

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Fostering Regional Value Chains in Latin America and the Caribbean
▪ TC Number:	RG-T3971
▪ Team Leader/Members:	Garcia Nores, Luciana Victoria (INT/RIU) Team Leader; Almeida Oleas, Natalia (LEG/SGO); Braun, Miguel (INT/RIU); Dorantes Gomez, Angela Carmelia (INT/INT); Esteves, Yasmin (INT/INT); Recio, Margarita M. (INT/RIU); Rospide, Maria De La Paz (INT/TIN); Vitali, Maria Victoria (INT/INL) Oleas, Natalia (LEG/SGO); Braun, Miguel (INT/RIU); Esteves, Yasmin (INT/INT); Recio, Margarita M. (INT/RIU); Rospide, Maria De La Paz (INT/TIN); Vitali, Maria Victoria (INT/INL)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	29 Jul 2021.
▪ Beneficiary:	Trade Ministries and Promotion Agencies from all 26 borrowing member countries of the IDB
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Integration(RIN)
▪ IDB Funding Requested:	US\$350,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	December 15, 2021
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INT/RIU-Regional Integration Unit
▪ Unit of Disbursement Responsibility:	INT/INT-Integration and Trade Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Economic integration

II. Objectives and Justification of the TC

2.1 Trade integration has been very beneficial for Latin America and the Caribbean (LAC) in the past 30 years. The region embarked on a deep (though heterogeneous) program of economic liberalization in the 1990s, within which trade liberalization was a central chapter. This liberalization, inspired by economic theory and the recent success of the Asian tigers, promised to improve the competitiveness of the region, and contribute to its development. Trade openness added between 0.6 and 0.7 percentage points to the region's annual growth¹. This impact is very significant: it implies that, in the last two decades, the region has been 16% richer in per capita terms thanks to the process of trade liberalization.

¹ Mesquita Moreira, Mauricio and Ernesto Stein (Eds.) (2019), Trading Promises for Results: What Global Integration can do for Latin America and the Caribbean, IDB Flagship Report

- 2.2 After the impact of the 2008 financial crisis, global trade recovered, but with growth rates significantly lower than those shown before the crisis, and in 2020 the coronavirus pandemic led to a sharp drop in trade². Added to this complex context are the growing trade disputes and the uncertainty regarding the future of the multilateral trading system. However, this new context creates a potential opportunity for LAC countries.
- 2.3 During this pandemic, the problems that can be generated by production systems that are highly interconnected and highly dependent on suppliers located in remote locations have become clear, especially in central countries. The fragility of certain value chains has been highlighted due to the vulnerability of a system in which factories are located at the opposite end of the place where these goods are consumed, whether intermediate or final. Also, the goal of reducing the carbon footprint and the consequent introduction of carbon taxes at the border could also accelerate this trend. All this could lead to a deepening of the process of reconfiguration of global value chains. To ensure the safety of their supply chains, large multinationals are seeking to secure supplies from nearby locations, a phenomenon better known as nearshoring.
- 2.4 This regionalization of global value chains represents a significant opportunity for countries in Latin America and the Caribbean to position themselves as attractive destinations for these investments³. However, efficiently addressing these potential opportunities requires an understanding of global trends and the strategies of leading companies in value chains, in the context of the directions assumed by international trade negotiations. It is from this understanding that the governments of the region could develop suitable strategies to attract new investment and export opportunities, both for goods and services, in various sectors identified as relevant for LAC countries.
- 2.5 In March 2021 and in line with the IDB's Vision 2025 identified development opportunities, the IDB Group formally approved a toolkit of financial and non-financial instruments to support its borrowing member countries to take advantage of the opportunity presented by the reconfiguration of global value chains⁴. Part of the financial instruments include technical assistance to carry out national and regional studies to identify opportunities to increase LAC countries' participation in regional and global value chains.
- 2.6 Considering the time sensitive nature of the opportunity identified, as a first endeavor in this direction and in parallel to the approval of the toolkit, since November 2020 the Integration and Trade Sector (INT) through Regional Technical Cooperation "Pan-Regional Dialogue on Integration and Trade in the framework of the COVID-19 Pandemic" (RG-T3699), has been supporting and accompanying the LAC region to design and implement a recovery strategy from the COVID-19 pandemic, through actions aimed at expanding the capacity of LAC countries to work in coordination on

² Trade and Integration Monitor 2020: "The Covid-19 Shock: Building Trade Resilience for after the pandemic". Available at: <https://publications.iadb.org/publications/english/document/Trade-and-Integration-Monitor-2020-The-COVID-19-Shock-Building-Trade-Resilience-for-After-the-Pandemic.pdf>

³ According to the McKinsey Global Survey on economic conditions of September 2021, respondents (global executives) increasingly see the COVID-19 pandemic and supply-chain disruptions as threats to future economic growth in their countries. Available at: <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/economic-conditions-outlook-september-2021>

⁴ Document GN-3038: Strengthening Regional Value Chains in Latin America and the Caribbean. Concept Note. Available at: <http://www.iadb.org/document.cfm?id=EZSHARE-1821959538-56>

the design policies that respond to the future economic and social scenario as a consequence of the crisis of the COVID 19 pandemic and strengthen subregional institutions in areas that present capacity deficits, helping the region to resume the path of development.

- 2.7 These resources served as seed capital to kickstart the development of national strategies to strengthen regional value chains in Brazil, Colombia, Costa Rica, The Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, and Uruguay. For each country, the ongoing analysis includes: (i) the identification of specific products and companies that could take advantage of the opportunities to improve the insertion of the country in the global value chains, (ii) a survey of the specific needs that should be addressed to specify the relocation and existing government tools to serve them; and (iii) specific policy proposals that the government of the corresponding country could carry out to accelerate the eventual relocation of links in the value chains of certain sectors that have been prioritized based on their economic relevance and the feasibility of the relocation.
- 2.8 Part of the lessons learned from the implementation of studies in 16 countries is that involving the private sector early on in the elaboration of national strategies is key, as it will inform the survey of priority sectors and “pain points” at the local level, allowing for more specific and targeted policy recommendations to IDB clients in the final report. This stems from the fact that the initial hypothesis for each country comes from a top-down analysis of trade data which needs to be complemented by a local competitiveness analysis and first-hand information from firms as well as governmental agencies and business organizations.
- 2.9 In addition, on February 24, 2021, US Executive Order 14017⁵ “America’s Supply Chains” was signed. US Executive Order 14017, which seeks to resolve dependency for critical and strategic products to avoid disruption to strategic supply chains, established four priority areas for analysis (ranging from supply of raw materials, manufacture, shipment, transport, distribution, and sale at an international level): (i) critical minerals, such as lithium and rare earths; (ii) semiconductors; (iii) large capacity batteries, including lithium-dependent electric car batteries; and (iv) health products and drugs, especially those related to the COVID-19 pandemic and active pharmaceutical ingredients (APIs).
- 2.10 INT has also financed vertical studies of pre-identified value chains with high potential in national reports, such as the global value chain of the automotive; textile & clothing; fiber optic cables; microprocessors & semiconductors; aerospace; renewables; and services. However, in light of US Executive Order 14017, it is now critical to analyze the role of Latin American and Caribbean countries in supplying these products to the United States by focusing on sectors such as pharmaceuticals ingredients, critical minerals and lithium and rare earths, which were not included in the sectors currently under study.
- 2.11 **Objective.** The main objective of this Technical Cooperation (TC) is to extend the IDB Group’s coordinated effort for the strengthening of regional value chains in LAC to remaining countries in the region (among which: Argentina, Barbados, Bahamas, Belize, Bolivia, Chile, Guyana, Nicaragua, Suriname and Venezuela), and to sectors

⁵ Available at: <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains>

of interest under US Executive Order 14017, in the context of development opportunities identified in the Bank's Vision 2025 and its Concept Note on Strengthening Regional Value Chains in LAC. As such it will advance the completion of a comprehensive diagnosis to identify opportunities, both at the national level and within specific pre-identified sectors, with high potential for attracting investment, promoting exports, and improving the region's insertion in value chains.

2.12 **Alignment.** This project is aligned with the Bank's Ninth General Capital Increase, in particular with the general objective of achieving sustainable growth and the sectorial priority of competitive international integration at the regional and global levels. Likewise, TC will make it possible to face some of the challenges for development in LAC indicated in the Second Update of the Institutional Strategy 2020-2023 of the IDB (AB-3190-2), particularly in relation to low levels of productivity and innovation (2B.ii) and lagging economic integration (2B.iii) and with the Corporate Results Framework 2020-2023 (GN-2727-12) Economic Integration Level 1 indicators #1.8 (intraregional trade in goods); #1.9 (Growth rate of the value of total exports of goods and services) and #1.10 (Foreign direct investment net inflows as percentage of GDP). Also, TC will contribute to advancing in the fulfillment of the following strategic policy objectives of the IDB: establishing suitable institutional frameworks (3.6.b), offering adequate knowledge and innovation ecosystems (3.6.c), incorporating companies into value chains (3.7.b), and promote the alignment of integration instruments and policies (3.7.c). Likewise, the TC is aligned with the objectives, priorities, and activities of the Ordinary Capital Strategic Development Program for Integration (GN-2819-1). In particular, TC will contribute to generating knowledge to support the harmonization of policies and procedures to achieve greater productive integration (5.1 (i)) considering the activities to be carried out include "research and studies to carry out analysis as input for improvements and regional harmonization of regulatory and institutional frameworks", (5.25), among others. Finally, the TC is aligned with the Bank's Sector Strategy to Support Competitive Global and Regional Integration (GN-2565-4) as the strengthening of regional value chains endeavor encompasses both *software* (regulatory frameworks) and *hardware* (physical connectivity investments) recommendations as well as with the Integration and Trade Sector Framework Document (GN-2715-10) since its recommendations aim to reduce costs (logistics, information, traditional and financing costs) to boost exports and investment in the region.

III. Description of activities/components and budget

- 3.1 **Component I: National Promotion Strategies (US\$200.000).** The objective of this component is to generate technical inputs for policy recommendations at the regional, subregional, and national levels that respond to post-pandemic needs and considering the opportunities derived from the reconfiguration of global value chains (GVCs).
- 3.2 Specifically, this component will finance three consultancies to formulate national promotion strategies in the remaining LAC countries to be analyzed. Currently 16 countries are under analysis, among which some still require a more in-depth analysis and monitoring. To complete the analysis of the whole LAC region, this CT will finance 2 national strategies and one subregional Caribbean strategy to include all 6 countries in the Caribbean Constituency. The 2 individual countries will be selected based on the availability of governmental agencies and private sector contacts for the interview process.

- 3.3 To provide uniformity with the national promotion strategies currently under elaboration, each consultancy will: (i) identify specific products and companies that could take advantage of opportunities to improve the country's insertion in global value chains, (ii) carry out a survey of the specific needs that should be addressed to specify the relocation and existing government tools to serve them; and (iii) propose specific policies that the corresponding government could carry out to accelerate the eventual relocation of stages in the value chains of certain sectors that have been prioritized based on their economic relevance and the feasibility of relocation.
- 3.4 As mentioned and following lessons learned from the implementation of the methodology in several countries during 2021, a competitiveness analysis and interviews with business organizations, multinational firms and governmental institutions such as promotion agencies and Trade and Production Ministries will inform the findings of the strategies, to be validated in coordination with local IDB Group Staff in Country Offices and in Country Departments and all relevant Sectors and Divisions from the Vice Presidency for Sectors and Knowledge. The national promotion strategies and their respective policy recommendations are expected to inform programmatic dialogue between IDB and its borrowing member countries on topics such as the improvement of regulatory frameworks for exports and institutional frameworks for the promotion of trade and investment; reduction of logistics costs; increase in access to export financing and greater investment in roads, ports, airports, and customs infrastructure.
- 3.5 **Component II: Vertical Studies (US\$150.000).** The objective of this component is to analyze specific sectors of particular interest for LAC in general, with an emphasis in sectors highlighted under US Executive Order 14017, with the possibility of conducting one or more "deep dive" studies in countries with the greatest interest and potential in these sectors.
- 3.6 Specifically, this component will finance regional and national deep dive consultancies in at least two sectors for both the LAC region as a whole and at least three countries each with high potential in one or more of the links of the studied value chains.
- 3.7 To provide uniformity with other sectors under evaluation, these studies will: (i) characterize the situation and trends of the value chain in the sector at a global level; (ii) carry out an analysis of the competitive position and identification of the main opportunities and threats in terms of attracting investment and promoting exports in the scenario of reconfiguration of the sector's value chain; and (iii) formulate policy recommendations aimed at improving the positioning of the region to attract new investment and supply opportunities in the sector's value chains.
- 3.8 Borrowing from lessons learned from national promotion strategies, these sectoral studies will also rely heavily on private sector interviews and be developed in coordination with Sectors/Divisions from the IDB such as SCL/SPH in the case of APIs and INE for the case of critical minerals. Different from the transversal tenor of national promotion strategies recommendations, the sectoral studies of value chains will provide more targeted, sector-specific and short-term policy recommendations to explore the viability of inserting LAC countries into sectors with a high-level of interest under Executive Order 14017.
- 3.9 The total budget for the TC is US\$ 350,000.00, which will come from the OC Strategic Development Program for the Integration (RIN). Local counterpart resources are not contemplated for this operation.

Indicative Budget (in US\$)

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I National Promotion Strategies	200,000.00	0.00	200,000.00
Component II Vertical Studies (including applicable translation costs)	150,000.00	0.00	150,000.00
Total	350,000.00	0.00	350,000.00

IV. Executing agency and execution structure

- 4.1 **Executing Agency.** The Bank will execute the TC through the Integration and Trade Sector's Regional Integration Unit. This execution mechanism is justified because this is a regional R&D project that involves coordination with several regional public and private sector stakeholders, and the Bank is positioned as an ideal actor to execute this project, given its presence in every country; and INT/RIU has gained invaluable know-how in terms of global value chains, investment attraction and regional integration, and is the Bank Unit leading the comprehensive support to strengthening regional value chains de Bank is deploying as part of its priorities under Vision 2025.
- 4.2 **Coordination.** Due to the country and/or sector-specific nature of the studies, as part of the execution mechanism INT/RIU will coordinate with Country Representatives and local IDB Group teams, as well as with other Sectors/Divisions in the case of sector studies.
- 4.3 **Procurement.** All activities to be executed under this TC have been included in the Procurement Plan (see Annex) and will be carried out in accordance with Bank established procurement methods: (a) Hiring of individual consultants, as established in the AM-650 standards; (b) Hiring of consulting firms for services of an intellectual nature according to GN-2765-4 and its associated operational guides (OP-1155-4); and (c) Hiring of logistics services and other related services other than consulting, according to policy GN-2303-28.

V. Major issues

- 5.1 The main risk of this R&D TC would be a lack of availability of data to conduct the studies contemplated in Components I and II. However, this risk will be mitigated by the methodology set in place by INT/RIU to conduct such studies in already 16 countries, closely following hired consultants and working in coordination with Country Offices to ensure consulting firms and individuals hired are granted access to information by relevant stakeholders.
- 5.2 An additional risk is the delay in the implementation of activities involving local authorities. The COVID-19 pandemic has impacted the speed of response from authorities and public companies to different projects due to the teleworking conditions which could impact local data gathering for international consulting studies. To mitigate this, the project team will implement all activities in close coordination with IDB Country Offices and key country stakeholders, including representatives from government,

industry, and civil society. In addition, consulting services will foresee the use of remote communication tools to ensure the scope of work completion.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 The operation has been classified under "C" category in accordance with the Environment and Safeguards Compliance Policy (OP-703) (see Safeguards Analysis Report and Safeguard Policy Filter Report).
- 7.2 This TC is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with this TC; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (MPAS).

Required Annexes:

[Results Matrix - RG-T3971](#)

[Terms of Reference - RG-T3971](#)

[Procurement Plan - RG-T3971](#)