

TC DOCUMENT

I. Basic Information for TC

| | |
|--|---|
| ▪ Country/Region: | BRAZIL |
| ▪ TC Name: | Post-COVID Recovery: Investment Opportunities in Brazil |
| ▪ TC Number: | BR-T1511 |
| ▪ Team Leader/Members: | Piereck, Guilherme C. (INT/TIN) Team Leader; Dorantes Gomez, Angela Carmelia (INT/INT); Eschoyez, Guillermo Antonio (LEG/SGO); Esteves, Yasmin (INT/INT); Veiga Da Silva, Claudia (CSC/GBR) Team Leader; Dorantes Gomez, Angela Carmelia (INT/INT); Eschoyez, Guillermo Antonio (LEG/SGO); Esteves, Yasmin (INT/INT); Veiga Da Silva, Claudia (CSC/GBR) |
| ▪ Taxonomy: | Client Support |
| ▪ Operation Supported by the TC: | . |
| ▪ Date of TC Abstract authorization: | 18 Jul 2022. |
| ▪ Beneficiary: | Brazil, APEX and Subnational Governments |
| ▪ Executing Agency and contact name: | Inter-American Development Bank |
| ▪ Donors providing funding: | OC SDP Window 2 - Integration(W2D) |
| ▪ IDB Funding Requested: | US\$500,000.00 |
| ▪ Local counterpart funding, if any: | US\$0 |
| ▪ Disbursement period (which includes Execution period): | 36 months |
| ▪ Required start date: | January 15, 2023 |
| ▪ Types of consultants: | Individuals and Firms |
| ▪ Prepared by Unit: | INT-Integration and Trade Sector |
| ▪ Unit of Disbursement Responsibility: | INT/INT-Integration and Trade Sector |
| ▪ TC included in Country Strategy (y/n): | Yes |
| ▪ TC included in CPD (y/n): | Yes |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Diversity; Economic integration; Gender equality; Institutional capacity and rule of law; Productivity and innovation |

II. Objectives and Justification of the TC

- 2.1 The year of 2022 started with the world during an asymmetrical recovery, where in some countries COVID-19 infection rates have fallen significantly, while in others, the virus remains difficult to control. But whether governments are actively managing outbreaks or returning to normalcy, economic recovery is central to their forward-looking agenda. According to OECD¹, many governments announced large investment recovery packages (larger than those adopted in 2008), focusing on public investment. These investment recovery packages prioritize three areas: (i) strengthening health systems; (ii) digitalization; (iii) accelerating the transition to a carbon neutral economy.
- 2.2 Additionally, the effects of Russia's invasion of Ukraine have caused more profound shocks. It has disrupted markets in energy and, crucially, food in ways which highlight

¹ [OECD Policy Responses to Coronavirus \(COVID-19\)](#).

the need for more broadly based supplies. Also, the pandemic induced supply shortages, and it heightened national security concerns in several economies².

- 2.3 For these reasons, the International Monetary Fund (IMF) revised and reduced its projection for economic growth on October 11, 2022³. Global growth is now projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected in January.
- 2.4 According to a McKinsey survey (November 23, 2021)⁴, regionalization remains a priority for most global companies and almost 90 percent of respondents expect to pursue some degree of regionalization in their supply chains during the next three years. BlackRock's annual letter to shareholders spotlights Brazil as one of the most direct beneficiaries of this Global Value Chain (GVC) realignment. As stated by the Economist, decision-makers are increasingly concerned that GVCs should be robust, not just efficient. Governments and firms are constantly reminded that resilience also comes from diversification.
- 2.5 For economic growth to pick up in an inclusive manner, the country must seek to become more involved in GVCs and do so in higher value-added activities, where jobs are of better quality. However, the participation of the Brazil in the GVCs is lagging, on the one hand, due to deficiencies in the capacities of the local productive sector to join the GVCs and, on the other, due to the lack of skills required by the labor market.
- 2.6 Additionally, the European Parliament had just approved (September 13, 2022) a proposal that expands the list of products that could be banned from the European market if they come from deforested or degraded land, increasing pressure on Brazilian exports⁵. Amazon's agro-exporters have to prove that their product (e.g. cacao) is not produced within a deforested area.
- 2.7 Brazil can provide many of the solutions that the region needs right now, from realigned and resilient supply chains to abundant, solid, and sustainable investment options across many sectors. Economic growth resumed in Brazil in 2021. Gross Domestic Product (GDP) grew by around 4.6% in 2021, outweighing 2020's 3.9% decline. Recent trade data estimates that Brazil's exports grew almost 35% in 2021. The Brazilian economy is also performing well in 2022. The economy grew 1.0% in the first quarter, unemployment fell to 10.5% (down from 14.8% during the pandemic) and business and consumer confidence are increasing. Also, after the strong retraction of Foreign Direct Investment (FDI) in 2020, international investors have resumed their appetite for investing in Brazil.
- 2.8 This project is strategic in promoting and attracting investments to regional value chains in Brazil and its subnational entities (States and Municipalities). Considering the processes of reconfiguration of GVCs post COVID-19, the project seeks to identify investment opportunities at the subnational level. It will also finance sectoral and regional studies to identify investment opportunities and growth bottlenecks, including policy and investment interventions to overcome those bottlenecks. Products of forest origin will receive special attention.

² [Geopoliticized Industrial Policy Won't Work](#).

³ [World Economic Outlook Report October 2022](#). IMF.

⁴ [How COVID-19 is reshaping supply chains](#). Mckinsey.

⁵ [Parlamento Europeu amplia liste de itens ligados a desmatamento que poderao ser barrados](#). O Globo.

- 2.9 This project will give a special attention to relation of trade and food security. The era of trade liberalization not only produced better economic outcomes, but also reduced hunger and famine, and enhanced food security – all during a period of rapid population increase. From 2001 to 2017, the number of undernourished people around the world plummeted by 170 million⁶. These direct effects translate into changes in food security indicators through three main intervening factors: total food supply, household income, and government services. Brazil has a leading role in the region in planning and supporting other countries to provide food to the world. This will not only increment trade but will also strengthen food security.
- 2.10 Also, this TC will support programs for the development of inclusive and resilient agri-food value chains, with a special focus on women producers, to improve their productivity, resilience, and inclusion in GVC.
- 2.11 This TC will support the Brazilian government in developing a complementary investment attraction and export promotion strategy. Furthermore, the main objective of this project is to support the Brazilian government and its subnational entities in the development and implementation of activities (e.g., Brazilian Investment Forum (BIF), business matchmaking, digital roundtables, etc.) leading to investment attraction and trade openness at national and sub-national levels. Naturally, due to the recent election in Brazil, the team will approach the new team of the Federal government to understand its sector priorities and eventually make adequate changes.
- 2.12 Resources from this TC will be used in the preparation and execution of the next Investment Forum with a view to attract investments to Brazil and its subnational entities. Finally, this TC will also finance training activities for the representatives of subnational organizations responsible for investment attraction and will aid potential investors during investment events.
- 2.13 **Strategic Alignment.** This TC is consistent with the Second Update of the Bank's Institutional Strategy (AB-3190-2) and aligned with the challenges of: (i) Productivity and Innovation, by helping to establish institutional frameworks to improve the business climate; and (ii) Economic Integration, by promoting economic growth, intraregional and global trade through the strengthening of trade and investments in the region at Federal and State levels. Likewise, the TC will contribute offering adequate knowledge and innovation ecosystems and will support the participation of SMEs into GVCs. In addition, it is aligned with the transversal area of Institutional Capacity and the Rule of Law because it will promote regulatory reforms, governance, and technological modernization to remove obstacles to productivity and business growth. The TC is aligned with the Country Strategy of the IDB Group with Brazil 2019-2022 (GN-2973), in two of the four strategic areas (i) promote business climate and (ii) promote international and national integration, by promoting the strengthening of a regulatory framework that allows productive and export development more sophisticated for the insertion of the country in GVC. This TC is also consistent with the Sector Strategy to Support Competitive Regional and Global Integration (GN-2565-4); with the CRV Strengthening Concept Note (GN-3038); and with the Sectoral Framework Document for Integration and Trade (GN-2715-11) by promoting the reduction of logistics costs, making use of emerging technologies, and promoting the attraction and facilitation of FDI that allows the integration of Brazil in GVCs and CRV. Finally, this TC is aligned with priority area 4: Global and regional competitive

⁶ [Food for thought: Globalization's role in ending world hunger](#). WEF.

integration of the Strategic Program for Development Financed with Ordinary Capital (GN-2819-14) in: (i) supporting the harmonization of policies and procedures for greater integration productive; (ii) strengthen the capacities of the Bank's borrowing member countries to participate in regional initiatives; and (iii) deepen knowledge on regional and global integration. This project is also aligned with Gender, Equality and Diversity priorities (GN-2727-12) as it promotes and supports SMEs led by women.

III. Description of activities/components and budget

- 3.1 **Component I: Regional and Global Value Chain Opportunities for Brazil (US\$250,000.00).** The objective of this component is to support the Brazilian government and subnational governments in developing strategies and policies to promote their integration and resilience into GVC (and/or regional value chains). This project may finance consultancies, diagnoses, roadmaps, technical update workshops and capacity building on: (i) sector analysis for different subnational entities identifying GVC opportunities and proposing policy reforms and action plans; (ii) opportunities to promote SMEs, especially led or owned by women, production and export of sustainable products compatible with the forest in the Amazon; (iii) evaluation of policy instruments and incentives for attracting FDI and promoting exports and subnational level; (iv) dissemination of the reports/studies under workshops, webinars, forums; and (v) sector analysis of trade and food security, the role and opportunities for Brazil with a focus GVCs and building resilience with fewer barriers to access.
- 3.2 **Component II: Investment and Export Promotion Activities (US\$250,000.00).** The objective of this component is to support the Brazilian government and its subnational governments in the planning, organization, and execution of investment attraction events, to showcase the investment opportunities in Brazil and increment trade and investment. This component will also help the Brazilian government and its subnational governments to be prepared to host and participate on such investment promotion events using international best practices for investment attraction. Under this component, the project will (i) develop investment attraction activities such as forums and missions; (ii) train government employees responsible for investment attraction according to best practices for investment promotion; and (iii) plan and execute trade initiatives to connect Brazilian SMEs, especially those led or owned by women, internationally and with GVCs.
- 3.3 **Indicative Budget:** The total budget of the TC is US\$500,000.00, which will come from the Strategic Program for the Development Financed with Ordinary Capital (OC-W2D), distributed as follows (See Annex IV – Procurement Plan for more details):

Indicative Budget (US\$)

| Activity/Component | IDB/OC-W2D |
|--|-------------------|
| Regional and Global Value Chain Opportunities for Brazil | 250,000.00 |
| Investment and Export Promotion Activities | 250,000.00 |
| Total | 500,000.00 |

- 3.4 **Supervision** of the TC will be carried out by the Trade and Investment División (INT/TIN) Trade Senior Specialist, Guilherme Piereck, from IDB headquarters in Washington, D.C. The **monitoring** of this TC will be carried out by the Sector Specialist through regular follow up meetings, every two weeks, with the consultants hired to deploy the outputs and the beneficiary agency. Deliveries will require the IDB approval before payment. Final report will be shared in a web seminar presentation with the key stakeholders.

IV. Executing agency and execution structure

- 4.1 In response to the request from the beneficiary and in accordance with Annex II of the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), this TC will be executed by the Bank through the Trade and Investment Division (INT/TIN), given the highly technical nature of the activities and the fact that it needs a high level of coordination and interdependence, engaging multiple levels of government (federal and state), several agencies, and entities. Moreover, INT/TIN has gained invaluable know-how and experience in the execution of international trade and investment promotion activities. The requesting entity is an important partner in the planning and execution of some activities at Federal level.
- 4.2 The activities to be carried out under this operation are included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's procurement policies: (i) Complementary Workforce (CW) (AM-650); (ii) Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4); Operational Guidelines for the Selection and Contracting of Consulting Firms in Bank Executed Operational Work (OP-1155-4); and IDB Corporate Procurement Policy (GN-2303-28). The execution and disbursement period will be 36 months and the UDR will be in the Trade and Investment Division (INT/TIN).

V. Major issues

- 5.1 The success of the project will depend on a significant level of engagement and participation of the relevant stakeholders. The operation will mitigate the risks by engaging government officials and private sector representatives in the activities from the beginning of the TC and through an intensive promotion strategy. Also, the activities were previously discussed with the beneficiary who agreed and expect an increment in their technical capacity as a result.
- 5.2 If new restrictions are imposed on in-person events because of the COVID-19 pandemics, planned activities will be performed online through "zoom," "teams" and other available platforms.
- 5.3 Finally, given the multiplicity of beneficiaries within federal and state levels in Brazil, there are intrinsic coordination risks. These risks are mitigated as there is a strong commitment towards this project at the ministerial and state levels.

VI. Exceptions to Bank policy

- 6.1 This TC does not involve or require any exception to the Bank's policies.

VII. Environmental and Social Strategy

- 7.1 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 Banks Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Request from the Client - BR-T1511](#)

[Results Matrix - BR-T1511](#)

[Terms of Reference - BR-T1511](#)

[Procurement Plan - BR-T1511](#)