

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	Regional/IDB
▪ TC Name:	Capacity Building and Applied Research in Cluster Development Best Practices
▪ TC Number:	RG-T3330
▪ Team Leader/Members:	Hennessey, Michael (IFD/CTI) Team Leader; Bertrand, Annie (IFD/CTI); Drakes, Lisa (IFD/CTI); Lindsay, Courtney (IFD/CTI); Franklyn, Russell (IFD/CTI); Grant, Kayla (IFD/CTI); Gonzalez Alzualde, Yohana Beatriz (IFD/CTI); Verissimo da Silva, Carolina (LEG/SGO).
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract authorization:	August 29, 2018
▪ Beneficiary:	Belize; Dominica ¹ ; Grenada; Guyana; Jamaica; St. Kitts and Nevis; St. Lucia; St Vincent and the Grenadines
▪ Executing Agency:	Inter-American Development Bank through the Competitiveness and Innovation Division (IFD/CTI)
▪ Donors providing funding:	Compete Caribbean Partnership Facility – CCPF
▪ IDB Funding Requested:	US\$ 700,000
▪ Local counterpart funding, if any:	US\$ 223,850 (in kind)
▪ Disbursement period (which includes execution period):	30 months (24 months execution period)
▪ Required start date	September 30 th
▪ Types of consultants:	Individual Consultants, Firms
▪ Prepared by Unit:	Competitiveness, Technology & Innovation (IFD/CTI)
▪ Unit of Disbursement Responsibility:	Institutions for Development (IFD/IFD)
▪ Included in Country Strategy (y/n);	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Economic Integration

¹ In accordance with GN-2851, paragraph 2.9, OECS territories are eligible beneficiary countries under the Compete Caribbean Partnership Facility.

II. Objectives and Justification of the TC

- 2.1 The objective of this TC is to accelerate social and economic development in eight small and vulnerable countries by strengthening the capacity of their Business Support Organizations (BSOs) to facilitate the growth and increased productivity of local clusters of firms.
- 2.2 The first phase of the Compete Caribbean program (CC1) provided support to cluster initiatives and delivered outstanding results: Over 5,595 jobs were created (nearly 80% for women); the revenue of firms and clusters supported increased by 40% over the baseline; and six clusters developed new or improved products or services. Overall, the program recorded a 23% increase in exports estimated at USD\$37million. The end of program evaluation identified two critical success factors that must be in place to foster collaboration and ensure sustainability of cluster initiatives: (i) an integrated, collaborative and strategic approach must be anchored and driven by a national/local institution; and (ii) facilitation and project management skills are essential to ensure effective cooperation, progress and monitoring & evaluation.
- 2.3 CC1 found that unfortunately such capacity was lacking in some Caribbean islands. This was evidenced through the poor quality of project concept notes received from clusters in response to CC1's call for proposals. Only 38% of applications received were deemed fit for funding by the evaluation panel and only one application from the OECS territories was funded. Thus, for the second phase of the Compete Caribbean program (CC2), it became evident that a capacity building effort of local institutions would be necessary to enable industry clusters to be used as drivers of economic growth in these small and vulnerable countries.
- 2.4 In September 2017, under a previous operation (RG-T3021, *Assessing the Capacity to Build Clusters in Small and Vulnerable Countries*), CC2 issued a call for expressions of interest of such local institutions, allowing for applications to be presented from public or private organisations in the Region, such as Business Associations, SME Development Councils/Centres, Partnership Facilities, Industry Development Authorities, Chambers of Commerce, etc. In the end, nine (9) BSOs in eight countries² were selected³ and benefited from a detailed assessment of their institutional capacity in relation to global best practices in cluster development. The main activities under the technical cooperation were completed in June 2018 with nine comprehensive Capacity Enhancement Plans (CEPs) having been completed, in addition to a toolbox comprising templates and tools to increase overall facilitation skills for engaging diverse stakeholders.
- 2.5 Although each CEP includes some specific particularities, most needs and proposed solutions were relatively similar for the BSOs involved. Through stakeholder workshops and consultations, Social Network Analysis⁴, the Business Model

² These 9 BSOs included Dominica Export Import Agency, St. Lucia's Trade Export Promotion Agency, Grenada Hotel and Tourism Association, Grenada Investment Development Corporation, Belize Invest BELTRAIDE, Jamaica Manufacturers' and Exporters' Association, St. Vincent & the Grenadines' Centre for Enterprise Development, and Caribbean Tourism Organisation – a regional institution based in Barbados.

³ This covered only the countries in which there are institutions that applied and met the selection criteria for the call for expressions of interest, as per Compete Caribbean's operating regulations for engaging with non-private sector beneficiaries.

⁴ Giuliani, E. and Pietrobelli, C. (2011) Social Network Analysis Methodologies for the Evaluation of Cluster Development Programs; IDB, Giuliani, E., Matta, A; Pietrobelli, C. (2016) Network, Cluster Development Programs, and Performance: The Electronics Cluster in Cordoba, Argentina. In Maffioli et al (2016) The Impact Evaluation of Cluster Development Programs. IDB.

CANVAS⁵, and COMPASS of Cluster Competitiveness⁶, the CEPs identified some common weaknesses across BSOs including: (i) well-developed or proven approach for cluster management and promotion not in place; (ii) limited information/ data on potential clusters; (iii) lack of cluster methodologies and tools; (iv) no facilitation skills among the staff; (v) limited/ lack of secured funding support; and (vi) weak management of cluster stakeholders and projects. The CEPs⁷ therefore craft a roadmap for BSOs to acquire the knowledge, training and coaching support activities needed to address these weaknesses and increase the BSO's capacity to support local clusters effectively in their respective context.

- 2.6 This TC will support the BSOs in implementing their CEPs⁸ through training activities that include methodology transfer and hands-on assistance in the development of Cluster Development Plans (CDPs) in their respective jurisdictions. Cluster development can be an effective policy tool to support Caribbean SMEs in gaining access to larger and more sophisticated markets, adopting knowledge and technologies, building human capital, and lobbying governments for infrastructure and policies that would be unavailable to individual companies⁹. The Compete Caribbean Partnership Facility's (CCPF) Cluster Initiatives rely on a bottom-up approach to lead individual firms to overcome a lack of trust stemming from rent-seeking behavior and to move firms towards collaborating and pooling resources for the common goal of thriving in the local and global market that hitherto, would likely not have occurred spontaneously¹⁰. For the beneficiary countries of this TC, the expected impact is therefore increased firm productivity, over time contributing to the countries' economic growth, employment and poverty reduction objectives.
- 2.7 This TC is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) as it is strategically aligned with the development challenges of (i) productivity and innovation; and (ii) economic integration. Specifically, the TC will contribute to the objectives of developing quality human capital and establishing smart institutional frameworks in response to the challenges of productivity and innovation, and to the objective of inserting firms into value chains in response to the challenge of economic integration. It is also aligned with CARICOM's Regional Policy Framework for Science Technology and Innovation, for which innovation and entrepreneurship are among the key areas of intervention. The program is aligned with the priorities defined in the Innovation, Science and Technology Sector Framework Document (GN-2791-3), and with the priorities of the "Proposal for the Establishment of the Compete Caribbean Partnership Facility" (GN-2851). It is also aligned with the relevant Country Strategies, such as that of Belize specifically with the "Foster export-led growth and greater trade integration by strengthening the economic efficiency and simplicity of the

⁵ Osterwalder, A. and Y. Pigneur (2010). Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers. Hoboken/ USA.

⁶ <https://www.mesopartner.com/knowledge-resources/methodologies/the-compass/>

⁷ The CEPs have been developed in close collaboration with the BSOs, with each CEP having been reviewed and discussed with Compete Caribbean, and ultimately, approved by the competent authority of the respective BSO.

⁸ The CEPs are not public documents, and can be found at this [link](#) for internal use only.

⁹ Rabellotti, Roberta. 2015. Clusters in the Caribbean: Understanding Their Characteristics, Defining Policies for their Development. Compete Caribbean. Available at <https://publications.iadb.org/handle/11319/8153>

¹⁰ Dohnert, Sylvia. 2018. "Fostering Innovation, increasing competitiveness and promoting growth in the Caribbean". <https://eulacfoundation.org/en/documents/fostering-innovation-increasing-competitiveness-and-promoting-growth-caribbean>

tax system and reducing non-tax barrier” objective and its associated results and indicators.

III. Description of Activities / component and budget

- 3.1 **Component 1. Cluster Development Training and Support (USD\$375,000).** The objective of this component is to transfer a common methodology for cluster development to BSOs in the region and strengthen their capacity to execute such initiatives. Under this Component, experts will be hired to provide training in cluster best practices and advise the BSOs through the process of identifying and supporting the growth of clusters. Specific activities to be undertaken include workshops for the BSOs in cluster development best practices, value chain analysis, process mapping, problem solving, facilitation techniques, and monitoring and evaluation skills. With the guidance of the assigned consultant(s), each BSO will in turn transfer the knowledge gained by hosting similar workshops for two (2) clusters¹¹, which have been selected based on the extent to which they are market-driven, and likely to generate foreign exchange and employment, especially for women and other vulnerable groups. These workshops, combined with stakeholder meetings, will use an approach of “learning by doing” to generate consensus among cluster stakeholders. The BSOs and their local partners will not only learn about facilitation skills, competitiveness, and cluster development, they will also be required to facilitate cluster workshops to establish common goals and a growth strategy for the clusters. They will essentially be coached over several months to help local clusters prepare two Cluster Development Plans (CDPs) that are eligible for CCPF funding. As per its Operating Regulations, Compete Caribbean will coordinate a second Investment Panel (IP) to select +/-10 CDPs among the 20 or more submitted at the end of the advisory process.
- 3.2 Although each BSO is expected to submit at least two CDPs, the local capacity to organize, engage in public-private partnerships, collaborate and drive innovative ideas across diverse sectors will be much greater as a result. The BSOs will therefore be in a better position to mobilize resources which may increase opportunities for IDB and its partners to provide additional support over time.
- 3.3 **Component 2. Sector Specific Training (USD\$175,000).** The objective of this component 2 is to strengthen the knowledge base of the BSOs on key sectors, and in so doing, strengthen their capacity to develop and implement strategies to facilitate the growth potential of these sectors in their local clusters. This component will seek to address identified gaps in sector-specific knowledge and capacity of the BSOs or the clusters¹¹ themselves which span sectors such as: tourism, agriculture, agro-processing, and the creative industries. This Component will support consultancies to provide practical support in the development of sector-specific strategies for the identified clusters, as well as to strengthen in the knowledge base of specific sectors that are being supported in a number of countries, such as the creative industries, the agricultural sector, and specifically the cocoa value chain. This Component will also

¹¹ These clusters have already been identified by the BSOs during the assessment phase of this capacity building program (RG-T3021). Cluster strategy concept notes (CSNs) have been developed, which will be elaborated into full Cluster Development Plans (CDPs) under this TC. They include tourism clusters in Grenada and Guyana, cocoa clusters in Belize, Dominica, Grenada and St. Lucia, music clusters in Belize and St. Vincent, a castor oil and spice cluster in Jamaica, an apiary cluster in St. Lucia, a coconut cluster in Dominica, a seaweed cluster in Belize, and agro-processing clusters in Grenada and St. Vincent & the Grenadines.

fund other consulting services as required, to address needs emerging during implementation of Component 1.

- 3.4 **Component 3. Training, Outreach, and Knowledge Exchange, especially related to Gender Empowerment, Climate Change and Innovation (USD\$150,000).** The objective of this component is to strengthen the capacity of the BSOs and clusters to analyse, address, and share knowledge related to gender empowerment, climate change and innovation in their activities to support clusters in their respective countries. Specific activities include gender gap assessments of BSOs and firms, leadership and soft skills training for women leaders in BSOs and firms, and sensitization of the counterpart institutions and cluster leaders of the importance of taking a pro-active stance to recruit and encourage the inclusion of more local women-owned firms (WOFs) in their respective clusters; this will be one of the criteria used by the IP to evaluate the CDPs submitted. CCPF will also connect the BSOs with climate change experts involved in other IDB projects¹² in the Caribbean. This will enable the BSOs to help clusters identify climate change adaptation and mitigation activities that can be integrated into their cluster initiatives (ie. CDPs submitted to CCPF for funding). Other capacity building activities for the BSO staff and key stakeholders will be introduced to foster innovation such as acquiring licenses for the course on exponential technologies from Singularity University¹³; problem-solving techniques (such as the Simplexity¹⁴ model) for addressing bottle-necks in value chains; and digitalization of the data collection, analysis and reporting process. Additionally, to have a more catalytic impact, CCPF will leverage the training materials and instructional tools developed under this TC to engage other BSOs across the region involved in other projects supported by Compete Caribbean and its partners. This will be achieved by organizing webinar(s), Facebook live events, workshops and conferences, , and supporting the publishing of these educational tools on BSO websites . IDB will hold the rights to any intellectual property that result from the development of these tools and materials in order to optimize knowledge exchange and sharing.
- 3.5 The total cost of this TC is US\$923,850, of which US\$700,000 will be financed with resources of the Compete Caribbean Partnership Facility and US\$223,850 will be provided by in kind contributions from the participating BSOs. These in-kind contributions represent time (labor costs) of BSO staff assigned to work alongside consultants and participate in training.

¹² Ecomicro has identified consulting experts in climate change and green financing in the Caribbean

¹³ Procurement of online training from Singularity is justified given that it is a small assignment (less than \$100,000).

¹⁴ Simplexity is a methodology for creative problem solving and innovative thinking. See more here <https://www.simplexityu.com/>

Indicative Budget

Activity/ Component	Description	IDB/Fund Funding	Counterpart Funding (in-kind)	Total Funding
Component 1. Cluster Development Training & Support	Procurement of individual consultants and firms; of workshops' venue, catering and materials; and of travel and accommodation	\$ 375,000	\$ 119,920	\$ 494,920
Component 2. Sector Specific Training	Procurement of individual consultants and firms; of workshops' venue, catering and materials; and of travel and accommodation	\$ 175,000	\$ 55,963	\$ 230,963
Component 3. Training, Outreach, and Knowledge Exchange, especially related to Gender Empowerment, Climate Change and Innovation	Procurement of individual consultants and firms; of workshops' venue, catering and materials; and of travel and accommodation	\$ 150,000	\$ 47,968	\$ 197,968
		\$700,000	\$223,850	\$923,850

IV. Executing Agency and Execution Structure

- 4.1 The Compete Caribbean Partnership Facility (CCPF), approved under GN-2851, was jointly designed with donors to be a Bank Executed Program, through the CCPF's Facility Coordination Unit (FCU) established in COF Barbados. The Bank has demonstrated its ability to coordinate and motivate action across diverse stakeholders at both the national and regional levels. The execution of this TC will be carried out by the Bank through the Competitiveness and Innovation Division (IFD/CTI) in coordination with FCU. Project output indicators will be monitored following the Monitoring and Evaluation (M&E) framework of the CCPF.
- 4.2 The execution period will be 24 months and disbursement period will be **30 months**, and the Unit of Disbursement Responsibility (UDR) will be IFD. The activities to be executed are included in the Acquisition Plan (Annex III) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-20 for logistics and other related services.
- 4.3 In accordance with a Financial Agency Agreement signed between the IDB and the Caribbean Development Bank (CDB), the CDB will act as the Financial Agent for the purposes of administering the Facility grant resources that will finance the implementation of individual projects in the Organization of Eastern Caribbean States (OECS).

V. Major Issues

- 5.1 The most significant risks to achieving the planned objective are: (i) low levels of interest/understanding of clusters among stakeholders; and (ii) consultants are not sufficiently qualified and/or do not use a hands-on approach to support the BSOs effectively.
- 5.2 These risks have been analysed and appropriate risk-mitigating measures identified. The number of educational sessions/meetings with stakeholders on the ground will be optimized and complemented with regular virtual sessions. Case studies and instructional tools will also be used to facilitate understanding of benefits. Additionally, the procurement and selection process will be carefully planned to ensure top quality of the consulting team. In addition to these, a team comprising FCU staff and IDB specialists will give technical inputs and oversight for the duration of the project implementation and will review and exercise quality control over the project's deliverables.

VI. Exceptions to Bank Policy

- 6.1 No exception of the Bank Policy is required for this TC.

VII. Environmental and Social Classification

- 7.7 Given the nature of the project, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as "C", meaning that no environmental assessment studies or consultations are required for this category (see [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)).

REQUIRED ANNEXES:

- Annex I: [Request from Client](#)
- Annex II: [Results Matrix](#)
- Annex III: [Terms of Reference](#)
- Annex IV: [Procurement Plan](#)

CAPACITY BUILDING AND APPLIED RESEARCH IN CLUSTER DEVELOPMENT BEST PRACTICES

RG-T3330

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Compete Caribbean Partnership Facility (CCP)**, through a communication dated August 29, 2018 and signed by Goro Mutsuura. Also, I certify that resources from said fund are available for up to **US\$700,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, representing a risk that will not be absorbed by the Fund.

Certified by:	<u>Original signed</u>	<u>10/09/2018</u>
	Sonia M. Rivera	Date
	Chief	
	Grants and Co-Financing Management Unit	
	ORP/GCM	

Approved by:	<u>Original signed</u>	<u>10/10/2018</u>
	Gonzalo Rivas	Date
	Division Chief	
	Competitiveness, Technology and Innovation Division	
	IFD/CTI	