

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	Regional/IDB
▪ 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; Gomez Gonzalez, Maria Margarita (INT/TIN); Esteves, Yasmin (INT/INT); Almeida Oleas, Natalia (LEG/SGO); Arias Urones, Ana (INT/TIN)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	29 Mar 2021
▪ Beneficiary:	Investment Promotion Agencies of LAC; CAIPA and Redlbero
▪ Executing Agency:	Inter-American Development Bank
▪ IDB funding requested:	US\$250,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	30 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INT/TIN - Trade & Investment
▪ Unit of Disbursement Responsibility:	INT/INT - Integration and Trade Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Economic integration

II. Objective and Justification

- 2.1 Digital transformation for IPAs has become almost mandatory in a very short time together with investment tools more suited to businesses realities, but few agencies are ready to respond to investors. At the same time the pandemic has caused a serious decline in gender equality in the labor and investment markets, particularly in developing countries. The objective is on one hand to support IPAs to incorporate digitalization in their services, country value proposition, teams and processes, and on another hand to identify the most suitable tools to stimulate FDI and what role FDI can play in reducing the gender gap. Activities can include testing pilots of chatbots to answer to investors, drones to record images of industrial zones, artificial intelligence to generate leads, georeferencing maps/platforms (zoom prospectors / data microsites), virtual reality tours, data tracking service, revamped online value propositions, workforce sharing platform, online MOOC, financial tools, talent related activities, etc.
- 2.2 The IMF estimates a of 3.5% globally and 7.4% for LAC in 2020. Foreign direct investment (FDI) helps economic growth as the evidence indicates that each \$1 invested in investment attraction programs can generate up to US \$187 in the host economy, depending on the depth of intervention in the institution. However, the global FDI fell 42% in 2020, with a 37% decline in LAC, and expectations for 2021 greenfield announcements fell by 46%. Therefore, the question now is: how to promote and generate investment with a public shrinking budget, while competing for funds against

urgent pressures like the sanitary and social crisis? One option is innovation. The experience confirms that IPAs investing in new tools and innovative programs, personnel training, promotion, and facilitation, are the ones that obtain better results.

- 2.3 **Digitalization:** 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 asymmetric, and differences in their digital capacity, culture and resources have surfaced. 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), 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 the inflow of investment by 71% and the jobs created by 102% (LSE 2019). **Innovation:** The most sophisticated IPAs have also looked at generating a more dynamic access to finance to attract innovation- and research-related foreign direct investment which generates spillovers in the local ecosystems. **SDGs:** The IDB joined efforts with the UN to develop the IDB Investment Impact Toolkit to address the need of investors to make investment decisions based on the SDGs. At the same time, 70% of the world largest multinational enterprises (MNEs) already have the mandate to report on progress on gender equality objectives, among other SDGs objectives. 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.
- 2.4 The world is undergoing a GVC reconfiguration process that began after the 2008 crisis and that shows an acceleration 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-home locations. If strategic input 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, and cut costs by shortening transport distances, global companies are taking steps to line up a number of input suppliers from nearer locations.

III. Description of Activities and Outputs

- 3.1 **Component I: Digital tools for investment promotion and retention.** This component will include: (i) pilot promotion 4.0 (digital presence value proposition, digital promotion and services offered by the IPA) with recommendations to the region; (ii) analysis of international best practices of investment retention programs and digital tools used, including mapping of current aftercare programs in LAC and recommendations for each country; and (iii) pilot design and implementation of digital tools for national-subnational FDI coordination.
- 3.2 **Component II: Investment vehicles to foster FDI.** This component will finance the development of: (i) an analysis to assess the status of investment vehicles in the region to foster R+D+i FDI through surveys and interviews 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; (ii) a methodology guide for creating an investment vehicle and a network of investors; and (iii) dissemination of results.
- 3.3 **Component III: Sustainable Development Goals investment promotion tool.** Including: (i) analysis of the SDGs role on FDI promotion and best practices to multiply positive spillovers in the host country (ii) Design and implementation of pilot programs with two selected APIs; and (iii) communication of results and recommendations.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Digital tools for investment promotion and retention	US\$117,000.00	US\$0.00	US\$117,000.00
Investment vehicles to foster FDI	US\$50,000.00	US\$0.00	US\$50,000.00
Sustainable Development Goals investment promotion tool	US\$83,000.00	US\$0.00	US\$83,000.00
Total	US\$250,000.00	US\$0.00	US\$250,000.00

V. Executing Agency and Execution Structure

- 5.1 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.
- 5.2 The Bank has demonstrated sufficient ability and capacity to coordinate and motivate actions 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.

VI. Project Risks and Issues

- 6.1 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, personnel at their IPAs and therefore the capacity to take advantage of the results of the TC; and (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. To mitigate both, the following are proposed: (i) analyzing the level and capacity of each API, through the technical note in preparation by IDB of the "State of the art in the use of digital tools by investment promotion agencies" and the study prepared by the IDB and the OECD "How to solve the investment promotion puzzle: a mapping of investment promotion agencies in Latin America and the Caribbean and OECD countries", and complement it with discussions at common conferences, to identify needs and solutions that benefit everyone; and (ii) identify various groups of levels according to different types of needs.

VII. Environmental and Social Classification

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