

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Supporting LAC IPAs and EDO's Digital Transformation and investment attractions tools after COVID-19 to strengthen LAC Regional Value Chains
▪ TC Number:	RG-T3831
▪ Team Leader/Members:	Zegarra, Levi (INT/TIN) Team Leader; Aguirre Franco, Claudia (CID/CGU); Almeida Oleas, Natalia (LEG/SGO); Esteves, Yasmin (INT/INT); Karla Flores (INT/TIN); Moreno, Michelle Leonor (ITE/IPS); Queila Delgado (INT/TIN); Vasco Henao, Oscar Dario (INT/TIN); Karla Flores (INT/TIN); Claudia Aguirre (CID/CGU).
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	n/a
▪ Date of TC Abstract authorization:	29 Mar 2021
▪ Beneficiary:	Investment Promotion Agencies (IPAs) and Economic Development Organizations (EDOs) of LAC. InvestChile and PRONACOM will benefit from the pilots.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Integration(RIN)
▪ IDB Funding Requested:	US\$250,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	January 2022
▪ Types of consultants:	Firms and consultants
▪ Prepared by Unit:	INT/TIN-Trade & Investment
▪ Unit of Disbursement Responsibility:	INT/INT-Integration and Trade Sector
▪ TC included in Country Strategy (y/n):	N/A
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Economic integration

II. Objectives and Justification of the TC

- 2.1 The main objective of this Technical Cooperation (TC) is to facilitate investments in Latin America and the Caribbean (LAC) to strengthen regional value chains, through the transformation and use of digital tools in Investment Promotion Agencies (IPAs) and Economic Development Organizations (EDOs). The specific objective is to support the IPAs of the region to attract investments, through: (i) the generation of knowledge for its subsequent application and adaptation to the region; (ii) the design of investment vehicles; (iii) the incorporation of the most innovative and successful digital initiatives worldwide that maximize the efficiency of IPAs' promotion activities, management of services and processes, as well as their impacts on society as a whole.

- 2.2 Global context of economic deceleration, decrease of international trade and Foreign Direct Investment (FDI) flows.** The IMF estimates a contraction of 3.5%¹ globally and 7.4% for LAC² in 2020, with an estimated loss of 26 million jobs in the region, according to the IDB.³ FDI is a mechanism to increase innovation, transfer knowledge and skills, among others, and contributes to economic growth: research indicates that each US\$1 spent in investment attraction programs can generate up to US\$187 in the host economy, depending on the depth of intervention in the institution.⁴ However, global FDI fell 35% in 2020, with the most pronounced decline taking place in LAC with 45%,⁵ and expectations for 2021 greenfield announcements fell by 46%. On the other hand, the world is undergoing a Global Value Chains (GVC) reconfiguration process that began after the 2008 crisis, and has accelerated with the pandemic and the current geopolitical situation. Seeking to make their supply chains more reliable, large multinationals aspire to secure inputs from closer-to-market locations. If strategic input and services suppliers in key industries are concentrated geographically, the risk of supply chain disruptions is higher. To offer greater resilience to future disruptions, reduce environmental impacts, maximize the benefits of outsourcing services, and cut costs by shortening transport distances to end markets, global companies are taking steps to line up suppliers from nearer locations to consumers.⁶ The change of direction that companies will undertake depends on how they balance risk-mitigation with cost-efficiency, among other factors. The US is the main greenfield investor in the region with 3,662 projects in the last decade, more than double that of the second investor, Spain, which contributed 1,496 projects in the same period.⁷ Given the role of the US in driving greenfield projects to LAC, the opportunity that represents the reconfiguration of GVCs is of relevance.
- 2.3 Global competition for flows of investments.** The Global Location Trends Survey carried out by IBM in 2020 identified that 60% of companies interviewed anticipated consolidating their operations in their home countries and 25% have postponed or canceled investment projects. The findings also clearly indicate the major established and growing markets of the world in North America, Europe and Asia are the main destinations considered for investment.⁸ There is heavy competition to attract a smaller number of projects, with the number of IPAs worldwide at national, subnational and local levels having quadrupled in the last 30 years.⁹ Evidence confirms that IPAs investing in new tools and innovative programs, personnel training, promotion, and facilitation, are the ones that obtain better results positioning their locations and attracting investors' interest.^{10,11}
- 2.4 The trend towards more sophisticated services.** In this global competition, the leading agencies are increasingly innovating their services to anticipate the needs and plans of companies who demand access to value-added information, personalized services, less bureaucracy, and online procedures to facilitate their installation

¹ <https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>.

² <https://blogs.imf.org/2021/02/08/latin-america-and-caribbeans-winding-road-to-recovery/>.

³ IADB, [2021 Latin American and Caribbean Macroeconomic Report](#).

⁴ Volpe, Carballo & Blyde. (2020), [How Effective is Investment Promotion?: Firm- Level Evidence](#).

⁵ UNCTAD, World Investment Report 2021, published on June 21.

⁶ OECD, Investment Promotion Agencies in the time of COVID-19.

⁷ Figures from foreign investment monitor FDI Markets.

⁸ Location strategy in a post-covid-19 world (2020), Research Insights IBM.

⁹ Volpe & Sztajerowska (2019), How to solve the investment promotion puzzle?

¹⁰ Volpe & Sztajerowska, (2018), Mapping of Investment Promotion Agencies in OECD Countries.

¹¹ Trade and Integration Sector Framework Document (GN-2715-11)

process. All of these activities contribute to: (i) improving the business climate; and (ii) attracting investment/reinvestment. In the era of digital transformation, IPAs –although later than other sectors, mainly those of the United States,¹² Europe,¹³ and Asia–¹⁴ have incorporated industry 4.0 technologies into their services, and during the pandemic, 77% of national IPAs worldwide have provided COVID-related information and services online as they developed specialized virtual platforms and tools. The response, however, has been uneven, and differences in their digital capacity, culture and resources have surfaced. **Collaboration:** Also, increased competition among countries to attract and retain FDI is another important challenge that IPAs are facing, currently shifting their focus from FDI attraction to FDI retention (aftercare), to save as many jobs as possible and help with a faster recovery. Therefore, it is necessary to implement enhanced strategic partnerships and regional cooperation, to pool resources, find innovative solutions to challenges, and expand service offerings. As an example, IPAs in less developed regions at the subnational level can increase investment inflows by 71% and jobs created by 102% (LSE 2019).¹⁵ **Innovation:** The most sophisticated IPAs have also looked at generating a more dynamic access to finance through investment vehicles, to attract innovation- and research-related FDI, which generates spillovers in the local ecosystems. The IPAs of OECD countries are more prone than their LAC counterparts to promote innovation, internal investments, and provide financial incentives (23% in the case of the former and 11% in the latter).¹⁶ In a period of recession in the volume of available foreign investment available,¹⁷ it becomes imperative to modernize the functions of IPAs in LAC and incorporate investment vehicles to promote the growth of investments (foreign, domestic and entrepreneurship), with an impact on job creation and leveraging the GVCs reconfiguration trend.¹⁸ **Sustainable Development Goals (SDGs):** The impacts of climate change, social unrest for more equitable distribution of wealth, and the need for greater diversity have influenced the design of the SDGs Agenda, as well as the objectives of individual countries, and FDI has a role to play. Multinational Enterprises (MNEs) are also working in the same direction, sometimes motivated by pressure by stakeholders and consumers, and in other times by their home country directives.¹⁹ This generates opportunities for IPAs to support MNEs in this area, adding significant value to the IPAs' value proposition and improving their countries' progress towards the 2030 agenda.

- 2.5 **Opportunities to improve IPAs' use of digital tools and design new programs to foster more sustainable investment.** Therefore, the question now is how to promote and generate investment that will strengthen LAC regional value chains²⁰ with a public shrinking budget, while at the same time competing for funds with other urgent pressures related to the sanitary crisis. There are various investment promotion strategies in LAC with different levels of effectiveness; but all of them face huge challenges needing sound evidence and innovative tools and programs to grasp the

¹² Ohio, Luisana, Chicago and Miami.

¹³ Locate in Kent, Copenhagen Capacity, invest in Iceland, Invest Holland, InvestinSpain.

¹⁴ Singapur, Hong-Kong and Corea.

¹⁵ LSE 2019.

¹⁶ Volpe & Sztajerowska (2019) How to solve the investment promotion puzzle?

¹⁷ OCDE 2020.

¹⁸ Example: US International Development Finance Corporation (US DFC).

¹⁹ As an example, 70% of the world's largest MNEs already have a mandate to report on progress on gender equality objectives, among other SDGs objectives ([Link](#)). Source: UNCTAD's [World Investment Report 2020](#).

²⁰ Strengthening Regional Value Chains in Latin America and the Caribbean. Concept Note (GN-3038).

opportunities arising from the current rearrangement of GVCs, create jobs and attract sustainable FDI.²¹ Following this logic, the activities included in this TC will be undertaken given their relevance, not only for promoting investment and incorporating innovative services, but also for their anticipated spillover effects on the local ecosystem. The activities include the use of digital tools in investment facilitation (aftercare, national-subnational level collaboration and evaluation of SDGs impact), using evidence gathered in RG-T3380,²² and analysis of two new issues (financial vehicles to foster R+D+I investment and the role of SDGs in FDI). The recommendations for LAC, the review of the most innovative programs worldwide, the access to two pilot projects and the exchanges in three workshops, will contribute outputs of interest to the region. Precisely because there is no single model, this TC seeks to identify successful models to apply and adapt them to the region, and the pilot projects will provide lessons learned and recommendations to be shared, supporting the continuous improvement of our region's IPAs, in order to increase their success in attracting and retaining FDI.

- 2.6 **Beneficiaries:** LAC countries, through their IPAs, will benefit from the results of this TC through the lessons learned and analyses realized, which will be disseminated in virtual seminars and technical notes. Two pilots will be undertaken that will design specific tools, from which general lessons will be disseminated to the rest. The selected IPAs are InvestChile and PRONACON. InvestChile was chosen for the national-subnational pilot due to three factors: (i) application of recommendations identified in the analysis of national-subnational coordination best practices for InvestChile; (ii) the offer by InvestChile to support the design of a tool for coordination with the Chilean regions; and (iii) new national directives giving budget and jurisdiction to the regions in Chile to foster investment. PRONACOM Guatemala was chosen for the SDGs pilot program due to: (i) the specific request of the Government to the IDB in supporting their strategy to attract investment "*Guatemala no se detiene*"; (ii) Guatemala's strategy for attracting investors is directly linked to providing jobs, improving life conditions, stopping migration and increasing the linkages with the local private sector in a sustainable way; (iii) continuity of previous support given to increasing the capacity of their IPA.
- 2.7 **Strategic Alignment.** This TC is aligned with the Update to the Institutional Strategy (AB-3190-2), with the challenges of Economic Integration, by supporting the digital capacities of the countries in fostering FDI and increasing their participation in regional and GVC, and supporting SMEs by analysis and modelling financial vehicles to foster innovation in the region; and with the cross-cutting area of Institutional Capacity and Rule of Law by strengthening the technical capacity of beneficiary countries in digital investment promotion matters. At the same time, it will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) Economic Integration indicator of "Foreign direct investment net inflows as percentage of GDP (%)".
- 2.8 The TC is aligned with the "IDB Group Vision 2025" (AB-3266) regarding to the strengthening of regional integration through promotion of investment, as well as to

²¹ Understanding sustainable FDI not only in the climate change dimension, but also in the social and diversity dimension.

²² RG-T3380 financed a survey of IPAs worldwide in the use of digital tools in different phases of the investment cycle; their use, and degree of satisfaction, will contribute to the selection and design of the tools to be applied in the pilots and the further research of the best tools to analyze their context of use, parameters, training, and practices to adapt to the region.

document GN-3038 “Strengthening Regional Value Chains in Latin America and the Caribbean. Concept Note”, since it highlights as one of the priority actions the designing and implementing IPA institutional strengthening strategies, with the aim of attracting further FDI and increasing employment in LAC. In addition, it is aligned with the Ordinary Capital Strategic Development Program for Integration (RIN) (GN-2819-1), with the objective of strengthen the Bank’s borrowing member countries’ capacities to engage in regional initiatives, by supporting the digital capacities and programs of the countries in fostering FDI and increasing their participation in regional and GVC. This TC also aligns to the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-4) with the component of Public Sector Management and Finance in the area of improving the provision and utilization of resources for growth and social welfare, by supporting coordination of national-subnational level and fostering the geographical diversification of FDI in the countries, integrating the specific attributes of the regions in the countries value propositions. Also, with the trade facilitation and investment promotion priorities defined in the [Integration and Trade Sector Framework Document](#) (GN-2715-11); and with the IDB Group Country Strategy with Chile 2019-2022 (GN-2946), which identifies as a priority to support the national decentralization process through transfer of knowledge and good practices, and the need for recovery of investments; and with the working paper for the IDB Country Strategy with Guatemala 2021-2025, that identifies as course of action to foster the private sector for higher, more inclusive and sustainable growth, and to take advantage of the reordering of the GVCs.

III. Description of activities/components and budget

- 3.1 **Component I: Digital tools for investment promotion and retention.** This component seeks to contribute to maximizing the efficiency of financial and human resources, in the investment promotion activities carried out by IPAs in the phases of: (i) aftercare, analyzing the best digital tools to carry out this activity, which has a relevant contribution to investment generation, and (ii) promotion, piloting a digital tool to carry out national-subnational level coordination to generate more qualified investment leads and to offer a fuller value proposition of the country by adding the characteristics of its regions.
- 3.2 This component will include:
- (i) Analysis of international best practices of investment retention programs and digital tools used, including mapping of current aftercare programs in LAC and recommendations for at least one country²³ per subregion in LAC. An individual consultant will be hired, who is expected to deliver the outputs in a maximum of 12 months (one analysis, four individual recommendations, presentation of results in a webinar to the LAC IPAs).
 - (ii) Pilot design and implementation of digital tools for national-subnational FDI coordination. A company with previous experience in this area will be hired to design a prototype tool for InvestChile and Chilean regions, and provide the technical request that will be necessary to implement it. Interviews and questionnaires coordinated with InvestChile will be carried out to identify the needs for a smooth and efficient coordination (it could integrate, among others:

²³ The selection of countries will be discussed with the INT/TIN specialists on the hubs upon results of the analysis and interest of the countries.

value propositions, lead generation, lead management, facilitation, aftercare). The company must provide at the end of the contract a toolkit of key criteria and processes to design a collaboration tool and participate in a webinar to share the findings. A software company will be hired to implement the tool with feedback from the design company and InvestChile. A total of 18 months is expected.

- (iii) Dissemination is a key activity to benefit the 26 countries of the region. This activity will finance the cost of design, editing and organizing: one technical note, two webinars to discuss the findings and adoption interest in the region and one toolkit of how to create a practical and efficient collaboration tool among national and subnational agencies for investment promotion.

3.3 Component II: Investment vehicles to foster FDI. The purpose of this component is to analyze the state-of-art in investment vehicles to foster innovation investment in more mature markets and in LAC, to provide recommendations on what could be implemented by IPAs or EDOs to competitively position the region in attracting innovative FDI. Innovation investments contribute to improving integration in higher added-value activities within GVCs. The resources from this component will finance consultancy services (firm or individual) to develop the following outputs in a maximum period of 18 months:

- (i) An assessment of the condition of investment vehicles in the region to foster R+D+I FDI through surveys and interviews²⁴ (investment banks, investment fund managers, IPAs and EDOs) to identify the existing services and their level of development, including international best practices, with an assessment of their effectiveness, results, costs, and suitability for the region, and recommendations for the IPAs and EDOs of the region; and a guide for creating an investment vehicle.²⁵
- (ii) Dissemination of results: one report, one toolkit, and one webinar to present findings and exchange best practices.

3.4 Component III: Sustainable Development Goals investment promotion tool. The focus of this component is to analyze the role of SDGs in FDI from the perspectives of demand (potential investors) and offer (countries), with the objective to identify best practices and findings (through the pilot) on how LAC IPAs can take on this trend to improve their value propositions and to contribute to their own countries' objectives. IPAs' new services are on that path (local linkages, geographically diverse location offer), but there is still a need to further understand and promote advances in this direction, as demonstrated by climate change and social demands. This component will finance a firm with combined experience in FDI and SDGs to:

- (i) Carry out an analysis of the SDGs' role in FDI promotion and best practices to achieve positive spillovers in the host country. An estimated duration of 6 months to do the analysis.
- (ii) Design and implement a pilot program in Guatemala with PRONACOM, using agile methodology to benefit from learning-by-doing, intending to develop an

²⁴ Coordinated with the INT/TIN specialists in the region and the national IPAs.

²⁵ To be determined by the results of the consulting, the IADB team and the selected country.

accurate program to foster sustainable FDI. Three months for design and one year for agile implementation will be required.

- (iii) Findings and communication of results through one technical note and one webinar with the IPAs of region, which will be invited to discuss their impressions and interests, will be required to have a regional benefit.
- 3.5 Every component has dissemination activities which include technical notes and webinars. The strategy for dissemination is to invite the IPAs to participate in the webinars through coordination with the IDB's country offices. In the webinars the main findings will be exposed and announced the availability of technical notes, and any other information output, on the Bank's website for further consultation.
- 3.6 For any technological development, the intellectual property will be kept by the Bank and the beneficiary participant in the pilot will keep the license for use.
- 3.7 **Budget.** The total cost of this project is US\$250,000 to be financed by the Strategic Development Program for Integration (RIN).

Indicative Budget (in US\$)

Activity/ Component	Description	IDB/RIN	Total Funding
Digital tools for investment promotion and retention		110,000	110,000
Aftercare Analysis	Analysis of international best practices of investment retention programs and digital tools used, including mapping of current aftercare programs in LAC and recommendations for at least one country per subregion in LAC. Dissemination to the region 1 technical note, 1 web seminar.	34,000	34,000
Design Pilot: National-Subnational Coordination Digital Tool	Design a digital tool pilot for smooth and efficient coordination at national-subnational level for investment promotion. Dissemination to the region 1 web seminar, 1 toolkit.	27,000	27,000
Implement Pilot: National-Subnational Coordination Digital Tool	Implement a digital tool pilot for smooth and efficient coordination at national-subnational level for investment promotion	49,000	49,000
Investment vehicles to foster FDI		45,000	45,000
Investment vehicles analysis	Analysis of international best practices and condition of investment vehicles in the region to foster R+D+I FDI. Toolkit to create one selected investment vehicle.	40,000	40,000
Dissemination to the region	1 report, 1 toolkit, and 1 web seminar to present findings and exchange best practices.	5,000	5,000
Sustainable Development Goals investment promotion tool		95,000	95,000
Analysis of the SDGs' role in FDI	Analysis of the SDGs role' in FDI promotion and best practices.	25,000	25,000
Design and implement a pilot	Design and implement a pilot using agile methodology to benefit from learning by doing approach intending to develop the most accurate program to foster sustainable FDI.	65,000	65,000

Dissemination to the region	1 technical note and 1 webinar.	5,000	5,000
Total		250,000	250,000

- 3.8 **Supervision** of the TC will be carried out by, Levi Zegarra, INT/TIN Senior Specialist. He will coordinate with the focal points of INT/TIN located in the subregions²⁶ to align the activities and have one interlocutor. For the supervision of the pilots, one focal point has been designated in each country²⁷.

IV. Executing agency and execution structure

- 4.1 This TC will be executed by the Bank through the Trade and Investment Division (INT/TIN) of the Integration and Trade Sector (INT/TIN), in compliance with Bank policies (GN-2470-2) and (GN-2629-1). All activities to be executed under this TC will be included in the Procurement Plan and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) (GN-2765-4) and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) (GN-2303-28) for logistics and other related services.
- 4.2 The Bank has demonstrated sufficient ability and capacity to coordinate and motivate activities through various actors, at the national, subregional, and regional levels. Although Mexico, Costa Rica, Chile, Panama, Colombia, Suriname, and Haiti (in different phases) are immersed in phases of design and/or implementation of digital tools to use from lead generation to national-subnational coordination, all of them have expressed their interest in identifying best practices in order to develop the modality that best suits their needs or improve current designs. The evidence gathered in RG-T3380 and the SDG Investment Impact toolkit developed by IDB further support the capacity and ability of the Bank in working on these areas.

V. Major issues

- 5.1 The risk level of the execution of this TC is considered low. The risks identified are: (i) the challenge of aligning the interests and expectations of many countries with different levels of development, objectives, and personnel at their IPAs and therefore the capacity to take advantage of the results of the TC; (ii) the related risk of "intermediate solutions" that do not serve more developed agencies, because the proposed solutions are not very innovative, or the less developed, because they are too sophisticated; (iii) the potential risk of appropriation of the products and tools developed by the beneficiary entities ;and (iv) the continuity of the COVID-19 pandemic which complicates travel and increases uncertainty related to FDI. To ensure the success of the project, the operation will mitigate the risks by: (i) disseminating products that will state recommendations for earlier and later stages, together with trends, and complement it with discussions at common conferences, to identify needs and solutions that benefit everyone; (ii) identifying various categories of development according to different types of needs; (iii) the tools developed will be accessible to the LAC IPAs as well as the analysis and knowledge generated; including best practices and lessons learned ;and (iv) providing the necessary tools

²⁶ Mario Umaña (INT/TIN) for CCB; Mikael Larsson (INT/TIN) for CSC; Sandra Corcuera (INT/TIN) for CID; Alejandra Villota (INT/TIN) for CAN.

²⁷ In COF Guatemala Claudia Aguirre (Operations Sr. Analyst CID/CGU), and in COF Chile Karla Flores (Consultant INT/TIN)

and processes to work remotely with providers and Bank specialists in case that is necessary and focus the analysis and tools to work on the scenario of FDI uncertainty.

VI. Exceptions to Bank policy

6.1 There are no exceptions to the Bank policy in this project.

VII. Environmental and Social Strategy

7.1 The ESG classification for this operation is "C".

Required Annexes:

[Request from the Client - RG-T3831](#)

[Results Matrix - RG-T3831](#)

[Terms of Reference - RG-T3831](#)

[Procurement Plan - RG-T3831](#)