

TECHNICAL COOPERATION PROFILE

I. BASIC PROJECT DATA

Beneficiaries	Regional		
Name:	Support for Logistics Strategy in LAC		
Number:	RG-T1565		
Team:	This document was prepared by the project team consisting of: Pablo Guerrero, Project Team Leader; Rodolfo Huici, Esteban Diez-Roux, Young Kim, and Giselle Apat, (all members of INE/TSP).		
Date of Request:	July 8		
Executing Agency:	Inter-American Development Bank		
Technical and Basic Responsibility:	Transport Division, Infrastructure and Environment Department (INE/TSP).		
Name of the Fund:	Knowledge Partnership Korea Fund for Technology and Innovation - KPK		
Financing:	KPK	US\$	98,500
	Total	US\$	98,500
Execution and Disbursement Date:	10 months for execution and 12 months for disbursement.		
Tentative Date:	Approval date July 2008		

II. BACKGROUND

- 2.1 Logistics is a process of planning, implementing, and controlling the efficient flow and storage of goods, services, and related information from the place of origin to that of consumption. Logistics has a high impact on Latin America and the Caribbean (LAC) region at both micro and macro levels¹. At a micro-level, high logistics costs and bottlenecks not only impede physical access to goods and services, but also negatively affect companies' productivity and competitiveness across the region. At a macro-level, high logistics costs seriously affect LAC countries' overall economic competitiveness, growth, and trade.
- 2.2 With a few exceptions, LAC countries spend proportionally more on logistics costs² than the U.S., Europe and Asia³. Average logistics costs across the region

¹Logistics costs consist of three key components: transportation costs, inventory carrying costs, and administration costs.

²Transportation costs account for more than 60% of total logistics costs, while inventory carrying costs and administration costs represent more or less 35% and 5% respectively.

range from a low of 15% of product value in countries such as Chile to a high of 34% in Peru, when the average share of logistics costs to product value in OECD countries is around 10%.

- 2.3 Poor transportation networks and services also contribute to high inventory levels. LAC countries typically hold inventories of around 30% of GDP, while inventories in the U.S. only reach half that level. High logistics costs in LAC countries are driven not only by the insufficient provision of transportation infrastructure, but also by inefficiencies. A recent Bank study⁴ addressing the importance and impact of logistics on trade in LAC concludes that logistics costs are, at the present time, of unprecedented importance and should be given a high priority in the region's trade agenda.
- 2.4 In order to achieve logistics improvements and maximize the region's trade potential, the Bank is preparing a strategy for logistics innovation. This proposed Technical Cooperation (TC) will be a key factor for the Bank to achieve these goals. The TC will identify areas of activity and opportunities for innovative logistics strategies in LAC, including the optimization of the transportation infrastructure (ports and airports), cargo handling and operation, institutional arrangements, business logistics and trade facilitation, and the adoption of innovative technological systems supporting service operations.
- 2.5 The Bank and the Republic of Korea have supported technologic inn ovation projects in the LAC region, primarily through the Knowledge Partnership Korea Fund for Technology and Innovation (KPK). Korea's successful experiences as a logistics hub, both in ports operations and in innovative technological tracking systems, represent good examples of applied technological innovations for trade facilitation and efficient transport services.

III. OBJECTIVES AND PROJECT DESCRIPTION

- 3.1 The overarching objective of the TC is to contribute to the development of a Bank strategy for logistics innovation in LAC. The project will include: i) the *assessment of key issues and needs* for improvements in logistics operations in LAC, including a) a benchmark study on logistics costs, productivity, and trade levels among LAC countries, and b) the identification of case studies for further analysis of successful experiences; ii) a *strategy for logistics innovation in LAC countries and the Bank's role and involvement*.
- 3.2 **Component 1. Diagnosis of Logistics Issues in LAC.** The hiring of individual consultants to prepare a diagnosis and assess the issues affecting logistics and

³ Transportation costs for South and Central America represent 9.83% and 10.96% of the value of imports respectively, while transportation costs for developed countries represent only 4.24%.

⁴ Unclogging the Veins of Latin America and the Caribbean. A Report on the Impact of Transport Costs on the Region's Trade. Moreira, Volpe & Blyde. Inter-American Development Bank Vice-Presidency for Sectors and Knowledge Integration and Trade Sector. 2008

transportation costs in LAC and their impact on trade. It will also include a specific sub-component focusing on benchmarking transportation costs, productivity and trade (exports/imports) levels in LAC. Three consultants will produce a Diagnostic Report, and an additional Benchmarking paper including costs and trade volume benchmarks.

- 3.3 The *Diagnostic Report* will consist of working papers presenting: (i) the main areas and current concepts in logistics, including activities, functions and components of infrastructure and transportation services, business logistics, trade facilitation and public policies in logistics; (ii) a map of main logistics segments in LAC, identifying areas lacking proper logistics resources, and a description of the current issues affecting logistics and transportation costs in the region, and their impact on trade and the overall economy of the countries; and (iii) the key specific cases providing examples and lessons from successful experiences, as well as opportunities for improvement and technological innovation from problematic case studies. Two consultants will be hired.
- 3.4 The *Study On Logistic Benchmarks* will consist of surveys of transportation costs, productivity, and trade (exports and imports) levels in LAC. The paper will include a comparison with acceptable averages and standards by industries and modes of transportation, in other regions of the world. Moreover, it will examine the impact of technological innovations in transportation costs reduction, and the effect on trade volume as a result. Additionally, it will also identify key specific cases for further study and consideration in the development of a Bank strategy for logistics innovation in LAC.
- 3.5 **Component 2. Strategy and a time bound Action Plan.** A strategy and action plan including recommendations based on the initial diagnosis and best practices.
- 3.6 The *Agenda For A Logistic Public Policy In The Region* will include the analysis of the main characteristics of a public policy that can effectively improve the logistics performance in the region, including the horizontal (with other policies) and vertical (the institutional and jurisdictional component) relationships. Among the former the relationship between competitiveness, energy, and the environment. The later, will include (according to the specifics of each country) the relationship between infrastructure regulation, private sector development, and public sector performance improvement.
- 3.7 The *Strategy For Bank's Involvement* will include the identification of the most suitable interventions for the different country categories. This process will also include identifying suitable Bank's financial and non-financial instruments and the action plan to implement them. The experiences of other bilateral and multilateral organizations will be reviewed (e.g. World Bank, USAID, ADB).
- 3.8 **Expected Results.** It is expected to obtain the following products: (i) a diagnosis of the current situation and key case studies; (ii) a benchmark study on logistics costs, productivity, and trade levels; and (iii) a strategy and action plan for

logistics innovation in LAC. Developing a strategy for logistics innovation in LAC aims to achieve the following overarching results: (i) the ease of trade operations; (ii) the strengthening of TSP logistics knowledge and understanding; and (iii) the improved awareness of state of the art technology and practices in logistics for the Bank's clients.

- 3.9 **Cost.** The total cost of the TC will be US\$98,500 that will be financed by the Knowledge Partnership Korea Fund for Technology.

TABLE III.1 (US\$)

	TOTAL
Component 1: Diagnosis of Logistical Issues in LAC. Working Paper	
Diagnosis of current situation and key case studies	34,500
Studies on logistics costs, productivity, and trade levels	25,500
Component 3: Strategy for Improved Logistics in LAC and Action Plan	
Strategy for Logistics Innovation in LAC and Action Plan	30,500
Supervision	8,000
TOTAL	98,500

IV. EXECUTION AND RESPONSIBILITY OF THE BANK

- 4.1 This project will be under the technical responsibility of the Transport Division (INE/TSP), which will monitor and evaluate the progress, based on the agreed detailed work plan and deliverables. INE/TSP will oversee the quality of the outcomes by providing feedback to the hired consultants as the draft and final products are delivered.
- 4.2 Responsibility for Disbursements: INE/TSP Chief. The procurement of services (selection and hiring of consultants) will be carried out by the Bank according to the GN-2350-7 "Policies for Selection and Contracting of Consultants Financed by the IDB".

V. CRITICAL ASPECTS

- 5.1 The critical aspect of this TC is the need for the appropriate assessment of key issues and case studies in LAC. The Project Team will follow the consultants' work closely and supervise the drafts and final studies to assess their relevance and applicability to the development of future projects in LAC.

VI. ACTION PLAN

- 6.1 The TC will be executed in 10 months and disbursed in 12 months, consistent with the guidelines of the KPK, an Action Plan is presented in the table on next page:

TABLE VI. 1

Activity	Month	Deliverable
Diagnosis and case studies identification. Benchmark studies.	1-6	Diagnosis of the Current logistics landscape, case studies identification, and Benchmark establishment for transportation costs, productivity and trade levels in LAC.
Strategy and Action Plans	4-10	Strategy and Action Plan with activities for enhancing LAC logistics and transportation

VII. SOCIAL AND ENVIRONMENTAL STRATEGY

- 7.1 The TC will not generate social or environmental impacts, since it will consist of studies and strategy development. This Technical Cooperation was Reviewed by ESR on 5/12/2008 and classified with "C"; no environmental assessment studies or consultations are required for this Category.


VIII. RECOMMENDATION:

- 8.1 Pablo Guerrero, designated team leader for the project of the reference, recommends the approval of this operation and the use of resources from the Knowledge Partnership Korea Fund for Technology and Innovation (KPK) totaling up to USD 98,500 (ninety eight thousand five hundred United States Dollars) in order to finance the corresponding project.

IX. CERTIFICATION:

- 9.1 I hereby certify that this operation was approved for financing under the Knowledge Partnership Korea Fund for Technology and Innovation Trust Fund (KPK) through an acceptance notice dated July 9, 2008 received from Weon-Kyoung Jo. Also, I certify that resources from the Knowledge Partnership Korea Fund for Technology and Innovation Trust Fund (KPK) are available for up to US\$ 98,500 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of 12 (twelve) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank

in US\$. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC Brief. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.



Marguerite S. Berger
Chief, VPC/GCM

8/5/08

Date

X. APPROVAL:

Approved:



José Agustín Aguerre
Chief, INE/TSP

8/7/08

Date