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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

INTEGRATION AND TRADE SECTOR FRAMEWORK DOCUMENT

INTEGRATION AND TRADE SECTOR

JUNE 2016

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ABBREVIATIONS

AEO	Authorized economic operator
AML-CTF	Anti-money laundering and counter-terrorist financing measures
CBM	Coordinated Border Management
DEM	Development Effectiveness Matrix
FDI	Foreign direct investment
FELABAN	Latin American Banking Federation
FTA	Free trade agreement
GDP	Gross domestic product
ICT	Information and communication technologies
INTAL	Institute for the Integration of Latin America and the Caribbean
IPA	Investment promotion agency
MOOC	Massive open online course
NTB	Nontariff barrier
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
REDIBERO	Red Iberoamericana de Organizaciones de Promoción de Comercio Exterior [Ibero-American Network of Trade Promotion Organizations]
RPG	Regional public goods
SAFE	Framework of Standards to Secure and Facilitate Global Trade
SFD	Sector Framework Document
SME	Small and medium-sized enterprises
SPS	Sanitary and phytosanitary measures
TBT	Technical barriers to trade
TFFP	Trade Finance Facilitation Program
TIM	International Transit of Goods
TIN	Trade and Investment Division
TPO	Trade promotion organizations
TSP	Transport Division
UNCTAD	United Nations Conference on Trade and Development
VUCE	Single windows for foreign trade
WCO	World Customs Organization
WTO	World Trade Organization

I. The Sector Framework Document in the Context of the Current Regulations and the Institutional Strategy 2010-2020

A. The Integration and Trade Sector Framework Document as part of existing regulations

1.1 This document replaces the Integration and Trade Sector Framework Document (SFD) (document GN-2715-2) approved by the Operations Policy Committee on 30 August 2013, in accordance with paragraph 1.20 of the document Strategies, Policies, Sector Frameworks and Guidelines at the IDB (document GN-2670-1), which establishes that SFDs will be updated every three years.

1.2 This SFD is one of the 20 SFDs prepared under the framework of document GN-2670-1, which, taken together, provide a comprehensive vision of the development challenges in the region. This SFD is complemented by the Transportation Sector Framework Document (document GN-2740-3) (which is focused on promoting access to transportation services; supporting infrastructure and transportation services for regional integration; fostering and leveraging private-sector participation in infrastructure and the delivery of services; adopting and encouraging a multisector agenda; supporting the construction and maintenance of an infrastructure that is socially and environmentally sustainable; and promoting continuous improvements in the governance of infrastructure and in the regulation and delivery of transportation services). Given the crosscutting nature of trade and integration, as well as the collective action that this SFD proposes to reduce shortcomings in regional coordination in different sectors, this SFD is also complemented by the Agriculture and Natural Resources Management SFD (document GN-2709-3) (to coordinate agricultural production for sustainable exports and adequate conditions for access to foreign markets, as well as attracting investments to the agriculture sector); the Labor SFD (document GN-2741-3) (to address synergies between exports, foreign investment, and job creation, labor market regulation, and the strengthening of technical skills in the labor sector in export industries); the Climate Change SFD (document GN-2835-3) (with a view to proposing trade and investment instruments that contribute to countries' resilience and decarbonization); the Social Protection and Poverty SFD (document GN-2784-3) (to contribute to the design of trade policy instruments, export promotion activities, and attracting investors sensitive to the needs of lower socioeconomic strata); the Health and Nutrition SFD (document GN-2735-3) (to take collective regional action on health and nutrition); the Innovation, Science, and Technology SFD (document GN-2791-3) (for the consistent coordination of technological innovation and productive development efforts with business internationalization processes); the Support to SMEs and Financial Access/Supervision SFD (document GN-2768-3) (combining efforts and capacities to promote financing for SMEs); and the Gender and Diversity SFD (document GN-2800-3) (raising awareness in the activities proposed under this SFD of multi-ethnic and gender diversity in the opportunities generated by trade and investment).[1]

[1] To the extent that any of the complementary SFDs are updated during the term of this SFD, the references will be understood as applicable to the current SFD.

B. The Integration and Trade Sector Framework Document and the Update to the Institutional Strategy 2010-2020

1.3 The Integration and Trade SFD is consistent with the Bank's Update to the Institutional Strategy 2010-2020 (document AB-3008), which recognizes integration as one of the region's major challenges, noting that integration is fragmented and exports are highly concentrated on a few commodities subject to price fluctuations and basic manufactures. Integration represents one of the region's highest aspirations and remains one of the Bank's raisons d'être. This effort is fundamentally based on the need to reduce market failures and asymmetries, and to bring the region's countries closer together with increased trade. It is believed that integration, in all its dimensions, helps to reduce poverty and inequality and achieve sustainable growth. To address these challenges, this SFD continues promoting the Bank's simultaneous support of both the software (policies and regulatory frameworks) and the hardware (investment in infrastructure) for integration, ensuring consistency between national and regional interventions. This SFD orients the Bank's work to reduce the costs of trade, specifically the logistics costs, information costs, regulatory costs, and financing costs affecting the region's business sector, particularly small and medium-sized enterprises (SMEs). This SFD is also consistent with the crosscutting issues identified in the Update to the Institutional Strategy: gender equality and diversity (proposing that activities incorporate awareness of the challenges of multiculturalism and women's involvement in business opportunities); climate change and sustainability (because it proposes activities related to trade and investments that promote resilience and decarbonization); and institutions and the rule of law (because it promotes the strengthening and building of institutional capacities, as well as the strengthening of regulatory frameworks for trade and investment). It also considers regional collective action to promote activities that cover these crosscutting issues.

II. International Evidence on the Effectiveness of Trade and Integration Policies and Programs, and Implications for the IDB's Work

A. The argument for support of trade and integration

2.1 The debate regarding the impact of international trade in goods and services and integration on development and growth has gone through several phases in recent decades as a result of transformations in the world economy, advances in economic theory, and the accumulation of new empirical evidence. The prevailing argument during much of the twentieth century, particularly in Latin America and the Caribbean, held that trade and integration were a hindrance rather than an encouragement to development and growth and should therefore be strictly regulated.

2.2 However, this consensus began to break down following several decades of protectionism that yielded highly uneven results. A few countries succeeded in driving growth, but this achievement turned out to be unsustainable and, for the vast majority of countries, the outcome was stagnation. The disappointing results of this inward-looking strategy became even more apparent in light of the extraordinary performance of the Asian economies starting in the 1960s, when, in response to the failure of their import-substitution initiatives, they focused instead on their integration into the world economy.

2.3 The success of Southeast Asian countries and the difficulties in Latin America inspired a vast body of literature in the 1990s. These works criticized inward-looking strategies, invoking the classic arguments of static comparative advantages and the fragilities of economic policies based on State intervention (Krueger, 1990), while claiming to have found a clearly causal relationship between trade liberalization and growth (Frankel and Romer, 1999).

2.4 This combination of historical experience and analysis inspired a significant strategy shift in developing countries, which, save for rare exceptions, launched a broad unilateral, regional, and multilateral trade liberalization process labeled the "Great Liberalization" by Estevadeordal and Taylor (2013). Nevertheless, growth rates remained well below those of Southeast Asian economies, creating a sense of thwarted expectations. This perception was aggravated by the confirmation that the empirical literature positing a causal relationship between trade and growth lacked a solid theoretical foundation and was statistically tenuous (Rodríguez and Rodrik, 2001). Two decades later, there is a clear, statistically significant improvement in the economic performance of countries that opened up their economies, particularly in Latin America and the Caribbean.[2]

2.5 Yet instead of tilting the pendulum back toward the protectionist policies of the past—the vast majority of governments in the region and the rest of the developing world remain committed to integration—these frustrated expectations and analytical setbacks have had the salutary effect of grounding expectations and encouraging a fine-tuning of theoretical underpinnings and empirical assessments, particularly in view of the recent transformations in the global economy.

2.6 With regard to expectations, it became evident that an inward-looking strategy was not the only constraint on growth in Latin America and the Caribbean and other developing regions that continue to face serious educational, technological, financial, and institutional shortcomings. It was also clear that many of those weaknesses are the result of market failures that cannot be addressed without selective, forceful intervention by the State. In view of these constraints, it was unrealistic to make trade policy fully responsible for driving growth, this being a challenge that requires simultaneous action by the State in several areas. Free trade is not synonymous with laissez-faire.

2.7 It also became clear that there was a failure to explicitly address—in creating expectations and designing policies—the issue of the losers in trade liberalization. As economic theory points out, the benefits of international trade in general, and of trade liberalization in particular, are associated with a reallocation of resources to the sectors and enterprises that are more productive and have more opportunities for growth. This process gives rise to a number of social costs that manifest themselves primarily through temporary unemployment. Governments are interested in minimizing these "adjustment" costs, both for their human and social equity dimension and for the need to prevent political pressure from a minority of

[2] See Estevadeordal and Taylor (2013) for a recent contribution to this literature and a review of recent studies of this relationship.

affected individuals from rendering inviable an increase in welfare for the population as a whole.

2.8 Despite its importance, this issue was—with rare exceptions—virtually ignored in the region's trade policy debates over the last 25 years, both by governments and by academia. The little attention devoted to this may be related to two issues. First, trade distortions were of such a magnitude that there was a prevailing perception that the losses should be largely offset by the benefits derived from the reduction in costs; and second, by the fact that this perception was confirmed by a few empirical studies (Papageorgiou, Choksi, and Michaely, 1991; Harrison and Revenga, 1995; Moreira Mesquita and Najberg, 2000; and Attanasio, Goldberg, and Pavcnik, 2004).

2.9 More recent studies, however, call attention to the fact that those costs tend to be paid by the most vulnerable members of society and may have long-term consequences on employment and remuneration, even at the subnational level (Dix-Carneiro and Kovak, 2014; OECD, 2005). In addition, the objectives of deepening regional integration and global integration of the region, as well as the growing competition from Asian countries (especially China), show the need for a better understanding of the magnitude and the population affected by those costs, along with a discussion of the most efficient policies for minimizing them.

2.10 An initial analysis of global experiences with trade adjustment assistance policies suggests that the best strategies are those that seek to enhance the functioning of the labor market as a whole, by improving the regulatory framework and generating income and training for the workers affected by all types of shocks (e.g. macroeconomic, technological, or migration-related) and not only trade-related shocks (Jansen, Peters, and Salazar-Xirinach, 2011). Programs focused on those displaced by imports, such as the US-TAA Program of the United States, the European Globalisation Adjustment Fund (EGF) of the European Union, and the Trade Adjustment Assistance of the Republic of Korea, despite having different features, all share the same mixed results. The scope is generally quite limited, the difficulties are significant in terms of identifying the target audience, and they suffer from a well-known problem of legitimacy, since it is hard to justify support for a single class of displaced individuals (Jansen, Peters, and Salazar-Xirinach, 2011; Heo, 2013).

2.11 The experience of the last quarter century has also made clear the need, first, to understand the needs and conditions for success of the other policies complementing trade integration. The challenge here is how to move from a paradigm of state intervention which, based on a deep skepticism of the market, led to costly generalization, often captured by private interests. This challenge has inspired a series of authors to seek new guidelines for state intervention focused on broadly recognized market failures in education, technology, financing, and infrastructure, and that at the same time minimizes the risks of capture (Stiglitz, 2002; Rodrick, 2004; Peres and Primi, 2009; Harrison and Rodríguez-Clare, 2010; Delvin and Moguillansky, 2010; and IDB, 2014).

2.12 Second, there is also clearly a need to go beyond traditional gains if one is to better understand the relationship between integration and growth. These gains raise productivity when trade is liberalized but do not ensure sustained increases in productivity, a key requirement for economic growth. In addition, the empirical basis for these gains is the inter-industry trade in finished products between small companies and a static vision of a country's comparative advantages that prevailed in the eighteenth and nineteenth centuries. This was quite different from current trade, which is largely dominated by the exchange of similar products, both finished and intermediate, between large, mostly multinational firms. These firms capitalize on innovations in transportation and information technology to break down the production process and exploit the broad range of dynamic comparative advantages available in the world through value chains that span several countries (Antràs, 2015).

2.13 The foregoing conclusions have spurred significant progress in international trade and foreign investment theory. Combined with advances in growth theory, this has led to a better understanding of the long-term impacts of integration on productivity, with a focus on impacts that are felt at three levels: (i) the economy as a whole, (ii) the sector, and (iii) the firm.[3]

2.14 At the first level are the innovation gains that can result from integration, as resources are redirected to sectors with greater learning potential, and countries obtain broader access to the global stock of knowledge (Young, 1991; Grossman and Helpman, 1991). At this level, trade can also spur growth through a positive impact on physical capital, since liberalization increases the price perceived by producers in the competitive sectors, boosting returns on investment and thus, capital accumulation (Anderson, Larch, and Yotov, 2015). At the second level are the so-called intraindustry reallocation effects (Melitz, 2003), through which international competition systematically eliminates less efficient firms and channels resources toward more productive firms, promoting a constant rise in productivity in the economy as a whole. At the third level are the innovation-driven incentives for firms, such as: (i) greater availability of inputs (Ethier, 1982); (ii) access to knowledge through imported goods (Keller, 2004) or through contacts with sophisticated international customers (Westphal, 2001), including the knowledge acquired by joining global value chains (Blyde, 2014; Fujita, 2011; Kawakami, 2011); and (iii) access to an expanded market that increases the return on investment in innovation (Lileeva and Trefler, 2010; Bustos, 2011).

2.15 These contributions provide a sounder theoretical foundation for the relationship between trade integration and growth, and their relevance is being confirmed by a critical mass of empirical studies on trade liberalization, with data at the firm level in both Latin America and the Caribbean and the rest of the world.[4] Despite persistent methodology problems, primarily regarding productivity calculations, the

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[3] Recent research has also contributed to improving our understanding of the relationship between international trade, productivity, and volatility. Until recently, the most common idea was that trade could spur greater productivity, but at the cost of increasing GDP volatility, since greater specialization can increase a country's exposure to specific sector shocks. Nonetheless, this notion has recently been called into question in an analysis that shows that trade can expand diversification in the sources of supply and demand, and thus reduce output volatility (Caselli, Koren, Lisicky, and Tenreyro, 2015).

[4] See Tybout 2001 for an overview of the first generation of these studies. For the most recent, see, for example, Fernandes (2007) on Colombia; López-Córdova and Mesquita Moreira (2004) on Mexico and Brazil; Muendler (2002) on Brazil; Pavcnik (2002) on Chile; Bernard, Jensen, and Schott (2006) on the United States; Amiti and Konings (2007) on Indonesia; Blyde et al. (2010) on Chile and Brazil; Eslava et al. (2009) on Colombia; Lileeva and Trefler (2010) on Canada; Khandelwal and Topalova (2011) on India; and De Locker (2011) on Belgium.

remaining doubts are essentially associated with the size and composition of the impacts rather than their direction (De Loecker, 2011).

2.16 As in the case of trade flows, there have been significant advances in the understanding the impacts of foreign direct investment (FDI) on productivity, this being an increasingly important integration channel.[5] This interdependence is quite evident in the global value chains of transnational companies, which, according to the United Nations Conference on Trade and Development (UNCTAD) (2013), directly or indirectly account for approximately 80% of global trade.[6]

2.17 The impact of FDI on productivity is presumed to occur through three primary channels: reallocation, technological externalities, and linkages (Blomstrom and Kokko, 1998; and Markursen and Maskus, 2001). The reallocation effect results from the entry of firms that are at the global technology vanguard. Technological externalities are associated with the absorption of technology from foreign companies by suppliers, customers, and competitors. Lastly, the linkage effect is associated with the increase in quality and variety of inputs resulting from FDI in those sectors. The empirical evidence of these effects, while less robust than in the case of trade, particularly supports the existence of technological externalities among suppliers of multinationals (Javorcik, 2004; Javorcik and Spatareanu, 2011; Iacovone, Javorcik, Keller, and Tybout, 2015).

2.18 The aforementioned theoretical and empirical advances are taking place against a backdrop of historical experience and changes in the global economy, and provide a solid argument for the Bank's continued support of trade integration in the region, whether through national, regional, or multilateral initiatives. Such support, however, should be accompanied by realistic expectations that recognize that benefits are not likely to accrue in the absence of complementary policies aimed at overcoming the region's educational, technological, financial, and institutional weaknesses. In fact, it is also clear that trade policy cannot bring about the desired development effects alone. It is essential to coordinate other public policies aimed at a country/region's systemic competitiveness so that trade serves as a catalyst for development opportunities. In this context, it is vital to have: productive ecosystems that empower the workforce with education and appropriate skills; technological innovation mechanisms that continually add value to the production of goods and services; a financial structure that is easy to access and competitive; physical infrastructure to connect production centers and markets; and a solid institutional framework for policy management.

2.19 Despite the evident benefits of trade liberalization, the literature shows that they are not felt similarly by all economies, without regard to their size, or by all economic agents. Small and less developed economies, such as those of the Caribbean and Central America, share characteristics that make them particularly vulnerable (World Trade Organization (WTO), 2002; Bernal, 2001, 2011; CARICOM, 2013). The constraints faced by poorer countries include other problems like high cost differentials compared to relatively larger economies, as indicated below. At the same time, economic liberalization can have different

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[5] It is estimated that the ratio of FDI stock to trade, which was 50% in 1995, rose to 100% in 2010, reflecting its growing interdependence with trade flows (UNCTAD, 2013; Helpman, 2011).

[6] See Blyde (2014) for a recent analysis of value chains in the region.

impacts on men and women (Fontana, Joekes, and Masika, 1998; Fontana, 2009), with tangible implications in terms of economic growth and poverty reduction. Women continue to be the poorest and most marginalized population group in many countries, which significantly hinders their access to the benefits of economic liberalization (Gibb, 2012).

2.20 While such interdependence highlights the need for a coordinated effort in several areas, this does not prevent the countries from having a well-defined agenda strictly in the area of trade policy. The literature shows that this agenda should focus on the task of reducing the so-called trade costs, defined by Anderson and Wincoop (2004) as all those involved in the delivery of a good to its end user (i.e., logistics, access to credit and information, regulatory, and legal costs, and trade barriers).

2.21 The task of reducing the high costs of trade has a transnational management dimension characterized by multiple difficulties in undertaking collective regional action. The traditional dichotomy between unilateralism and multilateralism has lost much of its relevance and has been replaced by a complex multidimensional balance. Countries have created a profuse network of trade and investment agreements (see the spaghetti bowl in Figure 6). This high level of interdependence is seen in various areas of global policy. It is very hard to reduce the costs of trade by using policy instruments that are only national in scope. The State must have the cooperation of other States. To this end, it is common for countries to undertake international initiatives to coordinate solutions with varying degrees of scope, depth, and success. In fact, a typical transnational problem (e.g. the modernization of border crossings or the interconnection of national single window for foreign trade (VUCE) platforms to reduce logistics costs) should be addressed in coordination with neighboring countries or the countries with which a government wishes to reduce trade costs. But that involves coordinating a strategic framework of action, programming cycles, synchronized investment and execution, common IT interconnection standards, similar schedules of service to the public, coordination of donors, preparation of proper bilateral legal frameworks, and many other details. When such actions are undertaken among a larger number of countries, the challenges also grow proportionally.

2.22 Collective regional action has become much more urgent for developing countries that have very small local markets and limited financial and institutional resources for regional or international action. These limitations are also political in nature, since, in the context of multiple competing urgent domestic needs, governments often lack sufficient political capital to promote international collective action. International collective action, therefore, requires technical and financial resources for the design, coordination, mediation, execution, and evaluation of regional public goods. Recognizing this context requires a deeper analysis to identify the difficulties inherent in providing countries with incentives to continue developing regional public goods and other collective actions enabling them to reduce the costs of trade.

2.23 The presence of cooperating institutions like regional development banks represents a significant contribution to filling those gaps in capacity, financing, and proactive promotion and leadership of adequate initiatives. Multiple initiatives around the world have already yielded important lessons.[7] The models for applying these experiences are quite varied and show, above all, significant flexibility to adapt to the needs of the countries or subregions. These lessons include the need to ensure high-level leadership, to have adequate governance frameworks, to have financing alternatives for the execution of major infrastructure works and process reengineering, to align actions around strategic frameworks with a long-term vision, and to consolidate advances through bilateral legal agreements whose cost of reversal is high. These initiatives have been promoted in the context of binational or regional frameworks of intergovernmental cooperation, but they have also benefitted from technical and financial cooperation from binational and regional coordination and financing agencies.

B. The challenges of a new integration agenda

2.24 The region's trade policy agenda was traditionally focused on eliminating trade barriers and did not devote much attention to other costs. However, the literature has identified a series of factors that have significantly changed the relative importance of these costs (Kahn, Estevadeordal, and Moreira, 2015). First, successful trade liberalization experiences and preferential agreements in recent decades have greatly reduced traditional barriers while leaving, as a legacy, a jumble of rules of origin and other regulations that inhibit commercial exchange.

2.25 Second, a weak and deteriorated transportation infrastructure in Latin America and the Caribbean has resulted in growing logistics costs that in most cases already exceed the costs of import tariffs. This deterioration has coincided with the emergence of the great Asian economies and the growing importance of the global value chains, in both cases placing a premium on efficient logistics systems: the Asian economies, by demanding transport-intensive commodities and enhancing the competitive advantages of proximity (Moreira et al., 2012); and the value chains, by requiring rapid and low-cost transportation of components between the various stages of production (Blyde, 2014).

2.26 Third, the increasingly competitive environment for markets and foreign investment, combined with the region's need to diversify its goods and services exports and increase its investment rate (IDB, 2015), requires a redoubled focus on information costs, both for exporting goods and services and for attracting investments, in order to bring the private cost in line with the social cost.

2.27 Fourth, the rise of the Asian economies has reduced the relative importance of the trade relations that Latin America and the Caribbean maintained with industrialized nations and has increased the importance of South-South relations. This has generated a series of challenges for the region, ranging from increasing diversification in a trade relationship characterized primarily by trade in commodities to include manufactured goods (Moreira and Estevadeordal, 2015; IDB, 2013a), to finding a way to take advantage of the opportunities these new

[7] The European example, which designed, financed, and executed the largest ongoing economic integration project represents a model that, for purposes of trade integration in other regions, provides relevant lessons for collective action aimed at reducing the costs of trade among multiple countries. But there are also examples of collective action in the Mekong region in Asia to reduce the costs of freight transportation; in the simplification of border processes between Switzerland, France, and Germany; in the joint inspection facilities for perishable products between Mexico and the United States; and in the immigration facilities between Canada and the United States; as well as many others.

markets offer Latin America and the Caribbean in terms of investment (Estevadeordal, Moreira, and Kahn, 2014; Estevadeordal and Kahn, 2012) and mutual cooperation (IDB, 2013b; Tres, 2013).

2.28 In addition, a growing demand is perceived in the region for facilitating access to financing for exporters to help companies—especially SMEs (IDB, 2014)—bear the significant financial burden of export processes. Overcoming these financing costs has become particularly critical when financial markets lack liquidity, as occurred globally in 2009.

2.29 SMEs warrant special attention because they can play a major role in the process of integration and diversification of foreign trade in the region. As is the case in the rest of the world, in Latin America and the Caribbean SMEs represent 90% of the business fabric, a figure similar to that of the European Union, but well above the figures for the United States (75%) and the Republic of Korea (52%). The contribution of SMEs to the processes of international economic integration can come from the introduction of new products and the opening of new markets. As shown by Haltiwanger et al. (2010), the entry of new firms plays a fundamental role in the creation of new jobs and opportunities for growth. These authors basically discuss the United States domestic market, but there is no fundamental reason to believe that they do not play the same role in the region's foreign trade, especially if this role is facilitated by access to global value chains.[8]

2.30 Available evidence suggests that there is significant room in the region to strengthen this contribution by SMEs to foreign trade. For example, only 13.4% of SMEs in Latin America and the Caribbean (with fewer than 250 employees) exported in the 2009-2010 period, which the same figures for Korea, Thailand, and Malaysia were 18.9%, 47%, and 54.7%, respectively (Gordon and Suominem, 2014). The remainder of this section provides a more detailed view of these four types of costs of trade.

2.31 The costs of integration are not the same for all economies. The specialized literature clearly shows that smaller, weaker economies, such as, for example, those of the Caribbean and Central America, as well as landlocked economies, have greater vulnerabilities.[9] Some studies show this phenomenon for the smaller economies' export manufacturing activities. Based on cost structures in 92 economies and considering variables such as transportation costs in imports and exports, utilities costs, wages, taxes, and policy regimes, these analyses empirically test the relationship between costs and country size, estimate the cost disadvantage for four types of countries, depending on their population size,[10] with respect to an economy considered a comparator (10 million inhabitants). The results show that the smaller the country, the greater its cost differential. For example, the cost differentials for smaller economies include 31% in air transportation and 38% in wages for qualified workers (Winters and Martins, 2004). Moreover, logistics, information, regulatory, and financing costs become more complex for landlocked economies, as international society has recognized in the

[8] See Blyde (2014) for successful cases of Latin American exports through global value chains.

[9] In general, see CARICOM (2013). On the services industry in the Caribbean, see Chaitoo, (2008). On their macroeconomic vulnerabilities, see Schipke (2013).

[10] Up to 12,000 inhabitants, up to 200,000, up to 1.6 million, and up to 4 million.

framework of the United Nations.[11] In fact, the Almaty Programme of Action recognizes the difficult situation of these economies and has designed a mechanism to address their vulnerabilities.

1. Logistics costs

2.32 Logistics costs, including facilitation costs, are now widely acknowledged as the main obstacle to international trade. A recent study estimates that a modest reduction in logistics and facilitation costs—equivalent to half the level of global best practices—would lead to an increase in global gross domestic product (GDP) six times higher than what would result from a removal of import tariffs (World Economic Forum, 2013).[12]

2.33 In Latin America and the Caribbean, the combination of a very inefficient transportation infrastructure and comparative advantages in transport-intensive goods (commodities and transport-time-sensitive goods) further increases this asymmetry in benefits. For example, Moreira, Volpe, and Blyde (2008) estimate that a 10% reduction in international shipment costs has a ten to twenty times greater positive impact on the exports of a group of countries in the region than a similar reduction in tariffs.

2.34 This result reflects the substantial difference in the order of magnitude of those two costs, with shipment costs being as much as four to five times higher (Figure 1). While impressive, these numbers underestimate the importance of logistics costs since they do not include: (i) warehousing and depreciation costs associated with transport and customs clearance times,[13] which can double the transportation costs; (ii) the costs arising from security gaps in the logistics chain; and (iii) domestic shipment expenses. On this latter point, for example, Moreira, Blyde, Volpe, and Molina (2013) analyze the impact of domestic transportation costs on the trade of various countries in Latin America and the Caribbean and find that on average, a 1% reduction in these costs would entail an increase of approximately 4% in external sales. Similar impacts are found in another study by the IDB that considers the Pacific Alliance countries (Molina, Heuser, and Moreira, 2016). Latin America and the Caribbean's geographic proximity to the markets of North America and Europe provides a significant comparative advantage for transportation-intensive and time-sensitive goods, such as perishable agricultural products (fruits, fresh meats, and cut flowers) and goods with unpredictable or volatile demand (clothing, toys). However, the poor state of transportation infrastructure, particularly for air transport, which plays a fundamental role in time-sensitive goods, has prevented the region from living up to its potential as an exporter. In an INT study (Moreira et al., 2008), it was estimated that air freight for the region's exports to the United States costs, on average, more than double the freight paid by exporters from the European Union, with 45% of the difference explained by inefficiencies in air transport. These inefficiencies are associated with

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11 See http://unohrlls.org/custom-content/uploads/2013/08/SIDS-Small-Islands-Bigger-Stakes.pdf.

12 Limão and Venables (2001) and Clark, Dollar, and Micco (2004) also find significant impacts on trade arising from a reduction in transportation costs.

13 Customs authorities are only responsible for one third of delays on the border. The lack of coordination in customs controls by the entities mandated to carry out border control (police, immigration, animal and plant health authorities) is responsible for the other two thirds. McLinden, Fanta, Widdowson, and Doyle (2011).

the low quality and deficiencies in the supply of cargo airports and a regulatory framework that does not promote competition among airlines.

2.35 For example, quick, safe, and efficient customs clearance of cargo is now a key requirement for global competitiveness in the region (Volpe, Carballo, and Graziano, 2015; Carballo, Graziano, Schaur, and Volpe, 2014). Both factors are important not only for trade in perishable goods, but for many products with short life cycles or great demand variability, as well as for meeting production requirements, such as just-in-time deliveries, which are increasingly common in international value chains (Evans and Harrigan, 2005; Hummels and Schaur, 2010, 2012; and Blyde and Molina, 2015).

2.36 Reducing all these costs requires addressing a series of issues, ranging from port, airport, and land border-crossing inefficiencies, deficient customs, and lack of interagency coordination at border controls[14] to bottlenecks created by money-losing road systems and inadequate transportation industry services and regulations. There is a significant gap between Latin America and the Caribbean and the developed world regarding most of these issues, as explained below and highlighted in Table 1.

2.37 This issue is a particularly sensitive one in smaller countries where, given the size of their economies, overcoming logistics costs poses a more complex challenge (CARICOM, 2013). The main reason is that these economies have limited control over the frequency and costs of international marine transportation, given the small size of their domestic markets, and the fact that their exports are insufficient to produce economies of scale. In the case of the Caribbean, for example, transportation and insurance costs are 30% higher than the global average. Moreover, logistics costs represent 20% of production costs, compared to a global average of 10% (Moreira, Volpe, and Blyde, 2008). For this reason, reducing logistics costs in these countries has the potential to drive intraregional trade, increase the productivity of ports, and reduce the high concentration of their exports. Any policy responses designed must take into account the limited institutional capacity of these countries and their high dependence on trade-related tax revenues.

2. Information costs

2.38 Information and the search for it play a major role in economic life (Stigler, 1961). Some empirical studies based on surveys on the impact of alternative trade barriers in the United States, Europe, and recently industrialized Asian countries indicate that a lack of information is one of the most significant export barriers in terms of both frequency of occurrence and degree of severity (Leonidou, 1995). In particular, many companies need to learn about foreign trade practices and consumer preferences; identify foreign business opportunities; seek to contact and communicate with customers abroad; require access to appropriate distribution

[14] The experience in New Zealand of establishing a single foreign trade window has resulted, for example, in the average processing time for a commercial transaction being 20 seconds (WCO, 2015).

and advertising channels;[15] and obtain information on customs procedures and goods and services export certifications.[16]

2.39 It has been observed that many of these information problems have a high or very high impact on goods and services exports. In addition, a recent survey of 460 British companies indicates that the most common export impediments are associated with identifying the initial contact and with marketing costs when doing business abroad (more than 50% of companies) (Kneller and Pisu, 2007). Information costs can become a particularly critical barrier to export market entry in the case of differentiated goods (goods that differ in terms of characteristics and quality) and experiential goods (goods whose quality is only revealed through consumption or use) (Rauch, 1999; and Nelson, 1970, respectively). This is especially true for firms in developing countries, and even more so for very small and weak developing economies, such as those in the Caribbean (Bernal, 2006; Williams, 2009; CARICOM, 2013). Due to national reputation effects, such firms tend to start from a less favorable position, since their products may be perceived as being of lower quality or technologically less advanced, particularly by consumers in developed countries (Chiang and Masson, 1988; Han and Terpstra, 1988; Egan and Moody, 1992; and Hudson and Jones, 2003). An extensive study of enterprises in Latin America and the Caribbean found that information costs are a major limiting factor for export performance, especially for smaller establishments (Volpe, 2010).

2.40 FDI attraction actions also seek to overcome information and coordination costs (Hayakawa, Lee, and Park, 2010). In fact, there are market failures that lead investors to incur in additional costs when investing. When the international perception of a region or country fails to reflect reality or when there are differences in the relative abilities of small and large companies to access relevant information when deciding where to invest, active investment attraction policies are required to help overcome these information costs.[17]

2.41 By reducing information costs, investment promotion allows countries to benefit from the positive externalities that a foreign company can take to the destination country, such as new management technologies or techniques that are later disseminated throughout the country; moreover, the establishment of a new foreign company can contribute to the development of suppliers, improvement of training, and knowledge transfer (Merlevede, Schoors, and Spatareanu, 2010; Meyer and Sinani, 2009).

2.42 A decisive factor for reducing information costs is the availability of an adequate information and communication technology (ICT) infrastructure, especially for the region's smaller economies, which show greater dependence on foreign investment due to their limited domestic demand. In most of these cases, deficiencies have been identified in the availability of data, unequal access to ICT, and prohibitive connectivity costs, leading to additional problems in attracting FDI.

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[15] See, for example, Albaum (1983); Czinkota and Ricks (1983); Katsikeas and Morgan (1994); and Leonidou (2004).

[16] See also Williams (2009).

[17] See also UNCTAD, 2008.

2.43 In turn, investment promotion activities are in large part comprised of public goods, since it is often impossible to exclude all beneficiaries of such activities; for example, if an investment promotion agency (IPA) conducts an advertising campaign that improves the country's image abroad, all inhabitants can benefit as a result. To entrust this type of activities to the market would lead to a suboptimal level of provision.[18]

3. Regulatory costs

2.44 As indicated above, the processes of trade integration and opening up to foreign investment provide significant opportunities for the population to create growth gains. However, their implementation also faces significant regulatory costs. Such costs may be grouped into: (i) costs arising from compliance with quality and conformity requirements applicable to specific products and services (Cadot et al., 2012); and (ii) costs arising from the institutional and regulatory architecture of the international system, particularly in the event of preferential trade and investment agreements (Estevadeordal et al., 2009).

2.45 The applicable quality and conformity regulations at the product level include nontariff barriers (NTBs), such as sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), and a series of private standards that affect the marketability of products once they succeed in entering the destination country. Despite international trade negotiations' focus on dismantling trade barriers, NTBs continue to proliferate. For example, the World Trade Organization (WTO) Secretariat has shown that, during the period 2005-2010, WTO member countries (more than 160) displayed what appears to be a gradual process of substitution of trade protection policies. It found TBT (and, to a lesser extent, SPS) in place of tariff measures by identifying a coverage rate and frequency ratio of NTBs that reveals a correlation between lower tariffs and higher NTBs (WTO, 2012).

2.46 SPS measures are particularly relevant for the region's small economies, since their main exports are concentrated in agricultural products that are particularly vulnerable to the increasingly strict SPS measures imposed by their traditional target markets, in order to reduce risks related to food safety, pests, and illnesses. The fundamental challenges that must be addressed are essentially institutional by nature, including the lack of qualified staff, lack of diagnostic tools, obsolete regulatory frameworks, and fragmented controls by government agencies (CARICOM, 2013).

2.47 Other regulatory costs originate in the institutional architecture of the international trade system. A high percentage of global trade takes place between countries

[18] There is empirical evidence showing the positive effects of devoting financial resources to activities that attract foreign investors. In Australia, for example, after evaluating foreign investment attraction programs for the 1999-2000 period, it was determined that for every million Australian dollars invested to that end, 10.3 million additional Australian dollars were generated in capital investment, in addition to 43 new jobs.

with free trade agreements (FTAs) or other preferential agreements.[19] As a result, applicable trade rules are fragmented by this network of agreements and regulations, particularly due to the complexity of their rules of origin (Granados and Cornejo, 2006; Estevadeordal et al., 2009; Crawford, 2012). In order to comply with the rules of origin for exporting to markets that have signed FTAs with its host country, a manufacturing plant must meet significant challenges in terms of adapting its input procurement structure as well as its production process. Such adaptation can compartmentalize the plant's production processes and countries' international trade flows, especially in smaller countries. Using company data from Colombia, Cadot, Graziano, Harria, and Volpe (2014) show the existence of costs related to compliance with rules on origin in terms of decreasing exports. Suggestions have been made to launch FTA convergence initiatives to facilitate the accumulation of origin and thus reduce the chance of fragmentation (Granados and Cornejo, 2004) (see Rules of Origin, Fragmentation, and Convergence, which illustrates this situation).

4. Financing costs

2.48 Access to external sources of financing is another cost having a substantial impact on exporters. In fact, financing constraints produce two effects: (i) they reduce exporters' profitability by requiring them to produce at a suboptimal level, limiting their export potential; and (ii) they create an exclusion of access to external markets that limits the number of products and the number of target countries to which companies may export (Muuls, 2009; Feenstra, 2012; Chaney, 2013; and Manova, 2013).[20]

2.49 These costs become more relevant when companies depend on credit to finance operating expenses to produce the goods they export. Unlike producers targeting the domestic market, exporting is not only a more costly activity (due to insurance and transportation costs), but the transaction cycle is long, since payment is made when the external consumer receives the merchandise. This generates a time lag with financial implications for the exporter because it must pay for inputs before collecting from the end consumer. Clearly, companies with greater time lags are more dependent on the availability of financing.

2.50 Exporters leverage their financing with internal or external resources that can come from various sources (debt issues, loans with the financial sector or with suppliers

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[19] Recent studies show that many countries around the world sustain very high trade levels with their trading partners under formal integration agreements. For example, 83% of Switzerland's imports come from European countries with which it has agreements in place; Jordan imports 60% from Middle Eastern countries under trade agreements; Mexico imports 72% from its partners in North America; Honduras imports 67.9% from Central America; Chile imports 65.8% from South America; New Zealand imports 47% from Oceania (Crawford, 2012).

[20] Theoretically, Chaney's international trade model with firms that are heterogeneous in terms of productivity and liquidity level (2005) allowed the development of the international trade models with liquidity requirements of Berman and Hericourt (2008), Muuls (2009), Feenstra (2012), and Manova (2013).

of intermediate inputs, credit lines backed by the export or with letters of credit).[21] The availability and effective use of the various sources of financing depend in part on the financial development of the market in which the exporter operates. Companies in developed financial markets have more options. On the other hand, low financial sophistication, made worse by the limited availability of lines from correspondent banks globally, means that exports from companies in those markets are on average 10% below the level observed in more developed financial markets (Manova, 2013a). This is confirmed in a Bank study that analyzes obstacles to internationalization in SMEs in Latin America and the Caribbean (IDB, 2014b). As is to be expected, smaller companies in smaller economies are those that generally face greater constraints in terms of access to external financing, not only because it is more difficult for them to access credit (due to lack of collateral), but also because the regional financial markets do not provide adequate alternatives; and in the event that they do, the cost is high for SMEs, since they have a shorter credit history and less collateral (Manova, 2013a). Likewise, the restriction of correspondent banking services represents a constraint on access to financing for foreign trade for banks in some Latin American and the Caribbean financial markets. The decisions of global financial institutions aimed at limiting correspondent banking services are determined by certain factors, including the low return on correspondent banking, aggravated by global economic conditions, prudential requirements that were strengthened following the global financial crisis, and the costs of compliance with anti-money laundering and counter-terrorism financing (AML-CTF) measures, including possible sanctions for doing business in financial markets that have not fully implemented global AML-CTF standards. Using data from Colombia, an IDB study showed how access to financing enhances the export performance of enterprises, primarily by expanding the number of target markets (Molina and Roa, 2014).

2.51 Analyses by the IDB Group and the Latin American Banking Federation (FELABAN) show the need to promote the development of sources of financing for exporters with an emphasis on SMEs. Only 25% of companies surveyed report having access to a source of financing for their exports. The development potential of this market is highly important if one considers that six of ten SMEs report exports or interest in exporting (IDB, 2014).

III. MAIN CHALLENGE FOR THE REGION AND PROBLEMS THAT THE BANK WISHES TO ADDRESS

3.1 Advances in trade and investment policy over the past quarter century have allowed the region to reintegrate into the global economy and overcome years of stagnation in the 1980s. The recovery took hold in 2000, when the economy grew at an average annual rate of 5%, led by a 17% annual growth in exports and supported by record FDI flows that reached US$128 billion in 2008. The 2008 and

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[21] To determine the most commonly used source is complex due to the lack of access to financial reports and because firms finance their activities with one or more products, which means that the data on the magnitude of the dependence of international trade on external sources of financing should be taken as an initial approximation. For example, firms may export and leverage their financial needs with a bank loan, or with loans to suppliers, which, according to Fisman and Love (2003) are one of the main sources of financing in financially under-developed markets.

2009 crisis heavily impacted Latin America and the Caribbean, yet the subsequent recovery was swift, although at lower growth levels than in the pre-crisis period.

3.2 Since mid-2014, however, there has been a clear change in the global trade trend that continued and grew more pronounced in early 2015, with a marked effect on trade performance in Latin American and Caribbean countries. A new pattern of global growth is emerging, including a notable slowdown in China and the developed countries, resulting in the cooling of the real demand for regional products. In addition, the rapid deterioration of commodity prices, primarily hydrocarbons and metals, has depressed trade volumes and caused a severe contraction in the region's aggregate exports in the first half of 2015, after the drop the previous year. In most countries, the current account deficits in the balance of payments are growing worse, amid international circumstances characterized by growing exchange volatility and an outlook of higher costs for access to international financing (IDB, 2015). All this adds to the urgency of the need to deepen policy and investment interventions that help promote trade and investment patterns with resilience, diversification, and value added to support the sustainable growth of the region's economies.

3.3 The growth gap with respect to Southeast Asian countries remains and continues to be considerable, suggesting that the region may not be fully harnessing its growth potential. As discussed in the preceding sections, this is in large part due to weak educational, technological, financial, and institutional foundations, which affect growth in various ways while also preventing the region from taking advantage of all opportunities created by integration, whether through the creation of new products and markets or the absorption of technology associated with FDI. Another reason appears to be related to the high costs of nontraditional trade, which limit the growth benefits arising from integration.

3.4 The hypothesis of unused growth potential is supported by three characteristics of recent trade performance: (i) despite advances, Latin American and Caribbean participation in global trade is still very limited and is even lower than in the 1960s, when the inward-looking strategy was taking hold; (ii) with rare exceptions, most countries concentrate their exports on a small number of commodities with volatile prices or on technologically unsophisticated manufactured goods; and (iii) the benefits of integration continue to be concentrated in a few regions and countries that have natural resources or enjoy national geographic advantages with respect to the North American market.

3.5 As highlighted above, these challenges cannot be faced only with trade policy and investments; they require a coordinated effort in several areas and in tandem with the private sector. However, integration policies can make a significant contribution through initiatives that substantially reduce logistics, information, regulatory, and financing costs. The reduction in these four costs is sought through specific strategies in four areas: (i) trade facilitation and customs modernization to lower regulatory and logistics costs; (ii) export and investment promotion as a mechanism to overcome information failures and other market failures; (iii) efficient management, implementation, and use of trade and investment agreements to reduce regulatory and information costs; and (iv) facilitation of access to credit for exports and investments.

3.6 The following paragraphs highlight some design, financing, institutional organization, monitoring, and evaluation shortcomings in public policies on these issues, making clear the need for interventions that help bring about greater and better global insertion of Latin American and Caribbean economies, at least partially offsetting the aforementioned costs.

A. Improvement in transportation infrastructure, associated services, and customs modernization as trade facilitation tools aimed at reducing logistics costs

3.7 Transportation costs in Latin American and Caribbean countries are high. For example, international shipping associated with exports tends to be much higher than in other regions, as shown in Figure 7. One of the causes of this phenomenon lies in the differences in the make-up of the export baskets. An average Latin American and Caribbean basket contains heavier goods, resulting in higher freight costs. But the difference in export baskets does not explain the entire difference in freight. As Moreira, Volpe, and Blyde (2008) show, after discounting the influence of the differences in export baskets, about 40% of the differences in international freight costs between Latin America and the Caribbean and countries in the European Union, for example, can be explained by differences in the quality of port and airport infrastructure.

3.8 Domestic transportation costs in Latin America and the Caribbean are also high (Moreira, Blyde, Volpe, and Molina, 2013), due not only to the large average distances between production and consumption centers, but also to inefficiencies in every means of transportation[22] and the lack of information on the most efficient mode of transportation for the various types of cargo. Normative decisions in Latin America and the Caribbean on transportation policies favor roads over rail, river, and coastal logistics systems, even though, in the case of bulk agricultural logistics chains and the mining-energy industry, this turns out to be the costliest option for the region's infrastructure system (Batista da Silva, 1996). The importance of improving automotive cargo transport as the current driver of the countries' economies must be recognized, both for its relevance and because new developments in rail or river transportation require very significant resources not available in the countries. Such situations determine and compromise the degree of integration to which a country can aspire in a way that minimizes costs.

3.9 Despite the fact that roads are favored, spatial coverage of the region's road network is lower than the world average. Indicators show a world average of 241 km of roads per 1,000 km^2, while coverage in Latin America and the Caribbean is 156 km (Barbero, 2010). The quality of the existing network is also subpar in comparison to other regions. Most ports do not adequately connect with railways and the road network (Sgut, 2003). Access to many ports in the region is by means of narrow and often congested roads. Interfaces between railways and road systems are also deficient.

[22] These inefficiencies are explained by the private sector's moderate development and capacity to provide a quality, efficient, and reliable transportation service, the limited level of development and capacity of the responsible institutions to regulate transportation services, and the quality and coverage of the infrastructure supporting transportation.

3.10 While Latin America and the Caribbean have not escaped the phenomenon of global value chains, the region as a whole has a relatively lesser participation than other regions. For example, as can be seen in Figure 8, intraindustrial trade—which represents a measure of participation in chains—grew an average of 40% in Latin America between 1985 and 2010, while in Asian countries, intraindustrial trade virtually doubled over the same period.

3.11 It is to be expected that a reduction in transportation and logistics costs will improve Latin American and Caribbean integration into regional and international value chains. This includes improving the quality of the infrastructure associated with transportation and logistics. Enterprises that fragment production internationally must reduce the risks associated with the uncertainty and delays in delivery of any component in order to prevent interruptions in the production of the final goods. For this reason, these enterprises seek to work with suppliers in places that have adequate transportation and logistics infrastructure. Moreover, the modern practices of production chains—such as just-in-time delivery services—require suppliers to increasingly commit to rapid deliveries with minimal interruptions, which is the same thing as having good logistics and transportation systems. Figure 9 shows that if Latin American and Caribbean countries were to improve the quality of their port, airport, and telecommunications infrastructures to the average level observed in the European Union, the FDI flows associated with global value chains would increase an average of 20%.

3.12 Infrastructure investment in the region has not only been limited and in many cases undertaken without a focus on the quality of services to be provided. As shown in Figure 10, the average quality of port and airport infrastructure in Latin American and Caribbean countries is well below that observed in Asian and Eastern Europe. Moreover, infrastructure investment has not been adequately supported by regulatory framework reforms, particularly in the area of customs and especially in light of the new challenges of global trade. Due to the significant rise in world trade and the complexity of the international logistics chain, customs have become crucial institutions for facilitating trade, contributing to public revenues, and guaranteeing security. However, diagnostic assessments show that the world's customs administrations face multiple external challenges: (i) a greater number of customs transactions due to an increase in foreign trade transactions; (ii) the growing complexity of export and import formalities due to the amount of bilateral, regional, and multilateral trade agreements; (iii) a large concentration of foreign trade transactions at logistics centers, requiring a greater customs presence at ports and airports to improve customer care times and expeditious clearance of merchandise; (iv) large investments by foreign trade operators to be more effective and efficient, and their growing expectations of simplified customs procedures; and (v) increasing threats to the international supply chain, creating fiscal and parafiscal risks.

3.13 The past decade has seen advances in the region in terms of customs reforms, partnerships with the private sector, and the incipient development of regional cooperation networks.[23] Nevertheless, the available evidence shows a wide gap in Latin America and the Caribbean in terms of customs processes in comparison to those Asian countries that are leaders in logistics (see Figure 2). Actions to strengthen the institutional capacity of customs administrations and modernize border crossings remain pending in many other countries, especially smaller countries (CARICOM, 2013). Such actions will have the important objective of facilitating trade, ensuring revenue collection, and promoting security of transactions and mobility of people. The WTO Trade Facilitation Agreement, approved in November 2014 in Bali, recognizes the existence of gaps in capacity and imposes on all countries commitments to important institutional and legal reforms aimed at improving conditions for international trade.

3.14 In particular, available evidence clearly shows that the implementation of specific initiatives that simplify and streamline administrative processing in trade transactions, such as the adoption of risk management methods, the establishment of single windows, expedited procedures for international transit, and the implementation of authorized economic operator programs and postal exports have significant positive effects on exports by enterprises and their countries. This effect essentially originates in the increase in the number or frequency of commercial shipments made possible by cross-border facilitation, and this tends to be higher for goods that are more time-sensitive (Carballo, Graziano, Schaur, and Volpe Martincus, 2016a, 2016b, 2016c; and Carballo, Schaur, and Volpe Martincus, 2016a, 2016b).

B. Export and investment promotion policies and programs as tools to reduce information costs

3.15 Export promotion policies are virtually omnipresent (Rauch, 1996) and are justified by the existence of market failures, specifically externalities and coordination failures. In the past two decades, the number of trade promotion organizations (TPOs) responsible for carrying out these policies has grown by a factor of three (Lederman et al., 2010). The activities performed by TPOs may be considered a means to mitigate information problems. Trade assistance initiatives can reduce the fixed costs incurred by companies when exporting for the first time and entering specific new markets by reducing the costs associated with collecting information, such as the costs of conducting market studies abroad regarding prices, product standards, and potential buyers (Wagner, 1995; and Roberts and Tybout, 1997). Thus, a TPO facilitates the internationalization of companies and specifically their entry into new countries and/or product markets.

3.16 The organizational architecture and the modalities of action are important determining factors for the effectiveness of export and investment promotion.

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[23] These regional efforts are aligned with the WTO Trade Facilitation Agreement and have been supported by the World Customs Organization, pursuant to the Framework of Standards to Secure and Facilitate Global Trade (SAFE). The countries have made efforts to strengthen the institutional capacity of customs institutions, primarily through improved procedures, security and facilitation mechanisms, and implementation of the authorized economic operator (AEO). In an IDB study on the impact of the AEO program, it has been corroborated that the AEO program in Mexico (NEEC) is having a positive impact on exports and imports for certified companies, and represents a fiscal savings in the cost of customs operations, Likewise, in a study aimed at the private sector, 60% of AEO-certified companies in the region indicate that border crossing times have been reduced, while 75% believe that AEO certification has had a positive impact on their company’s competitiveness.

TPOs may have a foreign office network of variable size or not have any presence abroad, in which case they must resort to their respective countries' network of embassies and consulates (Jordana et al., 2010).[24]

3.17 In fact, TPOs from Latin American and Caribbean countries are highly heterogeneous in terms of their presence abroad (see Figure 3). A few have more than 10 offices in 10 or more countries (for example, PROCHILE, PROCOMER, PROEXPORT, PROMEXICO, and MINCETUR), while most are either represented on a very limited basis in foreign countries or have no representation at all. The latter depend on the support of diplomatic staff at embassies and consulates to help exporting companies. However, the level of this support generally depends on subjective personal relationships rather than a proper allocation of institutional responsibilities. In addition, lack of trade experience, time, and occasionally resources limits the degree of assistance available from these diplomats. These situations are particularly critical in institutions of smaller and economically more vulnerable countries, such as those of the Caribbean and Central America.

3.18 The existing evidence for the region indicates that opening a TPO office has a significantly higher impact on total bilateral exports and on the number of exported products than adding a diplomatic mission (Volpe Martincus et al., 2011) (see Figure 4). TPOs have a particularly beneficial impact on export diversification into more differentiated products, while embassies and consulates contribute more to increasing the number of homogenous exports, i.e., the region's typical export products (Volpe Martincus et al., 2010).[25] This clearly highlights the importance of having specialized export promotion services abroad in order to achieve effective diversification of foreign sales.

3.19 Some studies suggest that there is a positive correlation between a country's exports and the TPO's budget, staff compensation, and private-sector representation on the board of directors, although diminishing returns are prevalent on the resources allocated to finance such activities (see Figure 5). There is also evidence that centralizing the export promotion function in one organization appears to be preferable to having a proliferation of specialized entities (Lederman et al., 2010). Lastly, in countries with small economies, such as Caribbean and Central American countries, with institutional or management problems, providing quality export promotion or investment attraction services from the public sector becomes more challenging.

3.20 Export and investment promotion has asymmetric effects that relate to the severity of the information problems involved in the specific trade transaction in question

[24] These entities establish intermediate organizational arrangements that help to ensure some form of presence in their countries' regions. EXPORTAR has 63 points of access to its services, created as a result of alliances or agreements with, and organized by, provincial or municipal governments and business associations in Argentina's 24 provinces. PROEXPORT, PROCOMER, and PROMPERU have local information centers managed in collaboration with other public and/or private local organizations to enhance their regional presence. Since the late 1990s, PROCHILE has had a presence in practically all of the country's regions. Since 2009, the same has been true of PROMEXICO. Offices and missions abroad do provide effective support to companies operating abroad. A sample of developed countries shows that the presence of diplomatic missions has a positive correlation to exports. Each additional consulate is associated with a 6% to 10% increase in exports (Rose, 2007). In the case of Spain, the numbers range from 9.2% to 45.6%.

[25] The same pattern is true of Spanish regional agencies (Gil-Pareja et al., 2008, 2012).

and/or faced by the firms carrying out that transaction.[26] Moreover, the impact of trade promotion can vary among the destinations of the foreign sales, depending on the prevailing conditions therein. Specifically, promotion has helped companies remain commercially active in export countries particularly hard hit by the international financial crisis.[27]

3.21 In short, there are criteria for creating TPOs, outlining their architecture, operation, and financing, and justifying export promotion policies. Diagnostic assessments conducted in the region indicate that every dollar invested in export promotion programs generates foreign sales on the order of US$45 in Peru, US$38 in Uruguay, and US$41 in Colombia (Volpe Martincus, 2010). All of the above suggests a series of criteria to be taken into account in designing and allocating funds to specific activities and instruments, with a view to maximizing the effectiveness of the promotion policy and the institutional framework that manages it.

3.22 Investment attraction policies are very dynamic and reflect competition in attracting FDI. Since the 1990s, the number of IPAs has grown rapidly; thus, by the start of the new millennium there were more than 160 IPAs at the national level and 250 at the subnational level (UNCTAD, 2001b). Furthermore, targeted, integrated, proactive interventions are being designed in acknowledgment of the importance of the quantity and quality of FDI. The so-called third-generation measures incorporate the definition of target investment flows within a global national or regional development strategy. The objective is to harmonize the country's advantages, investors' needs, and national interests, while aiming to ensure that FDI contributes to the achievement of local strategies. IPAs play a key role in the countries' development strategies. A survey of U.S. multinationals indicates that 65% of companies have worked closely with IPAs when deciding to invest; 64% of executives answered that they are highly likely to use IPA websites in their next location search; and only 8% of companies have not contacted IPAs in the process of selecting an investment location (Development Counsellors International, 2008).

3.23 While IPAs in Latin America and the Caribbean have begun to professionalize, there continues to be a significant gap with respect to international best practices and highly heterogeneous behavior among the various countries, especially those with smaller economies. On an aggregate basis, Global Investment Promotion Best Practices 2012 shows that Latin America and the Caribbean have narrowed the gap with Organization for Economic Cooperation and Development (OECD) countries in terms of investment promotion and facilitation. Nevertheless, the region is still falls far short in terms of best practices. According to the investment promotion best practices indicator developed by the IFC, which is a weighted

[26] First, the impact is greater on the overall margin of exports, i.e., when companies attempt to increase the number of destination countries (or expand the set of exported goods) and, specifically, when they seek to penetrate entirely new markets (for example, Volpe Martincus and Carballo, 2010; Cadot et al., 2012; Moons, 2012). Second, the impact is essentially concentrated on exporters that only sell differentiated products (Volpe Martincus and Carballo, 2012). Third, the effects of any given trade promotion action are greater for smaller companies with limited experience in international markets (for example, Volpe Martincus et al., 2012; Schminke and van Biesebroeck, 2012). Lastly, in terms of support strategies, a comprehensive tracking of firms throughout the export process seems to be more effective than isolated actions (Volpe Martincus and Carballo, 2010c).

[27] See van Biesebroeck, Konigs, and Volpe Martincus (2016).

average of four factors that are independently assessed at every IPA in the world,[28] while the OECD IPAs achieved a score of 64%, the Latin America and Caribbean region's countries only scored 48%. Moreover, while some countries (such as Costa Rica or Nicaragua) have IPAs that score positively at the international level, there are still countries that lack a clear institutional framework for export promotion or have added investment promotion activities to existing export promotion agencies without providing them with sufficient capacities or resources.

3.24 The service offering of the region's IPAs is limited because not all agencies offer investors a full service package. In general terms, the services offered by IPAs may be classified as (i) preinvestment advisory services, consisting in the provision of basic information and technical and administrative assistance in the investment decision-making process; (ii) investment management support, including guidance to investors in setting up operations in the country and searching for strategic partners, notification of relevant incentives, etc.; and (iii) post-investment advisory support, provided at the enterprise level to facilitate a successful start of operations and continued implementation of new investments by foreign firms with a view to maximizing local development. Practically all IPAs in the region offer the first set of services, but a smaller number provides investment management support services and only a very small group of agencies has succeeded in deploying competent post-investment units. Thus, it is critically important to continue to work with IPAs so they may succeed in offering investors a full package of support services.

3.25 Some IPAs have started offering specialized sector-specific support services. In this area, the service sector stands out as its market logic is substantially different from that of the goods sector. Trade in services, and particularly in professional and business services, has been the sector that has grown the most in the last decade in terms of trade and investment. In this area, IPAs have a clear role to play given the major lack of knowledge of the specificities of the sector, by promoting the development of technical skills and finishing schools and facilitating access to certifications and promoting improved capacities associated with the sector.

C. Management of agreements, harmonization, and convergence as strategies to reduce regulatory costs

3.26 In Latin America and the Caribbean, the costs of NTBs are significantly greater than tariff costs. For most of the countries in the region, the NTBs faced by their exports imply a cost of more than 15% of the value of the exported merchandise, compared to tariffs that on average do not exceed 4% (IDB et al., 2011). The SPS designed to protect human and animal health in the importing countries pursue legitimate objectives. However, disparities in the definition and administration of these measures lead to a situation in which agri-food exporters face uncertainty

[28] Factors to be assessed include: (a) availability and accessibility: how easily can the IPA be found online and an expert project manager be contacted; (b) responsiveness and handling: how skillfully does the IPA staff interact with the potential investor on the phone and by e-mail; (c) reply: how relevant, thorough, and professional is the IPA's reply to specific questions; and (d) customer care: how good is the IPA's follow-up in managing to transform an investor's initial interest into a firmer initiative (additional questions or a site visit).

regarding the admissibility of their merchandise in each destination country.[29] The absence of a harmonized standard has become a material obstacle to regional trade, requiring appropriate negotiating frameworks as well as investment in institutional capacity to comply with the negotiated rules.[30]

3.27 Moreover, while the multiple trade and investment agreements are important pillars of the national and regional economic reform processes (guaranteeing the stability and irreversibility of policies), their proliferation creates significant regulatory costs. The trade reform process has in large measure relied (and continues to rely) on the management of hundreds of international trade agreements.[31] In addition, countries around the world have signed a greater number of bilateral investment treaties, which also contain access commitments for the establishment of foreign investors and for investment protection and promotion (Sauvant and Sachs, 2009). Both trade and investment agreements are backed by sound legal mechanisms for dispute resolution, including arbitration (Lacarte and Granados, 2004).

3.28 However, international trade and investment agreements in the region are poorly managed, with inadequate processes for access to information by citizens and entrepreneurs, especially in countries with smaller, more vulnerable economies. Management has multiple facets, including the negotiation, approval, implementation, administration, adjustment, and ultimately convergence of agreements. These processes pose very significant challenges in terms of political and institutional capacity, access to financial resources, domestic and international economic policy, and regulatory reform. They are characterized by involving a variety of actors, including governments, production sectors, consumers, civil society, and academia.[32] The costs of managing these agreements are frequently high, and such costs often prevent full use of the agreements, especially by small and medium-sized enterprises. A clear example of this is found in the costs of satisfying multiple rules of origin regimes under trade agreements, which erodes economies of scale by fragmenting plant production processes and international trade flows (see Rules of Origin, Fragmentation, and Convergence). To counteract these costs, the literature suggests encouraging the negotiation of convergence agreements, by means of which various countries consolidate their trade agreements by, among other things, negotiating accumulation clauses for inputs

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[29] Data from the INTrade system show, on average, more than 2,000 exports rejected annually in the North American market in the past 10 years due to noncompliance with SPS (see Table 4 INTrade – www.INTradeBID.org).

[30] Estimates of the impact of a combination of tariff elimination, a reduction in NTB costs by one third, and a reduction of two percentage points in transportation costs would as a whole lead to an average increase of 20% in intraregional exports, of which only one fourth (5%) is due to tariff reduction and the remainder to a reduction of NTBs and facilitation (IDB et al., 2011).

[31] The WTO has recorded 625 formal notifications of regional trade agreements worldwide, of which 419 are currently fully in effect, and 71 involve countries in Latin America and the Caribbean (WTO, 2016). This figure does not include the preferences granted in the context of the Latin American Integration Association (ALADI), which are composed of literally hundreds of separate protocols providing for tariff concessions between Latin American and Caribbean countries.

[32] The complexity and depth of these processes becomes evident when one notes that, for example, the free trade agreements negotiated with the United States have required the adoption of 9 bills in Colombia; 21 laws, decrees, and resolutions in Panama; 99 decree-laws in Peru; and 14 laws in Costa Rica (IDB, 2013).

and processes. In this regard, convergence is the new frontier for integration agreements (Granados and Cornejo, 2004).

3.29 Figure 6 identifies the agreements in effect in the hemisphere, as well as the trade flows covered by such agreements, revealing a marked fragmentation of the trade architecture.

3.30 There are solid arguments supporting the idea that this convergence process should take place soon and be as ambitious as possible, starting with design and implementation problems that still plague a significant portion of these agreements in the region. On top of this is the recent emergence of the mega-regional trade agreements (e.g. the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership) and the mega economies (e.g. China), which threaten to condemn smaller agreements to irrelevance; as well as the major slowdown—since the Great Recession—of growth in global trade, making the matter of reducing trade costs all the more urgent.

3.31 In fact, if the main economic motivation for integration continues to be creating economies of scale and taking a major step forward in productivity, it is essential that the region go beyond the current mosaic of relatively small trade agreements. It is important to revive the historical aspirations of a Latin American common market, capable of addressing the demands of scale and productivity imposed by recent changes in the global economy.[33]

3.32 Despite seeming quite ambitious, this agenda is not too far from the current reality in the region, since nearly 70% of trade flows take place under preferential treatment which, in most cases, is close to a 100% tariff reduction. To reach 100% of trade, an effort is required to complete the missing links, especially those between MERCOSUR and Mexico, MERCOSUR and Central America, and between the Caribbean and most of the region (see Figure 6). If a framework is established for the elimination of the remaining tariffs and harmonization of rules of origin along the lines adopted by the Pacific Alliance, for example, the costs of not participating will be very high, especially if the framework is sufficiently flexible to allow countries access when it is most convenient for them.

3.33 While this is no panacea and much less an alternative to global integration—it would be impossible for the region to replicate the global trade gains with just 8% of the world's GDP—an ambitious regional agenda provides an opportunity for a market of US$6.2 billion, where gains in scale and productivity would provide an important boost to the region's global competitiveness. Specifically, it could help reduce the region's major dependence on commodities, since, in the case of commodities exporters, intraregional exports have been significantly more diversified. For example, in the last 15 years, the proportion of manufactured goods in South American intraregional exports reached an average of 58%, while the same figure for extraregional exports was only 24%.[34]

[33] IDB (forthcoming), Making sense of regional integration in Latin America and the Caribbean, Washington, D.C.

[34] IDB (2016) Time to Act: Latin America and the Caribbean Facing Strong Challenges, https://publications.iadb.org/bitstream/handle/11319/7533/Time-to-Act-Latin-America-and-the-Caribbean-Facing-Strong-Challenges.pdf;jsessionid=2C95A0E45D23ABDD9CF296B2F9521BA9?sequence=1.

3.34 Regardless of the integration agenda, there is no doubt that it needs to be supported by institutional strengthening. Although the countries have implemented multiple programs in this area, multiple weaknesses still persist in the countries' institutional capacity to negotiate, implement, and analyze the impact of trade and investment agreements. These agreements entail a high level of regulatory and economic complexity. Their understanding and analysis requires highly specialized training that is not always available or does not always have a stable presence in the respective institutions. Turnover of trained staff is significant.

3.35 The current stage of implementation of multiple trade and investment agreements undoubtedly involves complex processes of adaptation of regulatory frameworks. As indicated above, many of the trade and investment agreements signed by Latin American and Caribbean countries, primarily those of the North-South type, involve implementing new legislation, regulations, and operating guidelines designed to comply with their commitments.[35] This requires a major political and institutional effort which not all countries have been able to muster without the help of international donors and lenders. Many countries, especially small and vulnerable countries, receive support as they seek to comply with their obligations under free trade agreements. However, the intensity of challenges on these fronts has not abated. The introduction of new issues places new demands on the table. There is still a need to finance programs on good management practices.[36]

3.36 There is a need to establish technological mechanisms to facilitate access to information on such agreements for enterprises and consumers. Thus, the use of ICT, with content that is accessible via mobile devices and available in the cloud, based on infographics and semantic computing, is the new frontier to be conquered. The way information is consumed has changed drastically with the advent and massive use of the internet and social networks, shifting from a dynamic in which an individual acquired technical knowledge (on regulations from an international treaty) through substantial research thereon until arriving at the source of the knowledge (in this case, the treaty, the law interpreting it, and its administrative and regulatory rules), to today, when the person can access this information electronically, immediately, and often free of charge. The use of ICT, with content accessible via mobile devices and recommended by artificial intelligence, represents a huge opportunity to provide more and better access for companies to the benefits of regional integration, and again, is the new frontier to be conquered.

D. Facilitating access to credit for exports and investments as a tool for reducing financing costs

3.37 Approximately 80% of global trade depends to some extent on export financing. Recent studies in Peru (Paravisini, Rappoport, Schnabl, and Wolfenzon, 2011) and

[35] In general, the more profound or innovative the nature of the regulatory reform, the more complex the process of negotiation, approval, implementation, and use of the agreements. This phenomenon involves an entire "regulatory transfer" (Salazar and Granados, 2003), which frequently leads to the adoption of good practices in international trade management.

[36] For example, updating information technology on the content, monitoring, and opportunities of trade agreements; adapting rules of origin and reduction schedules to the new trade nomenclatures; supporting mechanisms for defense in legal trade and investment disputes; training on issues of trade, climate change, gender, energy, value chains, etc.

in Japan (Amiti and Weinstein, 2012), allow one to infer that restrictions on access to credit have a statistically significant impact on companies' export activities. These studies also show that restrictions on credit have stronger impacts on companies that depend on external financing, and become more relevant during exogenous events that limit credit (such as the Eurozone crisis of 2009). Estimates based on the experience of Peruvian export companies suggest that limiting 10% of the credit supply yields an average reduction in exports of 2.3%, with significantly larger impacts on smaller firms. In comparison with the global results, a greater impact was observed for companies located in less financially developed markets (Manova,[37] 2013). This is explained because in a crisis, the increased capital requirements for banks, together with the increase in the risk premium for the financially less developed markets, reduces the availability of financing and makes it more expensive (Dorsey, 2013).

3.38 As can be seen in Figure 11, when Latin America and the Caribbean is compared to the countries of Asia or Eastern Europe, on average, access to financing is more limited and the cost of available financing is greater.

3.39 Export financing becomes urgent for the region when considering that, while 84% of banks claim to consider SMEs as a strategic part of their business, only 25% of 110 banks in 19 countries indicate that they have products for SME foreign trade or internationalization (IDB/MIF-FELABAN, 2014). In addition, banks report that the costs of a letter of credit, and in general, of export financing, have increased since 2007, again citing causes including the increased cost of money and capital requirements (IMF, Trade Finance Survey, 2008). At the same time, a reduction in correspondent services, as a result of a number of factors, is affecting various products. In its report, "Rethinking Trade and Finance 2015 – An ICC Private Sector Development Perspective," the International Chamber of Commerce (ICC) notes that the requirements to comply with regulations to prevent money laundering give rise to complex information and documentation delivery processes that entail a significant cost for companies engaged in foreign trade; 70% of the 482 banks in 112 countries that responded to the survey declined foreign trade transactions for this reason.

3.40 At the same time, the issue of financing needs also extends to companies in Latin America and the Caribbean that aim to invest in other countries by establishing and developing businesses in new markets (the internationalization of enterprises). Normally, a multinational enterprise, including the *multilatinas*, can leverage financing with international banks. This is not the case for Latin American and Caribbean companies that are not known outside their home environment, for whom the chances of expanding abroad are limited (ECLAC, Foreign Direct Investment in Latin America and the Caribbean, 2011). International expansion through FDI faces multiple internal and external barriers: local and international regulations and controls, costly legal services, adaptation of the product to the local culture, transportation, lack of experience in foreign markets, limited networking capacity, language, and above all, access to financial resources to

[37] Similarly, although exploring another type of question, Greenaway and Kneller (2004) and Greenaway, Guariglia, and Kneller (2007) show that there is a positive correlation between financial development and the level of exports. Specifically, they provide empirical evidence favoring the causality of financial development on access to the export market.

finance the undertaking. Consequently, promoting FDI would enable Latin American and Caribbean financial institutions to be able to leverage their clients' knowledge in their country of origin so they can channel financing for their expansion strategies in a target country. Continuing and expanding the financial support for trade and investment offered to the private sector in Latin America and the Caribbean through the region's banks is an urgent matter, whether through foreign trade financing products, SME internationalization, support for value chains, or the promotion of factoring and forfaiting.

3.41 Lastly, it should be noted that the Latin America and Caribbean region has been no stranger to international initiatives seeking to resolve the problems of trade costs through collective regional action. Regional and multilateral trade agreements should be the appropriate vehicle for enhancing coordination on these issues. Problems of design and interaction between parties (including variable geometry) have at times limited this potential. Nonetheless, the last three years have borne witness to a proliferation of initiatives of this type worth picking up on and highlighting. Issues such as addressing the consequences of the spaghetti bowl through regulatory convergence agreements (the Pacific Alliance, for example) and reducing regional logistics costs (Central American Trade Facilitation and Competitiveness Strategy in the context of the Central American Common Market) are already in vogue. It is essential to continue to promote these types of actions aimed at overcoming many of the obstacles in terms of logistics, information asymmetries, financing costs, and the reduction of regulatory barriers. This task is made more complex in the absence of hard regional incentives, since sovereign financing instruments are not regional in scope, and available resources for nonreimbursable technical-cooperation funding are limited. The foregoing demands a proper focus on the activities in order to maximize their impact.

IV. LESSONS LEARNED FROM THE BANK'S EXPERIENCE IN TRADE AND INTEGRATION

4.1 Support for global and regional integration is a key component of the Bank's development mandate. Article I of the Agreement Establishing the Inter-American Development Bank provides that the Bank's objective is "to contribute to the acceleration of the process of economic and social development … individually and collectively." Throughout its history, the Bank has displayed a distinctive comparative advantage in this area, as acknowledged by client countries and enterprises in the region as well as by other multilateral and regional institutions. Regional and global integration were one of the Bank's institutional priorities under the Ninth General Capital Increase approved by the Governors (document AB-2764) in 2010. More recently, the Update to the Institutional Strategy 2010-2020 establishes that to achieve greater growth, the region's countries must face the challenge of low productive integration (along with those of social exclusion and low productivity), and therefore, supporting more and better integration remains at the core of the Bank's activities.

4.2 The Ninth General Capital Increase (IDB-9) urged the adoption of three major changes in orientation: (i) expand the scope of integration interventions, complementing support to regional integration through measures that facilitate integration into the global economy; (ii) include integration among the Bank's lending activities; and (iii) achieve greater coordination among the Bank's sector strategies in all units that can potentially contribute to the integration outcomes. These points have been implemented, as mentioned elsewhere in this document. The Bank has strengthened regional integration processes by promoting the simultaneous support of both the software (policies and regulatory frameworks) and the hardware (investment in infrastructure) for integration, ensuring consistency between national and regional interventions. As indicated below, although the hardware requires more resources, the investments in software may be more efficient in relieving logistics bottlenecks. Many operations developed in the 2013-2016 period are focused on promoting the software-hardware continuum and the strengthening of regional public goods by creating valuable incentives for this process through the combination of financial (loans, grants) and nonfinancial instruments (regional strategic frameworks, research, training, and policy dialogues).

A. Office of Evaluation and Oversight (OVE) reports

4.3 Regarding the Bank's regional and transnational programs, OVE believes that:[38] (i) the relevance of the Bank's technical cooperation program has been limited; (ii) projects have been modest in number and relevance; (iii) the transnational technical cooperation program has had limited effectiveness; (iv) the specific characteristics of the regional public goods (RPG) program have detracted from the transnational technical cooperation program's efficiency, although the RPG team has succeeded in mitigating some of these challenges through solid execution; (v) sustainability must be improved; and (vi) transnational operations face a pervasive misalignment of incentives. To address these limitations, the following recommendations were made: (i) carefully consider the advantages and disadvantages of expanding the Bank's commitment to technical cooperation projects and operations of a transnational nature; (ii) identify ways of reinforcing the availability of financing for projects, with a view to counteracting factors that deter borrowers and reducing the effective cost of transnational operations, as well as adapting the Bank's processes, structures, incentives, and budgets to facilitate the execution of transnational projects; and (iii) enhance the effectiveness of the Bank's transnational technical cooperation program, which should in any event continue at some level of financing.

4.4 The Bank has implemented several of these recommendations. For example, the Board approved the strengthening of the Initiative for the Promotion of Regional Public Goods (RPG) to enhance its effectiveness by making the following adjustments: (i) a set of selection criteria to provide a more strategic approach to project funding; (ii) the possibility of supporting RPGs at different stages of their development and over a longer period of time to enhance sustainability (including the possibility of financing second phases of successful RPG projects); and (iii) more expeditious project approval mechanisms (document GN-2275-28).

4.5 Regional technical-cooperation funding has also helped the subregions maintain the momentum of economic integration. Reference is made below to the experiences of the Central American Trade Facilitation and Competitiveness

[38] Evaluation of Transnational Programs at the IDB. Office of Evaluation and Oversight (OVE). IDB. Washington, D.C., June 2012.

Strategy and the support provided to the Pacific Alliance. Without this support, the countries and subregions would lack the technical and financial leverage needed to provide structure, continuity, sustainability, and technical content to these subregional initiatives. The Bank has the institutional credibility to serve as an honest broker in these processes, convening and promoting binational, trinational, and subregional coordination processes that have made the continuity of major economic integration initiatives possible. Under various strategic regional frameworks, national loan operations are designed and then developed, with due coordination between countries. The coordination efforts for operations, for example between Nicaragua, Costa Rica, and Panama, or between the Northern Triangle countries (Guatemala, Honduras, and El Salvador) are good examples of this. At the country level, these projects generate important incentives to directly promote regional economic integration by making it possible to modernize land border crossings, to provide subregional interconnections of VUCEs, and to adopt various trade facilitation measures in the Central American subregion.

4.6 Regarding the Bank's operating actions in terms of lending in the trade and integration area, which is this document's main subject of analysis, OVE has occasionally evaluated certain projects in the context of routine country program evaluations (for example: Chile and Uruguay). Such evaluations have highlighted the success of programs supporting institutional capacity to negotiate and implement trade agreements, and the innovative nature of programs supporting SMEs in export processes. The evaluations strictly associated with operations are in different stages. The first evaluations of interventions that are still under way are expected to be completed beginning in the second half of 2016. As indicated below, their results will be systematized for purposes of identifying lessons learned that can be applied to future operations, and they will be disseminated. In the 2013-2016 period, the sector has undertaken two large research projects on export promotion and trade facilitation that have consisted essentially in impact assessments of Bank interventions, such as, for example, the International Transit of Goods (TIM) or similar actions carried out directly by the countries. The results of these multiple studies, reflected in this SFD, have been used to inform the design of operations in the respective policy areas as well as their evaluations.

4.7 In response to OVE's recommendation, Management has approved the document "Guidelines for the Classification and Validation of Operations Eligible for the GCI-9 Regional Cooperation and Integration Lending Priority" (document GN-2733), which: (i) establishes an operational clarification of the general definition of integration projects; (ii) addresses technical issues related to the classification of operations in specific subsectors of the Operations Information System; (iii) specifies the minimum content to be included in project documents through the project cycle; (iv) proposes a list of topics to guide the eligibility and validation of operations under financing priority for integration; and (v) structures the process the Bank will use to monitor the classification of integration operations. These guidelines have been incorporated into the Corporate Results Framework (document GN-2727-6) for the Update to the Institutional Strategy 2010-2020, which will guide the classification of operations that contribute to the strategic policy objective of promoting integration.

4.8 The Evaluation of Regional Programs at the IDB, prepared by OVE in 2012, identifies a series of recommendations for the Bank's regional activities around the concepts of relevance, effectiveness, efficiency, sustainability, and incentives. During this three-year period, the sector's business model is based largely on complementarity and leveraging of regional action and financing operations. The Bank's activities in the period 2013-2016 show work aimed at targeting regional action that is in fact characterized by its focus on activities that have a clear current or potential operational return for the sector, in terms of supporting the generation, leveraging, or complementarity of financing operations. All regional support activities for the creation of information technology platforms (fundamentally ConnectAmericas), training and technical skills development platforms developed by the sector (tutored online courses), and the financing devoted to promoting multiple forums, trade fairs, and regional dialogues with public and private sector participation have been deliberately designed to generate or consolidate the sector's financing operations. The outcomes have been positive. The lessons learned identified below show how these regional activities (regional strategic frameworks, regional networks, new training modalities, multiple business forums, and the ConnectAmericas platform) are connected with the sector's financing portfolio. Many of the projects financed under the RPG program are also focused on operational leveraging. This SFD aims to maintain this focus.

B. Development Effectiveness Matrix (DEM) outcomes

4.9 The young portfolio of projects related to trade and integration continues to grow steadily. Progress has been made in continuous monitoring of operations to boost their development impact, the systematization of lessons learned, and the incorporation of these lessons in the process of designing new operations, particularly to adopt increasingly robust indicators. The Development Effectiveness Matrix (DEM) (see Table 2) for sector projects, and its comparison with Bank projects, shows a positive and improving evolution in all key areas of each operation's design. Specifically, in 2015, there was significant improvement over the previous measurement in 2012 in terms of program logic, which includes program diagnosis, results matrix quality, monitoring and evaluation, risk matrix, and risk mitigation, achieving a score of 8.03 (versus 6.96 in 2012). In addition, in 2015, the sector's operations have outperformed the Bank's average in the areas of economic analysis (9.63/9.40) and monitoring and evaluation (8.03/7.87). Despite the progress, sector operations had an overall DEM score slightly below the Bank average in 2015 (8.56/8.75) due to the lag that existed in the program logic section, and notwithstanding the increase over the last three years, the INT score remains marginally below the Bank average (8.03/8.98). Despite the complex causalities in INT projects, project teams continue to work hard on designs under way to boost the score on this area of the DEM and thus achieve an overall score above the Bank average in the next evaluations. The systematic inclusion in projects of lessons learned through both impact and process evaluations has been facilitated. These efforts are useful for purposes of informing public policies as well as dimensions of success, lines of action, and activities executed by the Bank.

C. Lessons learned from the experience of Bank operations and disbursement parameters

4.10 Since the preparation of the Integration and Trade SFD in 2013, the Bank has completed a number of financial and nonfinancial operations that have yielded important lessons learned. First, five loan operations have been completed, all with their corresponding evaluation reports and project completion reports (PCR). These five operations adopted mechanisms to evaluate their development effectiveness, particularly for their execution and their outcomes based on surveys of processing and procedure times and associated costs. The Bank has also captured experiences based on various technical cooperation projects and other institutional activities. In general, this variety of operations has yielded positive results. The outputs financed were relevant and, in most cases, generated significant benefits that include sustainability mechanisms. The main lessons learned from sovereign guaranteed loan operations, technical cooperation projects, and dialogues sustained with a multiplicity of relevant actors in the region are presented below. They are divided into technical and operational lessons. The technical lessons are drawn from the overall operational and institutional experience of the sector. The operational lessons are basically drawn from the PCRs.[39]

1. Technical lessons

4.11 The Bank is helping to overcome the costs of trade in the region by implementing a variety of activities that take technical lessons into account. Through a number of financial and nonfinancial programs, both national and regional in scope, the support provided has sought to close these gaps in coordination, collective action, information, and financing. The following are just a few examples of the technical lessons learned and the new operational modalities that are being implemented to overcome the problems identified.

4.12 **Closing information gaps:** It is well known that trade agreements are complex and hard for SMEs to understand and manage. Their content is highly technical and SMEs lack the ability to translate trade regulations into actual business opportunities. This new business environment requires instruments so that SMEs can close these information gaps. In response to this issue, the Bank has supported the implementation and use of trade and investment agreements through information platforms that maximize and simplify the use of ICT targeting SMEs.

4.13 **The use of mobile technologies, with information in the cloud, providing processed, easy-to-access information to SMEs on market, training, and financing opportunities in a single tool, has experienced a significant demand among businesses.** The Bank's experience with the ConnectAmericas platform, which now has more than 60,000 members in 50 countries, is a good example of how to bridge the knowledge gaps that SMEs have on the internationalization processes. Evidence collected to date suggests that the platform's services make a significant contribution to reducing companies' information costs. There are already many cases of deals that have closed thanks to the ConnectAmericas matchmaking applications, linking suppliers and buyers

[39] To identify the operational lessons learned, PCRs from five operations were analyzed: NI-L1016: Foreign Trade Support Program in Nicaragua, which is in its final phase; SU-L1002: Trade Sector Support Program in Suriname; TT0052: Trade Sector Support Program in Trinidad and Tobago; UR-L1015: Foreign Trade Management Support Program in Uruguay; UR-L1037: Program to Support Uruguay's National Customs Bureau. The PCR for operation NI-L1016 followed the current guidelines (document OP-1242-3), and the others were prepared under the previous procedure.

around the world, expanding business horizons and generating global contacts. The number of SMEs that are benefitting from this dynamic, as shown above, is increasing. ConnectAmericas is also providing the Bank with an opportunity to design interventions with the support, opinions, and preferences of the universe of SMEs participating in the platform so the end products financed are expected to be closely aligned with the needs of local companies. This model is completely innovative, and, in fact, other international financial institutions are approaching the Bank to cooperate with a view to benefitting from this privileged access to so many of the region's enterprises.

4.14 **Promotion of services exports requires designing demand-based flexible, nimble cofinancing instruments.** In the period 2013-2016 the Bank has supported the creation of innovative mechanisms to narrow the gap between the capacities produced by the education system and those demanded by enterprises aiming to set up or scale up their operations in a given country (in line with international standards for each business segment) in the global services sector, such as customized training programs known as finishing schools.[40] These aim to enhance employability through the development of specific competencies (technical or functional) or generic (soft) skills needed to work in the sector; and to address the specific demands of enterprises. It is advisable that these programs: (i) be demand-oriented, so that the private sector is responsible for identifying the type of training required—addressing the needs of their human resources or potential employees (schedule availability, travel times, socioeconomic environment)—and the training institutions to work with, for purposes of facilitating their operations and expansion or to establish an attraction for potential investors evaluating locations; (ii) have public-private cofinancing, collaborative mechanisms for capacity-building—State-enterprise-academia—and have the institutional coordination led by the TPOs and IPAs in coordination with the applicable ministries, customs administrations, and relevant cabinet offices; and (iii) use results-based management (reimbursements upon fulfillment of milestones and targets). It is also essential to report, generate, and disseminate success stories in order to eliminate any misconceptions that might exist about public subsidy programs and generate flexible instruments—that can be adapted to changes and requirements in the sector (such as working on nontraditional schedules, like a night shift), contributing to getting the regulatory framework for labor to adjust to these requirements—and nimble instruments that have adequate administrative control and efficient response times to ensure that these supports are institutionalized and scaled up to enhance employability in the sector.

4.15 **Targeting and scaling service export promotion programs.** The design and implementation of the function of attracting independent strategic investments should be characterized by its targeting for purposes of identifying and attracting the investors best suited to the country's development objectives and the generation of local spillover effects and productive linkages between multinational and domestic enterprises. To do so, action must be taken throughout the entire

[40] Finishing schools are a training mechanism used to strengthen specific skills for employment in export enterprises in the services sector (use of specific systems, handling of special equipment, polishing of linguistic skills, customer service, or other soft skills) through specialized short-term courses. The content is developed in agreement between the service providers and the enterprises who define their needs. Normally, these mechanisms operate under cofinancing structures.

investment cycle, identifying opportunities, supporting the investment decision-making process, supporting the execution of the operation, and promoting reinvestment. This can only be done by strengthening trade intelligence actions, implementing innovative promotion actions, building the capacities necessary for the country to be able to offer services at the company level in order to facilitate successful start-ups, and ongoing development of new investments by the foreign firms that set up shop in the country (post-investment services, which maximize the impact of the FDI through reinvestment, productive linkages, and movement along the value chain). In this regard, the design and implementation of strategic promotion plans are key for subsectors considered priorities, as they can represent a point of departure for designing and implementing a strategy that is broader in scope.

4.16 **The Bank is a major business catalyst for SMEs through large-scale innovative trade events that draw industry leaders.** Information gaps also affect government and private institutions that help support the internationalization of SMEs. These organizations present a significant deficit in technical capacity, information systems, and contacts with peer institutions abroad. New trade sectors, such as value-added services and the offshoring and outsourcing industries, agroindustry fairs and those of the vast Latin American and Caribbean food industry, business communities in infrastructure services, and investment through diasporas located in developed countries are just a handful of examples of new areas in which the Bank is making successful incursions with the organization of local and online events and fairs. Given the foregoing, the Bank maintains close contact with all TPOs and IPAs in the region, providing support both through financing operations aimed at introducing global best practices in the promotion and attraction area and through technical support on specific issues (design of instruments, impact assessments, business forums, etc.). The Bank also coordinates the Red Iberoamericana de Agencias de Promoción de Exportaciones [Ibero-American Network of Export Promotion Organizations], which groups together all TPOs in Latin America and the Caribbean, and provides support to the Asociación Latinoamericana de Exportadores de Servicios [Latin American Association of Service Exporters] (ALES). In turn, the Bank has recently ventured into the area of subnational promotion, supporting agencies at the state and city levels.[41]

4.17 **On the issues of trade and gender, it is essential to have clear indicators that promote and facilitate the incorporation of a gender perspective into trade and integration operations.** The Bank has been proactive in promoting issues where trade and investment intersect with gender. For example, it developed a comprehensive guide of gender indicators to facilitate and promote incorporating the gender variable into the design of integration and trade operations. This effort was reflected, for example, in the Nicaragua border crossing modernization operation, which included quantitative and qualitative gender indicators. The Bank has also promoted the integration of women-owned enterprises into regional and global value chains, the participation of women leaders in the business forums

[41] One example of this would be a multisector loan operation by the Bank (CTI-TIU) being executed in the province of Mendoza, Argentina. This operation has a programmatic institutional support component for the province's investment promotion agency.

organized and/or supported by the Bank, and the strengthening of women entrepreneurs' business skills and networks through the creation of a specialized support portal in the ConnectAmericas platform. Thanks to these efforts, the participation of women-led businesses in the matchmaker events organized by the Bank has increased (in the 2013 LAC Flavors matchmaker event alone, women-owned enterprises closed deals worth US$2.7 million), and they now represent 51% of the users of ConnectAmericas. Moreover, the Bank has prepared technical notes providing insight analyzing the Bank's interaction and experiences in the areas of trade and gender and has promoted dialogue by holding round tables with government officials in the areas of trade and investment on the importance of incorporating gender into public export and investment promotion programs. Lastly, it has conducted training for TPOs on issues of gender and export promotion. The main lesson learned to date from the process of incorporating the gender approach into Bank operations has been confirmation that a specifically targeted effort is required in order to get trade operations to have an impact on gender equity, by promoting not only quantitative indicators, but qualitative ones as well. This intent should be reflected specifically in the project's objectives and should be translated into activities and indicators with predefined targets that show what is sought in terms of empowerment or gender equity.

4.18 **Overcoming capacity gaps.** The expansion of international trade in the last two decades has brought with it increasing complexity and technical sophistication. Institutional agendas, whether local, national, regional, or global, have expanded considerably. The dynamic world of trade and the actions of public and private stakeholders to take advantage of the opportunities it poses is now the domain of specialists. It is difficult for governments and their agencies to adapt to a dynamic, changing environment, particularly in relatively less developed countries. For these reasons, the Bank, through the Institute for the Integration of Latin America and the Caribbean (INTAL), and in coordination with the WTO Secretariat, has been offering a long series of training programs on technical trade negotiation issues, thus giving rise to the Integration and Trade Capacity-building Program. The courses were normally offered using an instructor-led classroom training format, with no final evaluation of knowledge acquired. The effectiveness and efficiency of these courses, however, were called into question.

4.19 **The instructor-led classroom format with no final knowledge assessment is not necessarily the best format to promote lasting knowledge among government officials.** For that reason, in the last three years, the Bank has injected new energy into the program with the introduction of tutored online courses with key thematic content related to the sector's main operational areas: (i) facilitation and security in customs; (ii) implementation of trade agreements; (iii) export promotion and investment attraction; (iv) physical integration; and (v) cooperation for development. Using this modality, more than 150 online courses have been conducted, reaching more than 5,300 trainees. These courses have an 86% pass rate and a 93% satisfaction rate, both well above industry standards. At the same time, the program's efforts have generated an ecosystem of communities of practice, virtual spaces where those earning certificates from the courses and other relevant stakeholders exchange experiences and good practices under the guidance of a facilitator who is a subject matter expert. Lastly, the program also offers massive open online courses (MOOCs) through the

ConnectAmericas platform and IDBx (part of the edX.org consortium of universities). These courses target a broader audience, including the private sector and academia. They include content in video format and interactive materials, open to any potential interested party and provided free of charge.

4.20 **Reduction of logistics costs.** As indicated above one of the main costs of trade lies in the region's high logistics costs. For that reason, programs have been promoted to modernize road infrastructure, as well as single window foreign trade mechanisms and other instruments to improve customs procedures (e.g. TIM), security and facilitation mechanisms (single windows for foreign trade (VUCEs)), and implementation of the AEO, with positive results: the implementation of the TIM in Mesoamerica reduced procedural waiting times at border crossings from 60 minutes to 8 minutes, and the implementation of the VUCE in Nicaragua reduced processing by 30% in its initial stage, and by up to 70% upon implementing risk management in a second stage.

4.21 **Improvements in infrastructure or processes, considered individually, are insufficient to reduce the bottleneck effect that land border crossings have on the traffic of goods and persons in the region.** Each of those individual interventions has a certain positive impact on reducing logistics costs. However, the best way to resolve the problem at the border crossing is by implementing coordinated border management (CBM) programs. These interventions are much more comprehensive and aim to simultaneously simplify control processes, modernize infrastructure, and improve the quality of service provided by the border crossing and the equipment necessary to do so. As a result of these combined hardware and software interventions at the border crossing, times and costs incurred by the user when crossing the border would be reduced by up to 70% in the former case, and 50% in the latter. In addition, trade could be boosted by up to 40% more than if the hardware and software interventions were undertaken individually. These operations take place through cross-sector collaboration structures to address problems in the transportation logistics chain. In fact, the Transport Division of the Infrastructure and Energy Sector (INE) and the Trade and Investment Unit (TIU) of the Integration and Trade Sector (INT) are working together on the analysis of transaction costs and times, the development of logistics nodes and corridors, and the optimization of border crossings in the region using various financial and nonfinancial instruments. To this end, support has been provided by the respective Country Departments, particularly CID, to promote political coordination and the programming of financing in the respective countries. The initial results are expected in approximately three years.[42] Other lessons learned for the implementation of CBM include the need to have a regional strategic framework (validated not only by the line ministries, but also by the tax authorities), to deepen coordination both between and within the countries, to use international standards to facilitate the interconnection of information platforms with the rest of the international community, to have preliminary functional designs that

[42] The CBM approach helps reduce formal border crossing times by migrants through the combination of adequate infrastructure, interconnected information systems between the countries, intrusive and nonintrusive inspection technologies, and the use of risk management techniques. This will enable the recording and streamlining of migrant crossings. Intervention designs may also include infrastructure solutions for the temporary stays of illegal migrants, as well as registration and transfer of migrants to the competent authorities and assistance agencies.

facilitate preparation of financing operations, to provide technical training to officials on the different instruments and tools implemented under CBM, and to have nonreimbursable financial support to address the transaction costs of initiatives like these.

4.22 **Border modernization involves implementing a new operational paradigm that substantially changes how social and economic interactions take place at the border crossing and the immediately surrounding area.** This requires focusing on the most pressing needs of the population. The socioeconomic dimension of land border crossing modernization is crucially important. In the period 2013-2016, the Bank has learned that it is difficult to undertake border crossing modernization activities in a manner isolated from the needs and interests of the communities located in those areas. It is important for operational designs to include components or activities that help resolve some of the main problems that will be found or generated by the border modernization program. Activities such as land-use planning, technical training in matters of municipal management, waste, disposal, vehicle and pedestrian traffic management, beautification of public areas, and strategic planning are just some examples of measures that should be considered, when applicable, to ensure better ownership of the project and its execution.

4.23 **Reduction of financing gaps.[43]** More than 90% of the Bank's non-sovereign guaranteed (NSG) foreign trade portfolio is concentrated in the Trade Finance Facilitation Program (TFFP), created in 2005 and administered by the IIC.[44] The objective of the TFFP is to connect importers and exporters of goods and services through a global network of financial intermediaries. Under the TFFP, the Bank has granted direct financing or credit guarantees to financial intermediaries in the region in order to increase the availability of foreign trade financing and expand the network of correspondent banks for financial institutions in Latin America and the Caribbean. The Bank's experience is considered a success because over the course of the three-year period: (i) it sparked a significant mobilization of resources for the client;[45] (ii) the fund managed to scale up its operations from two to four countries;[46] (iii) the fund strengthened foreign trade growth for SMEs by having financed more than 600 trade transactions per year and more than 50 SMEs annually; and (iv) because the fund promoted the implementation of social and environmental management programs for the benefit of the sub-borrowers'

[43] These lessons come from NSG operations, which represent an important complement to the Bank's work in executing sovereign guaranteed operations.

[44] The remainder of the NSG portfolio in the sector includes two operations with investment funds in foreign trade and a small factoring portfolio. For purposes of this document, the lessons learned exercise will focus on those from the Crecera Regional Trade Finance Facility operation (RG-L1002). Crecera is a regional financing facility for foreign trade targeting SMEs in the region.

[45] An initial senior loan was approved in 2004, and an increase was approved in 2009 for US$40 million. The initial planned mobilization of US$15 million turned into a mobilization of US$125 million for B lenders and cofinancing partners of the fund. The IDB's mobilization ratio for this transaction was 3.6, with a B loan of US$90 million distributed among nine B lenders over the life of the loan.

[46] Leveraging an effective network of local agents, the Crecera model was developed in Argentina and Brazil and was able to scale up its operations to Peru and Uruguay.

employees and communities.[47] Some of the main lessons learned in the implementation of NSG operations were as follows:

4.24 **The usefulness of supporting investment funds devoted to foreign trade was highlighted in order to improve access to financing for SMEs and as a method of diversifying the IIC's portfolio in the sector.** By offering structured financing and undertaking due diligence processes on exporters, these funds can provide credit to companies that would be unable to secure credit from traditional commercial banks. These funds have succeeded in finding an innovative way to channel private capital resources for the development of foreign trade by SMEs.

4.25 **Monitoring and supervision of loan operations to trade investment funds is a challenge.** It is important to have a monitoring and supervision system that includes information on the sub-borrowers, including sub-borrower limits and the type of products financed.

4.26 The sector's sovereign guaranteed projects have displayed normal performance, i.e., within the countries' disbursement parameters. Table 3 shows that 13% of the sector's projects are within the Bank's normal disbursement limits, 60% are above the upper band, and 27% are above the lower band. A Bank study shows that the sector's operations begin the disbursement process at a slower than normal pace for the Bank, but once the 20% disbursement mark is exceeded; the curve accelerates to speeds higher than the Bank's average disbursement speed (Alvarez, Bueso-Merriam, Stucci, 2012).

2. Operational lessons

4.27 **Scope of operations:** Some export and investment promotion projects were designed with a broad scope and a certain level of dispersion, with numerous outputs and indicators and an optimistic perception of execution capacity, especially in countries with lower levels of institutional development. Even while recognizing that investment promotion and investments represent a multisector interdisciplinary challenge, the most relevant lesson learned has been **to limit the scope more precisely, with a realistic approach in terms of time and capacity of the executing agency team.** New operations in the design phase take this lesson into account and aim to focus their scopes on a smaller number of outputs and a more limited series of indicators more focused on the specific outcomes sought by the intervention.

4.28 **Organizational changes:** During execution, the executing and coexecuting agencies underwent reorganizations and changes of authorities and roles. This involved, in various projects in countries with significant institutional weaknesses, changes in the execution team or unit, as well as contractual amendments (at the level of the project as a whole or in certain outputs). These situations caused delays in execution. While it is acknowledged that change is frequent and even necessary, the recommendation is **to strengthen leadership and engagement by the authorities of the executing and coexecuting agencies, in coordination with the Bank, to minimize the impact of organizational changes.** A strategy of ongoing dialogue between the Bank team and the country

[47] These programs are "shared value" initiatives that include job training, health education, recycling, fair trade, technical assistance, and sustainability.

could foresee organizational changes and minimize delays in project execution. Governance mechanisms will be created for the projects to isolate the execution process from the ups and downs of the cycle and the country's political circumstances, for example, by contracting long-term staff for the execution units, implementing long-term planning, and discussing the project with new authorities from the early stages of their administration.

4.29 **Training:** In some cases, when trying to evaluate the training conducted with project financing in ministries of foreign trade and other related institutions, there was a lack of sufficient data and appropriate metrics to determine the relevance, accessibility, timeliness, and pertinence of the training. Difficulties were also found in engaging the staff that required training, due to their reluctance to be evaluated and the little time available to commit to training. The recommendation is **to design training programs and activities that are targeted to specific, relevant audiences that are willing to participate. It is also important to design and implement data and information collection systems before, during, and after the training to enable the evaluation of its effectiveness, as well as to use evaluations of learning satisfaction and training outcomes.** As seen in the technical lessons above, the Bank has made considerable innovations in training, adopting more effective training approaches, using cutting edge technology and outcome evaluations. These programs will also be implemented in Bank operations involving training activities.

4.30 **Procurement:** The projects reported problems in time devoted to procurement of goods and difficulties in contracting consultants, which caused execution delays. The causes included: (i) a lack of systems and standardized processes for contracting; and (ii) the preparation of inadequate terms of reference for consulting assignments involving technical studies and procurement of other goods and services. The recommendations relate to **developing suitable mechanisms to ensure the executing agency's capacity to manage procurement, such as advisory support for the preparation of terms of reference and realistic planning of the time needed for the processes and the respective bidding procedures.** In particular, the most recently designed operations include the contracting of a specialist in the execution unit exclusively devoted to preparing or reviewing terms of reference for program procurement. Such contracting will be done so as to ensure that there are no conflicts of interest between consultants who design and execute activities.

4.31 **Interagency coordination:** Export promotion and investment attraction operations involve multiple sectors and agencies by nature, so there is an inherent need for strong interagency coordination. The lessons learned from the operations analyzed highlight **the importance of strengthening the executing agency's leadership to achieve effective interagency cooperation through joint work plans.** The recommendation is to design and monitor a solid interagency coordination mechanism between the executing agency, coexecuting agencies, and stakeholders. This should include both political decision-making capacity and administration of project resources. New operations propose more solid governance frameworks, with the active participation and training of the corresponding political leaders in a solid framework of responsibilities, a clear division of functions, and results-based planning. Interagency cooperation agreements and operating regulations that codify these points are now required as a condition precedent and are signed at the highest political level.

4.32 **Execution arrangements:** Some operations reported problems with the planned arrangements, mentioning that the executing agency did not have the capacity to play an active role to facilitate interagency coordination and move execution forward. At the same time, in the operations analyzed, it was highlighted that **the leadership capacity of the executing agency or execution unit is a key variable to take into account in the design of a new operation, with the recommendation that the unit should belong to the project's beneficiary institution.** The recommendation is that during the operation's design, the entity's capacity should be analyzed for adaptation to change (in many cases driven by the operation itself). The analysis should include the qualification of its human resources, its capacity to incorporate the changes that are proposed, and the ability to build consensus on implementation. This analysis should not be limited to fiduciary issues, but should be comprehensive with respect to the institution as the party responsible or jointly responsible for project execution. It is also important to train the execution units on handling conflicts of interest in order to help manage integrity risks in the programs. As indicated above, new operations have internalized this lesson by creating a more robust governance framework, with the involvement of political leaders and the applicable senior technical management, so that certain responsibilities for interagency cooperation do not fall to an execution unit with limited capacity to mobilize multiple institutions.

4.33 **Ownership:** In some of the operations analyzed, it was reported that when the project is seen as the Bank's or the execution unit's, execution and achievement of the planned results are difficult, and the targeted changes are not completed or are very fragile in terms of sustainability. **It is key to achieve a sense of ownership not only in the executing agency at the senior management level, but also at the technical level and among the main stakeholders, especially those in the private sector.** The recommendation to achieve this ownership is to synchronize targets, objectives, and processes between the execution team and the stakeholders, with the Bank team, in the design, execution, and sustainability of the results. Some of these recommendations have already begun to be implemented in new operations in the design phase. The planning role of the execution unit has been substantially strengthened as has the participation of beneficiary entities and their leaders and technical directors in planning sessions so as to raise awareness and build a sense of ownership of their role as leaders of the operations.[48]

4.34 **Private sector:** It is noted that private sector participation is key from the design stage of projects in foreign trade, investment attraction, and integration. This is due to the fact that **knowledge of the problems facing enterprises, especially SMEs, is specific to the private sector, and therefore its involvement will allow the generation of products and services tailored to their needs,** as well

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[48] To overcome institutional weaknesses that give rise to the problems identified in paragraphs 4.10, 4.12, 4.14, and 4.15 above, it is suggested that nonreimbursable technical-cooperation funding be provided to help build more stable capacity, as well as the contracting of members of the execution unit prior to the eligibility of the operations, training of staff of the beneficiary institutions on planning issues, results-based management, development program evaluation, and training on issues of institutional leadership, etc.

as eliminate or overcome barriers that limit exports or investment. Technical assistance is also vital for enterprises, with emphasis on SMEs, on issues of trade, investment, and integration. This support enables them to overcome information asymmetries on foreign markets and builds their capacity to engage in foreign trade. The recommendation is to build mutual trust between the private sector, government, the executing agency, and the IDB Group, from project design through implementation, and in their sustainability mechanisms. Tools such as ConnectAmericas should be increasingly used to build SME capacity to take advantage of the opportunities provided by trade internationalization processes. This issue was addressed further in the technical lessons above. Likewise, use should be made of the knowledge generated by the companies and private sector associations that take part in the Americas Business Dialogue, both through their recommendations to the region's governments, and by consulting with them specifically on the design of operations.[49] The IIC also plays a fundamental role in fostering foreign trade, regional integration, and support for exporters, particularly SMEs. Programs such as the Trade Finance Facilitation Program (TFFP), initiatives to support the internationalization of enterprises, and the financing of value chains are instruments that should be cultivated to help close gaps in access to financing faced by the private sector.

4.35 **Regional strategic frameworks:** Traditionally, the Bank's collective financing action at the regional level has been complex, precisely due to the lack of regional financial instruments. This reality has led to Bank to identify mechanisms that help close this financing gap for projects with a regional scope. In this sense, the strategic frameworks for regional action[50] open the door for coordinating financing actions in various policy sectors, including infrastructure, energy, climate change, health, trade, or any other. **The lack of strategic frames of reference with a regional or subregional scope does not allow the alignment of countries' joint action around common goals through coordinated actions and specific action plans.** This situation has begun to change in recent years with regional initiatives such as the Mesoamerica Project, under which coordinated national and regional projects are executed. The experience in the Caribbean with the recent approval of a Strategic Agenda for Integration focused on issues of trade, energy, transportation, and tourism was also a positive step. The best recent example of the impact that strategic regional frameworks can have on the Bank's financial management was the Trade Facilitation and Competitiveness Strategy with emphasis on coordinated border management in Central America, the draft of which was prepared at the countries' request in 2014 for approval in 2015. These

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[49] The Americas Business Dialogue is a private sector-led initiative facilitated by the Inter-American Development Bank in order to promote a high-level public-private policy dialogue among the region's business leaders and governments on the priorities, challenges, and opportunities for economic growth and development.

[50] A strategic regional framework is a generic reference to regional initiatives that propose a common vision for a specific issue, establishing policy objectives and the means and strategic action plans to achieve them. It may be a specific programming of activities or a set of programmatic guidelines. It may contain timelines, budgets, execution arrangements, monitoring mechanisms, monitoring and impact indicators, as well as financing alternatives, or, when applicable, firm financing commitments to execute the activities making the vision and the sought after policy objectives a reality. Normally, the framework should be validated by the country authorities and designed in consultation with the main public and private stakeholders engaged with the policy issue covered by the framework.

approaches were very helpful in aligning Bank lending operations at the national level. The border modernization operations in Costa Rica and Nicaragua are two examples of the relevance of these regional frameworks. Under the guidelines, objectives, and action plans of the Trade Facilitation Strategy, operations have begun to be generated in Central America aiming to reduce the high regional logistics costs caused by bottlenecks at border crossings. This has been a very positive lesson learned for the Bank, which normally uses nonreimbursable technical-cooperation resources for such purposes, including the RPG initiative.

4.36 **Countries are demanding strategic roles from the Bank that extend beyond financing.** The RPG initiative's resources are important for overcoming coordination failures between countries and facilitating the building of consensus around South-South solutions. Nonetheless, the Bank's experience with the initiative shows that the success of such support does not depend solely on the Bank's financial contribution. On many occasions, the countries benefitting from RPG projects request the Bank's strategic leadership, last generation knowledge, role as an honest broker, and technical advisory support for its cooperation efforts. The Bank responds to these requests by supporting the building of consensus between countries and often acting at the countries' request as an impartial mediator with respect to national interests.

4.37 **The Bank should continue exploring alternative incentives for regional integration.** In this context, the recent decision to devote up to 5% of the Bank's total Ordinary Capital lending resources for sovereign guaranteed operations available for the year to loan operations that promote integration is noteworthy. This milestone represents an innovative and important additional incentive for countries to focus on regional integration. This experience is brand new and will be implemented in 2016.

D. The Bank's comparative advantages in the trade and integration sector

4.38 The Bank has achieved a strategic position in the region, with a considerable portfolio expansion in multiple countries and with innovations in the trade and integration sector. The range of activities supporting trade, integration, and investment is enormous, but there are constraints on capacity and resources that impose limits on what the Bank can do. For this reason, the sector has focused on specific areas where there is a clear demand for support among Latin American and Caribbean countries and a capacity to address the issue by the sector, as indicated below, while acknowledging that there are other areas of intervention that clearly do not represent a priority. The sector has made innovations including trade operations in the form of policy-based loans with a deferred drawdown option (e.g. in Uruguay); it has begun the design and execution of border modernization operations between two or more countries (e.g. Nicaragua, Costa Rica, and Panama); and operational demand is emerging at the subnational level (specifically with preliminary discussions in Argentina, Brazil, and Mexico). The sector's thematic agenda focuses on a frequent renewal of issues based on last-generation needs, such as the modernization of land border crossings under the CBM modality (with operations in the design, approval, or execution stages in Guatemala, Nicaragua, Costa Rica, Panama, Ecuador, and Paraguay); and support for globalization of value-added services through outsourcing and offshoring (in Guatemala, El Salvador, Colombia, Uruguay, and Trinidad and

Tobago).[51] Nonetheless, countries continue to have a demand for operations in the traditional sectors of export and investment promotion, particularly for SMEs.

4.39 With a solid mandate on trade and integration issues, and a significant storehouse of empirical, institutional, and multisector knowledge of the region, the Bank commands a position of leadership and has become the first choice when countries seek financial and technical support in this area. In fact, since the realignment (2007), INT was given a financial operating mandate and, in 2011, TIU was created to strengthen these functions. The inclusion of INTAL in INT in early 2012 bolstered these capacities, particularly through training and institutional strengthening programs in all areas identified under this SFD. The program, executed in partnership with other institutions, such as the WTO and the World Customs Organization (WCO), is regionally and internationally recognized and offers more than 30 annual (onsite and online) specialized courses in support of the countries' integration agenda.

4.40 The sector has the expertise and capacity to execute activities and provide technical and financial assistance to borrowing member countries in the following areas: (i) export promotion and investment attraction; (ii) trade facilitation, customs, and logistics; and (iii) administration and implementation of trade agreements. The Bank, which also has capacity to address other regional issues, has a long tradition of providing support and technical assistance to subregional integration mechanisms, including the Latin American Integration Association (ALADI), the Andean Community, the Central American Common Market, the Caribbean Community (CARICOM), MERCOSUR, CAFTA-DR, and the Pacific Alliance. In the last three years, the Bank has also provided noteworthy support to Pacific Alliance member countries (Chile, Colombia, Mexico, and Peru) to promote deep regional trade integration and move toward the free circulation of goods, services, capital, and persons. Since the creation of the Pacific Alliance in 2012, the Bank has been committed to providing financial and technical advisory support to the governmental technical groups responsible for trade negotiations, the high-level group (deputy ministers of trade and foreign relations), the Pacific Alliance Business Council, trade promotion agencies, and the Council of Ministers of Finance, in all those areas defined as strategic priorities,[52] thus positioning itself as the principal multilateral partners for this important regional integration initiative.

4.41 Special attention has been devoted to integration mechanisms in small countries. For this reason, the Bank's joint work with CARICOM (2013) and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) (2016) is noteworthy in the preparation of the Regional Aid for Trade Strategies, which provide a strategic framework for promoting the regional and global trade integration of the economies of the two regions (see, for example, CARICOM, 2013). In addition, the Bank leads and/or supports a large number of initiatives by client networks (primarily trade ministries, customs authorities, and

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[51] The inclusion of Trinidad and Tobago in this period (2013-2016) is evidence of the growing interest among the countries for value-added service promotion operations. The Bank is holding preliminary talks with other countries, which continue to show their interest in these sectors.

[52] These areas include access to markets, trade facilitation, productive chains, harmonization of technical standards, intellectual property, innovation and entrepreneurship, financial integration, education, and labor mobility.

trade and investment promotion agencies), which the Bank frequently calls on (particularly through the Regional Policy Dialogue instrument) and to which it provides technical and financial support, positioning itself as a strategic partner. These networks include: Red Iberoamericana de Organizaciones de Promoción del Comercio Exterior [Ibero-American Network of Trade Promotion Organizations] (RedIbero); Red Interamericana de Ventanillas Únicas [Inter-American Network of Single Windows]; Pacific Alliance; the AEO Network; the IDB-ADB project to promote South-South cooperation between Asia-Pacific customs authorities and client countries; the Multilateral Agreement on Cooperation and Mutual Assistance among Customs Offices in Latin America, Spain, and Portugal (COMALEP); Caribbean Customs Law Enforcement Council (CCLEC); Latin America and Caribbean-OECD Investment Initiative; Mesoamerica Project; and the OECD-IDB Regional Center for Competition in Latin America and Latin American Competition Forum. In addition, the Bank maintains a high degree of collaboration with international technical institutions in our sector's areas through memorandums of understanding on interagency cooperation. These institutions include the WCO and the WTO.

4.42 In addition, in recent years the Bank has become the regional leader in business forums supporting export promotion and investment attraction for the region as well as technical and policy dialogues on customs and trade issues. The Bank conducted Outsource2LAC, the first hemispheric forum to promote the global services or offshoring sector (Montevideo 2011, Medellín 2012), the LAC Flavors series to promote SME-certified food exports (Cancun 2009, Cartagena 2010, Dominican Republic 2011, Guatemala 2012), an annual series of forums to promote trade and investment with the Bank's Asian member countries (Seoul 2008, Tokyo 2009, Chengdu 2010, Seoul 2011, Hangzhou 2012). Each forum includes business meetings under a customized matchmaking system that has led to the creation of multiple businesses and new business opportunities in the trade and investment area. In addition, there have been special and ad hoc forums, the most recent being, at the hemispheric level, the CEO Summit of the Americas (Cartagena 2012 and Panama City 2015), which has been attended by multiple heads of state and thousands of business leaders from the Americas. At the most recent meeting, participants were already coordinated in the framework of the Americas Business Dialogue, enabling them to present a work agenda common to the governments. Other events include, at the subregional level, the Mesoamerican Business Forum (Panama City 2013); and, at the interregional level, the Dialogue of Customs Leaders of Asia and the Pacific and Latin America, in which more than 60 customs administrations from the two regions took part (Panama City 2013). This important series of regional forums demonstrates INT/TIU's leadership in positioning the Bank as a powerful interregional and intraregional intermediary in the processes of subregional, regional, and transcontinental business promotion and policy dialogues, with clear recognition by the countries and other relevant stakeholders.

4.43 In addition, with the border crossing modernization and cross-border integration operations, the Bank has assumed a role of regional coordinator and bi- and tri-national facilitator for the design, financing, and execution of projects that would pose high risks and suffer from coordination failures if the countries were to decide to undertake them individually. In fact, in Central America, for example, the Bank's involvement in the preparation of a Central American Regional Trade Facilitation and Competitiveness Strategy,[53] in the design of national financing operations for the modernization of border crossings, and in binational and trinational coordination[54] has brought to light in this three-year period the trust that the countries' authorities have in the Bank to undertake major regional integration and trade projects.

4.44 The IDB Group has an additional significant comparative advantage in the sector: integrated and coordinated service from both the sovereign-guaranteed windows and the IIC and the MIF. In 2005, the Bank created the TFFP, which is now administered by the IIC. The TFFP's objective is to connect importers and exporters of goods and services through a global network of financial intermediaries. Under the TFFP, the IDB Group has granted direct financing or credit guarantees to financial intermediaries in the region in order to increase the availability of foreign trade financing and expand the network of correspondent banks for financial institutions in Latin America and the Caribbean. For the period of this SFD, it is suggested that promotion of the TFFP be coordinated with the IIC, deepening the linkage and coordination between the Bank's public-sector windows and the IIC with export firms in the region, while at the same time collaborating with the IIC on a potential expansion of the scope of its activities to create financial and nonfinancial mechanisms to allow partnering with certain financial institutions in the region through medium-term lines to support the internationalization of their clients who wish to invest abroad, as well as with export enterprise value chains. The IIC also plays a fundamental role in supporting value chains through strategic partnerships with multinational anchor enterprises, facilitating cross-border trade, strengthening business relationships between suppliers and clients. Lastly, it is recognized that the IIC plays a fundamental role in promoting (through the TFFP itself or other financial structures) the expansion of alternative products such as factoring, forfaiting, and others, which may be fundamental for supporting certain exporters who do not have access to traditional financing. The Multilateral Investment Fund has a market access pillar aimed at providing capacities to enable SMEs to obtain access to production inputs, business techniques, partnerships, best business practices, and market opportunities. In this case, interventions in the sector have historically been carried out on a coordinated basis, while leveraging synergies in terms of joint efforts and technical and financial capacities of the entire IDB Group, which is planned to continue in the future, resulting in better customer service.

4.45 Regarding coordination within the IDB Group with an impact on the sector, it is worth noting by way of comparative advantages, first, that business internationalization financing is also addressed through second-tier operations with the countries' government development banks; and second, that there is close operating coordination between the IDB Group's technical teams responsible for the software (processes and regulations) and hardware (infrastructure) of competitive regional and global integration.

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[53] Regional Trade Facilitation and Competitiveness Strategy, with emphasis on CBM, approved by the Council of Ministers for Central American Integration and Trade in October 2015.

[54] In the Nicaragua-Costa Rica, Costa Rica-Panama, Guatemala-Mexico, Nicaragua-Honduras, and Northern Triangle processes.

4.46 All of the above has led to an increased demand for the trade and investment services and programs offered by the Bank. This trend is expected to persist in the short and medium term. Consequently, there is room for the Bank to work with the IIC to expand the financial and technical support to improve the international competitive integration of the region's countries. This effort will require continuing to strengthen the Bank's internal operating capacities and to help build the capacities of the MIF and the IIC in the area of trade and investment, capitalizing on the close work of the divisions that complement interventions at this level, particularly TIN, TSP, CMF, and CTI in the Bank, with the MIF, and the IIC.

4.47 Lastly, it should also be noted that there are intervention areas that are not a priority for the sector. In export promotion, for example, non-priority issues include the promotion of low value-added sectors, commodities, industries that are not environmentally friendly, or programs aimed at promoting the exports of large enterprises, including multinationals from outside the region, unless they are linked to the expansion of financing for value chains. In terms of attracting investment, non-priority issues include foreign investment focused on mergers and acquisitions, especially for multinationals from outside the region (as opposed to greenfield investment or the post-establishment expansion of a previously made investment) or investment in industries that are not environmentally friendly. It is not a priority to design interventions that violate commitments assumed by the countries in the context of multilateral or bilateral trade and/or investment negotiations (WTO, FTAs, investment agreements, etc.).

V. PRINCIPLES, GOAL, DIMENSIONS OF SUCCESS, AND LINES OF ACTION THAT WILL GUIDE THE BANK'S OPERATING ACTIVITIES

5.1 Below is a description of the goal to be pursued for the next three years, the principles that inform the Bank's activities in the sector, especially its interventions with public financing, and the dimensions of success, lines of action, and corresponding activities. These proposals take into account the lessons learned in prior activities and interventions and those under way, with a view to impacting the effectiveness of interventions in the future. These experiences have led to the recognition in this SFD of two new guiding principles: sensitivity to the needs of smaller economies and the special situation of small and medium-sized enterprises. In addition, the lessons learned over the previous three years have taken on particular significance in areas such as the importance of strategic sector frameworks, the multisector approach of interventions, and the existence of new technologies for the propagation of business and training opportunities. The goals and dimensions of success in the area of trade financing costs, particularly sovereign guaranteed financing programs for the internationalization of SMEs, are addressed in the Support to SMEs and Financial Access/Supervision SFD (document GN-2768-3). The specifics of financing SMEs through NSG operations are the responsibility of the IIC. This goal and the dimensions of success are aligned with the following proposed targets for the Sustainable Development Goals: build resilient infrastructure, promote sustainable industrialization and foster innovation; achieve gender equality; and take urgent action to combat climate change and its impacts.

5.2 In the implementation of this sector framework, the Bank will endeavor to identify financing models that provide incentives for the identification, prioritization, and execution of projects that support regional and global integration. Given that projects supporting integration frequently present problems related to market failures (cross-border externalities) or coordination failures (costs of collective regional action) that affect perceptions of the returns on investment and result in a suboptimum allocation of resources, it will be advisable to identify programmatic and operational instruments that allow incentives to be created, both for coordination among countries for sovereign guaranteed operations and for private sector participation in non-sovereign guaranteed operations. In this sense, both investment loans and policy-based loans will be part of this agenda when they have cross-border externalities and help boost regional integration. In addition, as indicated above, the Bank should give careful consideration to devoting a percentage of available lending resources to economic integration operations, so the countries have a strong financial incentive to promote integration.[55] It is expected that lessons learned would be identified on this operational modality to evaluate the interest of the countries in this regard. It has also been confirmed that it is necessary to include impact evaluation activities for the main interventions in order to continue generating lessons that can inform future projects and make it possible to deepen and expand analyses on trade, integration, and investment issues. These impact evaluations will be systematized and disseminated to obtain a set of lessons learned that inform and enhance the quality of the design, monitoring, and evaluation of the next generation of operations to support trade, integration, and investment. Again, for this reason, it is important to effectively disseminate the experiences and knowledge generated by the Bank in the areas covered under this SFD.

A. Goal and principles of sector work

5.3 The Bank's goal in the sector is to foster a greater and more equitable share in global trade and investment for Latin America and the Caribbean, as well as a deepening of regional markets. To achieve this goal, the Bank's work in the sector will be governed by the following guiding principles:

a. **Offsetting of coordination failures:** Projects should create incentives that offset market failures (cross-border externalities), coordination failures (collective action costs), and other costs related to the complex execution of collective regional initiatives.

b. **Multinational targeting:** Projects should directly or indirectly contribute to greater regional or global integration by Latin American and Caribbean countries or to the promotion of collective action and cooperation.

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[55] In accordance with the flexibility mechanism agreed on with the IDB board in 2012, Ordinary Capital resources would be reserved to be allocated to countries' specific needs that arise during the programming cycles, as well as to the institutional priorities of the Update to the Institutional Strategy 2016-2019. In 2016, with the objective of placing greater emphasis on the issues of economic integration, 5% of the total Ordinary Capital lending resources for sovereign guaranteed operations available for the year will be devoted to this area.

c. **Regional additionality:** Projects will be promoted when they generate additional added value by including internationalization or regional cooperation objectives.

d. **Special needs of smaller economies:** Special recognition will be granted to the challenges facing the region's smaller economies in order to overcome the costs of trade.

e. **Special needs of small and medium-sized enterprises:** Projects will aim to provide an approach oriented at supporting SMEs so they can leverage benefits and support for their internationalization processes.

B. Dimensions of success, their lines of action, and activities

5.4 The dimensions of success proposed below will seek to guide the Bank's action in the area of trade in goods and services and investment and will be considered in guiding the Bank's activities as well as its dialogue with the countries. The success of the Bank's interventions will be achieved to the extent that these dimensions can bring about a continuum between software, hardware, and functional cooperation and thereby reduce the transaction costs of cross-border business undertakings in the region, boosting and distributing their benefits more equitably. In this context, the promotion of policy dialogue among national, binational, and regional authorities is essential for building consensus on the implementation of activities that impact two or more countries. The dimensions of success underpin the main lines of action to be carried out by the Bank in the sector, with operating activities and research initiatives to be launched or expanded. Not all activities will be financed in each country. Support will be given only to those that are relevant based on each country's specific domestic needs. A flexible approach will be adopted for regional integration promotion activities, ensuring that the needs of the different blocs are expressed in the Bank's regional support activities. Thus, for example, regional integration can be promoted through: (i) regional strategic frameworks (e.g. the Central American Trade Facilitation and Competitiveness Strategy, the design and implementation of which the Bank supported through a provision of the Central American Council of Ministers for Economic Integration (COMIECO)); (ii) formal integration agreements (the technical support the Bank provides for the fine-tuning and deepening of the Pacific Alliance, at the request of its member countries); (iii) regional strategies to frame the Bank's activities in specific subregions (the strategy for regional integration for the Caribbean developed in the Bank); and (iv) any other modalities for regional or subregional promotion that the countries propose to the Bank to deepen their integration (dialogues, information technology platforms, networks, research on areas of integration for promoting integration, etc.).

1. Dimension of success 1. Exporting and potentially exporting companies in the region receive high-quality trade promotion and intelligence services in accordance with their needs

5.5 This dimension of success seeks to support the countries—especially the smallest countries—in carrying out institutional, regulatory, technical, and technological reform and modernization processes, with a view to ensuring that exporting companies have high-quality support services.

5.6 The following lines of action are being proposed under this dimension:

a. **Export development and promotion:** strengthening of the capacities for capitalizing on trade liberalization through goods and services export development and promotion initiatives, with emphasis on the use of program effectiveness and job creation indicators and the inclusion of a gender perspective.

b. **Investment attraction:** strengthening of the capacities to attract high opportunity-value FDI that can contribute to generating foreign currency, quality employment, and technology transfer, with emphasis on developing effectiveness indicators (including jobs) that can serve as a basis to leverage future investments.

c. **Trade and investment intelligence:** development of portals, information platforms, and virtual markets for enterprises to facilitate access to information, particularly by SMEs, on the internationalization processes. The vast majority of information exists and much of it is online, but it is often hard to locate, is not user-friendly, and is presented in unsuitable formats for enterprises with limited information management capacity. These efforts will revolve around the ConnectAmericas platform, which represents a major step forward in facilitating access to information on markets, training, and financing for the internationalization of SMEs.

5.7 In the period covered by this SFD, the Bank may support the following activities:

a. Transformation and strengthening of the institutions and infrastructure for goods and services export and investment promotion agencies, including cross-sectoral coordination, incorporation of new information technologies, evaluation of capacities, and customized training programs, and the use of new promotion and attraction practices, such as traceability, exporting culture, image/country, supplier development, development and use of green goods and services markets that contribute to global decarbonization and resilience, targeting of diasporas, and special economic zones focused on exports.[56]

b. Financing of business development services for exports in high-impact sectors for national development strategies, with particular emphasis on high value-added sectors, such as service offshoring and outsourcing,[57] quality certifications, overcoming NTBs, industries with high rates of employing women, and finishing schools that help generate urban youth employment.

c. Development of virtual markets for business internationalization support; development of national and regional business internationalization platforms, using virtual information, training, and connectivity mechanisms through the use of social-corporate networks (ConnectAmericas); reconfiguration of the INTradeBID trade information systems to expand information and present it in more accessible formats for enterprises; deepening of public-private dialogue mechanisms (e.g. the Americas Business Dialogue) to enlist support for and

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[56] The economic and trade impacts of industrial zones and parks will be analyzed, including the fiscal impact of incentives for exports and investment.

[57] With particular emphasis on English-speaking Caribbean countries due to their linguistic affinity and geographical proximity to the United States market.

discuss public policies that, in the opinion of the private sector, promote the attraction and retention of foreign direct investment.

2. **Dimension of success 2. The region's exporting companies have efficient customs-logistics and transport interconnectivity conditions**

5.8 This dimension of success should reflect the establishment of sustainable trade integration corridors, especially in small countries, that help drive a competitive international insertion of the enterprises in the region.

5.9 The proposed lines of action are the following:

a. **Optimize effective and efficient customs control processes for goods, persons, and shipping units by modernizing customs administrations and border control agencies using the CBM concept:** The Bank's interventions will be aimed at improving security and clearance times, reducing costs for foreign trade operators, strengthening the integrity of fiscal and parafiscal controls, and encouraging regional integration processes by synchronizing and, as the case may be, duly harmonizing processes at the national, binational, and regional levels. The proposal calls for further expanding and strengthening the use of time and cost reduction indicators for the processes subject to interventions. All of this must follow the guidelines of the WCO Framework of Standards to Secure and Facilitate Global Trade (SAFE) and the standards of the WTO's 2014 Trade Facilitation Agreement.

b. **Strengthening of transportation network connectivity and improvement of logistics services:** with a view to reducing the high cost of transportation and logistics, which erode the region's ability to compete globally, the Bank will, in collaboration with other sectors with experience in infrastructure management, support expanding the coverage and quality of the physical infrastructure as well as security and regulatory harmonization.

5.10 The proposal calls for favoring the following activities with a view to implementing the aforementioned lines of action:

a. Investments at border crossings (ground, maritime, and air) to optimize and simplify the circulation of merchandise, shipping units, and people, based on the CBM concept and improvements in local and national operating processes, interagency coordination at the national and binational or regional level, intensive use of nonintrusive technology, and improvement in operations, security, and information infrastructure, promotion of socioeconomic development or border regions (including the improvement of municipal management, land-use planning, pedestrian traffic, and the improvement of public areas), including training on these issues for the public and private sectors.

b. Investment in early mass management of information, strengthening the technological platforms needed to reduce processing times and costs, generate sufficient, quality data to address comprehensive risk management, and establish strategic partnerships with reliable operators in the logistics chain capable of reducing intrusive actions affecting merchandise and people; for example, improving institutional management systems, using tools such as single windows, logistics control towers, or exchanging information with other customs administrations and implementing certifications such as the AEO.

c. Investment in strengthening national and international merchandise transit systems as the key process to ensure control, monitoring, security, and facilitation of merchandise crossings through ground, maritime, and air borders, under the CBM principle.

3. Dimension of success 3. Exporting and potentially exporting enterprises in the region have access to reliable, up-to-date, transparent, and easily accessible regulatory information on international trade

5.11 This dimension of success seeks to help countries—especially the smallest and most vulnerable—to develop the necessary mechanisms to enable enterprises to be properly consulted and informed in the process of international goods and services trade and investment agreement negotiation and implementation, while at the same time having access to adequate, timely, and accurate regulatory information as a highly valuable asset for gaining access to international markets.

5.12 The following lines of action are proposed:

a. **Institutional strengthening in support of the negotiation, implementation, and use of trade and investment agreements.** Use of the Institutional quality indicator for trade agreement management will be enhanced and expanded, with emphasis on business information and support services and coordination with the private sector.

b. **Search for and consolidation of information, and coordination with agencies and entities supporting the internationalization of enterprises.** The collection of information and regulations negotiated in international trade and investment agreements will be expanded, and their dissemination will be facilitated, with an emphasis on NTBs, while making use of the potential for internationalization that ConnectAmericas offers to SMEs in the region.

5.13 The following activities are proposed to execute the lines of action:

a. Strengthening and modernizing the institutional capacity to negotiate, coordinate, implement, and make use of international goods and services trade and investment agreements and provide services to SMEs.

b. Strengthening of regulatory compliance and regulatory and sanitary management with a view to reducing rejections at borders and the adverse impact of NTBs for both goods and services.

c. Design of competition promotion, trade and climate change, trade adjustment, and free trade transition programs, including through the use of techniques such as sustainability and poverty evaluation.

4. Dimension of success 4. Collective action substantially contributes to reducing regional market and coordination failures

5.14 This dimension of success seeks to support the Bank's cross-border, transnational, and interregional operations, creating regional public goods and functional cooperation and thus making a significant contribution to overcoming market and regional coordination failures and the absence of trade integration incentives, especially among smaller countries.

5.15 As a general line of action, the proposal is **to focus the Bank's support on regional cooperation and public goods projects that promote subregional or regional coordination, add value to national interventions, or contribute to the generation thereof, and in which the Bank has a comparative advantage**. These regional and multinational interventions are crosscutting and thus involve all the Bank's operating sectors based on the specific needs of countries or groups of countries. A description of trade integration issues and initiatives is provided below by way of example. The complementary lines of action in areas including physical integration, energy integration, financial integration, regional cooperation on illegal migration, security issues, regional cooperation on health issues (SCL), and the urban and social dimensions of integration (FMM and LMK) are addressed in the respective sector frameworks.

5.16 The following activities, aimed at offsetting market, coordination, and collective action failures, are proposed in executing the general line of action on trade integration initiatives:

a. Strengthening of the countries' technical and institutional capacity to deepen coordination capacity to reduce the costs of trade, including convergence of FTAs. One example of this is the support the Bank provides to the process of deepening the Pacific Alliance.

b. Technical support for the development and deployment of regional and transnational trade integration networks (TPOs, IPAs, customs administrations, competition, etc.) that can facilitate regional coordination, knowledge transfer, and the launching of new regional and subregional initiatives for trade in both goods and services, including networks that promote collaboration and knowledge transfer between the public and private sectors (e.g. the Americas Business Dialogue).

c. Integration and interconnection of trade information systems, including customs and single windows for trade and investment, as well as support for the regional coordination of these initiatives.

d. Development of information technology tools for the transposition of goods and services codification and classification nomenclatures.

e. Regional training on nontraditional issues in international trade negotiations, including climate change, energy, gender, economic impact analysis of trade policy and export promotion/FDI attraction, value chains, competition policy, and the use of intellectual property. At the request of the region's countries, the Bank may support negotiation and implementation of such issues through the use of modern analytical tools, information systems, and technical training, using the above-mentioned tutored online training tools and MOOCs.

f. Trade information and intelligence systems aimed at SMEs exporting or potentially exporting goods and services, including support for subregional or regional coordination for the structuring of such initiatives.

g. Performance of activities contributing to the development of minimum regional social and environmental standards to prevent spurious regional competition; and regional frameworks to reduce the environmental risks associated with an increase in the production and trade of commodities in Latin America and the Caribbean.

h. Support for the preparation of regional strategic frameworks and their subregional or regional coordination on issues of trade facilitation, logistics, trade negotiation, economic integration, investment attraction and promotion (e.g. the Central American Trade Facilitation and Competitiveness Strategy), notwithstanding other areas of functional coordination in which the strategic frameworks may help align the collective action of the region's countries.

TABLES

Table 1: Comparative table of logistical shortcomings

	LAC	Asia-Pacific	EU-27	USA
Quality of trade-related transportation infrastructure (*)	2.58	3.23	3.45	4.14
Punctuality of cargo arrivals (*)	3.11	3.67	3.83	4.21
Efficiency of dispatch process (*)	2.47	3.07	3.27	3.67
Road system per 100 km^2 (+)	19.2	122.6	191.0	67.0

(*) Source: LPI, World Bank. Index number: 1 (worst), 5 (best). Data for 2012.
(+) Source: International Road Federation, Road World Statistics. Data for 2007.

Table 2. Summary of Development Effectiveness Matrix (DEM) for INT/TIU projects

	INT Project Average													
	2009		2010		2011		2012		2013		2014		2015	
Criterion	IDB	INT	IDB	INT	IDB	INT	IDB	INT	IDB	INT	IDB	INT	IDB	INT
Program Logic	**6.74**	**7.10**	**7.59**	**8.52**	**7.94**	**8.11**	**8.28**	**6.96**	**8.76**	**8.98**	**9.11**	**7.96**	**8.98**	**8.03**
Program Diagnosis	2.24	2.10	2.46	3.00	2.60	2.20	2.69	2.60	2.74	2.60	2.77	2.40	2.79	2.40
Proposed Interventions	1.18	1.00	1.44	2.00	2.58	3.07	2.91	1.47	3.26	3.73	3.51	2.80	3.34	2.80
Results Matrix Quality	2.48	2.67	2.63	2.85	2.67	2.85	2.69	2.90	2.75	2.64	2.83	2.76	2.84	2.83
Economic Analysis	**3.92**	**3.50**	**5.96**	**7.00**	**8.90**	**10.00**	**9.38**	**8.00**	**9.57**	**10.00**	**9.46**	**9.00**	**9.40**	**9.63**
% projects with CBA or CEA	45.61	50.00	76.29	100.00	100.00	100.00	100.00	100.00	86.10	66.66	87.60	66.66	86.40	75.00
Monitoring & Evaluation	**4.99**	**4.40**	**5.90**	**3.00**	**6.93**	**7.48**	**7.56**	**6.70**	**7.78**	**8.05**	**7.81**	**8.26**	**7.87**	**8.03**
Monitoring	2.59	3.00	2.71	3.00	2.50	2.50	2.46	2.50	2.47	2.50	2.21	2.00	2.14	1.88
Evaluation	2.40	1.40	3.19	0.00	4.43	4.98	5.10	4.20	5.32	5.55	5.59	6.26	5.74	6.15
% projects with impact evaluation	12.06	0.00	27.2	0.00	31.96	50.00	38.21	16.66	49.07	50.00	42.85	50.00	44.44	37.50
Number of projects with impact evaluation	14	0	37	0	39	3	47	1	53	3	45	3	36	3
Overall DEM Score	**5.75**	**5.67**	**6.77**	**6.25**	**8.21**	**8.47**	**8.75**	**7.90**	**8.71**	**9.00**	**8.80**	**8.43**	**8.75**	**8.56**

Source: DEM SG Database
All figures calculated for approved SG loans.

Table 3. SPD. Pattern of disbursements

Projects with respect to the country's curves							
	Above the upper band		Between bands/limits		Below the lower band		Total
	#	%	#	%	#	%	#
IDB	**324**	**59%**	**103**	**19%**	**118**	**22%**	**545**
INE	**158**	**57%**	**60**	**22%**	**60**	**22%**	**278**
ENE	30	63%	10	21%	8	17%	48
TSP	54	72%	9	12%	12	16%	75
WSA	46	50%	21	23%	25	27%	92
RND	27	45%	18	30%	15	25%	60
CCS	1	33%	2	67%	0	0%	3
SCL	**61**	**71%**	**13**	**15%**	**12**	**14%**	**86**
EDU	23	79%	5	17%	1	3%	29
SPH	36	73%	5	10%	8	16%	49
LMK	1	14%	3	43%	3	43%	7
GDI	1	100%	0	0%	0	0%	1
IFD	**96**	**58%**	**28**	**17%**	**42**	**25%**	**166**
FMM	43	56%	13	17%	21	27%	77
ICS	29	62%	11	23%	7	15%	47
CMF	12	50%	3	13%	9	38%	24
CTI	12	67%	1	6%	5	28%	18
INT	**9**	**60%**	**2**	**13%**	**4**	**27%**	**15**
TIU	9	60%	2	13%	4	27%	15

Note: The universe used consists of projects in stages 2 and 3 classified in the second period 2015 of the PMR cycle with a cutoff date of 31 December 2015. Data are presented by sector, but disbursements are measured using a curve with country data only. The 2015 data are preliminary, since the 2015 cycle ends with validation, which is under way.

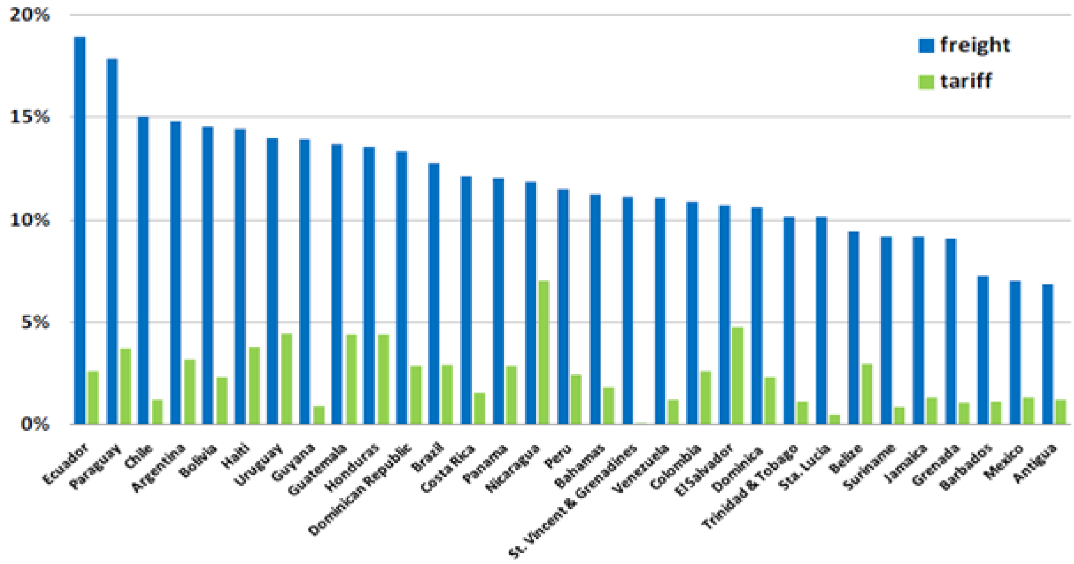
Source: SPD.

Table 4. Exports Rejected per year

Year	Number of rejections
2006	3,395
2007	2,738
2008	2,318
2009	2,380
2010	2,477
2011	3,087
2012	2,384
2013	2,244
2014	1,719
2015 (as of October)	547

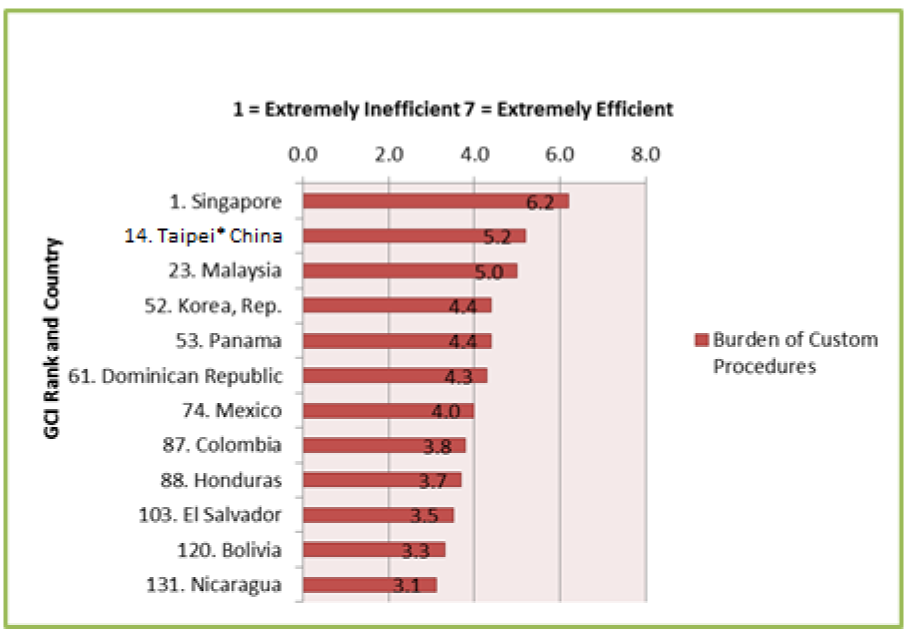
FIGURES

Figure 1. Freight costs



Source: IDB, Strategy to Support Competitive Global and Regional Integration, 2011.

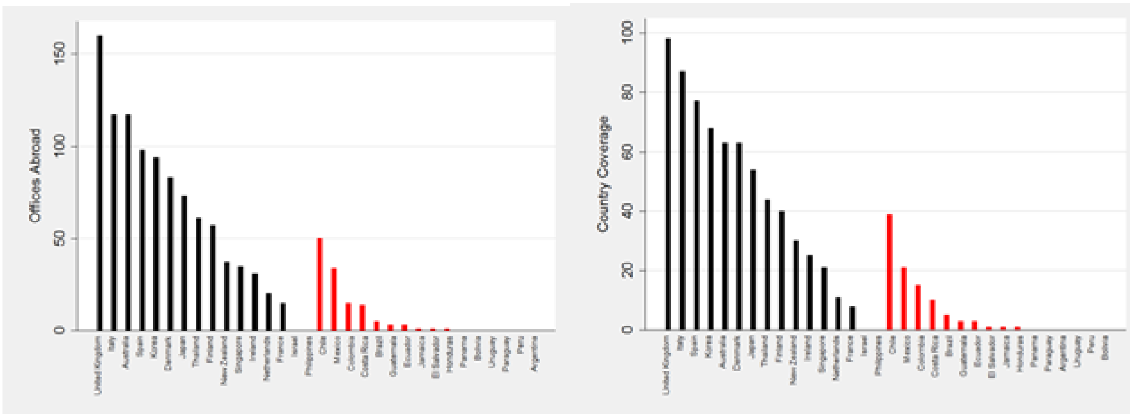
Figure 2. Efficiency of customs procedures



* Use of the phrase "Taipei China" does not in any way reflect a position by the Bank or any of its member countries regarding issues of national sovereignty or diplomatic recognition.

Source: Global Competitiveness Report, 2012-2013, p.462.

Figure 3. Foreign presence of TPOs



Source: Volpe Martincus, 2010.

Figure 4. Impact of TPOs on exports

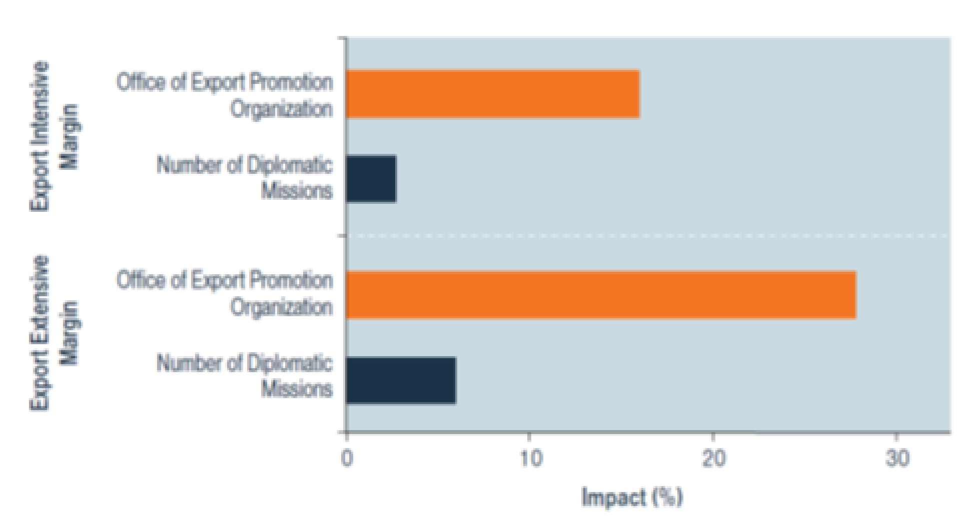
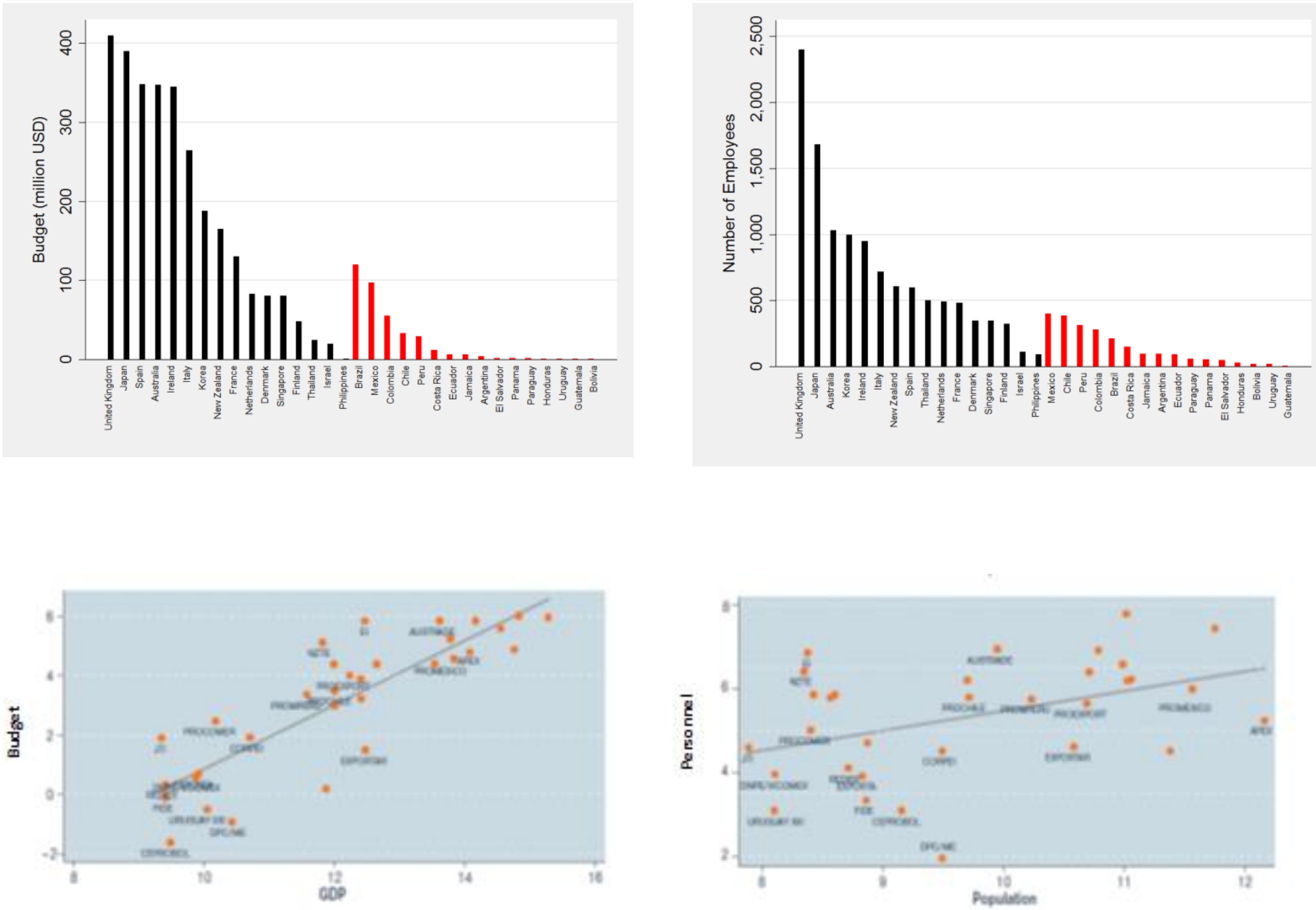
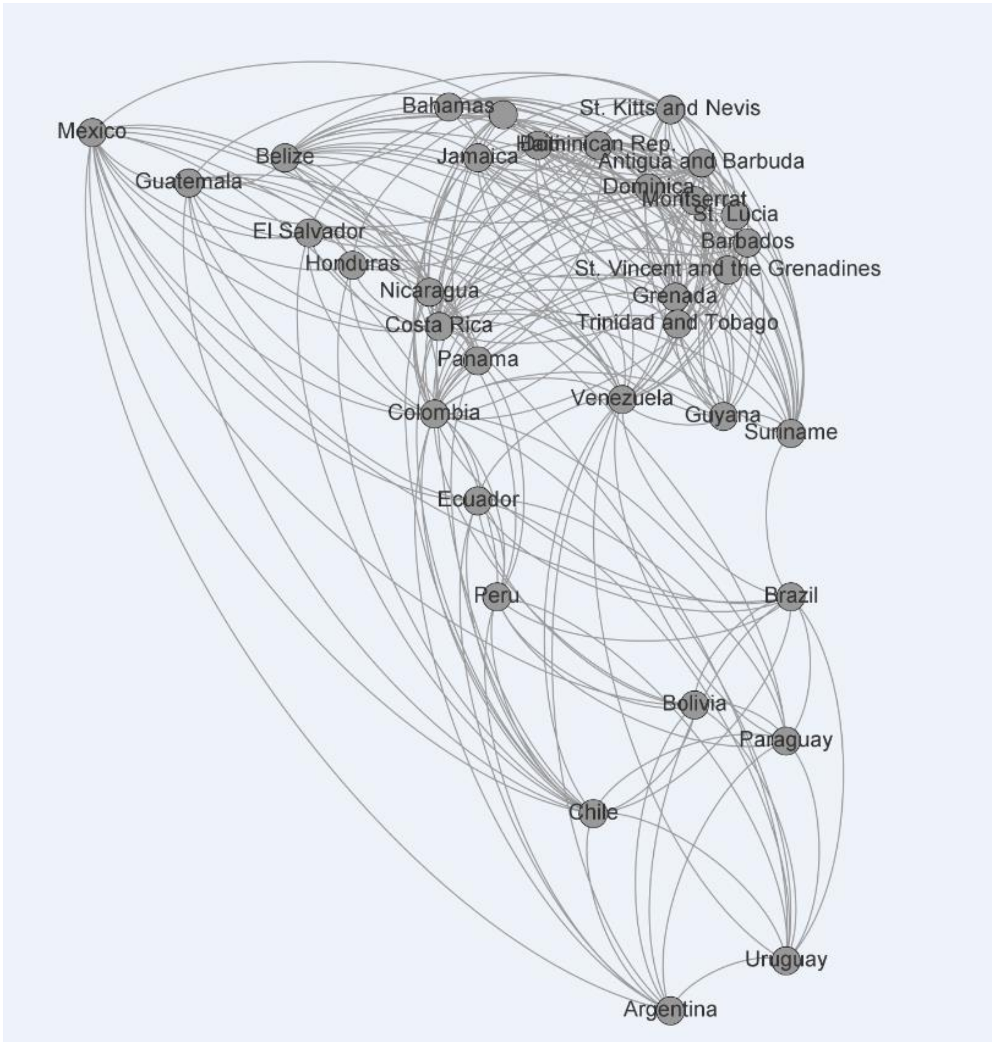


Figure 5. TPO staff and budget



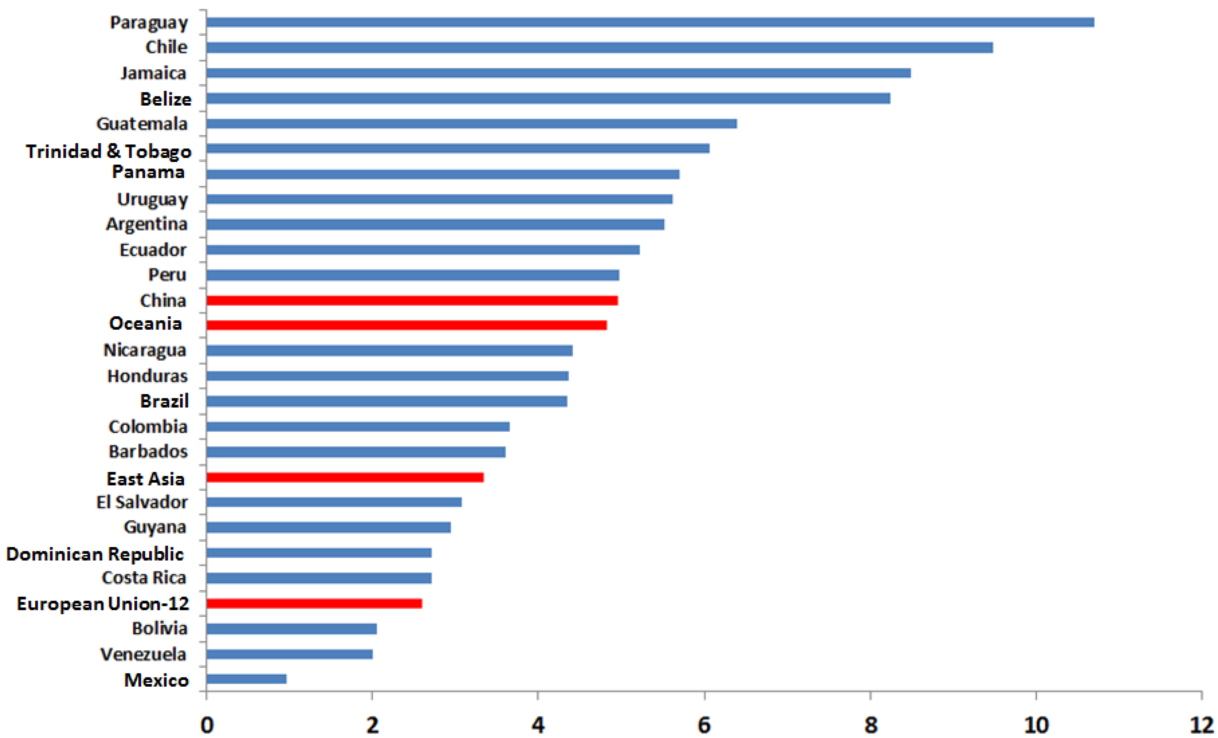
Source: Volpe Martincus, 2010. With data from the 2007-2009 period.

Figure 6. Network of free trade agreements in the hemisphere



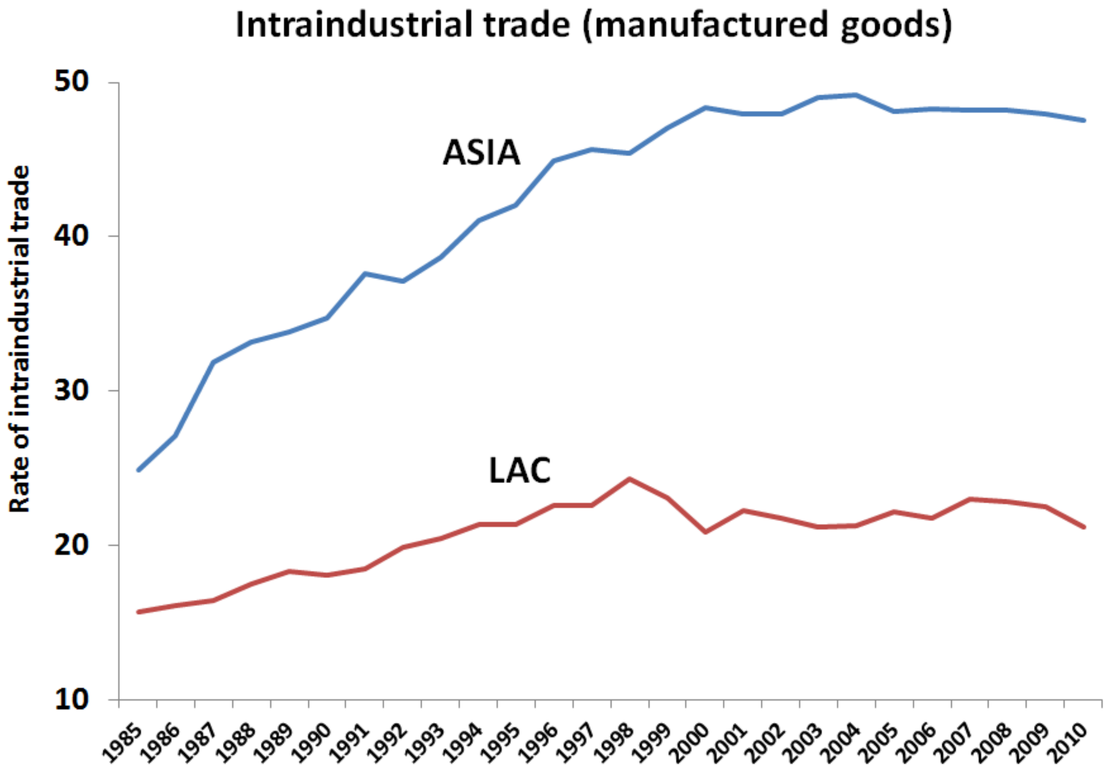
Source: INTrade (www.iadb.org/intrade).

Figure 7. Freight values for exports to the United States in percentages



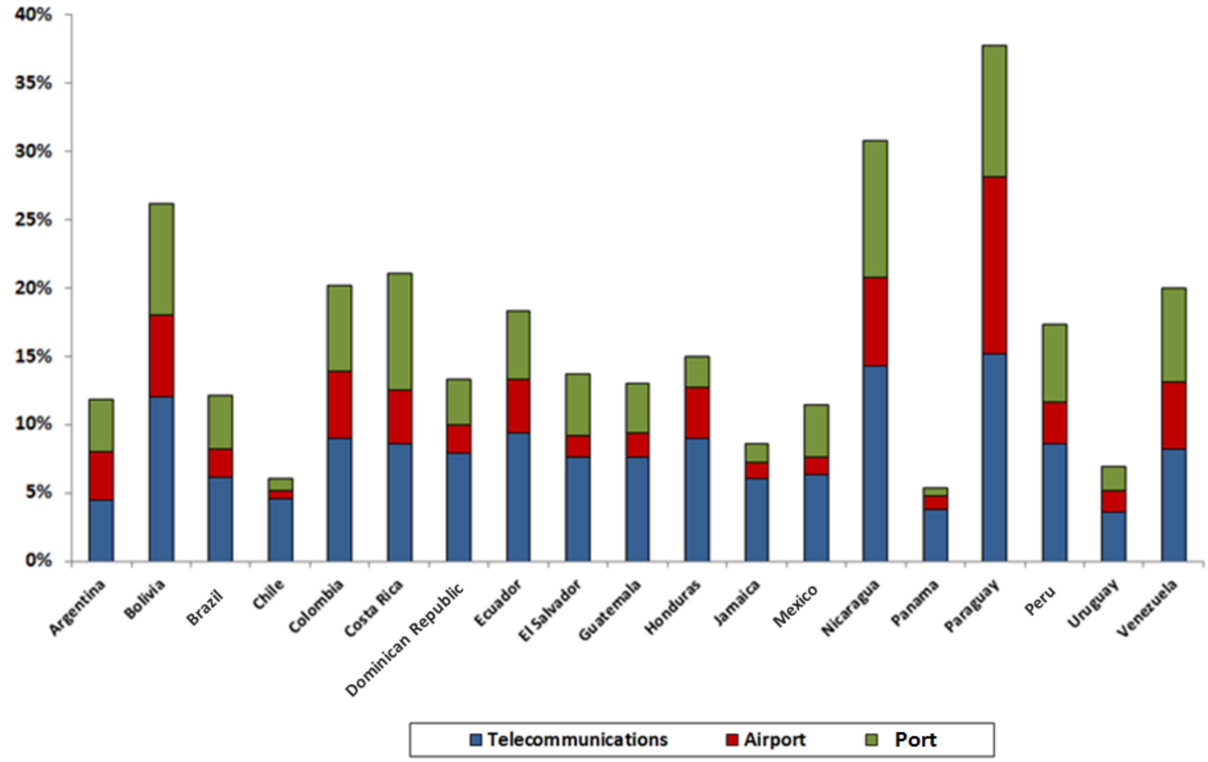
Source: IDB with data from the U.S. Census Bureau.

Figure 8. Intraindustrial Trade



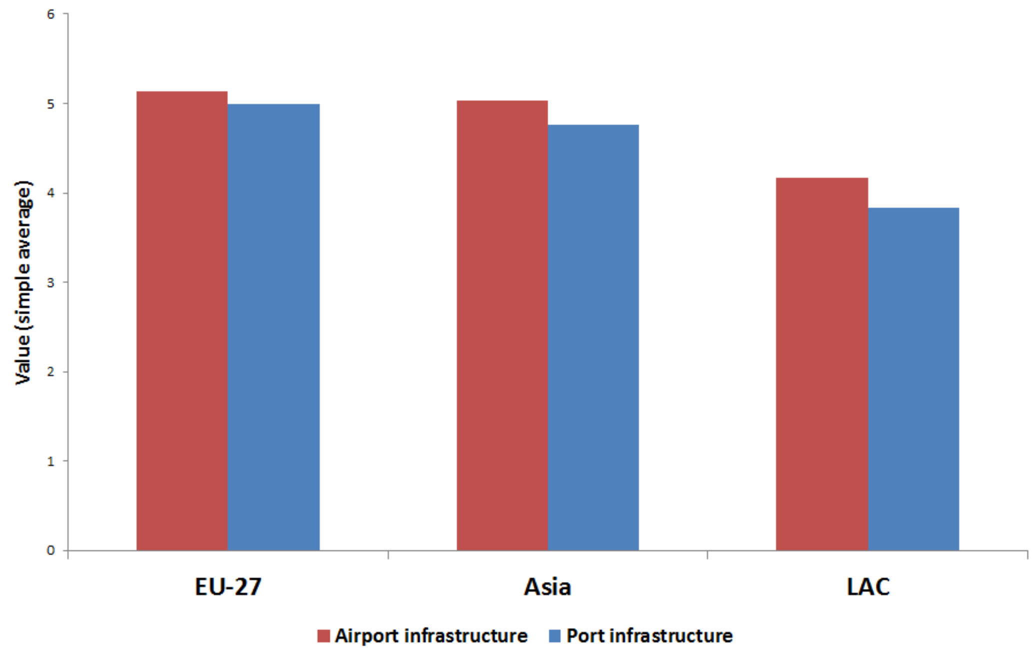
Source: Blyde (2014).

Figure 9. Simulated changes in FDI associated with international value chains after improving logistics infrastructure to the average EU-27 level



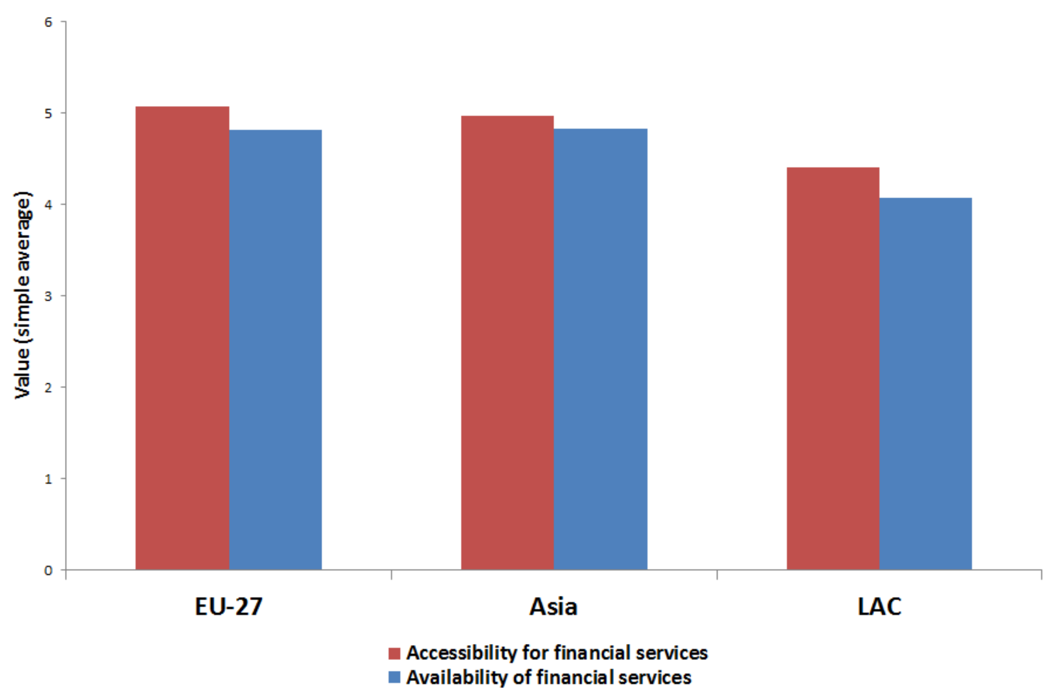
Source: Blyde (2014)

Figure 10. Infrastructure quality indexes, 2015



Source: IDB with data from the World Economic Forum's Global Competitiveness Report.

Figure 11. Financing indexes, 2015



Source: IDB with data from the World Economic Forum's Global Competitiveness Report.

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