

TC ABSTRACT

I. Basic project data

▪ Country/Region:	Andean Region (CAN)
▪ TC Name:	Institutional capacity enhancement in the areas of trade facilitation and investment promotion.
▪ TC Number:	RG-T2606
▪ Team Leader/Members:	Isabel Mejia (INT/TIU); Ana Arias (INT/TIU), Joonseob Kwon (INT/TIU), Juan Manuel Escalante (INT/TIU), Álvaro López (CAN/CAN), Maria Rospide (INT/TIU).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ Reference to Request:	
▪ Date of TC Abstract:	February 25 th , 2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Ministers of Trade and Investment and Trade Promotion Organizations of the Andean Region Countries
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program) {If Bank: Contracting entity} {If the same as Beneficiary, please indicate}	The Inter-American Development Bank (IDB) through the Trade and Investment Unit (INT/TIU).
▪ IDB Funding Requested:	500,000
▪ Local counterpart funding, if any:	0
▪ Disbursement period (which includes execution period):	36 months
▪ Required start date:	March 15 th , 2015.
▪ Types of consultants (firm or individual consultants):	Firms and individual consultants.
▪ Prepared by Unit:	TIU/INT
▪ Unit of Disbursement Responsibility:	TIU/INT
▪ Included in Country Strategy (y/n);	Yes
▪ TC included in CPD (y/n):	Yes
▪ GCI-9 Sector Priority:	Competitive Regional and Global International Integration.

II. Objective and Justification

Intra-regional and international trade in the Andean Region has grown over the last three decades, largely due to agreements to lower trade tariffs and the elimination of quota systems. As a result, industry and manufacturing sectors have expanded, carry the potential of competing in global value chains, and are in demand of closer and more effective interconnections of supply and logistics services. According to the World Bank's Logistics Performance Index (LPI), which is used to measure countries performance in trade facilitation, shows an overall average score of 2.66 for the Andean countries, lower than the LAC region average of 2.77¹ Different economic studies indicate that "an efficient

¹ Similarly, at the regional level, de Andean average is outperformed by the Southern Cone (2.93) and Central America (2.86), and is closely followed by the Caribbean (2.59).

international trade system can increase economic opportunities and improve livelihoods, especially in poor economies with small domestic markets”.²

In addition, the region’s strong economic growth has increased foreign direct investment (FDI) which rose from \$27 billion in 2007 to \$58 billion in 2012.³ Despite the relatively high volume of FDI inflows, the international competitiveness of the Andean countries has deteriorated. According to Economic Commission for Latin America and the Caribbean (ECLAC), the main attraction of the Andean countries remains still in their abundant natural resources. For diverse reasons, FDI has not been significant in the sub region’s industrialization or in improving its international competitiveness.

Korea is considered as role model by many developing countries for its remarkable economic, social and political advancement. Korea ranked 25th overall in the Global Competitiveness Index 2013-2014. Moreover, Invest in Korea is considered a best practice example in the world and can support the Andean trade and investment promotion organizations to improve their efficiency.

The general objective of the project is to support the Andean region to improve their trade facilitation systems and strengthen their capacity to attract and retain FDI in order to promote high added value exports, generate investments and create employment and wealth. The specific objectives are: (i) strengthen the technical capacity of public officials in the areas of trade and investment in order to improve their effectiveness to facilitate trade and promote exports and FDI flows; and (ii) identify the main bottlenecks in the Andean countries international trade system in order to design a critical route to improve exporting and importing processes in these countries. The objectives and activities of the project correspond to the Bank’s Strategy for Regional Integration (GN-2565-4), as they will promote trade, investment and regional integration. In addition, the project is aligned with the country strategies of Bolivia,⁴ Colombia⁵, Ecuador⁶, and Peru⁷.

² <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Chapters/DB14-Implementing-trade-single-window.pdf>

³ http://unctad.org/en/PublicationChapters/wir2014ch2_en.pdf

⁴ The project will support “strengthening public institution to effectively execute public policies” GN-2631-1.

⁵ The project will support to “buildup of institutional technical expertise to implement and make the most of existing trade agreements, facilitate trade, and support new agreement (...)” GN-2648-1.

⁶ The project is aligned with Ecuador country strategy as it will support areas such as competitiveness and innovation, primarily on issues of promoting private sector investment. GN-2380.

⁷ The project is aligned with Peru’s country strategy as it will support trade and integration, on issues of exploiting trade agreements, trade facilitation and services. GN-2668.

III. Description of activities and outputs

Component I: Strengthening the institutional capacity in the areas investment promotion. This component aims at strengthening the technical capacities of the institutions in charge of promoting investments in the Andean region through the following activities: (i) a technical analysis of Andean country's FDI framework and identification of areas for improvement and development; (ii) a benchmark study on best practice on FDI promotion and aftercare, showing remarkable effectiveness of targeted benchmarking services and programs; a technical workshop in beneficiary countries to share the outcomes of the studies described before; and (iv) a proposition of an action plan to enhance the technical capacity of the National Investment Promotion agencies in the area of investment promotion and aftercare, taking into consideration global best practices such as Korea.

Component II: Improvement of trade facilitation and supply chains: This component aims at supporting the Andean countries to improve their international trade facilitation systems and promote greater participation in global value chains through the following activities: (i) a technical analysis of Andean country's institutional and regulatory framework for trade facilitation, and identification of areas for improvement and development, including: bottlenecks in exporting and importing processes, extent of participation in global value chains and how to overcome challenges in key sectors and markets, and mapping of logistics chains and costs; (ii) a roadmap for improvements in trade facilitation systems and more participation in regional and global value chains in order to improve response efficiency to international trade demands; (iii) a technical workshop in beneficiary countries to share the outcomes of the studies described before.

Indicative Budget

Activity/ Component	Activities	IDB/Fund Funding	Counter -part Funding	Total Funding
Component I	i) Analysis of FDI framework and competencies	50,000	0	50,000
	ii) Benchmark study	40,000	0	40,000
	iii) Technical workshops	60,000	0	60,000
	iv) Exchange of best practices with Korea	30,000	0	30,000
	Subtotal	180,000	0	180,000
Component II	i) Analysis of TF/Log. framework and competencies	60,000	0	60,000
	ii) Analysis of key challenges for greater participation in global value chains in key sectors	80,000	0	80,000
	iii) Roadmap improvements in trade facilitation systems and capacities to develop supply programs in key sectors	45,000	0	45,000
	iv) Technical workshops	60,000	0	60,000
	v) Exchange activities with Korea	30,000	0	30,000
	Subtotal	275,000	0	275,000
Monitoring and Administration		30,000	0	30,000
Contingencies (3%)		15,000	0	15,000
Total		500,000	0	500,000

IV. Executing agency and execution structure

This operation will be executed by Trade and Investment Unit of the Inter-American Development Bank, in accordance with the Bank's Technical Cooperation Policy (Document GN-2470-2). The procurement of individual consulting services will be carried out by the IDB in accordance with Human Resources (HRD) policies (AM-650). The procurement of firm consulting services will be carried out by the IDB in accordance with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9). The procurement of consulting services different from consultants will be carried out by IDB in accordance with Corporate Procurement Policies (GN-2303-20).

The main reasons that justify the execution of the project by the Bank are as follows:

- (i) This is a regional project that involves coordination with several public and private sector stakeholders from the Andean region, and the Bank is an ideal position to execute it given its presence in every country.
- (ii) TIU has assisted countries in the design and implementation of national trade policies and has proven experience in addressing their needs in trade and investment through tailored and rapid response mechanisms. The activities to be financed by this TC would be prepared through a joint IBD-Government prioritization.

V. Project Risks and issues

Major risks could relate to possible poor local institutional capacity and engagement, which will be mitigated through close and early engagement with key government agencies and by promoting their active participation in the activities described before.

VI. Environmental and Social Classification

This project has been classified under the category "C" according to the Policy Environment and Safeguards Compliance Policy (OP-703) (see [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)).