of the data they collect. They use the data to evaluate their own performance and inform improvements in their own systems.
6. Agencies charged with promoting commerce, trade, and investment are committed to connecting traditionally disenfranchised groups – which may include women, minority groups, or rural entrepreneurs – to critical Trade Logistics information and guidance.
7. The investment authority appropriately and effectively oversees domestic and foreign investments into services that support logistics and transport services.
8. Additional institutions – such as statistics, health, and environmental agencies, and others – are prepared to assume new oversight and regulatory duties within their traditional areas of oversight, including in the constructions of *single windows* mechanisms.
9. The courts are regarded as an appropriate and effective institution for resolving disputes regarding services supporting the logistics and transport sectors, where administrative mechanisms or other approaches, including alternative dispute resolution, are unsuccessful.

Section E: Additional Stakeholders

<p>1. Investors in services supporting logistics (foreign and domestic)</p>	<ul style="list-style-type: none"> • With respect to logistics and transport, who are the major investors? Does the government or a local incumbent have a major role in providing some or all of these services? Are ports run by the government or is management provided by third parties? • How do these investors perceive the policy, legal, and regulatory environment for logistics? • How do these investors perceive the capacity, transparency, and accountability of the key regulatory authorities? Is the regulator sufficiently independent? Are too many services regulated? • How are these investors perceived by the government, business customers, and consumers in terms of their own capacity, transparency, and accountability? • Are there any additional investors that the government or the business community seek to enter the domestic market?
<p>2. Trade or sectoral associations</p>	<ul style="list-style-type: none"> • With respect to trade logistics, what are the major trade or sectoral associations? Who are their members? How effective are these organizations perceived to be in terms of representing the interests of their constituencies? • Are there associations specifically focused on digital economy issues? Is logistics part of their interests? • How do these associations perceive the policy, legal, and regulatory environment for logistics and transport? • How do these associations perceive the capacity, transparency, and accountability of the key regulatory authorities? Do they see the regulator as sufficiently independent? Are too many services regulated?



	<ul style="list-style-type: none"> • How are these associations perceived by the government, business customers, and consumers in terms of their own capacity, transparency, and accountability? • Are these associations regarded as inclusive, transparent, and accountable by their own membership and the economy at large?
3. Consumer organizations and advocates	<ul style="list-style-type: none"> • With respect to services in transport and logistics, what are the major consumer organizations and/or advocates? Who do they represent? • Is the logistics/transport market seen as well-regulated and fairly priced? • Do consumer advocates trust existing infrastructure to the extent that future uptake in e-commerce trade is likely?
4. Logistics Service Providers	<ul style="list-style-type: none"> • Are domestic postal and express delivery services affordable and efficient? Do they offer tracking ability and the ability for SMEs to access to warehouses and delivery services at their destinations? • In what ways are transport and logistics providers taking advantage of existing the ICT Infrastructure for cross-border transactions? • Are these service providers accessing and using ICT Infrastructure to its fullest capacity? If not, what is holding them back? • Do service providers readily embrace disruptive technologies to strengthen their competitive advantage? • Do postal services have the necessary mechanisms to exchange information electronically to Customs, including advanced shipment data? • Are private and public operators treated similarly with respect to customs formalities and taxes?
5. SMEs	<ul style="list-style-type: none"> • To what extent, and in what ways, do SMEs use the logistics and transport services available? Are transport and logistics services priced competitively for SMEs? • What do SMEs like about the existing transport and logistics regime? Do they support further liberalization? • Do SMEs perceive themselves as having a seat at the table with respect to the development and implementation of transport and logistics needs and regulation? • To what extent does the current logistics regime enable SMEs to link to global supply chains? What more can be done? • Are there appropriately scaled and affordable systems for storing and warehousing products intended for sale through e-commerce? Do sellers have access to suitable warehousing technologies, including scanning devices, inventory software, warehouse management systems, and cold storage, as necessary? • Do sellers have access to packaging materials that are affordable, practical, and sustainable, and which ensure that the items they sell remain intact during shipping and delivery, including across very long distances?
6. Educational and training institutions	<ul style="list-style-type: none"> • Is there sufficient human resources capacity to meet the country's needs with respect to the development and implementation of logistics services supporting the digital economy? What policies are



	<p>being shaped to anticipate the potential replacement of traditional logistics jobs by automation?</p> <ul style="list-style-type: none"> Do university faculties offer a foundation of knowledge to students sufficient to participate in the design and operation of the services – domestically? Internationally?
7. Advocates for economic inclusiveness	<ul style="list-style-type: none"> To what extent, and in what ways, do women, rural communities, and disadvantaged groups consume or provide digitally-enabled services? Nationally? Internationally? Is there insufficient access to transport and logistics services? Do women, rural communities, and disadvantaged groups perceive themselves as having a seat at the table with respect to the development and implementation of transport and logistics regulation and infrastructure needs?

Section F: Political Economy Analysis

- Core PEA Question (1):
- Core PEA Question (2):
- Who has an interest in preserving the status quo? Why?
 - Who has an interest in change, reform, etc.? Why?
 - In terms of reform, what can be done? (What is politically feasible)?
 - Who should make the changes – and why?

Section G: Unresolved Policy Areas

- Given the exponential increase in e-commerce volumes in the past decade, especially smaller value shipments, how should countries address *de minimis* levels? What is the appropriate balance between higher *de minimis* levels to increase the flow of goods and the potential disincentive of non-compliance (e.g. undervaluation or misdeclaration of goods to avoid payments)? What is an appropriate *de minimis* level for developing economies?
- There is always a tension between security and trade facilitation. Modern risk management tools, including intelligence collection, and a robust, targeted policy framework can help governments to combat terrorism and fraud while facilitating low-risk trade. The good policy framework and political will of a government is vital to ensure that security is not a mask for trade protectionism.

Section H: Economy Performance Indicators

- [World Bank - Logistics Performance Index](#)
- [World Bank - Trade in Services Database \(199 countries\)](#)