

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	2025 Development in the Americas: Competition and Productivity
▪ TC Number:	RG-T4415
▪ Team Leader/Members:	Busso, Matias (RES/RES) Team Leader; Alvarez Rivero, Vanessa Isabel (RES/RES) Alternate Team Leader; Blyde, Juan S. (INT/RIU); Crespi, Gustavo Atilio (IFD/CTI); Diaz Gill Virginia Maria (LEG/SGO); Escobar Genes, Myriam Helvecia (RES/RES); Heresi Gajardo, Rodrigo (RES/RES); Kaplan, David Scott (SCL/LMK); Keefer, Philip Edward (IFD/IFD); Ramos Santos, Cezar Augusto (RES/RES); Scartascini, Carlos (RES/RES); Serebrisky, Tomas Sebastian (INE/INE); Talamas Marcos, Miguel Angel (RES/RES); Urquiola Ralero, Montserrat (RES/RES); Volpe, Christian (INT/TIN) Team Leader; Alvarez Rivero, Vanessa Isabel (RES/RES) Alternate Team Leader; Blyde, Juan S. (INT/RIU); Crespi, Gustavo Atilio (IFD/CTI); Diaz Gill Virginia Maria (LEG/SGO); Escobar Genes, Myriam Helvecia (RES/RES); Heresi Gajardo, Rodrigo (RES/RES); Kaplan, David Scott (SCL/LMK); Keefer, Philip Edward (IFD/IFD); Ramos Santos, Cezar Augusto (RES/RES); Scartascini, Carlos (RES/RES); Serebrisky, Tomas Sebastian (INE/INE); Talamas Marcos, Miguel Angel (RES/RES); Urquiola Ralero, Montserrat (RES/RES); Volpe, Christian (INT/TIN) Team Leader; Alvarez Rivero, Vanessa Isabel (RES/RES) Alternate Team Leader; Blyde, Juan S. (INT/RIU); Crespi, Gustavo Atilio (IFD/CTI); Diaz Gill Virginia Maria (LEG/SGO); Escobar Genes, Myriam Helvecia (RES/RES); Heresi Gajardo, Rodrigo (RES/RES); Kaplan, David Scott (SCL/LMK); Keefer, Philip Edward (IFD/IFD); Ramos Santos, Cezar Augusto (RES/RES); Scartascini, Carlos (RES/RES); Serebrisky, Tomas Sebastian (INE/INE); Talamas Marcos, Miguel Angel (RES/RES); Urquiola Ralero, Montserrat (RES/RES); Volpe, Christian (INT/TIN)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	03 Nov 2023.
▪ Beneficiary:	Regional
▪ Executing Agency and contact name:	Inter-American Development Bank, Matias Busso, RES/RES, team leader and supervisor
▪ Donors providing funding:	OC SDP Window 2 - Economic Growth(W2F)
▪ IDB Funding Requested:	US\$300,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months (36 months execution)
▪ Required start date:	December 13, 2023
▪ Types of consultants:	Individual consultants (PEC)
▪ Prepared by Unit:	RES-Research & Chief Economist
▪ Unit of Disbursement Responsibility:	RES/RES-Research & Chief Economist
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Social inclusion and equality; Productivity and innovation; Institutional capacity and rule of law

II. Objectives and Justification of the TC:

- II.1 Low long-run productivity growth is at the core of the region's development challenges. Fostering productivity growth would ignite economic growth allowing the region to address several complex issues: from fiscal fragility to poverty to food insecurity, from climate change adaptation to resilience to negative shocks. The IDB Group must reassess its strategies and strengthen its commitment to fostering productivity growth in the region. By placing these issues at the forefront, the IDB Group can create a more inclusive and equitable society and contribute to sustainable growth in LAC economies.
- II.2 There is widespread empirical evidence of increasing market concentration and corporate market power across the globe with sales-weighted markups rising from 1.1 to 1.8 since 1980 (IMF, 2019; De Loecker and Eeckhout, 2021).¹ These upward trends have been accompanied by drops in investment rates and productivity growth (Covarrubias, Gutierrez and Philippon, 2019), entry rates and business dynamism (Decker, Haltiwanger, Jarmin, and Miranda, 2016; Akcigit and Ates, 2019), decreases in the labor share of income (De Loecker, Eeckhout, and Unger, 2020; Barkai, 2020), as well as raising inequality (Eslava, Melendez, and Urdaneta, 2021).
- II.3 These observations have sparked concerns and a renewed interest among academics and policymakers regarding market power, its causes, and its consequences. Although most studies have primarily examined the U.S. economy, the substantial implications of market power on economic growth have raised growing concerns about the adverse effects of reduced competition in Latin America and the Caribbean (LAC). In fact, the region's existing diagnosis appears to be more severe than in advanced economies, with significantly higher market concentration and markups, alongside a substantially lower labor share of aggregate income (i.e., De Gregorio, 1992). Furthermore, in Latin America and Caribbean countries, not only are average markups potentially higher than in developed economies, but also economic rents tend to be concentrated among fewer shareholders, resulting in a greater business ownership concentration in the region compared to the rest of the world (Eslava, Melendez, and Urdaneta, 2021).
- II.4 There is preliminary evidence suggesting that fostering competition may lead to higher productivity and economic growth. Armangue-Jubert, Guner and Ruggieri (2023) find that imperfect competition in labor markets can lead to efficiency losses and lower aggregate output. They conclude that GDP per capita in developing economies would increase by almost 70 percent if their labor markets were as competitive as in countries at the top of the development ladder. Preliminary analysis based on Cavalcanti, Kaboski, Martins and Santos (2023) and Bonomo, Cavalcanti, Chertman, Fantinatti, Hannon and Santos (2023) shows that one specific pro-competition loan portability policy would lead to GDP gains of 7 percent. Restuccia (2013) shows that removing regulatory barriers to entry and competition would increase the region's productivity by a factor of four. Reed, Pereira, Urrutia and Iacovone (2023) find that antitrust enforcement in Mexico could add 0.5 percentage points to per capita GDP growth.
- II.5 Public policy can foster productivity growth through competition. Buccirossi et al. (2009) found a positive and significant effect of competition policy total factor productivity growth for 22 industries in 12 OECD countries from 1995 to 2005. While the evidence base needed to design and implement effective competition policies in LAC is growing, critically important knowledge gaps remain. This project aims at understanding the factors driving the increase in concentration and markups so that to

¹ Market power is usually defined in the literature as the ability of a firm to profitably increase the price of its good or service above the competitive level (i.e., above the marginal cost), thereby earning a return above the normal profits expected in a competitive market.

better design policies that create a more stable and competitive business environment. One of those factors proposed by Autor, Dorn, Katz, Patterson, and Van Reenen (2020) suggests that technological changes and globalization might lead to rising product market concentration as industries become increasingly dominated by “superstar firms”, who exhibit relatively high markups and lower labor share than the rest of the economy. Thus, aggregate (share-weighted) markups can rise even in an increasingly competitive environment. Another mechanism involves imported inputs, where firms might raise markups when failing to pass on cost reductions due to lower input tariffs, as shown by De Loecker et al., 2016. Also, the significant wave of cross-border mergers and acquisitions (M&A) during this period could play a role, as large multinational corporations gain the ability and incentive to raise markups after acquiring previously competing entities. The government, playing a dual role as both a regulator and a significant buyer in the economy, can also have an impact on higher concentration and market power. An important objective of this project is to investigate these and other mechanisms that contribute to the rise in concentration and markups.

- II.6 The general objective of this technical cooperation is to produce new evidence that helps understand how the lack of competition and high economic concentration in output and input markets in the region may affect productivity growth, and more broadly, consumer welfare and inequality. The specific objective is to produce studies that will help write the 2025 edition of the Bank’s flagship publication, *Development in the Americas (DIA)*, on “Competition and Productivity.” *Development in the Americas (DIA)* is the flagship publication series of the Inter-American Development Bank. Published annually, the report contains the results of research compiled over a span of two to three years related to economic development in Latin America and the Caribbean. Reports have included topics such as debt, trust, infrastructure, tax systems, education, public spending, childhood development, productive development policy, saving, information technology, productivity, and quality of life. The DIA has broad internal audiences in headquarters and across IDB country offices, as well as key external stakeholders, including policymakers, development practitioners, and academics.
- II.7 The studies funded by this TC will also inform Bank operations, programming and strategy documents, and its policy dialogue with line ministries. In addition to funding these studies, this TC will also fund workshops aimed at coordinating the writing of the DIA, translation of the DIA, and seminars to disseminate the findings.
- II.8 This TC will generate research and evidence on the social impacts of competition policy and productivity growth. It is therefore aligned with the Ordinary Capital Strategic Development Program (GN-2819-14), including the objectives and activities pursued by Window 2, Priority Area 6: *inclusive economic growth* and with the Second Update to the Institutional Strategy (AB 3190-2) since it directly tackles the *development challenge of productivity and innovation* as well as *social inclusion and equality*. The operation is also aligned with the *cross-cutting themes of institutional capacity and the rule of law*, since it will develop the knowledge that the IADB and its clients need to formulate efficient and effective policies and programs to foster competition and a more dynamic business environment.
- II.9 This TC will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12), Level 3 indicator “Average downloads of IDB Group publications (#),” by contributing to publishing and promoting IDBG’s flagship research report. In the long-term, it will contribute to several Level 2 indicators including “Jobs supported”, “Micro, small, medium enterprises financed”, “Amount of international trade supported”, “Countries with strengthened tax and expenditure policy and management” by providing knowledge to decision-makers on how to implement regulatory, procurement, innovation, and competition policies. Thus, potential beneficiaries of this TC include consumers, workers, and firms within countries of the region; as well as policymakers

who would be better equipped to implement pro-growth social policies with better evidence at hand.

III. Description of activities/components and budget:

- III.1 Component 1. Studies on productivity and competition (US\$250,000).** This component will fund three to six research projects on competition and productivity that will be used to write the 2025 DIA. The chapters of the 2025 DIA will focus on the following topics: (i) the effect of competition, concentration, and markups on productivity and welfare; (ii) measuring competition in LAC output markets ; (iii) labor markets, competition, informality, and inequality ; (iv) capital markets: competition and access to credit for growth ; (v) innovation, property rights, and competition ; (vi) regional integration and competition; (vii) government procurement and markets; (viii) anti-trust policy, competition and regulations; (ix) the political economy of the (lack of) competition .
- III.2** Each chapter will be written by a team of authors drawn from units from across IDBG. The DIA will provide, for as many countries as data allows, updated statistics on productivity growth, market power, and market concentration. Per the usual process of writing a DIA, a small group of editors will coordinate the work of the chapter authors. The process of writing the DIA, including developing an outline and identifying chapter authors began in the summer of 2023. Chapter authors in need of funding will write proposals that will be submitted to the editors of the 2025 DIA. The editors will select which proposals to fund and at what amount. The criteria used to make these decisions will include: the contribution of the study to filling a critical knowledge gap for the 2025 DIA; the feasibility of the proposal and availability of necessary data;² the expertise of the research team; and the need for funding given availability of support from alternative sources or lack thereof. Where appropriate, studies funded by this operation will be published as ‘background papers’ in the form IDB policy briefs, technical notes, and working papers.
- III.3** Component 1 also includes networking among the research teams, policy makers, external advisors, and IDB staff. Networking among the research teams, policy makers, and IDB staff will be facilitated at workshops where authors will present their preliminary and final results. These workshops are planned for March 2024 and October 2024. At these workshops, advice on the overall structure and individual chapters that comprise the DIA will be provided by the editors of the DIA, a range of IDBG specialists, and four experts on competition and productivity. The timing for completion of Component 1 will be 18 months after the start of the operation to allow the teams to complete the proposed analysis and to write, revise, and finalize their DIA chapters.
- III.4 Component 2. Translation and dissemination (US\$50,000).** This component will finance: (i) translation of 8 chapters of the DIA; and (ii) dissemination of research results to target audiences. Translation of the DIA will be completed in the second quarter of 2025. DIA findings will be disseminated as written products and via seminars both at headquarters and in LAC planned for the Fall of 2025 and during 2026. One goal of dissemination is to ensure that the results are appropriated by LAC stakeholders and ultimately improve business environment of economies in the region. A second goal is to inform the design and implementation of IDBG operations. Dissemination of research results within IDBG will help to achieve this second goal. In LAC, dissemination will target key national and regional stakeholders, including

² If necessary, the team will coordinate with local Bank staff that might help secure access to data.

representatives of national finance, competition agencies, academic, and research institutions in the region. The timing for completion of Component 2 will be 36 months after the start of the operation.

III.5 The main outcome of this TC will be that the DIA will be published and found an audience. The main outputs will be: (i) individual 2025 DIA chapters; (ii) workshops aimed at coordinating the writing of these chapters; (iii) the translation of these chapters and; (iv) the seminars aimed at disseminating the DIA to target audiences.

III.6 The total cost of this operation is US\$300,000, which will be financed with resources from Ordinal Capital SDP Window 2 - Economic Growth, W2F. Additional resources are being provided by the Research Department for background research and publication of the Development in the Americas Report 2025. There is no local counterpart funding. The disbursement and executing period is 36 months.

Indicative Budget
(in US\$)

Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
1	Studies on competition and productivity	250,000	0	250,000
2	Translation and dissemination	50,000	0	50,000
	Total USD:	\$300,000	0	\$300,000

III.7 This operation will be executed by the IDB. The Research Department (RES) will be responsible for the preparation, execution, and supervision of Components 1 and 2 following the policies established by the Bank. The team leader (Matias Busso) and Alternate Team Leader (Vanessa Alvarez) and team members (Phillip Keefer, and Cezar Santos) will be responsible for the execution and monitoring of the operation. They will supervise the submission of deliverables and track that these products are delivered according to the project's planned timeline with the support of the team members of the project.

IV. Executing agency and execution structure:

IV.1 This TC will be executed by the Bank through RES/RES. The principal reason for this execution structure is that DIAs are designed, coordinated, written, and disseminated by the IDB, specifically by a team of editors drawn from RES and a VPS sector. Additional reasons are that the scope of the DIA is regional; the execution of the project by the IDB will facilitate the communication and dissemination of study results across countries; and the activities supported by the TC will generate synergies and complementarities with Bank operations and research.

IV.2 The activities to be executed under this operation have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the IDB's established procurement methods. Specifically, the Bank will follow its procurement policies and guidelines related to contracting processes: (i) individual consultants will be hired according to the guidelines established in policy AM-650; (ii) other non-consulting services in accordance with the "IDB Institutional Procurement Policy" ([GN-2303-28](#)).

IV.3 The activities of Component I will be developed by individual consultants, according to the Procurement Plan. Activities related to Dissemination and events are

considered in Component II, identified as non-consulting services (GN-2303-28), and it may include small purchases that include logistics, catering, editing, printing and translation.

IV.4 The TC does not contemplate reimbursement of expenses.

V. Major issues:

V.1 The main risk to successful and timely execution of the project is that Chapter research teams may not have the capacity, or data needed to complete their individual projects. To minimize that risk, we will carefully select both consultants and study proposals: we will engage with consultants with an excellent track record of successful execution, and we will select only projects with well-designed research plans. In addition, we will structure contracts and monitor those projects to ensure continued incentives for timely performance. Finally, we will coordinate with country economists or other specialists in the country offices to facilitate/manage access to data for various studies.

VI. Exceptions to Bank policy

VI.1 There are no exceptions to the Bank's policies in this operation.

VII. Environmental and Social Aspects

VII.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix_29966.pdf](#)

[Terms of Reference_64352.pdf](#)

[Procurement Plan_90340.pdf](#)