

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Facility to Boost Private Sector Growth in Small and Island Countries
▪ TC Number:	RG-T3502
▪ Team Leader/Members:	Stevenson, Claudia (IFD/CTI) Team Leader; Pelaez Zambrano, Paula (INO/NFP) Alternate Team Leader; Gonzalez Alzualde, Yohana Beatriz (IFD/CTI); Grant, Kayla Sharee (IFD/CTI); Greco, Maria Sofia (LEG/SGO); Peters, Mark Christopher (NFP/CGY); Robberechts, Elizabeth M. (INO/IEN); Small, Charlene Marie (INO/SMC)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	17 Jun 2019.
▪ Beneficiary:	Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, Trinidad & Tobago
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries(CTY)
▪ IDB Funding Requested:	US\$1,250,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	11/01/2019
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/CTI-Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	IFD-Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation

II. Objectives and Justification of the TC

2.1 The objective of this TC is to increase competitiveness and accelerate economic development in Small & Island Countries (S&I)¹ by lowering transactions costs for the private sector's undertaking of innovative and growth-oriented activity. The specific objectives are to (i) build capacity in Micro Small and Medium Enterprises (MSMEs²) and business support organizations (BSOs³) for bridging knowledge gaps in project preparation related to access to finance for innovation and growth; (ii) lower the preparation costs for accessing finance and (iii) share relevant knowledge related to private investment in S&I countries.

¹ IDB Invest includes the following countries under this classification: Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, Trinidad & Tobago.

² As per the board approved MSME Action Plan of the IDB Invest, drafted in collaboration with the IDB, MSME definitions vary by country and by FCI. IDB Invest will use the definition of each client

³ Business support organizations are public or private entities that provide services aimed at increasing the competitiveness of MSMEs. BSOs can either be publicly or privately funded or a combination of both.

- 2.2 The countries that fall under the IDB Invest classification of S&I are also members of the CARIFORUM, with the exception of the Dominican Republic, which is an associate member. The majority of firms in S&I countries are micro, small and medium enterprises ([MSMEs](#)) that, similar to Latin American and Caribbean firms, face market failures such as lack of access to capital, difficulty in integrating into global supply chains, lack of knowledge about industry best practices, latency in adopting new technologies, and a dearth of market-based advisory services⁴.
- 2.3 S&I countries face common challenges to sustainable and economic growth, including small internal markets, low levels of innovation and productivity, and limited regional integration. These are small and open economies that depend mainly on tourism or natural resources and show not only persistent declining growth rates over time but high levels of volatility⁵. In most of the countries, the top three exports account for 70% of total exports, and merchandise exports have typically been unsophisticated, ubiquitous and low value-added commodities like bauxite, oil and sugar.⁶ Although many of the countries had moved away from agriculture to more service-based economies, in per capita terms, average growth in the region had declined from 3.71% in 2007 to 1.43 in 2017.⁷ The fiscal contexts of the S&I countries (characterized by high public debts) are the result of a complex set of challenges, including the lack of fiscal reforms on the income and spending sides. Yet having an innovative, export-oriented private sector would act as an engine of growth for the region and could increase fiscal revenue collection which impact fiscal accounts and debt dynamics, whilst also contributing to employment. Increased connectivity and new technologies are making it cheaper and easier for firms to scale to a global dimension and firms should be able to take advantage of new technologies to grow rapidly.
- 2.4 The main challenges that firms in S&I countries face, and which this intervention seeks to address, are⁸: (i) **Small markets that hinder scaling up**. While the lack of large markets hinders the decision to undergo large, indivisible investments and achieve greater economies of scale, small markets also imply higher fixed costs with more concentration and less competition. In addition, the existing political economy of some of the larger, existing firms and vested interests hinder the possibilities for expansion of newer and more dynamic firms. The limitations due to market size make it more urgent for firms to develop the capacity to comply with international standards and develop adequate strategy to access new markets. (ii) **Vulnerability to external shocks**. Smaller economies are more vulnerable to external shocks, heightened by the lack of economic diversification showing a need for private sector led activity and development of new economic sectors. (iii) **Low technological readiness and innovation**. Most of the S&I countries have low scores for innovation and technology and the adoption of new technologies is weak; as well as the use of traditional technologies. (iv) **Weak institutional capacity**. The public institutions in charge of supporting MSME growth are generally weak in the region and are not able to provide the services that MSMEs need to access to finance. Lastly, (iv) **Weak capacity of the**

⁴ Andes, Scott, Ezell, Stephen, and Leal, Jesús. "An Alternative to Mercantilism: Manufacturing Extension Services in Latin American and Caribbean Countries". 2013.

⁵ OECD. 2018. Making Development and Cooperation work for Small Islands Developing States.

⁶ Hausman, Ricardo and Klinger, Bailey. "Policies for Achieving Structural Transformation in the Caribbean". Private Sector Discussion Paper, Institutional Capacity and Finance. 2009. IDB. (No. IDB-DP-163).

⁷ International Monetary Fund (IMF). World Economic Outlook database. 2019.

⁸ Read, Robert. 2010. Economic Vulnerability and Resilience of Small Islands Developing States. Global Platform on Climate Change, Trade and Sustainable Energy.

MSMEs. Most of the MSMEs of the S&I countries lack the capacity to achieve financial, governance and technological standards that will allow them access to financial resources to diversify and grow.

- 2.5 At the micro level, firms face market failures with regards to the adoption of technologies and the knowledge to boost productivity. First, technological absorption capacity (i.e. the level of skills, capabilities and technical resources available to identify, understand, systematize, adapt and apply a set of available knowledge and know-how) is limited. Second, information asymmetries in technological knowledge inhibits firms from having information to make strategic decisions that can support growth. Finally, MSMEs face financial constraints to access available technologies.
- 2.6 These challenges are reflected in the relatively low scores in the Doing Business 2019⁹ for the S&I countries of 56 in average for Doing Business (100 being the optimal) and for access to credit of 38, reflecting the difficulties of doing business and accessing credit in these countries¹⁰. However, recent trade agreements present new opportunities for diversification and economic growth. The CARICOM member states (S&I countries with the exception of Dominican Republic and Haiti) have concluded [five bilateral trade agreements](#) and one comprehensive Economic Partnership Agreement (EPA).
- 2.7 The aforementioned market failures may be addressed by providing Technological Extension Services (TES), which can improve productivity by providing enterprises with services customized to their specific needs. TES usually include services such as information provision, benchmarking and assessment, technical assistance, training, group or network services, collaborative projects (e.g., R&D, implementation), strategy development, mentoring and applied research. TES can help bridge the gap and raise priority to SME productivity and innovation policy but there is a need to understand the supply and demand of TES in the Caribbean. The Productivity, Technology and Innovation (PROTEqIN¹¹) firm level surveys reveal, for instance, firms desire for business support services, especially technology support services (29.2% of the total firms surveyed). The demand is there to close the technology (inputs) and management gaps (improved productivity through improved practices).
- 2.8 To overcome these challenges, the private sector needs tailored support to meet international markets standards and develop new markets and growth strategies. The development of an innovative, export-oriented private sector is a well-suited engine of growth for S&I countries. To promote sustainable growth based on innovative products and services, enabling entrepreneurship and MSME growth is required. Social returns on investment in innovation tend to be higher than the returns on physical capital, and the findings show that for less developed economies the returns are higher.¹² The private sector would also benefit from technical support to evaluate new sectors, markets and technologies – including those providing information tools for credit access and capacity building activities for MSMEs. Due to the size of the markets of S&I countries, MSMEs need to tackle external markets to be able to grow. Most of the S&I countries have public or private institutions that support capacity building for

⁹ The score indicates the economy's position to the best regulatory practice, being 100 the highest score.

¹⁰ Jamaica, the Dominican Republic and Trinidad and Tobago are the only countries that have relatively high scores (67.47, 61.12 and 60.8 respectively).

¹¹ To access the PROTEqIN dataset, see: <https://competecaribbean.org/knowledge/proteqin/>.

¹² Navarro, Benavente and Crespi. 2016. The New Imperative of Innovation. Policy Perspectives for Latin America and the Caribbean.

MSMEs, but they are usually underfunded or not able to address specific access to finance challenges.

- 2.9 Some of the relevant complementary activities are: “Promoting Technology Extension Services in the Caribbean” (ATN/CO-16157-RG) where a detailed analysis of the opportunities for the provision of Technology Extension Services in the Caribbean was carried out for The Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago. The results from this assessment provided an initial analysis of the status of the BSO in these countries and were implemented through the TC “Assessing the Capacity to Build Clusters in Small and Vulnerable Countries”, (ATN/CO-16200-RG) including Belize Trade and Investment Development Service (BELTRAIDE) (Belize), Tourism and Hospitality Association of Guyana (THAG) (Guyana), Jamaica Business Development Centre (JBDC) and Jamaica Manufacturers’ Association (JMA) (Jamaica) and Caribbean Tourism Organization (CTO) Barbados. These activities are complementary and will provide synergies with the activities of the present TC that will focus mainly on individual firms. On the other hand, ATN/OC-17046-RG, “Consolidation of the Small Business Development Centers Network of the America and the Dominican Republic”, is aiming at consolidating and improving the Small Business Development Centers (SBDC) in Central America and the Dominican Republic carrying out an evaluation of the service quality, demand and relevance of the SBDC centers which will serve as the basis for the analysis of BSO that the present TC will carry out. In addition, RG-T3496 and RG-T3495 are complementary to the present TC, as RG-T3495 focuses mainly on access to finance, while the present TC focuses more on the products and the sectors and RG-T3496 focuses mainly on social and environmental aspects. In addition, the present TC has a wider scope on topics and the main focus is S&I countries that have, as described in the diagnostic, a very specific set of problems and challenges.
- 2.10 This program is aligned with the Bank’s Institutional Strategy Update 2010-2020 which identifies the pillar of low productivity and innovation as it supports MSMEs to engage into new, more productive economic activities and the cross cutting topic of institutional capacity and the rule of law as it will identify key public or private players that can support MSMEs in accessing credit. The operation is aligned with BID Invest Action Plan for S&I countries.
- 2.11 The TC is consistent with the Innovation, Science and Technology Sector Framework Document (GN-2791-5). Economic diversification, enhancing productivity and private sector development is included in the country strategies of all beneficiary countries. This project is also aligned with the IDB efforts to strategically employ OC resources to contribute to the acceleration of economic growth by supporting key sectors such as SMEs and growth through the private sector.

III. Description of activities/components and budget

- 3.1 To achieve the stated objective, the TC will be structured in 3 mutually reinforcing components:
- 3.2 **Component 1. Market information and product feasibility (USD\$200,000.00).** The objective of this component is to provide public and private stakeholders with tools to facilitate informed decision-making and increased knowledge on products, markets and the adoption of new technologies. Under this component the TC will finance:

(i) consultant services to analyze specific economic sectors and industries, products and technologies in S&I countries that may not be currently bankable but have economic and market potential. The selection of eligible sectors will reflect sustainable business opportunities that would allow for diversification in the economy, and/or increasing the value added of products and services exported to other countries. Examples of the studies to be undertaken are studies of export market potential of a non-traditional agribusiness product or the application of a new digital technology on an established service or market. (ii) a consultancy to identify resilience solutions for sustainable financing in S&I countries. (iii) the implementation of an innovative digital tool (portal) to enhance the availability of credit information utilizing data analytics of both traditional and non-traditional data with the aim to reduce related risks in the S&I countries and transaction costs for accessing finance for private sector activity. The portal will gather MSME information and develop MSME Credit Risk Scoring. The portal will first be piloted¹³ and then replicated to other countries at a regional level, establishing liaisons with existing stakeholders such as credit bureaus and financial supervisors. Expected results from this component includes improved information sources for Financial Institutions to assess credit for MSMEs.

- 3.3 Component 2. Capacity Building and Project Preparation to facilitate access to finance for MSMEs and strategic projects in S&I (USD\$850,000.00).** Provide technical support to build the required capacity of S&I Firms to access financial markets and for due diligence preparation of strategic projects, through Business Support Organizations (BSOs). This component will: (i) Identify relevant BSOs in the S&I and identify current gaps to service the potential beneficiaries and provide technical assistance to strengthen their services; (ii) based on the input of the consultancy and BSOs, select and support MSMEs and strategic projects to acquire the required environmental, social, legal, technical, financial and governance standards in line with local, international and multinational requirements. The provision of advisory services will include independent engineers, environmental and social experts, market consultants, international and local legal counsel, tax advisors, builders of financial models and auditors, among others. In order to promote sustainability and build capacity at the local level, the TC will work with business or industry associations to leverage and support their ongoing capacity building efforts. The selection process of the beneficiaries from this component will take place through a selection committee consisting of BSOs and IDB representatives. It will require that (i) the firm is currently undertaking a financing process for a high growth potential project with economic impact; (ii) that there is an identified gap in the firm's capacity to achieve the required environmental, social, legal, technical and financial standards; (iii) that the proposed project has a positive impact in development; (iv) that the service provided increases the capacity of the firm or of the BSO in a sustainable manner; and (v) the intervention has a demonstrative effect and scalability. Expected results from

¹³ The pilot will be conducted in Guyana for the following reasons: (i) the IDB is implementing a TC, "Implementation of a Secured Transaction Regime and Green Business Framework in Guyana" (ATN/CO-16195-GY) and stakeholders in the financial realm have been engaged, and (ii) the discovery of offshore oil reservoirs provides new opportunities to MSMEs to be part of the oil and gas value chain.

this component will include enhanced capacity of (i) BSOs strengthen their services to MSMEs and (ii) MSMEs or strategic projects to access required local and international standard, including financial, managerial, environmental and legal capacities that lower their transaction costs for project preparation.

- 3.4 **Component 3. Knowledge generation and dissemination (USD\$200,000.00).** This component will support: (i) the generation of knowledge products (such as social media design, toolkit¹⁴, publications and) and (ii) dissemination of knowledge through workshops, webinars/livestreaming, etc stemming from the other components as a public good accessible to both BSOs and firms in the region and other stakeholders; (iii) monitoring, evaluation and audit of activities including data collection from the beneficiaries and the design of an evaluation methodology. Expected results from this component will be (i) improved MSME understanding of how to access new markets and how to apply new technologies that will help to overcome the limitations of small markets; (ii) BSO capacity strengthening by improving knowledge of the types of support required by MSMEs including lessons learned and best practices that enhance the firms' capacity in the S&I.
- 3.5 The total cost of this TC will be USD\$ 1,250,000.00, financed by the Inter-American Development Bank through the OC Strategy Development Program for Countries (CTY).

Indicative Budget (US\$)		
Activity/Component	Description	IDB/CTY
Component 1 – Market information and product feasibility	Consultancies to conduct in-depth market analysis, feasibility studies on key sectors in the S&I Countries	200,000
Component 2 – Capacity Building and Project Preparation	Consultancies to better prepare MSMEs to take advantage of business opportunities through technical, environmental, social, legal, market and corporate governance analysis	850,000
Component 3 –Knowledge generation and diffusion	Project coordination, dissemination and lessons learned	200,000
Total		1,250,000

IV. Executing agency and execution structure

- 4.1 The execution of this TC will be carried out by the Bank through the Competitiveness and Innovation Division (IFD/CTI) in coordination with BID Invest. As per annex 10 of the Operational Guidelines for Technical Cooperation Products (OP-619-1), the Bank has sufficient expertise to conduct the selection and hiring of quality consulting services as well as the experience to convene actors on a regional basis. In addition, the regional nature of this operation is better tackled by the Bank as there are many coordination requirements between the beneficiary countries Prospective projects to be supported by the TC will be demand driven and will be identified through dialogue with BSOs. The beneficiaries of this TC will be private sector entities, which is mostly composed of SMEs in S&I countries, and business support organizations, that require capacity building in the areas covered by the present TC.

¹⁴ This TC proposes a toolkit that will contain the methodologies developed under this project along with supportive material and analyses conducted so that BSOs may replicate to new sectors and new firms.

- 4.2 **Procurement:** All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) 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 **Monitoring and Evaluation:** The Bank, through CTI and with the support of BID-Invest will supervise the operational activities related to the project. CTI, jointly with BID-Invest will oversee the technical content of the activities. The Bank will prepare technical reports every six months with information about activities, products and results achieved over the last period. The reports will include a schedule for using the resources over the next six-month period together with information on lessons learned. Additionally, the technical cooperation will have an external evaluation by an independent consultant, paid by the project, who will certify the fulfillment of the indicators and goals included in the results matrix. This component will include the design of a methodology for evaluation, including data collection from beneficiaries and surveys carried out to beneficiaries.
- 4.4 **Projects Risks and Issues.** The first main risk is low demand for the services to be provided. This risk will be mitigated by: (i) working closely with business support organizations; (ii) proactively identify potential industries and services with high impact; and (iii) dissemination of knowledge and lessons learned. A second risk is the high mortality of SMEs. This risk will be mitigated by providing technical assistance to strengthen their services in areas such as environmental, social, legal, technical, financial and governance standards.
- 4.5 The present TC will be sustainable as SMEs will increase their capacity to access to finance and Business Support organizations. It is expected that a replication effect will take place with successful cases. The present TC integrates lessons learned from similar operations, such as the Compete Caribbean Program (Phase I and Phase II), which tackles issues of access to finance by addressing the capacity of both public and private stakeholders in a more comprehensive manner. The present TC has pre-identified potential public and private partners, among them Business Support organizations such as Beltrade (Belize), THAG (Guyana), JBDC and JMA (Jamaica), AIRD in Dominican Republic and CTO Barbados, with whom the Bank has already been working.

V. Environmental and Social Strategy

- 5.1 Given the nature of the program, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as “C” (See [Safeguards Policy Filter Report](#) and [the Screening Form](#)). The TC is expected to have positive environmental and social impacts.

Required Annexes:

[Results Matrix_20987.pdf](#)

[Terms of Reference_63479.pdf](#)

[Procurement Plan_97726.pdf](#)