

## INTER-AMERICAN DEVELOPMENT BANK

### IDB-Canada Trade Fund Project Profile – Regional (Andean Countries)

August 20, 2009

#### I. BASIC PROJECT DATA

<b>Project Name and Number:</b>	Internationalization of Services Trade in Andean Countries – RG-T1695		
<b>Financing Source:</b>	IDB-Canada Trade Fund		
<b>Project Team:</b>	Fabrizio Opertti (INT/INT) Project Team Leader; Kea Wollrad, Isabel Mejia, Pablo Garcia, Lesley Cassar, Caroline Levington, Yasmin Esteves (INT/INT); Diego Buchara (LEG/SGO)		
<b>Beneficiary Countries:</b>	Bolivia, Colombia, Ecuador and Peru		
<b>Executing Agency:</b>	The Inter-American Development Bank		
<b>Financing:</b>	IDB-Canada Trade Fund:	CAD\$500,000	(≈US\$460,808)
	Local counterpart:	CAD\$ 0	(≈US\$ 0)
	Total:	CAD\$500,000	(≈US\$460,808)
<b>Execution period:</b>	18 months		
<b>Disbursement period:</b>	24 months		

#### II. BACKGROUND

- 2.1 **Background.** Over the past several decades, global economies have come under increasing pressure to maximize productivity. Outsourcing non-core business functions emerged as a successful strategy to maximize efficiency. Many firms have initiated a cost cutting strategy, but have increasingly outsourced to improve results, reach new markets and access specialized expertise. In a great variety of industries, success in both domestic and international markets requires an intelligent outsourcing strategy and firms in the developed countries are seeking offshore opportunities where the right fit of capable services firms, infrastructure, qualified labor at relatively low cost and cultural fit can be found. As firms in the developed world increasingly look to emerging markets to expand and diversify their outsourcing strategies, the Andean region should position its markets to participate fully by strengthening firm capability and aligning its services offerings with global demand.
- 2.2 The market for offshoring services has been growing at double digit rates for over eight years and is estimated to have reached an average annual value of \$60-70 billion in 2008.<sup>1</sup> The market is segmented into three parts: information technology outsourcing (ITO),

---

<sup>1</sup> Sources: McKinsey, Everest Research Institute, Forrester Analysis.

business process outsourcing (BPO) and knowledge process outsourcing (KPO). ITO encompasses all activities associated with IT software applications and infrastructure and has traditionally been the largest market segment, representing approximately 50% of the total market in 2007. BPO represents a wide range of back- and front-office IT-enabled services and currently represents approximately 35% of the offshoring market. KPO encompasses high value-added market activities including research and development (R&D), market analytics and professional services in the financial, engineering and healthcare industries. Following its recent emergence, KPO has already become 15% of the offshoring market and studies predict that it will be the fastest growing segment.

- 2.3 The Andean region presents a unique opportunity to capitalize on new offshoring trends. Research by Duke University's Offshoring Research Network indicates that offshoring firms value speed to market and qualified personnel increasingly more relative to cost advantages. As buyers of services progressively favor "nearshoring" approaches and increase geographical diversification to mitigate risk, the Andean states gain a competitive advantage due to their proximity to U.S.-headquartered firms. The Andean region also benefits from relatively strong cultural affinity with North America and Europe, a neutral Spanish for business communication and voice-based services aimed at the Spanish-speaking market in the U.S., and regionally competitive costs for skilled labor as well as business expenses.<sup>2</sup> As a result, the Andean region has the potential to become an important player in the offshoring landscape.
- 2.4 **Problem definition.** Despite the clear potential, the offshoring industry in the Andean region is still relatively underdeveloped and unknown to foreign companies. While Argentina, Brazil, Chile, Mexico and Uruguay have all risen in the A.T. Kearney Global Services Location Index (GSLI) in recent years, the Andean states remain notably absent from the top 50. Fortunately, the improvement in the Southern Cone largely reflects new policies and promotion of service exports. Similar investments in the Andean region could be expected to achieve significant gains in trade in services. The focus should be on improving the business environment and financial attractiveness of the region.
- 2.5 The development of regional centers of excellence in service provision and the attraction of greater multi-country foreign investment will strengthen trade integration and consolidation of regional markets. As a result, improvements in productivity and entrepreneurial innovation, as well as increasing services export volumes, can be expected in the region.
- 2.6 **Relevance to the Bank's institutional strategy.** The objectives and activities of the project correspond to the Bank's Strategy for Regional Integration (GN-2245), which highlights that "one key focus of attention is regional market consolidation, to preserve the gains achieved thus far and continue to enhance liberalization processes. The priority aim of the Bank's umbrella strategy should be to provide support to countries to devise and enforce rules that will foster efficient trade and investment in the regional marketplace (...)"

---

<sup>2</sup> Source: Economic Intelligence Unit (EIU) World Investment Service & Country Commerce Data, 2008-2009.

- 2.7 The Bank's Strategy for Regional Integration also seeks to orient Bank support toward economic integration and regional cooperation. Additionally, it seeks to foster trade in services and increase foreign investment.
- 2.8 Resources to finance the operation will come from the IDB-Canada Trade Fund and will be provided on a "nonreimbursable" basis.

### III. OBJECTIVES AND PROJECT DESCRIPTION

#### A. Objectives

- 3.1 The **goal** of the project is to support the governments of the Andean countries in developing mechanisms to improve the regional capability to create investment opportunities and high value-added jobs. The **purpose** is to enhance the capacity and maturity of offshoring service providers through new trade and investment promotion strategies.
- 3.2 The project's specific objectives are to: (i) strengthen capacity in sectors with services export potential through a process of identifying specific opportunities within Andean states and the requirements of international demand; and (ii) market the countries' competitive advantages with emphasis on the export services industry.

#### B. Project Description

- 3.3 The outputs and outcomes of this project will benefit the following institutions: (i) Bolivia - Promueve Bolivia; (ii) Colombia - Proexport Colombia; (iii) Ecuador - Corporación de Promoción de Exportaciones e Inversiones (CORPEI); and (iv) Peru - PROMPERU.
- 3.4 **Component 1: Analysis for the Andean Region's Offshoring readiness:** In order to achieve development of the offshoring industry in the Andean region, the program will include the activities that follow.
- 3.5 **Detailed assessment of the current scenario of the offshoring industry in the Andean region:** The project will finance a study to understand and detail the various advantages that the Andean countries possess and the key challenges the region would have to overcome to become a leader in the offshoring industry. Among others, the study will analyze the following aspects: (i) global trends in the short term (5 years) and medium term (10 years) in the ITO, BPO and KPO industry segments; (ii) the current situation of the offshoring industry in Andean countries with respect to the available talent pool, cost of operations, business maturity, risk environment and other macro-economic indicators; (iii) skill availability to meet growing demand; (iv) competition from other markets; and (v) current and potential role of the government and industry/trade promotion agencies in fostering the evolution.
- 3.6 **Business surveys and policy recommendations:** The project will support in-person interviews with multiple stakeholders in the region. These interviews will include representatives from among the service providers, government, financial institutions,

educational institutions and private sector companies in the industry. Data gathering will also be carried out to determine market and labor pool availability, quality and scale.

- 3.7 **Recommendations and suggested roadmap:** Based on the detailed study and analysis undertaken, the project will also finance the preparation of recommendations and a critical roadmap for the implementation of the strategies, recommendations and best practices that will assist the Andean countries to become a more attractive destination for international investment.
- 3.8 A consultancy firm with relevant working experience in developing and executing globalization and outsourcing strategies will be hired for approximately 6 months to conduct all the activities described above.
- 3.9 **Component 2: Promotion of competitive advantages:** the activities outlined below will seek to strategically position the Andean region as a strong participant in the offshoring industry.
- 3.10 **Promotion of regional integration:** The project will support a workshop for dissemination of findings, training and support for authorities in each beneficiary Andean country with the purpose of: (i) presenting the results of the data analysis, survey, and providing strategic recommendations; (ii) promoting high levels of knowledge and partnership-building among entrepreneurs from and within the Andean countries; and (iii) promoting regional integration through multi-country investment opportunities among the countries of the Andean region.
- 3.11 In order to carry out this activity, 2 individual consultants will be contracted as trainers to host the workshops. It is expected that the workshops will be held over a period of 12 months. The Integration and Trade Sector will be responsible for organizing the workshops.
- 3.12 **Value proposition and branding:** Finally, funds will be allocated to brand-building activities focused on identifying and disseminating the value proposition of Andean countries within the global offshoring industry. The value proposition will build on the factors that have been identified as unique or particularly advantageous to the region (e.g. time zone, expertise, human capital, culture, location, cost structure). The project will then use this branding strategy to support the design of a promotional campaign that showcases Andean countries' services exports and highlights investment opportunities for foreign companies.
- 3.13 Resources allocated to Component 2 will be used to contract a consultancy firm for 3 months to undertake these activities.

#### IV. ESTIMATED BUDGET (in Canadian dollars)

Item	IDB-Canada Trade Fund	Local Counterpart (in-kind)	Total
<b>Component I: Analyzing Andean Region's Competitive Position</b>	<b>227,862</b>		227,862
<i>Detailed assessment of the current scenario of the Offshoring industry in the Andean region:</i>			
Consultancy firm for detailed study on the various advantages that each country of the Andean region possesses and the key challenges that each would have to overcome to be a leader in the Offshoring industry	81,379		
<i>Business surveys &amp; policy recommendations:</i>			
Consultancy firm for interviews with multiple stakeholders in the region	10,851		
Consultancy firm for a detailed analysis of the data gathered in the interviews	54,253		
Consultancy firm to prepare recommendations and a roadmap for implementation of the strategies, recommendations and best practices	81,379		
<b>Component II: Promotion of Competitive Advantages</b>	<b>227,862</b>		227,862
<i>Promotion of regional integration:</i>			
Workshops for dissemination of findings, training and support for authorities in charge of promotional activities	17,361		
Workshop trainers' fees (2 trainers per workshop)	26,041		
Tickets and venues for the trainers (1 trip per country)	16,276		
<i>Value proposal &amp; promotional strategy:</i>			
Consultancy firm for the creation of the Andean region value proposal within the global Offshoring industry	81,379		
Consultancy firm for the design of a sector specific promotional campaign	54,253		
Brand-building activities	32,552		
<b>Individual consultant to support project implementation (6 months)</b>	<b>28,754</b>		28,754
<b>Contingencies (3%)</b>	<b>15,522</b>		15,522
<b>TOTAL</b>	<b>500,000</b>	<b>0</b>	<b>500,000</b>

Exchange rate: CAD\$1.085050 on 07/23/2009 = USD\$1

#### V. EXECUTING AGENCY AND EXECUTION STRUCTURE

5.1 The Bank, through the Integration and Trade Sector, will be the executing agency for this project.

## **VI. MAJOR ISSUES**

- 6.1 No mayor issues are expected to negatively affect the timely processing and execution of this TC.

## **VII. ACTION PLAN**

- 7.1 The estimated Schedule for preparation of the Project is the following:  
QRR November 2009.  
Approval November 2009.

## **VIII. ENVIRONMENTAL AND SOCIAL IMPACT**

- 8.1 The TC will not generate social or environmental impacts, since it will consist of studies and strategy development. This Technical Cooperation was classified with "C", no environmental assessment studies or consultations are required for this Category.

## **IX. APPROVAL**

<i>(Original signed)</i>	November 08, 2009
_____ Antoni Estevadeordal, Gerente, INT/INT	_____ Fecha
<i>(Original signed)</i>	November 09, 2009
_____ Alicia Ritchie, Gerente General CAN/CAN	_____ Fecha