

TC DOCUMENT

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Capacity Building in Trade Innovation
▪ TC Number:	RG-T3417
▪ Team Leader/Members:	Shearer, Matthew Stone (INT/INT) Team Leader; Mejia Rivas, Isabel (INT/INT) Alternate Team Leader; Funes, Gerardo A (INT/INT); De Lara, Jesus (INT/INT); Contreras Huerta, Rodrigo Andres (INT/TIN); Gomez, Maria Margarita (INT/TIN); Verissimo da Silva, Carolina (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Date of TC Abstract authorization:	13 March 2019
▪ Beneficiary:	All Inter-American Development Bank (IDB) borrowing member countries
▪ Executing Agency:	Inter-American Development Bank
▪ Donors providing funding:	Multi-Donor Regional Integration Fund (MFR)
▪ IDB Funding Requested:	US\$500,000.00
▪ Disbursement period:	36 months
▪ Required start date:	15 May 2019
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Integration and Trade Sector (INT/INT)
▪ Unit of Disbursement Responsibility:	Integration and Trade Sector (INT/INT)
▪ 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:	Economic integration; Institutional capacity and rule of law.

II. Objectives and Justification of the TC

- 2.1 The main objective of this Technical Cooperation (TC) is to strengthen the technical capacity of policy and decision makers in Latin American and Caribbean (LAC) countries to harness the potential impact of new technologies on international trade and investment. Capacity-building activities will increase understanding of trade facilitation best practices, motivate future-oriented thinking to improve upon these interventions through the application of innovative technology, and promote an operational perspective to facilitate implementation of both policy and technology.
- 2.2 Reducing non-traditional costs could substantially increase LAC countries' participation in global trade and international value chains. Logistics and transportation together impose three times the economic cost of tariffs, and 75% of these costs are due to administrative inefficiencies, such as those related to customs and border procedures. In turn, these costs are passed along to the consumer, increasing the price of goods by 15%¹.

¹ United Nations Economic Commission for Europe (2015), SPECTRUM of Border Crossing Facilitation Activities; Organisation for Economic Co-operation and Development (2003), Trade Facilitation: The Benefits of Simpler, more Transparent Border Procedures.

- 2.3 Beyond the direct costs, administrative inefficiencies and outdated processes contribute to market uncertainty that inhibits global supply chain linkages and deters international investment. Firms often face non-traditional costs in the form of imperfect information about consumer demand and preferences. Potential investors are discouraged by opaque regulatory frameworks or complex procedures for establishing or operating an enterprise in a new host country.
- 2.4 Across the global economy, technological solutions are emerging to mitigate these challenges. For instance, blockchain (a secure distributed ledger of information) has the potential to strengthen revenue controls and port security and improve the reliability of electronic payments to permit their seamless integration into Port Community Systems, as well as single windows for trade for trade and investment. The optimization of port calls through artificial intelligence (AI) and machine learning enables faster stays that result in lower costs and less environmental impact, while simultaneously increasing reliability and safety. With respect to export promotion and investment attraction combined with better data means advanced market research tools. Likewise, cloud computing fosters the interconnectivity of the various agencies and actors involved in trade and investment.
- 2.5 LAC countries are expressing interest in training in the development and implementation of modern trade facilitation tools, particularly with regard to utilizing technology to improve their systems, increasing their sustainability through forward-looking approaches to technological adoption, and consideration of important practical operational matters such as minimizing disruption to existing systems and ensuring interoperability.
- 2.6 Capacity building in the area of integration and trade has previously taken place primarily through the delivery of online tutored courses. Between 2011 and 2018, more than 8,700 public- and private-sector specialists received training through this modality, of which more than 7,200 successfully completed the coursework and earned certification². New loans and the emergence of new technologies have increased the need for targeted training with an operational focus, including in thematic areas as well as project execution. In order to maximize the impact of the application of increased knowledge at the operational and institutional levels going forward, this TC emphasizes capacity-building activities aligned with lending operations in pipeline, preparation and execution.
- 2.7 Face-to-face training efforts have been more limited and have focused on WTO-related issues such as trade facilitation, trade development, and non-agricultural market access negotiations, and tended to serve as knowledge-building for technical professionals or awareness exercises for policymakers rather than taking an operational perspective. A key lesson learned from this experience is the need to ensure that face-to-face training activities are developed and delivered in a way that ensures that clients are likely to apply the knowledge that they receive. A positive

² The Bank launched the Integration, Trade and Regional Cooperation Capacity-Building Program (CBP) in 2011 as a systematic effort to create and sustain a critical mass of professionals in LAC who can design, propose, and implement innovative, next-generation interventions in subjects including trade policy; trade and customs facilitation; export promotion and investment attraction; physical integration, such as the management of border crossings, ports, and airports; energy efficiency and interconnection; access to broadband; and regional cooperation. According to an impact assessment conducted between 2017 and 2018, 63% of the participants thought that the knowledge acquired was highly relevant or relevant to their work, and 56% of the participants responded that they applied the knowledge always or almost always. The CBP received financing from RG-T2265; RG-T2465; RG-T2572, RG-T2762, RG-T2823 and RG-T3166.

experience was a training the sector carried out for policy makers in the Pacific Alliance in the areas of e-commerce which has allowed to create a regional working group and work plan to advance in this area.

- 2.8 In 2010, the Report on the Ninth General Capital Increase of Resources of the Inter-American Development Bank (IDB) (AB-2764) (GCI-9) established supporting global and regional integration as one of the Bank's five institutional strategic priorities, and proposed to increase lending to support regional cooperation and integration to 15 percent of the Bank's lending by the end of 2015. To implement this GCI-9 mandate on integration, in 2011 the IDB approved the Sector Strategy to Support Global and Regional Integration (GN-2565-4), which proposed simultaneous investments in the hardware (infrastructure for regional connectivity) and the software (regional policies and regulatory frameworks) of integration, connecting them with a comprehensive agenda for intra-regional South-South cooperation and the generation of regional public goods.
- 2.9 The TC is consistent with the Update to the Institutional Strategy 2010-2020 (AB-3008) and is aligned with the development challenge of Economic Integration, by strengthening countries' capacities to insert firms into value chains and to improve regional infrastructure (cf. paragraphs 3.7 a and b). The TC is also aligned with the cross-cutting theme of Institutional Capacity and Rule of Law, by delivering training to public officials at the institutions responsible for delivering timely, quality, and accessible services related to customs and trade facilitation and export promotion and investment attraction, and by contributing to greater productivity and certainty regarding trade and border transactions (cf. paragraph 3.8 c).
- 2.10 Additionally, the document aligning the Multi-Donor Regional Integration Fund (MFR) with the UIS (GN-2344-19) sets forth " Capacity development of both public and private sector initiatives to foster the promotion and sustainability of the integration agenda", including targeted capacity building and training programs, as one of the areas that the MFR will address.
- 2.11 Targeted capacity-building is one of the non-financial instruments recommended in the instrument compact of the Bank's Integration Strategy and its Action Plan (GN-2653). The TC also supports the strengthening of regional and global integration in the area of transportation as well as strategic participation in regional integration plans, consistent with the Bank's Infrastructure Strategy (GN-2710-5). Additionally, the update to the IDB's Corporate Results Framework 2016-2019 (CRF), which sets out indicators and time-bound targets that allow for evidence-based monitoring of the implementation of the UIS, contemplates a specific indicator for capacity building on economic integration, which is aligned with Goal 17 of the United Nations' Sustainable Development Goals "Strengthen the means of implementation and revitalize the global partnership for sustainable development".

III. Description of Activities/Components and Budget

- 3.1 The TC will finance the development and delivery of practical training designed for a selected group of decision makers in Bank borrowing member countries, who will learn about best practices on the digital transformation of trade facilitation (port community systems, the single window for foreign trade, digital customs modernization, border economic development, etc.) and trade promotion & investment attraction (advanced market research tools, single window for investment) within the context of the 4th industrial revolution. This TC is composed of the following components:

- 3.2 **Component I. Analysis of case studies and recommendations of best practices.** The component will finance three studies of best practices in trade facilitation, export promotion and investment attraction, including cases involving deployment of state-of-the-art technological tools. These studies will serve as inputs to the on-site training events for Bank clients in Component II, but also as inputs for the preparation of TCs and especially loans, and for policy dialogues. Activities will include the hiring of consultancy services and the production of learning and dissemination materials.
- 3.3 The studies will address issues such as how to boost the effectiveness and efficiency of trade promotion, investment attraction and trade facilitation processes by means of the incorporation of new technologies such as machine intelligence, cloud computing, internet of things, 3-D printing and biometrics. Examples may include artificial intelligence applied to risk management in border crossings, ports and airports; cloud computing for the interoperability of foreign trade single windows (VUCE, for its Spanish acronym), and for best solutions for electronic payments that could be included in Port Community Systems (PCS); the use of biometrics for border, ports and airports migratory controls; machine learning for lead generation in investment attraction; etc. They will also delve into the technical and institutional dimensions of implementation, considering the availability and advisability of specific architectural solutions, the stakeholders that would need to be consulted and the contingencies that would need to be considered.
- 3.4 **Component II. Training in best practices to modernize trade facilitation and export promotion & investment attraction.** This component will finance: (i) regional best practices workshops; (ii) online courses; and (iii) field study visits, as follows:³
- i. Two regional best practices workshops will take place in the LAC region. Invitations to these workshops will be made to all Bank borrowing member countries' responsible/lead institution corresponding to the subject matter.
 - ii. The online courses will take either the online tutored course modality or the massive open online course modality. Course invitations will be made to all Bank borrowing member countries' responsible/lead institution corresponding to the subject matter. The online courses will be hosted and conducted via the Bank's training platform managed by INDES.
 - iii. The extra-regional field visits will focus on world-class facilities where technologies were successfully applied into trade and investment processes, such as Port Community Systems. For these events, invitations will be made based on operational priorities in the countries, which in turn will reflect country strategies and programming. However, efforts will be made to ensure the participation of at least one country from each of the regional departments. Specifically, the selection criteria will target countries with portfolio, pipeline, or potential Bank lending operations in the thematic area, and that have established the technical prerequisites to benefit from the field visit. Among these countries, those with the most immediate needs relating to Bank operations will be prioritized. The determinations will be made in collaboration with Sector operational focal points who will coordinate with the corresponding country offices.

³ The beneficiaries of these activities will be the lead or responsible agencies for the respective areas of training (e.g. ministries, customs, or specialized agencies).

- 3.5 The subject matter will be a combination of theoretical and operational materials. Regarding the on-site events, that is, i) and iii), the attendees will be decision makers in the responsible/lead institution for the respective areas, and the tutors will be Bank Specialists on the subject matter, complemented by key outside experts and those from the host institutions. Staff travel will be necessary to prepare and carry out the training events as tutors, a role that is not a part of their routine activities. The total amount of expenses for staff travel shall not exceed 10 percent of the total budget.
- 3.6 The total cost of this TC will be US\$ 500,000, which will be financed by the Multi-Donor Regional Integration Fund (MFR), as set out in the Indicative Budget chart below:

Indicative Budget (in US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component I. Analysis of case studies and recommendations of best practices		125,000	125,000
Preparation of studies	3 consultancies * 40,000 ea.	120,000	120,000
Communication and dissemination	Print of materials	5,000	5,000
Component II. Training in best practices to modernize trade facilitation and export promotion & investment attraction		375,000	375,000
Best practices workshops (intra-regional)	2 workshops * 62,500 ea.	125,000	125,000
Online courses	4 courses * 25,000 ea.	100,000	100,000
2 Field study visits	2 field studies * 50,000 ea.	100,000	100,000
Staff travel to participate as tutors	No more than 10% of budget	50,000	50,000
Total		500,000	500,000

IV. Executing Agency and Execution Structure

- 4.1 In light of the taxonomy of this TC and the applicable Bank policies (GN-2470-2 and GN-2629-1), the Bank, through the Integration and Trade Sector (INT/INT), will be the executing agency of this TC. INT/INT will be responsible for the overall execution and supervision of the TC in close coordination with country departments through the Sector's operational focal points.
- 4.2 In addition, there are two primary justifications for execution of this TC by the Bank: (i) this is a regional project that involves the coordination of participants from countries across the region, and the Bank is ideally situated to serve as a regional coordinator; and (ii) the project seeks consistency with the Bank's GCI-9 priorities, Integration Strategy, UIS, CRF, and especially its operational program, and Bank specialists are in the best position to ensure this.
- 4.3 All activities to be executed under this TC have been included in the Procurement Plan (see Annex III) and will be contracted in accordance with Bank policies as follows: (i) AM-650 for Individual consultants; (ii) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (iii) GN-2303-20 for logistics and other related services.

V. Major Issues

- 5.1 Capacity-building activities are always subject to the risk that the capacity building that has been provided would not be applied by the individuals who have been trained because they move on to other activities, and especially in the case of the public

sector, by the individuals leaving the organization for which they were originally trained. Bank sector specialists working on trade facilitation projects will participate as part of the training team in order to maintain an ongoing repository of the knowledge that can be shared with the remaining professionals at the beneficiary organizations or with new professionals who replace those who have left and to act as technical contacts.

- 5.2 Another potential risk is that training would be overly diffused and not applied directly to concrete projects. To mitigate this risk, the project team, together with Bank sector specialists, will identify and target activities with clear relevance to potential or active IDB lending operations, ensuring alignment with country programming priorities. Similarly, sustainability of the TC after the execution period will be ensured through the continued work between beneficiary institutions and Sector specialists on lending operations in pipeline, preparation and execution.

VI. Exceptions to Bank Policy

- 6.1 This TC does not involve any exceptions to the Bank's policies.

VII. Environmental and Social Strategy

- 7.1 Based on the Environment and Safeguards Compliance Policy (OP-703), this TC was classified as category "C" (see the [Safeguard Policy Filter Report](#) and the [Safeguard Screening Form](#)).

Required Annexes:

- Annex I: [Results Matrix](#)
- Annex II: [Terms of Reference](#)
- Annex III: [Procurement Plan](#)

CAPACITY BUILDING IN TRADE INNOVATION

RG-T3417

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Multi-Donor Regional Integration Fund (MFR)** through a communication dated April 10, 2019 and signed by Goro Mutsuura (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$500,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, representing a risk that will not be absorbed by the Fund.

Certified by:	<u>Original firmado</u>	<u>06/05/2019</u>
	Sonia M. Rivera	Date
	Chief	
	Grants and Co-Financing Management Unit	
	ORP/GCM	

Approved by:	<u>Original signed</u>	<u>06/06/19</u>
	Fabrizio Operti	Date
	Manager	
	Integration and Trade Sector	
	INT/INT	